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, 2002

Commission File No.: 0-27428

OceanFirst Financial Corp.

(exact name of registrant as specified in its charter)

DELAWARE	22-3412577
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer I.D. No.)

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

Registrant's telephone number, including area code: (732) 240-4500
Securities registered pursuant to Section 12(b) of the Act: **None**
Securities registered pursuant to Section 12(g) of the Act:

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ☒ No ☐

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

Indicate by checkmark whether the registrant is an accelerated filer as defined in Rule 12b-2 of the Exchange Act.

Yes ☒ No ☐

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 $275,020,494, based upon the last sales price as quoted on The Nasdaq Stock Market for March 19, 2003.

The number of shares of Common Stock outstanding as of March 19, 2003 is 13,797,480.

DOCUMENTS INCORPORATED BY REFERENCE

The Annual Report to Stockholders for the year ended December 31, 2002, is incorporated by reference into Part II of this Form 10-K.

The Proxy Statement for the 2003 Annual Meeting of Shareholders is incorporated by reference into Part III of this Form 10-K.

Table of Contents

INDEX

Table of Contents

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 Westchester County, New York in a transaction accounted for as a purchase. At December 31, 2002, the Company had consolidated total assets of $1.7 billion and total stockholders’ equity of $135.3 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 other types of loans including 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, corporate securities 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, except that the Bank will often purchase adjustable-rate and short-term fixed-rate mortgage loans originated by Columbia for inclusion in its loan portfolio. The Bank also periodically sells part of its 30-year fixed rate mortgage loan production primarily due to interest rate risk considerations. 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, proceeds from the sale of loans, Federal Home Loan Bank (“FHLB”) advances and other borrowings and to a lesser extent, investment maturities.

The Company’s Internet website address is www.oceanfirst.com. The Company’s annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all amendments to those reports are available free of charge through its website, as soon as reasonably practicable after such material is electronically filed with, or furnished to, the SEC. The Company’s Internet website and the information contained therein or connected thereto are not intended to be incorporated into this Annual Report on Form 10-K.

In addition to historical information, this Form 10-K contains certain forward-looking statements which are based on certain assumptions and describe future plans, strategies and expectations of the Company. These forward-looking statements are generally identified by use of the words “believe,” “expect,” “intend,” “anticipate,” “estimate,” “project,” or similar expressions. The Company’s ability to predict results or the actual effect of future plans or strategies is inherently uncertain. Factors which could have a material adverse effect on the operations of the Company and the subsidiaries include, but are not limited to, changes in interest rates, general economic conditions, legislative/regulatory changes, monetary and fiscal policies of the U.S. Government, including policies of the U.S. Treasury and the Federal Reserve Board, the quality or composition of the loan or investment portfolios, demand for loan products, deposit flows, competition, demand for financial services in the Company's market area and accounting principles and guidelines. These risks and uncertainties should be considered in evaluating forward-looking statements and undue reliance should not be placed on such statements. The Company does not undertake-and specifically disclaims any obligation – to publicly release the result of any revisions which may be made to any forward-looking statements to reflect events or circumstances after the date of such statements or to reflect the occurrence of anticipated or unanticipated events.

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 sixteen additional branch offices, thirteen 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 Valhalla, New York and satellite production offices in Islandia, New York; 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, 2002, the Bank had total loans outstanding of $1.414 billion, of which $1.105 billion or 78.1% of total loans were one- to four-family, residential mortgage loans. The remainder of the portfolio consisted of $139.7 million of commercial real estate, multi-family and land loans, or 9.9% of total loans; $11.1 million of real estate construction loans, or .8% of total loans; $80.2 million of consumer loans, primarily home equity loans and lines of credit, equaling 5.7% of total loans; and $78.0 million of commercial loans, or 5.5% of total loans. Included in total loans are $66.6 million in loans held for sale at December 31, 2002. At that same date, 44.0% of the Bank's total loans had adjustable interest rates.

Table of Contents

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

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

	2002		2001		2000	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total
Real estate:						
One- to four-family	$ 1,104,976	78.15%	$ 1,110,282	82.22%	$ 993,706	83.93%
Commercial real estate, multi-family and land	139,654	9.88	112,318	8.32	89,663	7.57
Construction	11,079	.78	9,082	.67	7,973	.67
Consumer (1)	80,218	5.67	67,039	4.96	62,923	5.32
Commercial	77,968	5.52	51,756	3.83	29,687	2.51
Total loans	1,413,895	100.00%	1,350,477	100.00%	1,183,952	100.00%
Loans in process	(3,531)		(2,458)		(2,927)	
Deferred origination costs (fees), net	2,239		1,048		561	
Unamortized (discount) premium, net	(5)		1		19	
Allowance for loan losses	(10,074)		(10,351)		(9,138)	
Total loans, net	1,402,524		1,338,717		1,172,467	
Less:						
Mortgage loans held for sale	66,626		37,828		35,588	
Loans receivable, net	$ 1,335,898		$ 1,300,889		$ 1,136,879	
Total loans:						
Adjustable rate	$ 622,348	44.02%	$ 591,724	43.82%	$ 485,660	41.02%
Fixed rate	791,547	55.98	758,753	56.18	698,292	58.98
	$ 1,413,895	100.00%	$ 1,350,477	100.00%	$ 1,183,952	100.00%

	1999		1998	
	Amount	Percent of Total	Amount	Percent of Total
Real estate:				
One- to four-family	$ 917,481	87.04%	$ 869,769	89.10%
Commercial real estate, multi-family and land	57,142	5.42	42,008	4.30
Construction	7,791	.74	6,108	.63
Consumer (1)	56,040	5.32	51,785	5.31
Commercial	15,569	1.48	6,483	.66
Total loans	1,054,023	100.00%	976,153	100.00%
Loans in process	(2,790)		(1,996)	
Deferred origination costs (fees), net	(78)		(608)	

Unamortized (discount) premium, net	43		62	
Allowance for loan losses	(8,223)		(7,460)	
Total loans, net	1,042,975		966,151	
Less:				
Mortgage loans held for sale	—		25,140	
Loans receivable, net	$ 1,042,975		$ 941,011	
Total loans:				
Adjustable rate	$ 470,238	44.61%	$ 458,809	47.00%
Fixed rate	583,785	55.39	517,344	53.00
	$ 1,054,023	100.00%	$ 976,153	100.00%

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

Table of Contents

Loan Maturity . The following table shows the contractual maturity of the Bank's total loans at December 31, 2002. There was $66.6 million in loans, held for sale at December 31, 2002. The table does not include principal repayments. Principal repayments, including prepayments on total loans was $397.0 million, $229.6 million and $179.9 million for the years ended December 31, 2002, 2001 and 2000, respectively.

	At December 31, 2002					
	One- to Four-Family	Commercial real estate, multi-family and land	Construction	Consumer	Commercial	Total Loans Receivable
	(In thousands)					
One year or less	$ 37,265	$ 13,211	$ 11,079	$ 7,430	$ 51,387	$ 120,372
After one year:						
More than one year to three years	80,072	34,849	—	12,866	16,284	144,071
More than three years to five years	89,530	50,068	—	11,060	5,484	156,142
More than five years to ten years	236,552	35,413	—	21,250	4,813	298,028
More than ten years to twenty years	377,670	4,773	—	27,309	—	409,752
More than twenty years	283,887	1,340	—	303	—	285,530
Total due after December 31, 2003	1,067,711	126,443	—	72,788	26,581	1,293,523
Total amount due	$ 1,104,976	$ 139,654	$ 11,079	$ 80,218	$ 77,968	1,413,895
Loans in process						(3,531)
Deferred origination costs, net						2,239
Unamortized premium, net						(5)
Allowance for loan losses						(10,074)
Total loans, net						1,402,524
Less: Mortgage loans held for sale						66,626
Loans receivable, net						$ 1,335,898

The following table sets forth at December 31, 2002, the dollar amount of total loans receivable contractually due after December 31, 2003, and whether such loans have fixed interest rates or adjustable interest rates.

	Due After December 31, 2003		
	Fixed	Adjustable	Total
		(In thousands)	
Real estate loans:			
One- to four-family	$ 648,190	$ 419,521	$ 1,067,711
Commercial real estate, multi-family and land	69,363	57,080	126,443
Consumer	26,704	46,084	72,788
Commercial	1,348	25,233	26,581
Total loans receivable	$ 745,605	$ 547,918	$ 1,293,523

<u>Origination, Sale, Servicing and Purchase of Loans</u> . 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 ("ARM") loans, which is affected by the current and expected future level of interest rates. Columbia, as a mortgage banker, sells virtually all loan production except that the Bank will often purchase adjustable-rate and short-term fixed-rate mortgage loans originated by Columbia for inclusion in its loan portfolio. Columbia retains 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, 2002 there were $66.6 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,		
	2002	2001	2000
		(In thousands)	
Total loans:			
Beginning balance	$ 1,350,477	$ 1,183,952	$ 1,054,023
Loans originated:			
One- to four-family	730,794	682,171	295,535
Commercial real estate, multi-family and land	59,634	36,695	45,189
Construction	13,715	13,361	8,520
Consumer	56,605	37,020	29,217
Commercial	55,235	49,291	27,404
Total loans originated	915,983	818,538	405,865
Loans purchased	—	—	22,271
Total	2,266,460	2,002,490	1,482,159
Less:			
Principal repayments	397,038	229,637	179,936
Sales of loans	454,910	421,922	117,503
Transfer to REO	617	454	768
Total loans	$ 1,413,895	$ 1,350,477	$ 1,183,952

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, 2002, the Bank's total loans outstanding were $1.414 billion, of which $1.105 billion, or 78.1%, 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 $122,000 at December 31, 2002. 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, 2002, the Bank had commitments for the origination of fixed-rate one-to-four family mortgage loans totaling $129.7 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 (up to 100% for certain Community Reinvestment Act related programs covered by private mortgage insurance). 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, or properties under construction, 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, 2002 was $130.3 million, or 9.2% of total loans. The largest commercial real estate loan in the Bank's portfolio at December 31, 2002 was a performing loan for which the Bank had an outstanding carrying balance of $5.2 million, net of a $3.3 million participation sold, secured by a first lien position on 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, 2002 was approximately $519,000.

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, 2002, totaled $5.5 million and $3.9 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, 2002, construction loans totaled $11.1 million, or .8%, of the Bank's total loans outstanding. The Bank originates residential 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 finance a second home or 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, 2002, the Bank had 38 residential construction loans, with the largest loan commitment being approximately $675,000. 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, 2002, the Bank's consumer loans totaled $80.2 million, or 5.7% of the Bank's total loan portfolio. Of that amount, home equity loans comprised $29.5 million, or 36.8%; home equity lines of credit comprised $49.6 million, or 61.9%; loans on savings accounts totaled $532,000, or .7%; and automobile, student and overdraft line of credit loans totaled $516,000, or .6%.

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. Generally, these loans are subject to a 80% loan-to-value limitation, including any other outstanding mortgages or liens, although the Bank will also originate loans with loan-to-value limitations of up to 90%, subject to more restrictive underwriting requirements.

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, although the Bank will also originate loans with loan-to-value limitations of up to 90%, subject to more restrictive underwriting requirements. 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, 2002, commercial loans totaled $78.0 million, or 5.5% 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, 2002 had an outstanding balance of $3.5 million, secured by corporate assets and secondary liens on real estate property. The average size of the Bank's commercial loans at December 31, 2002 was approximately $123,000.

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 $322,700. Loans secured by real estate in amounts over $2.0 million for new borrowers and $4.0 million for existing borrowers and unsecured loans over $1.0 million require approval by the Loan Committee of the Board of Directors. Loans secured by real estate in excess of $4.0 million for new borrowers and $6.0 million for existing borrowers 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, 2002 amounted to $16.9 million. At December 31, 2002, the Bank's maximum loan exposure to a single borrower was $10.2 million of which $2.2 million was sold subsequent to year-end consistent with the Bank's conservative lending approach.

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, 2002, the Bank was servicing $680.2 million of loans for others. For the years ended December 31, 2002, 2001 and 2000, loan servicing income (loss), net of related amortization and write down of the loan servicing asset, totaled $(2,203,000), $(838,000) and $516,000, 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, 2002, the Bank had $7.1 million of assets, including all REO, classified as Substandard, $199,000 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 $6.4 million at December 31, 2002. These loans are classified as Special Mention due to past delinquencies or other identifiable weaknesses. At December 31, 2002, the largest loan relationship classified as Special Mention was a commercial mortgage with an outstanding balance of $2.0 million secured by a first mortgage and other business assets. The largest loan relationship classified as Substandard was represented by two commercial mortgages with a total balance of $2.1 million secured by a first mortgage and assignments of rents on two Ocean County marinas. Both loans are current as to payments, but were classified due to weakened operating results.

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 one REO property at December 31, 2002. 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, 2002, 2001, 2000, 1999, and 1998, 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 $87,000, $379,000, $132,000, $52,000, and $270,000.

	December 31,				
	2002	2001	2000	1999	1998
	(Dollars in Thousands)				
Non-accrual loans:					
Real estate:					
One- to four-family	$ 2,222	$ 3,661	$ 2,594	$ 2,401	$ 4,605
Commercial real estate, multi-family and land	74	—	—	362	574
Consumer	95	151	147	222	245
Commercial	297	2,368	182	—	—
Total	2,688	6,180	2,923	2,985	5,424
REO, net(1)	141	133	157	292	43
Total non-performing assets	$ 2,829	$ 6,313	$ 3,080	$ 3,277	$ 5,467
Allowance for loan losses as a percent of total loans receivable (2)	.71%	.77%	.77%	.78%	.76%
Allowance for loan losses as a percent of total non-performing loans (3)	374.78	167.49	312.62	275.48	137.54
Non-performing loans as a percent of total loans receivable(2)(3)	.19	.46	.25	.28	.56
Non-performing assets as a percent of total assets(3)	.16	.36	.19	.21	.35

(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 resulting from 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.

The Bank's allowance consists of three elements – a specific allowance, a general allowance and an unallocated allowance. A specific allowance is determined for all assets classified as substandard, doubtful or loss where the value of the underlying collateral can reasonably be evaluated; generally those loans secured by real estate. The Bank obtains an updated appraisal whenever a loan secured by real estate becomes 90 days delinquent. The specific allowance represents the difference between the Bank's recorded investment in the loan and the fair value of the collateral, less estimated disposal costs. A general allowance is determined for all other classified and non-classified loans. In determining the level of the general allowance, the Bank segments the loan portfolio into various risk tranches based on classification (special mention, substandard and doubtful); type of loan (mortgage, consumer and commercial); and, certain underwriting characteristics. An estimated loss factor is then applied to each risk tranche. The loss factors are determined based upon historical loan loss experience, current economic conditions, underwriting standards, internal loan review results and other factors. Finally, an unallocated allowance is maintained for economic uncertainty, unidentified deterioration in classified assets and other uncertainties inherent in the evaluation process.

As of December 31, 2002 and 2001, the Bank's allowance for loan losses was .71% and .77%, respectively, of total loans. The Bank had non-accrual loans of $2.7 million and $6.2 million at December 31, 2002 and 2001, 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				
	2002	2001	2000	1999	1998
			(Dollars in thousands)		
Balance at beginning of year	$ 10,351	$ 9,138	$ 8,223	$ 7,460	$ 6,612
Charge-offs:					
Real Estate:					
One- to four-family	149	98	77	114	63
Commercial real estate, multi-family and land	—	—	—	58	—
Consumer	2	—	10	37	2
Commercial	2,368	—	5	32	—
Total	2,519	98	92	241	65
Recoveries	592	61	22	104	13
Net charge-offs	1,927	37	70	137	52
Provision for loan losses	1,650	1,250	985	900	900
Balance at end of year	$ 10,074	$ 10,351	$ 9,138	$ 8,223	$ 7,460
Ratio of net charge-offs during the year to average net loans outstanding during the year	.14%	.00%	.01%	.01%	.01%

Table of Contents

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

	At December 31,								
	2002			2001			2000		
	Amount	Percent of Allowance to Total Loans	Percent of Loans in Each Category to Total Loans	Amount	Percent of Allowance to Total Loans	Percent of Loans in Each Category to Total Loans	Amount	Percent of Allowance to Total Loans	Percent of Loans in Each Category to Total Loans
One- to four-family	$ 2,417	23.99%	78.15%	$ 2,547	24.60%	82.22%	$ 2,831	30.98%	83.93%
Commercial real estate, multi-family and land	3,341	33.17	9.88	1,867	18.03	8.32	2,018	22.08	7.57
Construction	83	.82	.78	68	.66	.67	38	.42	.67
Consumer	754	7.48	5.67	625	6.04	4.96	585	6.40	5.32
Commercial	1,423	14.13	5.52	2,461	23.78	3.83	1,282	14.03	2.51
Unallocated	2,056	20.41	—	2.783	26.89	—	2,384	26.09	—
Total	$ 10,074	100.00%	100.00%	$ 10,351	100.00%	100.00%	$ 9,138	100.00%	100.00%

	At December 31,					
	1999			1998		
	Amount	Percent of Allowance to Total Loans	Percent of Loans in Each Category to Total Loans	Amount	Percent of Allowance to Total Loans	Percent of Loans in Each Category to Total Loans
One- to four-family	$ 2,577	31.34%	87.04%	$ 2,824	37.86%	89.10%
Commercial real estate, multi- family and land	1,352	16.44	5.42	993	13.30	4.30
Construction	38	.46	.74	31	.42	.63
Consumer	543	6.60	5.32	505	6.77	5.31
Commercial	622	7.57	1.48	220	2.95	.66
Unallocated	3,091	37.59	—	2,887	38.70	—
Total	$ 8,223	100.00%	100.00%	$ 7,460	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.

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, 2002, 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 certain range and with 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, the general levels of market interest rates, and general economic conditions. GNMA mortgage-backed securities that are backed by assumable Federal Housing Authority ("FHA") or 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 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, FNMA and GNMA. At December 31, 2002, mortgage-backed securities totaled $138.7 million, or 8.0% of total assets, including $77.8 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 agency and government sponsored enterprise CMOs and privately-issued CMOs.

CMOs issued by FHLMC, FNMA, GNMA and private interests amounted to $27,951,000, $16,021,000, $20,275,000, and $13,559,000, respectively, at December 31, 2002 and $45,338,000, $22,254,000, $24,328,000 and $64,262,000, respectively, at December 31, 2001. 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.

Table of Contents

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

	For the Year Ended December 31,		
	2002	2001	2000
	(In thousands)		
Beginning balance	$ 233,302	$ 268,042	$ 346,182
Mortgage-backed securities Purchased	65,845	49,006	5,059
Less: Principal repayments	(156,723)	(89,916)	(58,901)
Mortgage-backed securities sold	—	—	(31,915)
Amortization of premium	(1,534)	(759)	(462)
Change in net unrealized gain (loss on mortgage-backed) securities available for sale	(2,233)	6,929	8,079
Ending balance	$ 138,657	$ 233,302	$ 268,042

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,					
	2002		2001		2000	
	Amortized Cost	Market Value	Amortized Cost	Market Value	Amortized Cost	Market Value
	(In thousands)					
Mortgage-backed securities:						
FHLMC	$ 14,615	$ 14,856	$ 29,650	$ 30,383	$ 48,888	$ 48,784
FNMA	31,293	31,653	22,646	23,088	37,172	37,009
GNMA	13,432	14,342	23,229	23,649	34,092	33,840
CMOs	77,066	77,806	153,293	156,182	150,335	148,409
Total mortgage-backed securities	$ 136,406	$ 138,657	$ 228,818	$ 233,302	$ 270,487	$ 268,042

Table of Contents

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,					
	2002		2001		2000	
	Amortized Cost	Market Value	Amortized Cost	Market Value	Amortized Cost	Market Value
	(In thousands)					
Investment securities:						
U.S. Government and agency obligations	$ 1,200	$ 1,216	$ 1,200	$ 1,198	$ 24,469	$ 24,373
State and municipal obligations	5,562	5,604	5,561	5,313	5,561	5,156
Corporate debt securities	88,439	79,407	75,199	68,253	75,124	69,616
Equity investments	4,449	5,751	3,849	5,253	3,757	4,391
Total investment securities	$ 99,650	$ 91,978	$ 85,809	$ 80,017	$ 108,911	$ 103,536

Table of Contents

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, 2002. 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, 2002					
	One Year or Less	More than One Year to Five Years	More than Five Years to Ten Years	More than Ten Years	Total	
	Amortized Cost	Amortized Cost	Amortized Cost	Amortized Cost	Amortized Cost	Market Value
	(Dollars in thousands)					
Investment securities:						
U.S. Government and agency obligations	$ 1,200	$ —	$ —	$ —	$ 1,200	$ 1,216
State and municipal obligations (1)	—	—	—	5,562	5,562	5,604
Corporate debt securities (2)	13,160	—	—	75,279	88,439	79,407
Total investment securities	$ 14,360	$ —	$ —	$ 80,841	$ 95,201	$ 86,227
Weighted average yield	2.01%	— %	— %	2.70%	2.60%	
Mortgage-backed securities:						
FHLMC	$ 2,451	$ 3,584	$ 154	$ 8,426	$ 14,615	$ 14,856
FNMA	828	4,425	—	26,040	31,293	31,653
GNMA	—	164	43	13,225	13,432	14,342
CMOs	—	3,622	—	73,444	77,066	77,806
Total mortgage-backed securities	$ 3,279	$ 11,795	$ 197	$ 121,135	$ 136,406	$ 138,657
Weighted average yield	6.35%	6.34%	11.00%	5.28%	5.40%	

(1)Tax equivalent yield.
(2)All of the Bank’s corporate debt securities with maturities over one year carry interest rates which adjust to a spread over Libor on a quarterly basis.

Table of Contents

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 money market accounts, savings accounts, NOW accounts, non-interest bearing accounts and time deposits. For the year ended December 31, 2002, time deposits constituted 43.5% 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,		
	2002	2001	2000
		(In thousands)	
Net deposits (withdrawals)	$ 49,521	$ (34,646)	$ 5,294
Interest credited on deposit accounts	26,272	39,501	41,944
Total increase in deposit accounts	$ 75,793	$ 4,855	$ 47,238

At December 31, 2002, the Bank had $69.2 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	$ 29,505	2.34%
Over three through six months	9,847	2.78
Over six through 12 months	8,452	2.98
Over 12 months	21,364	4.60
Total	$ 69,168	3.18

Table of Contents

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,								
	2002			2001			2000		
	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	$ 101,817	8.81%	1.38%	$ 73,966	6.61%	1.86%	$ 76,570	7.03%	2.58%
Savings accounts	218,279	18.88	1.00	178,335	15.93	1.54	170,604	15.67	2.00
NOW accounts	254,149	21.99	.99	198,186	17.70	1.60	130,423	11.98	2.83
Non-interest-bearing accounts	78,294	6.77	—	64,330	5.74	—	43,177	3.97	—
Total	652,539	56.45	.94	514,817	45.98	1.41	420,774	38.65	2.18
Time deposits:									
Six months or less	73,935	6.40	1.58	112,608	10.06	2.86	91,801	8.43	5.58
Over 6 through 12 months	94,321	8.16	2.05	108,507	9.69	3.17	122,549	11.26	5.69
Over 12 through 24 months	114,583	9.91	2.89	139,870	12.49	4.50	201,524	18.51	5.62
Over 24 months	112,435	9.73	5.04	137,360	12.27	5.98	141,097	12.96	6.22
IRA/KEOGH	108,045	9.35	4.18	106,489	9.51	5.04	110,940	10.19	5.87
Total time deposits	503,319	43.55	3.36	604,834	54.02	4.39	667,911	61.35	5.82
Total average deposits	$1,155,858	100.00%	1.92%	$1,119,651	100.00%	2.88%	$1,088,685	100.00%	4.31%

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 million which expires November 25, 2003. The Bank also has available from the FHLB-NY a one-month, overnight repricing line of credit for $50 million which also expires on November 25, 2003. 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, 2002, the Bank had no outstanding borrowings against the FHLB-NY lines of credit and $214.0 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, corporates 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, 2002, the Bank had borrowed $184.6 million through securities sold under agreements to repurchase. (See note 10 to the consolidated financial statements in the 2002 Annual Report to Stockholders.)

Subsidiary Activities

The Bank owns three subsidiaries – Columbia Equities, Ltd., OceanFirst Services, LLC and OceanFirst REIT Holdings, Inc.

Columbia Equities, Ltd. was acquired by the Bank on August 18, 2000 and operates as a mortgage banking subsidiary based in Westchester County, 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 four 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 Services LLC was originally organized in 1982 under the name Dome Financial Services, Inc. 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. OFB Reinsurance, Ltd. was established in 2002 as a subsidiary of OceanFirst Services LLC to reinsure a percentage of the private mortgage insurance risks on 1-4 family residential mortgages originated by the Bank and Columbia Equities, Ltd.

OceanFirst REIT Holdings, Inc. was established in 2001 and acts as the holding company for OceanFirst Realty Corp. 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.

Table of Contents

Personnel

As of December 31, 2002, the Bank had 387 full-time employees and 88 part-time employees. The employees are not represented by a collective bargaining unit and the Bank considers its relationship with its employees to be good.

REGULATION AND SUPERVISION

General

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

Holding Company Regulation

The Company is a nondiversified unitary savings and loan holding company within the meaning of federal law. Under prior law, a unitary savings and loan holding company, such as the Company, was not generally restricted as to the types of business activities in which it may engage, provided that the Bank continued to be a qualified thrift lender. See "Federal Savings Institution Regulation - QTL Test." The Gramm-Leach-Bliley Act of 1999 provides that no company may acquire control of a savings association after May 4, 1999 unless it engages only in the financial activities permitted for financial holding companies under the law or for multiple savings and loan holding companies as described below. Further, the Gramm-Leach-Bliley Act specifies that existing savings and loan holding companies may only engage in such activities. The Gramm-Leach-Bliley Act, however, grandfathered the unrestricted authority for activities with respect to unitary savings and loan holding companies existing prior to May 4, 1999, such as the Company, so long as the Bank continues to comply with the QTL Test. 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. However, the OTS has issued an interpretation concluding that multiple savings and loan holding companies may also engage in activities permitted for financial holding companies.

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 savings banks may engage. In particular, many types of lending authority for federal savings banks, 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 examination 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 CAMELS examination rating system), and, together with the risk-based capital standard itself, a 4% Tier 1 risk-based capital standard. The OTS regulations also require that, in meeting the tangible, leverage and risk-based capital standards, institutions must generally deduct investments in and loans to subsidiaries engaged in activities as principal that are not permissible for a national bank.

The risk-based capital standard for savings institutions requires the maintenance of Tier 1 (core) and total capital (which is defined as core capital and supplementary capital) to risk-weighted assets of at least 4%

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

The following table presents the Bank's capital position at December 31, 2002. The Bank met each of its capital requirements at that date.

	Actual Capital	Required Capital	Excess Amount	Capital Actual Percent	Capital Required Percent
		(Dollars in thousands)			
Tangible	$ 115,304	$ 26,132	$ 89,172	6.62%	1.50%
Core (Leverage)	115,304	52,265	63,039	6.62	3.00
Risk-based	125,240	86,350	38,890	11.60	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 of assessable deposits 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 2002, FICO payments for SAIF members approximated 1.77 basis points.

The Bank's assessment rate for fiscal 2002 was zero basis points and the total assessments paid for this period (including the FICO assessment) was $194,000. 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, 2002, the Bank's limit on loans to one borrower was $16.9 million, and the Bank's largest aggregate outstanding balance of loans to one borrower was $10.2 million of which $2.2 million was sold subsequent to year-end consistent with the Bank's conservative lending approach.

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, 2002, the Bank maintained in excess of 98% 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.

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 upon the institution's total assets, including consolidated subsidiaries as reported in the Bank's latest quarterly thrift financial report. The assessments paid by the Bank for the fiscal year ended December 31, 2002 totaled $300,000.

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 recently enacted Sarbanes-Oxley Act, generally prohibits loans by the Company to its executive officers and directors. However, the Act contains a specific exemption for loans from the Bank to its executive officers and directors in compliance with Federal banking laws. Under such law, the Bank's authority to extend credit to executive officers, directors and 10% shareholders ("insiders"), as well as entities such persons control, is limited. 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. 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.

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, 2002 of $18.7 million.

The FHLBs are required to provide funds for the previous 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 up to and including $42.1 million; a 10% reserve ratio is applied above $42.1 million. The first $6.0 million of otherwise reservable balances (subject to adjustments by the Federal Reserve Board) are exempted from the reserve requirements. The amounts are adjusted annually. The Bank complies with the foregoing requirements.

FEDERAL AND STATE TAXATION

Federal Taxation

General . The Company and the Bank report their income on a calendar year basis using the accrual method of accounting, and are subject to federal income taxation in the same manner as other corporations with some exceptions, including particularly the Bank's reserve for bad debts discussed below. The following discussion of tax matters is intended only as a summary and does not purport to be a comprehensive description of the tax rules applicable to the Bank or the Company. The Bank has not been audited by the IRS in over 10 years. For its 2002 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 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 were previously taxed at a rate equal to 3% of taxable income. On July 2, 2002, the New Jersey legislature passed the New Jersey Business Tax Reform Act (the "Tax Reform Act"). The legislation increased the tax rate on savings institutions, such as the Bank, from 3% to 9% of taxable income. The legislation was retroactive to January 1, 2002. 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 Tax Reform Act also provided for an Alternative Minimum Assessment (AMA) tax based on the larger of gross receipts or gross profits, as defined.

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. 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 3.60% (40% 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.

Table of Contents

Item 2. Properties

The Bank conducts its business through its administrative office, which includes a branch office, and 16 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(2)	Net Book Value of Property or Leasehold Improvements at December 31, 2002
				(Dollars in thousands)
Administrative Office: 975 Hooper Avenue Toms River, New Jersey 08754	Owned	1995	—	$ 9,102
Branch Offices:				
Adamston: 385 Adamston Road Brick, New Jersey 08723	Leased	1999	07/31/09	240
Berkeley: Holiday City Plaza 730 Jamaica Boulevard Toms River, New Jersey 08757	Leased	1984	11/30/04	124
Brick: 321 Chambers Bridge Road Brick, New Jersey 08723	Owned	1960	—	1,105
Concordia: 1 Concordia Shopping Mall Box 3 Cranbury, New Jersey 08512	Leased	1985	07/31/05	60
Route 37 West: 55 Bananier Drive Toms River, New Jersey 08755	Leased	2001	10/31/05	1,384
Jackson: 260 North County Line Road Jackson, New Jersey 08527	Leased	2002	05/01/07	1,083
Lacey: 900 Lacey Road Forked River, New Jersey 08731	Leased	1997	01/31/18	227
Lake Ridge: 147 Route 70, Suite 1 Toms River, New Jersey 08755	Leased	1998	01/31/18	68
Manahawkin 205 Route 72 West Manahawkin, NJ 08050	Leased	2001	10/31/11	924
Pavilion: 70 Brick Boulevard Brick, New Jersey 08723	Leased	1989	09/30/18	335

Table of Contents

Location	Leased or Owned	Original Year Leased or Acquired	Date of Lease Expiration(2)	Net Book Value of Property or Leasehold Improvements at December 31, 2002
				(Dollars in thousands)
Point Pleasant Beach: 701 Arnold Avenue Point Pleasant, New Jersey 08742	Owned	1937	—	54
Point Pleasant Boro: 2400 Bridge Avenue Point Pleasant, New Jersey 08742	Owned	1971	—	689
Route 88: 3100 Route 88 Point Pleasant, New Jersey 08742	Leased	2000	03/31/07	734
Spring Lake Heights: 2401 Route 71 Spring Lake Heights, New Jersey 07762	Leased	1999	10/31/09	111
Wall Township: 2445 Route 34 Manasquan, New Jersey 08736	Leased	1999	02/28/10	362
Whiting: Whiting Shopping Center P. O. Box 20 Whiting, New Jersey 08759	Leased	1983	10/31/04	53
Other Properties (1): 730 Brick Boulevard Brick, New Jersey 08723	Owned	1986	—	395
Columbia Equities, Ltd.: 400 Columbus Avenue Valhalla, New York 10595	Leased	2001	07/01/07	492
2950 S. Expressway, Suite 234 Islandia, New York 11749	Leased	2002	09/30/03	22

(1) The property was formerly utilized by the Bank, was subsequently subleased and is now vacant.
(2) 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 2002 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 2002 Annual Report to Stockholders on pages 9 and 10 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 2002 Annual Report to Stockholders on pages 11 through 22 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 2002 Annual Report to Stockholders on pages 12 through 14 and is incorporated herein by reference.

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 2002 Annual Report to Stockholders on pages 23 through 39 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 24, 2003, 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 24, 2003, at page 8 and pages 13 through 17 (excluding the Executive Compensation Committee Report and Stock Performance Graph).

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Shareholders

The information relating to security ownership of certain beneficial owners and management and related shareholders is incorporated herein by reference to the Registrant's Proxy Statement for the Annual Meeting of Stockholders to be held on April 24, 2003, at pages 3 and 5 through 6.

Information regarding the Company's equity compensation plans existing as of December 31, 2002 is as follows:

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders	2,483,146	$ 11.58	443,450
Equity compensation plans not approved by security holders	—	—	—
Total	2,483,146	$ 11.58	443,450

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 24, 2003, at page 17.

PART IV

Item 14. Controls and Procedures

Evaluation of disclosure controls and procedures . The Company maintains controls and procedures designed to ensure that information required to be disclosed in the reports that the Company files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission. Based upon their evaluation of those controls and procedures performed within 90 days of the filing date of this report, the chief executive officer and the principal financial officer of the Company concluded that the Company's disclosure controls and procedures were adequate.

Table of Contents

Changes in internal controls . The Company made no significant changes in its internal controls or in other factors that could significantly affect these controls subsequent to the date of the evaluation of those controls by the chief executive officer and principal financial officer.

Item 15. 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 2002 Annual Report to Stockholders.

	PAGE
Independent Auditors' Report	39
Consolidated Statements of Financial Condition at December 31, 2002 and 2001	23
Consolidated Statements of Income for the Years Ended December 31, 2002, 2001 and 2000	24
Consolidated Statements of Changes in Stockholders' Equity for the Years Ended December 31, 2002, 2001 and 2000	25
Consolidated Statements of Cash Flows for the Years Ended December 31, 2002, 2001 and 2000	26
Notes to Consolidated Financial Statements for the Years Ended December 31, 2002, 2001 and 2000	27-38

The remaining information appearing in the 2002 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. (filed herewith)
3.3	Certificate of Ownership Merging Ocean Interim, Inc. into OceanFirst Financial Corp. (filed herewith)
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)
10.7	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 (6).
13.0	Portions of 2002 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 April 17, 2002, indicating that the Board of Directors had declared a 50% stock dividend on the common stock of OceanFirst Financial Corp. in the form of a three-for-two stock split.

The Company filed a report on Form 8-K with the Securities and Exchange Commission on June 26, 2002 which included the text of a written presentation OceanFirst Financial Corp. intended to provide to current and prospective investors.

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(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.

(6) Incorporated herein by reference from the Exhibits to Form 10-K filed on March 23, 2002.

Table of Contents

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.

OCEAN FIRST FINANCIAL CORP.

By: /s/ JOHN R. GARBARINO

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

Date: March 19, 2003

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 19, 2003
/s/ MICHAEL J. FITZPATRICK **Michael J. Fitzpatrick** **Executive Vice President and** **Chief Financial Officer** **(principal accounting and financial officer)**	March 19, 2003
/s/ THOMAS F. CURTIN **Thomas F. Curtin** **Director**	March 19, 2003
/s/ CARL FELTZ, JR. **Carl Feltz, Jr.** **Director**	March 19, 2003

/s/ JOHN W. CHADWICK	March 19, 2003
John W. Chadwick **Director**	
/s/ DONALD E. MCLAUGHLIN	March 19, 2003
Donald E. McLaughlin **Director**	
/s/ DIANE F. RHINE	March 19, 2003
Diane F. Rhine **Director**	
/s/ FREDERICK E. SCHLOSSER	March 19, 2003
Frederick E. Schlosser **Director**	
/s/ JAMES T. SNYDER	March 19, 2003
James T. Snyder **Director**	
/s/ JOHN E. WALSH	March 19, 2003
John E. Walsh **Director**	

Table of Contents

CERTIFICATION

I, John R. Garbarino, certify, that:

1. I have reviewed this annual report on Form 10-K of OceanFirst Financial Corp.;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

    a. designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

    b. evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

    c. presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

    a. all significant deficiencies in the design or operation of the internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

    b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect the internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 19, 2003

/s/ JOHN R. GARBARINO

John R. Garbarino
Chief Executive Officer
(principal executive officer)

Table of Contents

CERTIFICATION

I, Michael J. Fitzpatrick, certify, that:

1. I have reviewed this annual report on Form 10-K of OceanFirst Financial Corp.;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

   a. designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

   b. evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

   c. presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

   a. all significant deficiencies in the design or operation of the internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

   b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect the internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 19, 2003

/s/ MICHAEL FITZPATRICK

Michael Fitzpatrick
Chief Financial Officer
(principal financial officer)

Exhibit 3.2

OceanFirst Financial Corp.

BYLAWS

ARTICLE I - STOCKHOLDERS

Section 1. Annual Meeting.

An annual meeting of the stockholders, for the election of directors to succeed those whose terms expire and for the transaction of such other business as may properly come before the meeting, shall be held at such place, on such date, and at such time as the Board of Directors shall each year fix, which date shall be within thirteen (13) months subsequent to the later of the date of incorporation or the last annual meeting of stockholders.

Section 2. Special Meetings.

Subject to the rights of the holders of any class or series of Preferred Stock of the Corporation, special meetings of stockholders of the Corporation may be called only by the Board of Directors pursuant to a resolution adopted by a majority of the total number of directors which the Corporation would have if there were no vacancies on the Board of Directors (hereinafter the “Whole Board”).

Section 3. Notice of Meetings.

Written notice of the place, date, and time of all meetings of the stockholders shall be given, not less than ten (10) nor more than sixty (60) days before the date on which the meeting is to be held, to each stockholder entitled to vote at such meeting, except as otherwise provided herein or required by law (meaning, here and hereinafter, as required from time to time by the Delaware General Corporation Law or the Certificate of Incorporation of the Corporation).

When a meeting is adjourned to another place, date or time, written notice need not be given of the adjourned meeting if the place, date and time thereof are announced at the meeting at which the adjournment is taken; provided, however, that if the date of any adjourned meeting is more than thirty (30) days after the date for which the meeting was originally noticed, or if a new record date is fixed for the adjourned meeting, written notice of the place, date, and time of the adjourned meeting shall be given in conformity herewith. At any adjourned meeting, any business may be transacted which might have been transacted at the original meeting.

Section 4. Quorum.

At any meeting of the stockholders, the holders of a majority of all of the shares of the stock entitled to vote at the meeting, present in person or by proxy (after giving effect to the provisions of Article FOURTH of the Corporation's Certificate of Incorporation), shall constitute a quorum for all purposes, unless or except to the extent that the presence of a larger number may be required by law. Where a separate vote by a class or classes is required, a majority of the shares of such class or classes present in person or represented by proxy (after giving effect to the provisions of Article FOURTH of the Corporation's Certificate of Incorporation) shall constitute a quorum entitled to take action with respect to that vote on that matter.

If a quorum shall fail to attend any meeting, the chairman of the meeting or the holders of a majority of the shares of stock entitled to vote who are present, in person or by proxy, may adjourn the meeting to another place, date, or time.

If a notice of any adjourned special meeting of stockholders is sent to all stockholders entitled to vote thereat, stating that it will be held with those present in person or by proxy constituting a quorum, then except as otherwise required by law, those present in person or by proxy at such adjourned meeting shall constitute a quorum, and all matters shall be determined by a majority of the votes cast at such meeting.

Section 5 . Organization .

Such person as the Board of Directors may have designated or, in the absence of such a person, the Chairman of the Board of the Corporation or, in his or her absence, such person as may be chosen by the holders of a majority of the shares entitled to vote who are present, in person or by proxy, shall call to order any meeting of the stockholders and act as chairman of the meeting. In the absence of the Secretary of the Corporation, the secretary of the meeting shall be such person as the chairman appoints.

Section 6 . Conduct of Business .

(a) The chairman of any meeting of stockholders shall determine the order of business and the procedures at the meeting, including such regulation of the manner of voting and the conduct of discussion as seem to him or her in order. The date and time of the opening and closing of the polls for each matter upon which the stockholders will vote at the meeting shall be announced at the meeting.

(b) At any annual meeting of the stockholders, only such business shall be conducted as shall have been brought before the meeting (i) by or at the direction of the Board of Directors or (ii) by any stockholder of the Corporation who is entitled to vote with respect thereto and who complies with the notice procedures set forth in this Section 6(b). For business to be properly brought before an annual meeting by a stockholder, the business must relate to a proper subject matter for stockholder action and the stockholder must have given timely notice thereof in writing to the Secretary of the Corporation. To be timely, a stockholder's notice must be delivered or mailed to and received at the principal executive offices of the Corporation not less than ninety (90) days prior to the date of the annual meeting; provided, however, that in the event that less than one hundred (100) days notice or prior public disclosure of the date of the meeting is given or made to stockholders, notice by the stockholder to be timely must be received not later than the close of business on the 10th day following the day on which such notice of the date of the annual meeting was mailed or such public disclosure was made. A stockholder's notice to the Secretary shall set forth as to each matter such stockholder proposes to bring before the annual meeting: (i) a brief description of the business desired to be brought before the annual meeting and the reasons for conducting such business at the annual meeting, (ii) the name and address, as they appear on the Corporation's books, of the stockholder proposing such business, (iii) the class and number of shares of the Corporation's capital stock that are beneficially owned by such stockholder, and (iv) any material interest of such stockholder in such business. Notwithstanding anything in these Bylaws to the contrary, no business shall be brought before or conducted at an annual meeting except in accordance with the provisions of this Section 6(b). The officer of the Corporation or other person presiding over the annual meeting shall, if the facts so warrant, determine and declare to the meeting that business was not properly brought before the meeting in accordance with the provisions of this Section 6(b), and if he should so determine, he shall so declare to the meeting and any such business so determined to be not properly brought before the meeting shall not be transacted.

At any special meeting of the stockholders, only such business shall be conducted as shall have been brought before the meeting by or at the direction of the Board of Directors.

(c) Only persons who are nominated in accordance with the procedures set forth in these Bylaws shall be eligible for election as directors. Nominations of persons for election to the Board of Directors of the Corporation may be made at a meeting of stockholders at which directors are to be elected only: (i) by or at the direction of the Board of Directors, or (ii) by any stockholder of the Corporation entitled to vote for the election of Directors at the meeting who complies with the notice procedures set forth in this Section 6(c). Such nominations, other than those made by or at the direction of the Board of Directors, shall be made by timely notice in writing to the Secretary of the Corporation. To be timely, a stockholder's notice shall be delivered or mailed to and received at the principal executive offices of the Corporation not less than ninety (90) days prior to the date of the meeting; provided, however, that in the event that less than one hundred (100) days notice or prior disclosure of the date of the meeting is given or made to stockholders, notice by the stockholder to be timely must be so received not later than the close of business on the 10th day following the day on which such notice of the date of the meeting was mailed or such public disclosure was made. Such stockholder's notice shall set forth: (i) as to each person whom such stockholder proposes to nominate for election or re-election as a director, all information relating to such person that would indicate such person's qualification under Article II, Section 1, including an affidavit that such person would not be disqualified under the provisions of Section 1(d), and such information that is required to be disclosed in solicitations of proxies for election of directors, or is otherwise required, in each case pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended (including such person's written consent to being named in the proxy statement as a nominee and to serving as a director if elected), and (ii) as to the stockholder giving the notice (x) the name and address, as they appear on the Corporation's books, of such stockholder, and (y) the class and number of shares of the Corporation's capital stock that are beneficially owned by such stockholder. At the request of the Board of Directors any person nominated by the Board of Directors for election as a director shall furnish to the Secretary of the Corporation that information required to be set forth in a stockholder's notice of nomination which pertains to the nominee. No person shall be eligible for election as a director of the Corporation unless nominated in accordance with the provisions of this Section 6(c). The officer of the Corporation or other person presiding at the meeting shall, if the facts so warrant, determine that a nomination was not made in accordance with such provisions and, if he or she shall so determine, he or she shall so declare to the meeting and the defective nomination shall be disregarded.

Section 7. Proxies and Voting.

At any meeting of the stockholders, every stockholder entitled to vote may vote in person or by proxy authorized by an instrument in writing filed in accordance with the procedure established for the meeting. Any facsimile telecommunication or other reliable reproduction of the writing or transmission created pursuant to this paragraph may be substituted or used in lieu of the original writing or transmission for any and all purposes for which the original writing or transmission could be used, provided that such copy, facsimile telecommunication or other reproduction shall be a complete reproduction of the entire original writing or transmission.

All voting, including on the election of directors but excepting where otherwise required by law or by the governing documents of the Corporation, may be made by a voice vote; provided, however, that upon demand therefor by a stockholder entitled to vote or his or her proxy, a stock vote shall be taken. Every stock vote shall be taken by ballot, each of which shall state the name of the stockholder or proxy voting and such other information as may be required under the procedures established for the meeting. The Corporation shall, in advance of any meeting of stockholders, appoint one or more inspectors to act at the meeting and make a written report thereof. The Corporation may designate one or more persons as alternate inspectors to replace any inspector who fails to act. If no inspector or alternate is able to act at a meeting of stockholders, the person presiding at the meeting shall appoint one or more inspectors to act at the meeting. Each inspector, before entering upon the discharge of his duties, shall take and sign an oath faithfully to execute the duties of inspector with strict impartiality and according to the best of his ability.

All elections shall be determined by a plurality of the votes cast, and except as otherwise required by law or the Certificate of Incorporation, all other matters shall be determined by a majority of the votes cast.

Section 8. Stock List.

A complete list of stockholders entitled to vote at any meeting of stockholders, arranged in alphabetical order for each class of stock and showing the address of each such stockholder and the number of shares registered in his or her name, shall be open to the examination of any such stockholder, for any purpose germane to the meeting, during ordinary business hours for a period of at least ten (10) days prior to the meeting, either at a place within the city where the meeting is to be held, which place shall be specified in the notice of the meeting, or if not so specified, at the place where the meeting is to be held.

The stock list shall also be kept at the place of the meeting during the whole time thereof and shall be open to the examination of any such stockholder who is present. This list shall presumptively determine the identity of the stockholders entitled to vote at the meeting and the number of shares held by each of them.

Section 9. Consent of Stockholders in Lieu of Meeting.

Subject to the rights of the holders of any class or series of Preferred Stock of the Corporation, any action required or permitted to be taken by the stockholders of the Corporation must be effected at an annual or special meeting of stockholders of the Corporation and may not be effected by any consent in writing by such stockholders.

ARTICLE II - BOARD OF DIRECTORS

Section 1. General Powers, Number and Term of Office and Qualifications.

(a) General Powers. The business and affairs of the Corporation shall be under the direction of its Board of Directors. The Board of Directors shall annually elect a Chairman of the Board from among its members who shall, when present, preside at its meetings.

(b) Number. The number of directors who shall constitute the Whole Board shall be such number as the Board of Directors shall from time to time have designated, except that in the absence of such designation shall be nine (9).

(c) Term of Office. The directors, other than those who may be elected by the holders of any class or series of Preferred Stock, shall be divided, with respect to the time for which they severally hold office, into three classes, with the term of office of the first class to expire at the first annual meeting of stockholders, the term of office of the second class to expire at the annual meeting of stockholders one year thereafter and the term of office of the third class to expire at the annual meeting of stockholders two years thereafter, with each director to hold office until his or her successor shall have been duly elected and qualified. At each annual meeting of stockholders, directors elected to succeed those directors whose terms then expire shall be elected for a term of office to expire at the third succeeding annual meeting of stockholders after their election, with each director to hold office until his or her successor shall have been duly elected and qualified.

(d) Qualifications. No person shall be eligible for election or appointment to the Board of Directors: (i) if such person has, within the previous 10 years, been the subject of supervisory action by a financial regulatory agency that resulted in a cease and desist order or an agreement or other written statement subject to public disclosure under 12 U.S.C. 1818(u), or any successor provision; (ii) if such person has been convicted of a crime involving dishonesty or breach of trust which is punishable by imprisonment for a term exceeding one year under state or federal law; (iii) if such person is currently charged in any information, indictment, or other complaint with the commission of or participation in such a crime. No person may serve on the Board of Directors and at the same time be a director or officer of another co-operative bank, credit union, savings bank, savings and loan association, trust company, bank holding company or banking association (in each case whether chartered by a state, the federal government or any other jurisdiction) or any affiliate thereof. No person shall be eligible for election to the Board of Directors if such person is the representative or agent of a person or acting in concert (as that term is used to describe relationships involved in either presumptive or actual concerted action under 12 C.F.R. Section 574.4 (d)) with respect to the Corporation or its subsidiaries, with a person who is ineligible for election to the Board of Directors under this Subsection 1(d). No nomination of any individual who would not be qualified to be elected or appointed to or serve as a member of the Board of Directors under this Article II, Section 1(d) shall be valid, accepted or voted upon. The Board of Directors shall have the power to construe and apply the provisions of this Section 1(d) and to make all determinations necessary to implement such provisions, including but not limited to determinations as to whether any persons are a group acting in concert, as defined by this Section 1(d). The Board may request from a nominee information it deems relevant to assessing a nominee's satisfaction of the requirements of this Section 1(d).

Section 2. Vacancies and Newly Created Directorships.

Subject to the rights of the holders of any class or series of Preferred Stock, and unless the Board of Directors otherwise determines, newly created directorships resulting from any increase in the authorized number of directors or any vacancies in the Board of Directors resulting from death, resignation, retirement, disqualification, removal from office or other cause may be filled only by a majority vote of the directors then in office, though less than a quorum, and directors so chosen shall hold office for a term expiring at the annual meeting of stockholders at which the term of office of the class to which they have been elected expires and until such director's successor shall have been duly elected and qualified. No decrease in the number of authorized directors constituting the whole Board shall shorten the term of any incumbent director.

Section 3. Regular Meetings.

Regular meetings of the Board of Directors shall be held at such place or places, on such date or dates, and at such time or times as shall have been established by the Board of Directors and publicized among all directors. A notice of each regular meeting shall not be required.

Section 4. Special Meetings.

Special meetings of the Board of Directors may be called by one-third (1/3) of the directors then in office (rounded up to the nearest whole number), by the Chairman of the Board or the President and shall be held at such place, on such date, and at such time as they, or he or she, shall fix. Notice of the place, date, and time of each such special meeting shall be given each director by whom it is not waived by mailing written notice not less than five (5) days before the meeting or by telegraphing or telexing or by facsimile transmission of the same not less than twenty-four (24) hours before the meeting. Unless otherwise indicated in the notice thereof, any and all business may be transacted at a special meeting.

Section 5. Quorum.

At any meeting of the Board of Directors, a majority of the Whole Board shall constitute a quorum for all purposes. If a quorum shall fail to attend any meeting, a majority of those present may adjourn the meeting to another place, date, or time, without further notice or waiver thereof.

Section 6. Participation in Meetings By Conference Telephone.

Members of the Board of Directors, or of any committee thereof, may participate in a meeting of such Board or committee by means of conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other and such participation shall constitute presence in person at such meeting.

Section 7. Conduct of Business.

At any meeting of the Board of Directors, business shall be transacted in such order and manner as the Board may from time to time determine, and all matters shall be determined by the vote of a majority of the directors present, except as otherwise provided herein or required by law. Action may be taken by the Board of Directors without a meeting if all members thereof consent thereto in writing, and the writing or writings are filed with the minutes of proceedings of the Board of Directors.

Section 8. Powers.

The Board of Directors may, except as otherwise required by law, exercise all such powers and do all such acts and things as may be exercised or done by the Corporation, including, without limiting the generality of the foregoing, the unqualified power:

(1) To declare dividends from time to time in accordance with law;

(2) To purchase or otherwise acquire any property, rights or privileges on such terms as it shall determine;

(3) To authorize the creation, making and issuance, in such form as it may determine, of written obligations of every kind, negotiable or non-negotiable, secured or unsecured, and to do all things necessary in connection therewith;

(4) To remove any officer of the Corporation with or without cause, and from time to time to devolve the powers and duties of any officer upon any other person for the time being;

(5) To confer upon any officer of the Corporation the power to appoint, remove and suspend subordinate officers, employees and agents;

(6) To adopt from time to time such stock, option, stock purchase, bonus or other compensation plans for directors, officers, employees and agents of the Corporation and its subsidiaries as it may determine;

(7) To adopt from time to time such insurance, retirement, and other benefit plans for directors, officers, employees and agents of the Corporation and its subsidiaries as it may determine; and,

(8) To adopt from time to time regulations, not inconsistent with these Bylaws, for the management of the Corporation's business and affairs.

Section 9 . Compensation of Directors .

Directors, as such, may receive, pursuant to resolution of the Board of Directors, fixed fees and other compensation for their services as directors, including, without limitation, their services as members of committees of the Board of Directors.

Section 10. " Retirement/Director Emeritus

No individual director shall stand for re-election to the Board of Directors following his or her 72nd birthday.

Any Director of this Corporation who ceases to be such Director and who has attained the age of 72 years with 12 years of continuous service with the Company or any of its affiliates, or has become incapacitated before the age of 72, may be elected by the Board of Directors as 'Director Emeritus' and such persons who accept such election shall serve for life or until removed as advisors and consultants to the Board of Directors of this Corporation, and, when invited, may sit with the Board of Directors at regular meetings and discuss any questions under consideration provided, however, that such Director Emeritus shall cast no vote."

ARTICLE III - COMMITTEES

Section 1 . Committees of the Board of Directors .

The Board of Directors, by a vote of a majority of the Board of Directors, may from time to time designate committees of the Board, with such lawfully delegable powers and duties as it thereby confers, to serve at the pleasure of the Board and shall, for these committees and any others provided for herein, elect a director or directors to serve as the member or members, designating, if it desires, other directors as alternate members who may replace any absent or disqualified member at any meeting of the committee. Any committee so designated may exercise the power and authority of the Board of Directors to declare a dividend, to authorize the issuance of stock or to adopt a certificate of ownership and merger pursuant to Section 253 of the Delaware General Corporation Law if the resolution which designates the committee or a supplemental resolution of the Board of Directors shall so provide. In the absence or disqualification of any member of any committee and any alternate member in his or her place, the member or members of the committee present at the meeting and not disqualified from voting, whether or not he or she or they constitute a quorum, may by unanimous vote appoint another member of the Board of Directors to act at the meeting in the place of the absent or disqualified member.

Section 2 . Conduct of Business .

Each committee may determine the procedural rules for meeting and conducting its business and shall act in accordance therewith, except as otherwise provided herein or required by law. Adequate provision shall be made for notice to members of all meetings; one-third (1/3) of the members shall constitute a quorum unless the committee shall consist of one (1) or two (2) members, in which event one (1) member shall constitute a quorum; and all matters shall be determined by a majority vote of the members present. Action may be taken by any committee without a meeting if all members thereof consent thereto in writing, and the writing or writings are filed with the minutes of the proceedings of such committee.

Section 3 . Nominating Committee .

The Board of Directors shall appoint a Nominating Committee of the Board, consisting of not less than three (3) members. The Nominating Committee shall have authority: (a) to review any nominations for election to the Board of Directors made by a stockholder of the Corporation pursuant to Section 6(c)(ii) of Article I of these Bylaws in order to determine compliance with such Bylaw, and (b) to recommend to the Whole Board nominees for election to the Board of Directors to replace those directors whose terms expire at the annual meeting of stockholders next ensuing.

ARTICLE IV - OFFICERS

Section 1 . Generally .

(a) The Board of Directors as soon as may be practicable after the annual meeting of stockholders shall choose a Chairman of the Board and a Chief Executive Officer, a President, one or more Vice Presidents, a Secretary and a Treasurer and from time to time may choose such other officers as it may deem proper. The Chairman of the Board shall be chosen from among the directors. Any number of offices may be held by the same person.

(b) The term of office of all officers shall be until the next annual election of officers and until their respective successors are chosen but any officer may be removed from office at any time by the affirmative vote of a majority of the authorized number of directors then constituting the Board of Directors.

(c) All officers chosen by the Board of Directors shall have such powers and duties as generally pertain to their respective offices, subject to the specific provisions of this

ARTICLE IV. Such officers shall also have such powers and duties as from time to time may be conferred by the Board of Directors or by any committee thereof.

Section 2 . Chairman of the Board of Directors .

The Chairman of the Board shall, subject to the provisions of these Bylaws and to the direction of the Board of Directors, unless the Board has designated another person, when present, shall preside at all meetings of the stockholders of the Corporation. The Chairman of the Board shall perform all duties and have all powers which are commonly incident to the office of the Chairman of the Board or which are delegated to him or her by the Board of Directors. He or she shall have power to sign all stock certificates, contracts and other instruments of the Corporation which are authorized.

Section 3 . President and Chief Executive Officer .

The President and the Chief Executive Officer (the “President”) shall have general responsibility for the management and control of the business and affairs of the Corporation and shall perform all duties and have all powers which are commonly incident to the offices of President and Chief Executive Officer or which are delegated to him or her by the Board of Directors. Subject to the direction of the Board of Directors, the President and Chief Executive Officer shall have power to sign all stock certificates, contracts and other instruments of the Corporation which are authorized and shall have general supervision of all of the other officers (other than the Chairman of the Board), employees and agents of the Corporation.

Section 4 . Vice President .

The Vice President or Vice Presidents shall perform the duties of the President in his absence or during his inability to act. In addition, the Vice Presidents shall perform the duties and exercise the powers usually incident to their respective offices and/or such other duties and powers as may be properly assigned to them by the Board of Directors, the Chairman of the Board or the President. A Vice President or Vice Presidents may be designated as Executive Vice President or Senior Vice President.

Section 5 . Secretary .

The Secretary or Assistant Secretary shall issue notices of meetings, shall keep their minutes, shall have charge of the seal and the corporate books, shall perform such other duties and exercise such other powers as are usually incident to such office and/or such other duties and powers as are properly assigned thereto by the Board of Directors, the Chairman of the Board or the President. Subject to the direction of the Board of Directors, the Secretary shall have the power to sign all stock certificates.

Section 6 . Treasurer .

The Treasurer shall be the Comptroller of the Corporation and shall have the responsibility for maintaining the financial records of the Corporation. He or she shall make such disbursements of the funds of the Corporation as are authorized and shall render from time to time an account of all such transactions and of the financial condition of the Corporation. The Treasurer shall also perform such other duties as the Board of Directors may from time to time prescribe. Subject to the direction of the Board of Directors, the Treasurer shall have the power to sign all stock certificates.

Section 7 . Assistant Secretaries and Other Officers .

The Board of Directors may appoint one or more assistant secretaries and such other officers who shall have such powers and shall perform such duties as are provided in these Bylaws or as may be assigned to them by the Board of Directors, the Chairman of the Board or the President.

Section 8 . Action with Respect to Securities of Other Corporations .

Unless otherwise directed by the Board of Directors, the President or any officer of the Corporation authorized by the President shall have power to vote and otherwise act on behalf of the Corporation, in person or by proxy, at any meeting of stockholders of or with respect to any action of stockholders of any other corporation in which this Corporation may hold securities and otherwise to exercise any and all rights and powers which this Corporation may possess by reason of its ownership of securities in such other corporation.

ARTICLE V - STOCK

Section 1 . Certificates of Stock .

Each stockholder shall be entitled to a certificate signed by, or in the name of the Corporation by, the Chairman of the Board or the President, and by the Secretary or an Assistant Secretary, or any Treasurer or Assistant Treasurer, certifying the number of shares owned by him or her. Any or all of the signatures on the certificate may be by facsimile.

Section 2 . Transfers of Stock .

Transfers of stock shall be made only upon the transfer books of the Corporation kept at an office of the Corporation or by transfer agents designated to transfer shares of the stock of the Corporation. Except where a certificate is issued in accordance with Section 4 of Article V of these Bylaws, an outstanding certificate for the number of shares involved shall be surrendered for cancellation before a new certificate is issued therefor.

Section 3 . Record Date .

In order that the Corporation may determine the stockholders entitled to notice of or to vote at any meeting of stockholders, or to receive payment of any dividend or other distribution or allotment of any rights or to exercise any rights in respect of any change, conversion or exchange of stock or for the purpose of any other lawful action, the Board of Directors may fix a record date, which record date shall not precede the date on which the resolution fixing the record date is adopted and which record date shall not be more than sixty (60) nor less than ten (10) days before the date of any meeting of stockholders, nor more than sixty (60) days prior to the time for such other action as hereinbefore described; provided, however, that if no record date is fixed by the Board of Directors, the record date for determining stockholders entitled to notice of or to vote at a meeting of stockholders shall be at the close of business on the day next preceding the day on which notice is given or, if notice is waived, at the close of business on the next day preceding the day on which the meeting is held, and, for determining stockholders entitled to receive payment of any dividend or other distribution or allotment or rights or to exercise any rights of change, conversion or exchange of stock or for any other purpose, the record date shall be at the close of business on the day on which the Board of Directors adopts a resolution relating thereto.

A determination of stockholders of record entitled to notice of or to vote at a meeting of stockholders shall apply to any adjournment of the meeting; provided, however, that the Board of Directors may fix a new record date for the adjourned meeting.

Section 4 . Lost, Stolen or Destroyed Certificates .

In the event of the loss, theft or destruction of any certificate of stock, another may be issued in its place pursuant to such regulations as the Board of Directors may establish concerning proof of such loss, theft or destruction and concerning the giving of a satisfactory bond or bonds of indemnity.

Section 5 . Regulations .

The issue, transfer, conversion and registration of certificates of stock shall be governed by such other regulations as the Board of Directors may establish.

ARTICLE VI - NOTICES

Section 1 . Notices .

Except as otherwise specifically provided herein or required by law, all notices required to be given to any stockholder, director, officer, employee or agent shall be in writing and may in every instance be effectively given by hand delivery to the recipient thereof, by depositing such notice in the mails, postage paid, or by sending such notice by prepaid telegram or mailgram or other courier. Any such notice shall be addressed to such stockholder, director, officer, employee or agent at his or her last known address as the same appears on the books of the Corporation.

The time when such notice is received, if hand delivered, or dispatched, if delivered through the mails or by telegram or mailgram or other courier, shall be the time of the giving of the notice.

Section 2 . Waivers .

A written waiver of any notice, signed by a stockholder, director, officer, employee or agent, whether before or after the time of the event for which notice is to be given, shall be deemed equivalent to the notice required to be given to such stockholder, director, officer, employee or agent. Neither the business nor the purpose of any meeting need be specified in such a waiver.

ARTICLE VII - MISCELLANEOUS

Section 1 . Facsimile Signatures .

In addition to the provisions for use of facsimile signatures elsewhere specifically authorized in these Bylaws, facsimile signatures of any officer or officers of the Corporation may be used whenever and as authorized by the Board of Directors or a committee thereof.

Section 2 . Corporate Seal .

The Board of Directors may provide a suitable seal, containing the name of the Corporation, which seal shall be in the charge of the Secretary. If and when so directed by the Board of Directors or a committee thereof, duplicates of the seal may be kept and used by the Treasurer or by an Assistant Secretary or an assistant to the Treasurer.

Section 3 . Reliance Upon Books, Reports and Records .

Each Director, each member of any committee designated by the Board of Directors, and each officer of the Corporation shall, in the performance of his or her duties, be fully protected in relying in good faith upon the books of account or other records of the Corporation and upon such information, opinions, reports or statements presented to the Corporation by any of its officers or employees, or committees of the Board of Directors so designated, or by any other person as to matters which such director or committee member reasonably believes are within such other person’s professional or expert competence and who has been selected with reasonable care by or on behalf of the Corporation.

Section 4 . Fiscal Year .

The fiscal year of the Corporation shall be as fixed by the Board of Directors.

Section 5 . Time Periods .

In applying any provision of these Bylaws which requires that an act be done or not be done a specified number of days prior to an event or that an act be done during a period of a specified number of days prior to an event, calendar days shall be used, the day of the doing of the act shall be excluded, and the day of the event shall be included.

ARTICLE VIII - AMENDMENTS

The Board of Directors may amend, alter or repeal these Bylaws at any meeting of the Board, provided notice of the proposed change was given not less than two days prior to the meeting. The stockholders shall also have power to amend, alter or repeal these Bylaws at any meeting of stockholders provided notice of the proposed change was given in the notice of the meeting; provided, however, that, notwithstanding any other provisions of the Bylaws or any provision of law which might otherwise permit a lesser vote or no vote, but in addition to any affirmative vote of the holders of any particular class or series of the voting stock required by law, the Certificate of Incorporation, any Preferred Stock designation or these Bylaws, the affirmative votes of the holders of at least 80% of the voting power of all the then-outstanding shares of the Voting Stock, voting together as a single class, shall be required to alter, amend or repeal any provisions of these Bylaws.

The above Bylaws are effective as of November 21, 1995, the date of incorporation of Ocean Financial Corp., as amended June 16, 1999 to change the corporate title from Ocean Financial Corp. to OceanFirst Financial Corp. as amended May 17, 2000 to add director qualifications, and as amended January 22, 2003 to add mandatory retirement requirement for directors.

/s/ JOHN K. KELLY

John K. Kelly
Corporate Secretary

January 22, 2003

Date

**CERTIFICATE OF OWNERSHIP
MERGING
OCEAN INTERIM, INC.
INTO
OCEAN FINANCIAL CORP.
(PURSUANT TO SECTION 253 OF THE
CORPORATION LAW OF DELAWARE)**

Ocean Financial Corp., a corporation incorporated on the 21 st day of November, 1995, pursuant to the provisions of the General Corporation Law of the State of Delaware does hereby certify that this corporation owns all the capital stock of Ocean Interim, Inc., a corporation incorporated under the laws of the State of Delaware, and that this corporation, by resolutions of its Board of Directors duly adopted at a meeting held on the 16 th day of June 1999, and attached hereto, determined to and did merge into itself said Ocean Interim, Inc. which resolutions are in the following word to wit:

WHEREAS, Ocean Financial Corp. (the "Company"), a corporation organized and existing under the laws of the State of Delaware lawfully owns all of the outstanding stock of its subsidiary, Ocean Interim, Inc. (the "Subsidiary"); and

WHEREAS, the Board of Directors of the Company and the Subsidiary have deemed it to be in the best interests of both the Company and its Subsidiary for the Subsidiary to merge with and into the Company (the "Subsidiary Merger"); and

WHEREAS, it is the understanding of the Board that pursuant to the Subsidiary Merger, Ocean Interim, Inc. will merge with and into the Company, with the Company being the surviving entity, and the Company will continue its existence under the laws of the State of Delaware; and

WHEREAS, it is also understood by the Board that pursuant to §253(b) of the General Corporation Law of the State of Delaware, the Company will change its corporate name to "OceanFirst Financial Corp." and that it will continue to operate under its Certificate of Incorporation and Bylaws in effect as of the effective date of the Subsidiary Merger; and

WHEREAS, all assets and property (real, personal, and mixed, tangible and intangible, chooses in action, rights, and credits) owned by Ocean Interim, Inc. at the effective date of the Subsidiary Merger shall immediately become the property of the Company, and the Company shall be deemed to be a continuation of Ocean Interim, Inc., the rights and obligations of which and the duties and liabilities connected therewith shall succeed to the Company; and

WHEREAS, the Subsidiary Merger does not effect any reclassification or change of any outstanding stock of the Company, and no shares of the Company's stock are to be issued or delivered in the Subsidiary Merger.

NOW THEREFORE, BE IT RESOLVED, that the Subsidiary Merger be, and hereby is, approved and adopted in accordance with the foregoing terms and effective upon the date that the Certificate of Ownership is filed with the Secretary of the State of Delaware, and that the President and Chief Executive Officer, and such other officers as he designates (the "Officers"), are authorized and directed to make, execute and file said Certificate of Ownership; and

BE IT FURTHER RESOLVED, that the Officers of the Company be, and hereby are, authorized and directed to take all action necessary and proper to effect the Subsidiary Merger; and

BE IT FURTHER RESOLVED, that any actions taken by the Officers of the Company prior hereto in relation to the Subsidiary Merger are ratified, approved and confirmed; and

BE IT FURTHER RESOLVED, that pursuant to Section 253(b) of the General Corporation Law of the State of Delaware, the corporate title of the Company upon the filing of the Certificate of Ownership shall be changed to "OceanFirst Financial Corp."

IN WITNESS THEREOF, the Company has caused this certificate to be signed by its Executive Vice President and attested by its secretary, and its corporate seal to be hereto affixed, the 9th day of September, 1999.

By: /s/ MICHAEL J. FITZPATRICK

Michael J. Fitzpatrick
Executive Vice President,
Chief Financial Officer

ATTEST:

/s/ JOHN K. KELLY

John K. Kelly
Secretary

(Seal)

RESOLUTIONS OF THE BOARD OF DIRECTORS OF OCEAN FINANCIAL CORP.
TO CHANGE CORPORATE TITLE THROUGH A SHORT FORM MERGER

WHEREAS, for the benefit of the Institution, its shareholders, employees and community members, the Board of Directors and Senior Management of Ocean Federal Savings Bank (the "Bank"), along with professional consultants retained by the Bank, have been conducting ongoing analysis and research into how to better identify and associate the name and image of the Bank, its subsidiaries, Website and the products and services it offers with the members of the communities within which it conducts its business; and

WHEREAS, at the request of the Bank, the Board of Directors has approved a change to the Bank's corporate title from Ocean Federal Savings Bank to OceanFirst Bank; and

WHEREAS, the Bank has approved a change to the corporate titles of its subsidiaries to likewise correspond to the Bank's corporate title; and

WHEREAS, the Board of Directors is of the opinion that it is in the best interests of Ocean Financial Corp. (the "Company") that a change to the Company's corporate title be adopted to be consistent with the corporate title of the Bank and its subsidiaries; and

WHEREAS, the Board of Directors has determined that, to avoid the expense of holding a stockholder vote on an amendment to the Company's Certificate of Incorporation, it is in the best interests of the Company to create a subsidiary of the Company (the "Subsidiary") and subsequently to merge the Subsidiary with and into the Company, pursuant to Section 253 of the Delaware General Corporation Law, which permits the Company as the surviving corporation of such a merger to change its corporate title without the need for a vote of stockholders of the Company; and

WHEREAS, the Board of Directors of the Company is also of the opinion that to advance the public purposes for which the Ocean Federal Foundation (the "Foundation") was established, as well as insure consistency and avoid confusion, it would be appropriate to recommend to the Board of Directors of the Foundation that the Foundation change its corporate title to correspond to the corporate title changes to the Company, the Bank and its subsidiaries.

ON MOTION DULY MADE, SECONDED AND UNANIMOUSLY CARRIED, it was

RESOLVED, that the Certificate of Incorporation and Bylaws of Ocean Financial Corp. (the "Company") be amended to change the corporate title from Ocean Financial Corp. to OceanFirst Financial Corp., subject to compliance with the requirements of the General Corporation Law of the State of Delaware.

FURTHER RESOLVED, that the Board of Directors hereby approves the creation of a subsidiary of the Company under Delaware law and a merger between the Company and the subsidiary to be created for the sole purpose of effecting the name change.

FURTHER RESOLVED, that the President and Chief Executive Officer or his designees is directed to take any and all actions necessary to establish a subsidiary of the Company for the purpose of merging with and into the Company so as to effectuate the change in the corporate title of the Company; and

FURTHER RESOLVED, that the President and Chief Executive Officer or his designees be, and hereby is authorized to execute, deliver and file any agreement, instrument, certificate or any other document and to take any other action that such officer may deem necessary, convenient or appropriate in order to carry out the intent and purpose of the preceding resolution and to effectuate the transactions contemplated thereby, including selecting and reserving a corporate name for the Subsidiary; and

FURTHER RESOLVED, that the Company is authorized to subscribe for ten shares of Common Stock, par value $0.01 per share, of the Subsidiary upon its organization.

FURTHER RESOLVED, that a recommendation be submitted to the Board of Directors of the Ocean Federal Foundation by the Company that the Foundation's corporate title be changed to correspond to the corporate title of OceanFirst Financial Corp., OceanFirst Bank and its subsidiaries.

SECRETARY'S CERTIFICATE

The undersigned hereby certifies that he is the Corporate Secretary of Ocean Financial Corp., a corporation organized and existing under the laws of the State of Delaware; that the foregoing is a true and correct copy of resolutions adopted at a meeting of the Board of Directors of said corporation held on June 16, 1999, at which meeting a quorum was at all times present and acting; that the passage of said resolutions were in all respects legal; and that said resolutions are in full force and effect.

Date: June 16, 1999

/s/ JOHN K. KELLY

John K. Kelly
Secretary

Financial Highlights

(dollars in thousands, except per share amounts)

At or For The Year Ended December 31,	2002	2001	2000
Selected Financial Condition Data:			
Total assets	$ 1,743,698	$ 1,763,666	$ 1,640,217
Loans receivable, net	1,335,898	1,300,889	1,136,879
Deposits	1,184,836	1,109,043	1,104,188
Stockholders' equity	135,305	146,729	157,736
Selected Operating Data:			
Net interest income	60,832	55,012	49,693
Non-interest income	10,857	12,925	6,145
Non-interest expense	40,144	39,048	31,645
Net income	20,143	18,159	16,382
Diluted earnings per share	1.47	1.23	1.02
Selected Financial Ratios:			
Stockholders' equity per common share	9.83	9.92	9.49
Cash dividend per share	.69	.56	.48
Stockholders' equity to total assets (capital ratio)	7.76%	8.32%	9.62%
Return on average assets	1.16	1.06	1.01
Return on average stockholders' equity	14.31	12.01	10.45
Average interest rate spread	3.42	2.97	2.75
Net interest margin	3.70	3.37	3.20
Operating expenses to average assets	2.32	2.29	1.96
Operating efficiency ratio	56.00	57.48	56.67
Non-performing loans to total loans receivable	.19	.46	.25
Actual contributions to stockholders' equity and resultant cash earnings data (1) :			
Cash earnings	$ 23,298	$ 21,953	$ 19,426
Diluted cash earnings per share	1.70	1.49	1.21
Return on average assets	1.35%	1.29%	1.20%
Return on average stockholders' equity	16.55	14.52	12.39
Operating efficiency ratio	50.78	49.94	48.96

(1) *Cash earnings are determined by adding (net of taxes) to reported earnings the noncash 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 (EPS)
[GRAPHIC APPEARS HERE]

Return On Equity (ROE)
[GRAPHIC APPEARS HERE]

Letter to our Shareholders
March 21, 2003

DEAR FELLOW SHAREHOLDERS:

Throughout 2002, OceanFirst Financial stayed focused on its mission of building value for its shareholders. Although the year was turbulent, we again delivered strong financial results and generally surpassed the targets we had set, solidifying our position as the preeminent provider of financial services to the Central Jersey Shore community. Additionally, in response to some troubling instances of corporate malfeasance across the nation, we bolstered our corporate governance practices. I am pleased to review these achievements with you, as well as discuss our plans to build additional value for your OceanFirst investment.

HITTING OUR TARGETS

Consistently hitting our annual financial targets has built credibility with our investors and market observers. A perennial target of our business plan is earnings per share (EPS) growth above 15%. We surpassed it, posting growth of 19.5%. Net income grew to $20.1 million and return on average stockholders' equity reached 14.3%. Both were new records. This strong performance funded two increases in our quarterly cash dividend and fostered market recognition of our consistent earnings growth. The result was a 39.4% appreciation in the market price of our shares during the year. Share price appreciation and dividends combined to produce a total shareholder return for the year of 44.9% - which was especially satisfying because many similar financial companies reported flat or negative total returns.

Core deposit growth also surpassed our target, increasing by 25.6%, a total of $144.1 million, and at year-end represented 59.6% of our deposit base versus only 33.0% in 1997. Especially in this low interest rate environment, core deposits are less interest-rate-sensitive than CDs and have long been targeted as a stable source of funding for our operations.

Commercial loans outstanding grew 32.6%, on target for the year, and continued to move our loan portfolio composition toward a more desirable mix of credits.

Annual Cash Dividends Per Share
[GRAPHIC APPEARS HERE]

Core Deposit Ratio
[GRAPHIC APPEARS HERE]

[GRAPHIC APPEARS HERE]

Hitting the mark . In 2002, we surpassed our target goals in many performance areas despite a volatile financial climate. By consistently concentrating on core strengths and zeroing in on competitive opportunities, OceanFirst once again delivered what was promised.

"… diversifying the loan portfolio enhances our overall asset yield and decreases our sensitivity to interest rate risk."

Commercial loans comprised 16.2% of total loans at year-end compared to just 3.6% in 1997, tempering the dominant position of our single-family residential mortgages. This strategy of diversifying the loan portfolio enhances our overall asset yield and decreases our sensitivity to interest rate risk. As for residential mortgages, record originations during the year generated record sales of mortgage loans into the secondary market. We used these funds to reduce and restructure our wholesale borrowings, thereby further managing our exposure to the potential for increased interest rates.

Non-performing assets decreased over the year, keeping our asset quality pristine. At December 31, 2002, non-performing assets represented only 0.16%

“Our Board also responded to the scandals reported at other companies, adopting a ‘best practices’ approach that reinforced our emphasis on maintaining the highest ethical standards at OceanFirst.”

of total assets. Our allowance for loan losses grew to 374.8% of non-performing loans at year-end, bringing our reserves to a much stronger position.

We also achieved our goal of expanding top-line revenue, which is critical for sustaining earnings growth. Net interest income rose an impressive 10.6%. And our average net interest margin (net interest income as a percentage of average interest-earning assets) grew to 3.70% from 3.37% in what was a very difficult operating environment. These gains brought new strength to our income statement.

FOCUS ON CORPORATE GOVERNANCE

In response to several corporate fraud and accounting scandals that came to light last year, Congress passed the Sarbanes-Oxley Act of 2002. This legislation set forth new requirements for publicly traded companies in the areas of corporate governance and reporting. Our Board also responded to the scandals reported at other companies, adopting a “best practices” approach that reinforced our emphasis on maintaining the highest ethical standards at OceanFirst.

Fully recognizing its obligation to act in the best interests of the stockholders, the Board drafted, vetted and adopted a formal Corporate Governance Policy. The policy sets forth the duties and responsibilities of the Board itself, as well as those of its various committees and each individual director. It further provides for a mandatory director retirement policy, which prohibits a Board member from standing for election following his or her 72nd birthday. The policy requires annual self-assessment of the Board’s performance, and recognizes the overriding importance of ensuring that Board members are competent, well informed and independent.

As a corollary to this policy, the Board has also established a new standing Board committee to deal directly with corporate governance matters on a continuing basis. The charter for the new committee-along with redrafted charters for the

[GRAPHIC APPEARS HERE]

Earning your trust. Regrettably, fraud and accounting scandals uncovered throughout the year left many Americans worried about their financial future. In addition to our long-standing reputation for sound, best practices management, the OceanFirst Financial Corp. Board has established a Corporate Governance Committee to monitor performance, legal and regulatory compliance.

[PHOTO OF JOHN R. GARBARINO]

[PHOTO OF JOHN E. WALSH]

[PHOTO OF DONALD E. McLAUGHLIN, CPA]

John R. Garbarino
Chairman of the Board,
President & CEO

John E. Walsh
Chairman, Corporate
Governance Committee

Donald E. McLaughlin, CPA
Chairman,
Audit Committee

Board's Audit and Human Resources/Compensation Committees-all have been crafted to clearly define accountability and ensure that sound, effective governance procedures are employed at OceanFirst Financial.

I am also proud to report that the Board has not limited itself to merely following the strict requirements of the Sarbanes-Oxley Act and the SEC and NASDAQ rules emerging from that legislation. The Board has taken bold steps beyond basic compliance. Good governance has become a key strategy for OceanFirst's Board, and shareholders can take comfort in knowing that not just the letter but also the spirit and intent of the law are recognized at the Company.

"…we have bolstered our credibility by establishing clear goals and then consistently achieving them."

LOOKING AHEAD

Since our 1996 initial public offering, OceanFirst Financial has achieved some measure of success in transforming itself into a high-performing, community-focused financial services organization. We have discussed how we have bolstered our credibility by establishing clear goals and then consistently achieving them. Looking ahead, we intend to focus on several key strategic and financial targets that will keep us moving forward.

- **Annual EPS Growth in Excess of 15%.** Consistent EPS growth of this magnitude has always been a critical component of our equation for creating shareholder value. Since becoming a public company, OceanFirst has increased EPS at a compound annual rate of 20%, generating substantial shareholder value.

- **Ongoing Balance Sheet Restructuring** . Growing core deposits and making commercial credits a larger share of our loan portfolio remain central to our operating philosophy. The traditional strategy for our community bank has been to fulfill the financial needs of our consumer banking market. However, in our consolidating markets, we also have achieved good results with our supplemental strategy of establishing new relationships in the business and government community to drive balance sheet growth. We are continuing to execute this strategy in a disciplined manner, and over time we expect to see core deposits and commercial loans become 70% and 20% of their respective total portfolios.

- **Risk Management.** Controlling its exposure to credit risk and interest rate risk is vital to the Company's long-term viability and earnings performance. Particularly in the current operating environment, it will be crucial both to maintain superior credit quality in our portfolio and to retain our broadened flexibility to adjust to economic uncertainties. Our Asset and Liability growth and changing composition strategies will facilitate our achievement of these goals.

Loans Receivable
[GRAPHIC APPEARS HERE]

[GRAPHIC APPEARS HERE]

The test of time. Since 1902, OceanFirst has held strong through change, challenges and continued growth. Today, as the largest full-service financial institution headquartered along New Jersey's central coast, we continue to serve our customers and shareholders alike with our rock-steady commitment to helping you reach your goals.

- **Community Involvement.** Participation in our community has been one of our hallmarks, and local involvement must continue to be a primary component of our annual plans. In 2002, we were honored and proud to have been named Corporate Philanthropist of the Year by the New Jersey Community Foundation in recognition of the work of our OceanFirst Foundation. The Company established the foundation in 1996. During the past six years, the foundation has funneled more than $7 million back into the community through grants. During 2003, OceanFirst Foundation expects to commit up to an additional $2 million of aid to community organizations. But the Company's involvement is not limited to the financial. It's personal as well, since OceanFirst officers and staff take

[GRAPHIC APPEARS HERE]

Giving back to the community. Joining the ranks of prior honorees like AT&T, Campbell Soup Company, Johnson & Johnson, and Novartis, OceanFirst Bank was named 2002 Corporate Philanthropist of the Year by the Community Foundation of New Jersey. Since 1996, OceanFirst has set a new standard for community support among banks throughout the nation.

a leadership role in many local organizations. As all of these contributions demonstrate, OceanFirst remains dedicated to taking care of more than money in the communities it serves.

We are pleased that you have chosen to invest in the shares of OceanFirst Financial, and we remain committed to enhancing the value of your investment. Hitting our financial and strategic targets, taking the initiative to employ best practices in the pursuit of sound corporate governance, and giving back to the communities we serve have universally proven to be successful strategies for us in the past. We expect these strategies to continue facilitating our mission of building shareholder value.

As always, on behalf of our directors, officers and employees, I thank you for your continued support.

Very truly yours,

/s/ JOHN R. GARBARINO

John R. Garbarino
Chairman, President
and Chief Executive Officer

Selected Consolidated Financial and Other Data of the Company

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

At December 31,	2002	2001	2000	1999	1998
(dollars in thousands)					
Selected Financial Condition Data:					
Total assets	$ 1,743,698	$ 1,763,666	$ 1,640,217	$ 1,590,907	$ 1,561,744
Investment securities available for sale	91,978	80,017	103,536	120,780	137,405
Federal Home Loan Bank of New York stock	18,700	23,560	20,000	16,800	16,800
Mortgage-backed securities available for sale	138,657	233,302	268,042	346,182	381,840
Loans receivable, net	1,335,898	1,300,889	1,136,879	1,042,975	941,011
Mortgage loans held for sale	66,626	37,828	35,588	—	25,140
Deposits	1,184,836	1,109,043	1,104,188	1,056,950	1,035,251
Federal Home Loan Bank advances	214,000	272,000	127,500	115,000	40,000
Securities sold under agreements to repurchase	184,584	212,332	236,494	239,867	272,108
Stockholders’ equity	135,305	146,729	157,736	167,530	197,740

For the Year Ended December 31,	2002	2001	2000	1999	1998
(dollars in thousands; except per share amounts)					
Selected Operating Data:					
Interest income	$ 108,456	$ 118,160	$ 116,105	$ 107,347	$ 105,557
Interest expense	47,624	63,148	66,412	58,809	61,399
Net interest income	60,832	55,012	49,693	48,538	44,158
Provision for loan losses	1,650	1,250	985	900	900
Net interest income after provision for loan losses	59,182	53,762	48,708	47,638	43,258
Other income	10,857	12,925	6,145	5,226	2,411
Operating expenses	40,144	39,048	31,645	27,852	25,457
Income before provision for income taxes	29,895	27,639	23,208	25,012	20,212
Provision for income taxes	9,752	9,480	6,826	8,665	7,240
Net income	$ 20,143	$ 18,159	$ 16,382	$ 16,347	$ 12,972
Basic earnings per share	$ 1.57	$ 1.30	$ 1.06	$ .91	$ .65
Diluted earnings per share	$ 1.47	$ 1.23	$ 1.02	$ .89	$ .63

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,	2002	2001	2000	1999	1998
Selected Financial Ratios and Other Data [1] :					
Performance Ratios:					
Return on average assets	1.16%	1.06%	1.01%	1.04%	0.85%
Return on average stockholders' equity	14.31	12.01	10.45	8.90	6.36
Stockholders' equity to total assets	7.76	8.32	9.62	10.53	12.66
Tangible equity to tangible assets	7.67	8.22	9.52	10.48	12.61
Average interest rate spread [2]	3.42	2.97	2.75	2.70	2.39
Net interest margin [3]	3.70	3.37	3.20	3.20	2.98
Average interest-earning assets to average interest-bearing liabilities	109.78	110.31	110.39	112.94	114.35
Operating expenses to average assets	2.32	2.29	1.96	1.78	1.66
Operating efficiency ratio [4]	56.00	57.48	56.67	51.80	54.67
Asset Quality Ratios:					
Non-performing loans as a percent of total loans receivable [5][6]	0.19	0.46	0.25	0.28	0.56
Non-performing assets as a percent of total assets [6]	0.16	0.36	0.19	0.21	0.35
Allowance for loan losses as a percent of total loans receivable [5]	0.71	0.77	0.77	0.78	0.76
Allowance for loan losses as a percent of total non-performing loans [6]	374.78	167.49	312.62	275.48	137.54
Per Share Data					
Dividends per common share	$ .69	$ .56	$ .48	$ .38	$ .31
Book value per common share at end of period	9.83	9.92	9.49	8.85	9.01
Tangible book value per common share at end of period	9.72	9.81	9.38	8.80	8.97
Number of full-service customer facilities	17	16	14	13	11

(1) With the exception of end of year ratios, all ratios are based on average daily balances.
(2) 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.
(3) The net interest margin represents net interest income as a percentage of average interest-earning assets.
(4) Operating efficiency ratio represents the ratio of operating expenses to the aggregate of other income and net interest income.
(5) Total loans receivable includes loans receivable and loans held for sale, net of undisbursed loan funds, deferred loan fees and unamortized discounts/premiums.
(6) 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.

Management's Discussion and Analysis of Financial Condition and Results of Operations

General

OceanFirst Financial Corp. (the "Company" or "OCFC") is the holding company for OceanFirst Bank (the "Bank"). On August 17, 1995, the Board of Directors (the "Board") 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 25,164,235 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"). Concurrent with the close of the Conversion, an additional 2,013,137 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.

On August 18, 2000 the Bank acquired Columbia Equities, Ltd. ("Columbia"), a mortgage banking company based in Westchester County, 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 four retail branches, a web site and a network of independent mortgage brokers. The fourth office, in Islandia, New York on Long Island was added in September 2002. 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 sixteen other branch offices. Fourteen of the seventeen branch offices are located in Ocean County, New Jersey, with two branches in Monmouth County and one in Middlesex County.

Strategy

The Company operates as a consumer-oriented bank, with a strong focus on its local community. The Bank is the oldest and largest community-based financial institution headquartered in Ocean County, New Jersey. The Company competes with generally larger and out-of-market financial service providers through this local focus and the delivery of superior service. Additionally, over the past few years, the Company has developed a more pro-active sales culture throughout the organization.

The Company's strategy has been to consistently grow profitability while limiting credit and interest rate risk exposure. To accomplish these objectives, the Company has sought to (1) grow loans receivable through the Bank's traditional mortgage portfolio emphasis supplemented by the offering of commercial lending services to local businesses; (2) grow core deposits (defined as all deposits other than certificates) through de novo branch expansion and product offerings appealing to a broadened customer base; (3) increase non-interest income by expanding the menu of fee-based products and services; and (4) actively manage the Company's capital position.

With industry consolidation eliminating most locally headquartered competitors, the Company saw an opportunity to fill a perceived void for locally delivered commercial loan and deposit services. As such, over the past few years the Company has assembled an experienced team of business banking professionals responsible for offering commercial loan and deposit services and merchant credit card services to businesses in Ocean County and surrounding communities. As a result of this initiative, commercial loans represented 16.2% of the Bank's total loans receivable at December 31, 2002 as compared to only 3.6% at December 31, 1997. The diversification of the Company's loan products entails 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.

The Company seeks to increase core deposit market share in its primary market area by expanding the Bank's branch network and improving market penetration. Over the past six years, the Company has opened eight new branch offices, six in Ocean County including a new branch in Jackson which opened during 2002 and two in Southern Monmouth County, the Company's first branches in this county. The Company is also evaluating additional office sites within its existing market area.

At December 31, 2002, the eight new branches maintained an average core deposit mix of 82.3%. Core account development has also benefited from the Company's efforts to attract business deposits in conjunction with its commercial lending operations and from an expanded mix of retail core account products. As a result of these efforts the Company's core deposit ratio has grown to 59.6% at December 31, 2002 as compared to only 33.0% at December 31, 1997. Core deposits are generally considered a less expensive and more stable funding source than certificates of deposit.

Management continues to diversify the Company's retail product line in order to enhance non-interest income. 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 and the Company introduced trust and asset management services in early 2000. Finally, the Company has also expanded the non-interest income received from small business relationships including merchant services.

Fees and Service Charges

[GRAPHIC APPEARS HERE]

With post conversion capital levels exceeding 20%, management recognized the need to address the Company's overcapitalized position in order to improve return on equity. The capital management plan implemented over the past few years includes the following components: (1) share repurchases; (2) cash dividends; and (3) wholesale leverage. During 2002 the Company completed its ninth common stock repurchase program and in August 2002 the Board of Directors authorized a tenth repurchase plan for 10% of the outstanding common shares, or 1,406,421 shares. From conversion date through December 31, 2002, the Company has repurchased a total of 14.0 million common shares, 51.3% of the shares originally issued in the conversion. The Company has historically targeted a cash dividend payout of 40% to 50% of net income. The dividend has increased by 170% since the initial dividend in 1997. The Company has also used wholesale borrowings to fund purchases of investment and mortgage-backed securities and, in previous years, the retention of some 30-year fixed-rate mortgage loans. The adoption of this strategy generally increases 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.

The capital management plan has successfully reduced the Company's core capital ratio from 19.4% at December 31, 1996 to 7.8% at December 31, 2002 while increasing the Company's return on equity from 6.0% for the year ended December 31, 1997 to 14.3% for the year ended December 31, 2002. Management believes that prudent loan underwriting standards, the continued high concentration of lower-risk 1-to 4-family mortgage loans, and other effective risk management practices will allow the Company to continue to reduce capital levels in the foreseeable future.

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 loan sales, 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, 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 change 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.

The Company utilizes 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. The Company periodically retains 30-year fixed-rate mortgage loan production in order to improve yields and increase balance sheet leverage. During periods when fixed-rate mortgage loan production is retained, the Company attempts to extend the maturity on part of its wholesale borrowings for up to ten years. With the substantial decline in interest rates during 2002, the Company resumed its practice of selling most 30-year fixed-rate mortgage loans into the secondary market. 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 theoretically 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.

The following table sets forth the amounts of interest-earning assets and interest-bearing liabilities outstanding at December 31, 2002 which were anticipated by the Company, based upon certain assumptions, to reprice or mature in each of the future time periods shown. At December 31, 2002 the Company's one year gap was positive 10.05%. 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. The table is intended to provide an approximation of the projected repricing of assets and liabilities at December 31, 2002, on the basis of contractual maturities, anticipated prepayments, and scheduled rate adjustments within a three month period and subsequent selected time intervals. 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 were projected to prepay at rates between 6.0% and 66.6% annually. Mortgage-backed securities were projected to prepay at rates between 11.0% and 70.0% annually. Savings accounts, negotiable order of withdrawal ("NOW") and money market deposit accounts were assumed to decay, or run-off, at 1.75% 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.

At December 31, 2002	**3 Months or Less**	**More than 3 Months to 1 Year**	**More than 1 Year to 3 Years**	**More than 3 Years to 5 Years**	**More than 5 Years**	**Total**
(dollars in thousands)						
Interest-earning assets [1] :						
Interest-earning deposits and short-term investments	$ 5,186	$ —	$ —	$ —	$ —	$ 5,186
Investment securities	88,439	1,200	—	—	10,011	99,650
FHLB stock					18,700	18,700
Mortgage-backed securities	29,510	51,285	43,422	9,527	2,662	136,406
Loans receivable [2]	268,890	251,252	442,984	263,598	183,640	1,410,364
Total interest-earning assets	392,025	303,737	486,406	273,125	215,013	1,670,306
Interest-bearing liabilities:						
Money market deposit accounts	6,395	17,272	34,641	65,652	—	123,960
Savings accounts	12,132	32,768	65,719	124,376	—	234,995
NOW accounts	13,449	36,324	72,853	138,136	—	260,762
Time deposits	122,638	187,270	125,300	30,620	13,001	478,829
FHLB advances	—	30,000	94,000	70,000	20,000	214,000
Securities sold under agreements to repurchase	44,584	25,000	45,000	35,000	35,000	184,584
Total interest-bearing liabilities	199,198	328,634	437,513	463,784	68,001	1,497,130
Interest sensitivity gap [3]	$ 192,827	$ (24,897)	$ 48,893	$ (190,659)	$ 147,012	$ 173,176
Cumulative interest sensitivity gap	$ 192,827	$ 167,930	$ 216,823	$ 26,164	$ 173,176	$ 173,176
Cumulative interest sensitivity gap as a percent of total interest-earning assets	11.54%	10.05%	12.98%	1.57%	10.37%	10.37%
Cumulative interest-earning assets as a percent of cumulative interest-bearing liabilities	196.80%	131.82%	122.46%	101.83%	111.57%	111.57%

(1) Interest-earning assets are included in the period in which the balances are expected to be redeployed and/or repriced as a result of anticipated prepayments, scheduled rate adjustments, and contractual maturities.

(2) For purposes of the gap analysis, loans receivable includes loans held for sale and non-performing loans gross of the allowance for loan losses, unamortized discounts and deferred loan fees.

(3) Interest sensitivity gap represents the difference between interest-earning assets and interest-bearing liabilities.

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 interest 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, 2002 and 2001, as calculated by the Company. For purposes of this table, the Company used prepayment speeds and deposit decay rates similar to those used in calculating the Company's gap.

	December 31, 2002				
	Net Portfolio Value			Net Interest Income	
Change in Interest Rates in Basis Points (Rate Shock)	Amount	% Change	NPV Ratio	Amount	% Change
200	$ 151,546	(7.1)%	8.9%	$ 60,492	2.1%
100	163,725	0.4	9.4	60,234	1.7
Static	163,127	—	9.2	59,230	—
(100)	150,429	(7.8)	8.4	56,527	(4.6)

	December 31, 2001				
	Net Portfolio Value			Net Interest Income	
Change in Interest Rates in Basis Points (Rate Shock)	Amount	% Change	NPV Ratio	Amount	% Change
200	$ 118,006	(22.1)%	7.0%	$ 58,369	(5.3)%
100	141,155	(6.8)	8.2	60,366	(2.1)
Static	151,507	—	8.6	61,649	—
(100)	154,728	2.1	8.6	62,177	.9

At December 31, 2002, the Company's NPV in a static rate environment is greater than the NPV at December 31, 2001 reflecting the Company's increased reliance on core deposits and the increased value of fixed-rate assets. In a rising interest rate environment, the Company projects a more favorable percent change in NPV and net interest income at December 31, 2002 than was the case at December 31, 2001. Conversely, in a declining interest rate environment, the Company projects an unfavorable percent change in NPV and net interest income at December 31, 2002 than was the case at December 31, 2001. At December 31, 2002 savings, NOW, non-interest bearing and money market deposit accounts ("core deposits") were assumed to decay, or runoff, at a slower rate than at December 31, 2001. The slower decay rate was partly responsible for reducing the Company's negative gap and increasing NPV in a static rate environment. The increase in core deposit balances and the decline in time deposit balances from December 31, 2001 to December 31, 2002 also contributed to this trend. Also, assumed prepayment speeds for mortgage loans and mortgage-backed securities were higher at December 31, 2002 as compared to December 31, 2001 due to the lower interest rate environment. Finally, interest rate sensitivity was affected by the Bank's sale of 30-year fixed-rate mortgage loans during the year ended December 31, 2002. The proceeds from these sales were used to reduce overnight borrowings which declined by $80.0 million from December 31, 2001 to December 31, 2002.

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.

Asset Quality

The following table sets forth information regarding non-performing assets consisting of non-accrual loans and Real Estate Owned (REO) and activity in the allowance for loan losses. The Bank had no troubled-debt restructured loans and one REO property at December 31, 2002. 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, 2002, 2001, 2000, 1999 and 1998, respectively, the amount of interest income that would have been recognized on non-accrual loans if such loans had continued to perform in accordance with their contractual terms was $87,000, $379,000, $132,000, $52,000, and $270,000.

At or for the year ended December 31,	2002	2001	2000	1999	1998
(dollars in thousands)					
Non-accrual loans:					
Real estate:					
One to four-family	$ 2,222	$ 3,661	$ 2,594	$ 2,401	$ 4,605
Commercial real estate, multi-family and land	74	—	—	362	574
Consumer	95	151	147	222	245
Commercial	297	2,368	182	—	—
Total	2,688	6,180	2,923	2,985	5,424
REO, net	141	133	157	292	43
Total non-performing assets	$ 2,829	$ 6,313	$ 3,080	$ 3,277	$ 5,467
Allowance for loan losses:					
Balance at beginning of year	$ 10,351	$ 9,138	$ 8,223	$ 7,460	$ 6,612
Less: Net charge-offs	1,927	37	70	137	52
Add: Provision for loan losses	1,650	1,250	985	900	900
Balance at end of year	$ 10,074	$ 10,351	$ 9,138	$ 8,223	$ 7,460
Ratio of net charge-offs during the year to average net loans outstanding during the year	.14%	.00%	.01%	.01%	.01%
Allowance for loan losses as percent of total loans receivable (1)	.71	.77	.77	.78	.76
Allowance for loan losses as a percent of total non-performing loans (2)	374.78	167.49	312.62	275.48	137.54
Non-performing loans as a percent of total loans receivable (1)(2)	.19	.46	.25	.28	.56
Non-performing assets as a percent of total assets (2)	.16	.36	.19	.21	.35

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

(2) 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.

The Company’s non-performing assets declined to $2.8 million at December 31, 2002 as compared to $6.3 million at December 31, 2001. The decrease is primarily due to the first quarter charge-off of a non-performing commercial loan with an outstanding balance of $2.4 million. The loan is a participation interest in a $125 million shared national credit on a company headquartered in New Jersey which is secured by corporate assets and various commercial real estate properties. The Bank does not participate in any other shared national credits. The Bank has subsequently recovered $585,000 of this charge-off which increased the allowance for loan losses. Excluding this commercial loan, net charge-offs for the year ended December 31, 2002 totaled $145,000; and the ratio of net charge-offs during the year to average net loans outstanding during the year would have amounted to 1 basis point.

The Company has developed an internal asset classification system which classifies assets depending on risk of loss characteristics. The asset classifications comply with certain regulatory guidelines. At December 31, 2002, the Bank had $7.1 million of assets, including all REO, classified as “Substandard,” $199,000 of assets classified as “Doubtful” and no assets classified as “Loss.” Additionally, “Special Mention” assets totaled $6.4 million at December 31, 2002. These loans are classified as Special Mention due to past delinquencies or other identifiable weaknesses.

The Substandard classification includes a commercial mortgage loan to a marina with an outstanding balance of $2.1 million which is current as to payments, but which is classified due to weakened operating results. The loan is secured by two commercial real estate properties with estimated appraisal values well in excess of the outstanding balance. The Special Mention classification includes a commercial loan to a retailer with an outstanding balance of $2.0 million which is also current as to payments, but which is classified due to weakened operating results. The loan is well secured by real estate and business assets.

The provision for loan losses increased by $400,000 for the year ended December 31, 2002, as compared to the prior year to reflect the growth in loans receivable and a change in overall loan mix to a greater concentration of commercial loans. The determination of the adequacy of the allowance for loan losses is a critical accounting policy of the Company. 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 a level 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 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, the level of allowance for loan losses remains an estimate which is subject to significant judgment and short-term change. Future adjustments to the allowance may be necessary due to economic, operating, regulatory and other conditions beyond the Company's control.

An overwhelming percentage of the Company's loan portfolio, whether one to four-family, consumer or commercial, is secured by real estate. Additionally, most of the Company's borrowers are located in Ocean County, New Jersey and the surrounding area. These concentrations may adversely affect the Company's loan loss experience should real estate values decline or should the Ocean County area experience an adverse economic shock.

Analysis of Net Interest Income

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

The following table sets forth certain information relating to the Company for each of the years ended December 31, 2002, 2001, and 2000. The yields and costs are derived by dividing income or expense by the average balance of assets or liabilities, respectively, for the periods shown except where noted otherwise. Average balances are derived from average daily balances. The yields and costs include fees which are considered adjustments to yields.

	Years Ended December 31,								
	2002			2001			2000		
(dollars in thousands)	Average Balance	Interest	Average Yield/ Cost	Average Balance	Interest	Average Yield/ Cost	Average Balance	Interest	Average Yield/ Cost
Assets:									
Interest-earning assets:									
Interest-earning deposits and short-term investments	$ 12,258	$ 200	1.63%	$ 1,735	$ 51	2.94%	$ 404	$ 22	5.45%
Investment securities	80,965	2,993	3.70	89,483	5,084	5.68	120,000	8,797	7.33
FHLB stock	20,283	966	4.76	21,336	1,283	6.01	18,118	1,203	6.64
Mortgage-backed securities	184,128	9,870	5.36	268,221	17,024	6.35	309,929	20,948	6.76
Loans receivable, net [(1)]	1,344,910	94,427	7.02	1,250,049	94,718	7.58	1,105,851	85,135	7.70
Total interest-earning assets	1,642,544	108,456	6.60	1,630,824	118,160	7.24	1,554,302	116,105	7.47
Non-interest-earning assets	88,266			75,303			63,219		
Total assets	$1,730,810			$1,706,127			$1,617,521		
Liabilities and Equity:									
Interest-bearing liabilities:									
Money market deposit accounts	$ 101,817	$ 1,813	1.78%	$ 73,966	$ 1,744	2.36%	$ 76,570	$ 1,998	2.61%
Savings accounts	218,279	2,955	1.35	178,335	3,342	1.87	170,604	3,445	2.02
NOW accounts	254,149	3,610	1.42	198,186	4,476	2.26	130,423	2,534	1.94
Time deposits	503,319	19,105	3.80	604,834	31,927	5.28	667,911	36,689	5.49
Total	1,077,564	27,483	2.55	1,055,321	41,489	3.93	1,045,508	44,666	4.27
FHLB advances	237,987	11,612	4.88	188,411	8,918	4.73	105,456	6,654	6.31
Securities sold under agreements to repurchase	180,692	8,529	4.72	234,608	12,741	5.43	257,086	15,092	5.87
Total interest-bearing liabilities	1,496,243	47,624	3.18	1,478,340	63,148	4.27	1,408,050	66,412	4.72
Non-interest-bearing deposits	78,294			64,330			43,177		
Non-interest-bearing liabilities	15,534			12,314			9,557		
Total liabilities	1,590,071			1,554,984			1,460,784		
Stockholders' equity	140,739			151,143			156,737		

Total liabilities and equity	$1,730,810			$1,706,127			$1,617,521		
Net interest income		$ 60,832			$ 55,012			$ 49,693	
Net interest rate spread [2]			3.42%			2.97%			2.75%
Net interest margin [3]			3.70%			3.37%			3.20%
Ratio of interest-earning assets to interest-bearing liabilities	109.78%			110.31%			110.39%		

(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, 2002 Compared to Year Ended December 31, 2001			Year Ended December 31, 2001 Compared to Year Ended December 31, 2000		
	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	$ 181	$ (32)	$ 149	$ 43	$ (14)	$ 29
Investment securities	(449)	(1,642)	(2,091)	(1,970)	(1,743)	(3,713)
FHLB stock	(61)	(256)	(317)	201	(121)	80
Mortgage-backed securities	(4,778)	(2,376)	(7,154)	(2,705)	(1,219)	(3,924)
Loans receivable, net	6,947	(7,238)	(291)	10,931	(1,348)	9,583
Total interest-earning assets	1,840	(11,544)	(9,704)	6,500	(4,445)	2,055
Interest-bearing liabilities:						
Money market deposit accounts	561	(492)	69	(67)	(187)	(254)
Savings accounts	655	(1,042)	(387)	155	(258)	(103)
NOW accounts	1,064	(1,930)	(866)	1,474	468	1,942
Time deposits	(4,802)	(8,020)	(12,822)	(3,389)	(1,373)	(4,762)
Total	(2,522)	(11,484)	(14,006)	(1,827)	(1,350)	(3,177)
FHLB advances	2,404	290	2,694	4,245	(1,981)	2,264
Securities sold under agreements to repurchase	(2,685)	(1,527)	(4,212)	(1,266)	(1,085)	(2,351)
Total interest-bearing liabilities	(2,803)	(12,721)	(15,524)	1,152	(4,416)	(3,264)
Net change in net interest income	$ 4,643	$ 1,177	$ 5,820	$ 5,348	$ (29)	$ 5,319

Comparison of Financial Condition at December 31, 2002 and December 31, 2001

Total assets at December 31, 2002 were $1.744 billion, a decrease of $20.0 million, compared to $1.764 billion at December 31, 2001.

Mortgage-backed securities available for sale decreased by $94.6 million, to $138.7 million at December 31, 2002, from $233.3 million at December 31, 2001 as this portfolio experienced heavy prepayment activity during the year

Loans receivable, net, increased by $35.0 million to a balance of $1.336 billion at December 31, 2002, compared to a balance of $1.301 billion at December 31, 2001. Commercial and commercial real estate loans outstanding increased $53.5 million, or 32.6%, while one-to four-family loans declined as the Bank actively sold 30-year fixed-rate mortgage loans during the period. The large volume of loan sales combined with heavy loan prepayment speeds could have resulted in a more significant decline in one-to-four family mortgage loans except for the ability of the Bank to retain $113.5 million in high quality adjustable-rate and short-term fixed-rate loans originated by its mortgage banking subsidiary. Previously, Columbia would have sold these loans into the secondary market.

Deposit balances increased $75.8 million to $1.185 billion at December 31, 2002 from $1.109 billion at December 31, 2001, partly due to the results of new branches opened in late 2001 and early 2002. Core deposit categories, a key emphasis for the Company, increased by $144.1 million, or 25.6%, as time deposits declined.

Proceeds from the loan sales and the cash flow from mortgage-backed securities were used to reduce total borrowings (Federal Home Loan Bank ("FHLB") advances and securities sold under agreements to repurchase) which declined by $85.7 million, to $398.6 million at December

31, 2002 from $484.3 million at December 31, 2001. The sale of 30-year fixed-rate mortgage loans and the reduction in total borrowings reduces the Company's interest rate risk exposure and better positions the Bank for the higher rate environment generally expected in late 2003.

Stockholders' equity at December 31, 2002 decreased to $135.3 million, compared to $146.7 million at December 31, 2001 due to the completion of the Company's ninth stock repurchase program and the commencement of the Company's tenth stock repurchase program. For the year ended December 31, 2002, the Company repurchased 1,240,750 shares of common stock at a total cost of $27.4 million. Under the 10% repurchase program authorized by the Board of Directors in August 2002, 949,835 shares remain to be purchased as of December 31, 2002.

Comparison of Operating Results for the Years Ended December 31, 2002 and December 31, 2001

General
Net income increased $2.0 million, or 10.9%, to $20.1 million for the year ended December 31, 2002 as compared to net income of $18.2 million for the year ended December 31, 2001. Diluted earnings per share increased 19.5%, to $1.47 for the year ended December 31, 2002 as compared to $1.23 for the year ended December 31, 2001. The higher percentage increase in earnings per share is the result of the Company's common stock 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, 2002 was $108.5 million, compared to $118.2 million for the year ended December 31, 2001, a decrease of $9.7 million. The decrease in interest income was due to a decline in the yield on interest-earning assets to 6.60% for the year ended December 31, 2002 as compared to 7.24% for the same prior year period. Despite this decline, which was reflective of the general interest rate environment, the asset yield continued to benefit from the Bank's loan growth, which was partly funded by reductions in the lower-yielding mortgage-backed securities available for sale portfolio. For the year ended December 31, 2002 loans receivable represented 81.9% of average interest-earning assets as compared to 76.7% for the same prior year period.

Interest Expense
Interest expense for the year ended December 31, 2002 was $47.6 million, compared to $63.1 million for the year ended December 31, 2001, a decrease of $15.5 million. The decrease in interest expense was primarily the result of a decrease in the average cost of interest-bearing liabilities to 3.18% for the year ended December 31, 2002, as compared to 4.27% in the same prior year period. Funding costs decreased due to the lower interest rate environment and also due to the Company's focus on lower-costing core deposit growth. Core deposits (including non-interest-bearing deposits) represented 56.5% of average deposits for the year ended December 31, 2002, as compared to 46.0% for the same prior year period.

Provision for Loan Losses
For the year ended December 31, 2002, the Company's provision for loan losses was $1.7 million, as compared to $1.3 million for the year ended December 31, 2001. The increased provision reflects the growth in loans receivable and a change in the overall loan mix to a greater concentration of commercial loans.

Other Income
Other income was $10.9 million for the year ended December 31, 2002, as compared to $12.9 million for the year ended December 31, 2001. For the year ended December 31, 2002 the Company recorded a gain of $4.5 million, on the sale of loans, as compared to a gain of $6.0 million in the same prior year period. Loan servicing income decreased by $1.4 million for the year ended December 31, 2002, as compared to the same prior year period due to the recognition of an impairment to the loan servicing asset for $2.1 million for the year ended December 31, 2002 as compared to a servicing impairment of $600,000 in the same prior year period. The Company evaluates mortgage servicing rights for impairment on a quarterly basis. The valuation of mortgage servicing rights is determined through a discounted analysis of future cash flows, incorporating numerous assumptions which are subject to significant change in the near term. Generally, a decline in market interest rates will cause expected repayment speeds to increase resulting in a lower valuation for mortgage servicing rights and ultimately lower future servicing fee income. Fees and service charges increased by $935,000, or 17.0% for the year ended December 31, 2002, as compared to the same prior year period due to the growth in commercial account services, retail core account balances and trust fees.

Operating Expenses
Operating expenses were $40.1 million for the year ended December 31, 2002, as compared to $39.0 million for the year ended December 31, 2001. Operating expenses for the year ended December 31, 2001 include a $1.7 million charge resulting from the restructuring of certain financial liabilities. The Bank prepaid $23.0 million of outstanding borrowings with a weighted average cost of 6.23%, incurring a prepayment penalty on the early debt extinguishment. The funds were reborrowed at comparable maturities, but at a significantly lower cost. For the year ended December 31, 2002, the Company incurred fees on early debt extinguishment of $72,000. Excluding the respective prepayment penalties, operating expenses increased $2.7 million for the year ended December 31, 2002, as compared to the same prior year period. This increase was principally due to costs associated with the opening and operation of the Bank's sixteenth and seventeenth branch offices in September 2001 and May 2002, as well as higher loan-related expenses. Compensation expense benefited from the elimination, in February 2002 of the amortization expense relating to the stock awards granted under the 1997 Incentive Plan, a cost savings of $1.8 million for the year ended December 31, 2002 as compared to the same prior year period. This savings was partly offset by an increase in ESOP expense of $652,000 for the year ended December 31, 2002 due to the higher average market price for OCFC shares during 2002.

Provision for Income Taxes
Income tax expense was $9.8 million for the year ended December 31, 2002, compared to $9.5 for the same prior year period. On July 2, 2002, the New Jersey legislature passed the New Jersey Business Tax Reform Act. The legislation provided for an Alternative Minimum Assessment (AMA) tax based on either gross receipts or gross profits and also increased the tax rate on savings institutions, such as the Bank, from 3% to 9%. The legislation was retroactive to January 1, 2002. The net effect of the legislation on the Company was to recognize a tax benefit of $374,000 for the year ended December 31, 2002, as deferred tax assets were increased to reflect their expected recognition at the higher tax rate of 9%. The Company expects the legislation to have no significant impact on the tax provision in future periods.

Comparison of Operating Results for the Years Ended December 31, 2001 and December 31, 2000

General

Net income increased $1.8 million or 10.8%, to $18.1 million for the year ended December 31, 2001 as compared to net income of $16.3 million for the year ended December 31, 2000. Diluted earnings per share increased 20.1%, to $1.23 for th year ended December 31, 2001 as compared to $1.02 for the year ended December 30, 2000. Net income for the year ended December 31, 2001 was reduced by a prepayment penalty of $1.1 million net of tax, resulting from the extinguishment of certain financial liabilities. The Bank prepaid $23.0 million of outstanding borrowings with a weighted average cost of 6.23% incurring a prepayment penalty on the early debt extinguishment. The funds were reborrowed at comparable maturities, but at a lower cost.

Interest Income

Interest income for the year ended December 31, 2001 was $118.2 million, compared to $116.1 million for the year ended December 31, 2000, an increase of $2.1 million. The increase in interest income was due to an increase in average interest-earning assets of $76.5 million, partly offset by a decrease in the yield on interest-earning assets. The yield on average interest-earning assets decreased to 7.24% on average for the year ended December 31, 2001, from 7.47% on average in the prior year. Despite this decline, which was reflective of the lower interest rate environment, the asset yield still benefited from 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, 2001 loans receivable represented a 76.7% of average interest-earning assets as compared to 71.1% for the same prior year period.

Interest Expense

Interest expense for the year ended December 31, 2002 was $63.1 million, compared to $66.4 million for the year ended December 31, 2000, a decrease of $3.3 million, or 4.9%. The decrease in interest expense was primarily the result of a decrease in the average cost of interest-bearing liabilities, which decreased to 4.27% for the year ended December 31, 2001, as compared to 4.72% for the prior year, partly offset by an increase in average interest-bearing liabilities which rose by $70.3 million for the year ended December 31, 2001 as compared to the prior year. The Company’s focus on lower cost core deposit growth contributed to the decrease in interest expense, as core deposits represented 46.0% of average deposits (including non-interest-earning deposits) for the year ended December 31, 2001, as compared to 38.6% for the same prior year period.

Provision for Loan Losses

For the year ended December 31, 2001, the Company’s provision for loan losses was $1.3 million, an increase of $265,000, or 26.9% 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.

Other Income

Other income was $12.9 million for the year ended December 31, 2001, as compared to $6.1 million for the same prior year period. The net gain (loss) on the sale of loans and securities was $6.0 million gain for the year ended December 31, 2001 as compared to a $41,000 loss for the prior year. 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 year ended December 31, 2001, the Company sold $421.9 million in mortgage loans at a gain of $6.0 million as compared to the sale of $117.5 million in mortgage loans at a gain of $1.6 million in the prior year. The increased gains from loan sales are primarily due to the mortgage banking activities of Columbia. The Bank also periodically sells 30-year fixed-rate mortgage loans to assist in the management of interest rate risk. Both the Bank and Columbia benefited from the lower interest rate environment in effect during 2001, the resulting heavy refinance activity and the related gains from the sale of these loans.

Loan servicing income decreased by $1.4 million for the year ended December 31, 2001 as compared to the prior year due to actual prepayments of the loans underlying the servicing portfolio and the recognition of a $600,000 impairment charge for the year ended December 31, 2001.

Fees and service charges increased by $1.4 million, or 32.8%, for the year ended December 31, 2001 as compared to the prior year 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. Income on Bank Owned Life Insurance increased by $502,000 for the year ended December 31, 2001 as compared to the prior year primarily due to an increase in the Bank’s investment.

Operating Expenses

Operating expenses were $39.0 million for the year ended December 31, 2001, an increase of $7.4 million compared to the same prior year period. The increase was primarily due to the prepayment penalty on the early extinguishment of debt, operating expenses associated with Columbia and the costs associated with the opening and operation of the Bank’s fourteenth, fifteenth and sixteenth branch offices in May 2000, February 2001 and September 2001, respectively. Occupancy costs for the year ended December 31, 2001, also include $373,000 of lease termination costs incurred in connection with the relocation of Columbia’s corporate headquarters to more efficient office space.

Provision for Income Taxes

Income tax expense was $9.5 million for the year ended December 31, 2001, compared to $6.8 million for the year ended December 31, 2000. Income tax expense for 2000 included the recognition of a $1.1 million tax benefit relating to the charitable donation expense associated with the 1996 formation of the OceanFirst Foundation. Charitable donations are tax deductible subject to a limitation of 10% of annual taxable income, however, the Company was able to carry forward the unused portion of the deduction for five years following the year in which the contribution was 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 strong earnings performance and expectations for taxable income through December 31, 2001, the Company, in the third quarter of 2000, 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 had a remaining charitable expense carry forward of $1,229,000 ($430,000 on an after-tax basis) which expired on December 31, 2001.

Cash Earnings

Stockholders' equity is a critical measure of a company's ability to repurchase shares, pay dividends and continue to grow. Although reported earnings and return on stockholders' equity are traditional measures of performance, the Company believes that the change in stockholders' equity, or "cash earnings," and related return measures are also a significant measure of a company's performance. Cash earnings exclude the effects of various non-cash expenses, such as the employee stock plans amortization expense and related tax benefit, as well as the amortization of intangible assets. In the cases of tangible stockholders' equity (stockholders' equity less intangible assets) these items have either been previously charged to stockholders' equity, as in the case of employee stock plans amortization expense, through contra-equity accounts, or do not affect tangible stockholders' equity, such as the market appreciation of allocated ESOP shares for which the operating charge is offset by a credit to additional paid-in capital and intangible asset amortization for which the related intangible asset has already been deducted in the calculation of tangible stockholders' equity.

The following table reconciles the Company's net income with cash earnings. The table is a pro forma calculation which is not in accordance with GAAP.

Year Ended December 31,		**2002**	**2001**	**2000**
(in thousands, except share data)				
Net income		$ 20,143	$ 18,159	$ 16,382
Add:	Employee stock plans amortization expense	3,640	4,762	4,202
	Amortization of intangible assets	105	359	105
Less:	Tax benefit (1)	590	1,327	1,263
Cash earnings		$ 23,298	$ 21,953	$ 19,426
Basic cash earnings per share		$ 1.82	$ 1.58	$ 1.26
Diluted cash earnings per share		$ 1.70	$ 1.49	$ 1.21

(1) The Company does not receive any tax benefit for that portion of employee stock plan amortization expense relating to the ESOP fair market value adjustment.

Liquidity and Capital Resources

The Company's primary sources of funds are deposits, principal and interest payments on loans and mortgage-backed securities, proceeds from the sales of loans, FHLB advances and other borrowings and, to a lesser extent, investment maturities. 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, 2002, the Company had no outstanding overnight borrowings from the FHLB, a decrease from $80.0 million at December 31, 2001. The Company utilizes the overnight line from time to time to fund short-term liquidity needs. The Company also had other borrowings of $398.6 million at December 31, 2002, a decrease from $484.3 million at December 31, 2001. These borrowings were used to fund loan growth and a wholesale leverage strategy designed to improve returns on invested capital.

The Company's cash needs for the year ended December 31, 2002 were primarily provided by principal payments on loans and mortgage-backed securities, increased deposits and proceeds from the sale of mortgage loans held for sale. The cash was principally utilized for loan originations, the purchase of investment and mortgage-backed securities, a reduction in total borrowings and the purchase of treasury stock. For the year ended December 31, 2001, the cash needs of the Company were primarily satisfied by principal payments on loans and mortgage-backed securities, maturities of investment securities, proceeds from the sale of mortgage loans held for sale and increased total borrowings. The cash provided was principally used for the origination of loans, the purchase of mortgage-backed securities and the purchase of treasury stock

At December 31, 2002, the Bank exceeded all of its regulatory capital requirements with tangible capital of $115.3 million, or 6.62%, of total adjusted assets, which is above the required level of $26.1 million or 1.5%; core capital of $115.3 million or 6.62% of total adjusted assets, which is above the required level of $52.3 million, or 3.0%; and risk-based capital of $125.2 million, or 11.60% of risk-weighted assets, which is above the required level of $86.4 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

On December 31, 2002, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 148 "Accounting for Stock-based Compensation-Transition and Disclosure, an Amendment of FASB Statement No. 123." SFAS 148 amends the disclosure requirements in SFAS 123 for stock-based compensation for annual periods ending after December 15, 2002 and for interim periods beginning after December 15, 2002. SFAS 148 requires disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The Company has provided the disclosures required by SFAS 148 in the 2002 Consolidated Financial Statements. SFAS 148 also provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. The Company has elected to continue to account for its stock-based employee compensation using the intrinsic value method.

In October 2002, the FASB issued SFAS No. 147, "Acquisitions of Certain Financial Institutions - an Amendment to FASB Statements No. 72 and 144 and FASB Interpretation No. 9." This Statement removes acquisitions of financial institutions from the scope of both Statement 72 and Interpretation 9 and requires that those transactions be accounted for in accordance with FASB Statements No. 141, "Business Combinations," and No. 142, "Goodwill and Other Intangible Assets." The provisions of SFAS No. 147 that relate to the application of the purchase method of accounting apply to all acquisitions of financial institutions, except transactions between two or more mutual enterprises.

SFAS No. 147 clarifies that a branch acquisition that meets the definition of a business should be accounted for as a business combination, otherwise the transaction should be accounted for as an acquisition of net assets that does not result in the recognition of goodwill. The provisions of SFAS No. 147 were effective October 1, 2002. The Company has previously purchased deposits of another financial institution and recorded a core deposit intangible. This Statement will have no effect on the accounting or amortization of the recorded intangible asset.

In July 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." The standard requires companies to recognize costs associated with exit or disposal activities when they are incurred rather than at the date of a commitment to an exit or disposal plan. The Statement is to be applied prospectively to exit or disposal activities initiated after December 31, 2002.

In April 2002, the FASB issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44 and 65, Amendment of FASB Statement No. 13, and Technical Corrections." The Statement, among other things, rescinds SFAS No. 4, "Reporting Gains and Losses from Extinguishments of Debt", as amended. Under SFAS No. 4, as amended, gains and losses from the extinguishment of debt were required to be classified as an extraordinary item, if material. Under SFAS No. 145, gains or losses from the extinguishment of debt are to be classified as a component of operating income, rather than an extraordinary item. SFAs No. 145 is effective for fiscal years beginning after May 15, 2002, with early adoption of the provisions related to the rescission of SFAS No. 4 encouraged. Upon adoption, companies must reclassify prior period amounts previously classified as an extraordinary item.

The Company elected to adopt the provisions related to the rescission of SFAS No. 4 effective April 1, 2002. The adoption resulted in a debt prepayment penalty of $72,000 for the year ended December 31, 2002, being classified in general and administrative expenses. The Company recognized an extraordinary loss, net of tax of $1,085,000 for the year ended December 31, 2001 pertaining to debt prepayment penalties. The gross prepayment penalty of $1,669,000 has been reclassified as a component of general and administrative expenses in 2001, with the related tax benefit of $584,000 reported as a component of income tax expense in the consolidated financial statement for the year ending December 31, 2001.

On July 20, 2001, the FASB issued SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS 142 requires that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead tested for impairment at least annually in accordance with the provisions of SFAS 142. SFAS 142 also requires that intangible assets with definite useful lives be amortized over their respective estimated useful lives to their estimated residual values, and reviewed periodically for impairment. SFAS 142 requires that goodwill and any intangible asset determined to have an indefinite useful life acquired after June 30, 2001 not be amortized, but continue to be evaluated for impairment in accordance with the appropriate pre-SFAS 142 accounting literature. The Company adopted SFAS 142 effective January 1, 2002. As of December 31, 2001, the Company had $1.0 million in unamortized goodwill with annual amortization of $253,000 which ceased upon the adoption of SFAS 142. The cessation of goodwill amortization for the year ended December 31, 2002 did not have a significant impact on the Company's consolidated financial statements as compared to the same prior year period. The Company has determined that there is no impairment to goodwill based on the criteria of SFAS 142. The adoption of SFAS 142 did not significantly impact the Company's accounting for currently recorded intangible assets, primarily core deposit intangibles.

On October 3, 2001, the FASB issued SFAS No. 144 "Accounting for the Impairment or Disposal or Long-Lived Assets," which addresses financial accounting and reporting for the impairment or disposal of long-lived assets. While SFAS No. 144 supersedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of," it retains many of the fundamental provisions of that Statement. The Statement is effective for fiscal years beginning after December 15, 2001. The initial adoption of SFAS No. 144 did not have a significant impact on the Company's financial statements.

In August 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations," which addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. SFAS No. 143 requires an enterprise to record the fair value of an asset retirement obligation as a liability in the period in which it incurs a legal obligation associated with the retirement of tangible long-lived assets. The Company is required to adopt the provisions of SFAS No. 143 for fiscal years beginning after June 15, 2002. The Company does not anticipate that SFAS No. 143 will significantly impact the Company's consolidated financial statements.

Private Securities Litigation Reform Act Safe Harbor Statement

In addition to historical information, this annual report contains certain forward-looking statements which are based on certain assumptions and describe future plans, strategies and expectations of the Company. These forward-looking statements are generally identified by use of the words "believe," "expect," "intend," "anticipate," "estimate," "project," or similar expressions. The Company's ability to predict results or the actual effect of future plans or strategies is inherently uncertain. Factors which could have a material adverse effect on the operations of the Company and the subsidiaries include, but are not limited to, changes in interest rates, general economic conditions, legislative/regulatory changes, monetary and fiscal policies of the U.S. Government, including policies of the U.S. Treasury and the Federal Reserve Board, the quality or composition of the loan or investment portfolios, demand for loan products, deposit flows, competition, demand for financial services in the Company's market area and accounting principles and guidelines. These risks and uncertainties should be considered in evaluating forward-looking statements and undue reliance should not be placed on such statements. The Company does not undertake - and specifically disclaims any obligation - to publicly release the result of any revisions which may be made to any forward-looking statements to reflect events or circumstances after the date of such statements or to reflect the occurrence of anticipated or unanticipated events. Further description of the risks and uncertainties to the business are included in Item 1, BUSINESS of the Company's 2002 Form 10-K.

Consolidated Statements of Financial Condition

December 31, 2002 and 2001
(dollars in thousands, except per share amounts)

	2002	2001
Assets		
Cash and due from banks	$ 17,192	$ 16,876
Investment securities available for sale (notes 4 and 10)	91,978	80,017
Federal Home Loan Bank of New York stock, at cost (note 10)	18,700	23,560
Mortgage-backed securities available for sale (notes 5 and 10)	138,657	233,302
Loans receivable, net (notes 6 and 10)	1,335,898	1,300,889
Mortgage loans held for sale	66,626	37,828
Interest and dividends receivable (note 7)	6,378	7,632
Real estate owned, net	141	133
Premises and equipment, net (note 8)	17,708	16,730
Servicing asset (note 6)	7,907	7,628
Bank Owned Life Insurance	32,398	30,524
Other assets (note 11)	10,115	8,547
Total assets	$ 1,743,698	$ 1,763,666
Liabilities and Stockholders' Equity		
Deposits (note 9)	$ 1,184,836	$ 1,109,043
Federal Home Loan Bank advances (note10)	214,000	272,000
Securities sold under agreements to repurchase (note 10)	184,584	212,332
Advances by borrowers for taxes and insurance	5,952	6,371
Other liabilities (note 11)	19,021	17,191
Total liabilities	1,608,393	1,616,937
Stockholders' equity (notes 1, 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, 27,177,372 shares issued and 13,757,880 and 14,791,334 shares outstanding at December 31, 2002 and 2001, respectively	272	272
Additional paid-in capital	184,934	181,780
Retained earnings	142,224	131,655
Accumulated other comprehensive loss	(3,201)	(824)
Less: Unallocated common stock held by Employee Stock Ownership Plan	(11,248)	(12,663)
Unearned Incentive Awards	—	(161)
Treasury stock, 13,419,492 and 12,386,038 shares at December 31, 2002 and 2001, respectively	(177,676)	(153,330)
Total Stockholders' equity	135,305	146,729
Commitments and contingencies (note 14)		
Total liabilities and stockholders' equity	$ 1,743,698	$ 1,763, 666

See accompanying notes to consolidated financial statements.

Consolidated Statements of Income

(in thousands, except per share amounts)

Years Ended December 31, 2002, 2001 and 2000	2002	2001	2000
Interest income:			
Loans	$ 94,427	$ 94,718	$ 85,135
Mortgage-backed securities	9,870	17,024	20,948
Investment securities and other	4,159	6,418	10,022
Total interest income	108,456	118,160	116,105
Interest expense:			
Deposits (note 9)	27,483	41,489	44,666
Borrowed funds	20,141	21,659	21,746
Total interest expense	47,624	63,148	66,412
Net interest income	60,832	55,012	49,693
Provision for loan losses (note 6)	1,650	1,250	985
Net interest income after provision for loan losses	59,182	53,762	48,708
Other income:			
Loan servicing (loss) income (note 6)	(2,203)	(838)	516
Fees and service charges	6,450	5,515	4,151
Net gain (loss) on sales of loans and securities available for sale (notes 4 and 5)	4,530	5,954	(41)
Net income from other real estate operations	151	271	171
Income on Bank Owned Life Insurance (BOLI)	1,874	1,696	1,194
Other	55	327	154
Total other income	10,857	12,925	6,145
Operating expenses:			
Compensation and employee benefits (notes 12 and 13)	20,324	19,987	17,870
Occupancy (note 14)	3,330	3,385	2,261
Equipment	2,281	2,168	1,661
Marketing	1,988	1,711	1,685
Federal deposit insurance	474	489	479
Data processing	2,584	2,128	1,702
General and administrative	9,091	7,511	5,987
Prepayment penalty on early extinguishment of debt (note 10)	72	1,669	—
Total operating expenses	40,144	39,048	31,645
Income before provision for income taxes	29,895	27,639	23,208
Provision for income taxes (note 11)	9,752	9,480	6,826
Net Income	$ 20,143	$ 18,159	$ 16,382
Basic earnings per share	$ 1.57	$ 1.30	$ 1.06
Diluted earnings per share	$ 1.47	$ 1.23	$ 1.02

Average basic shares outstanding (note 1)	12,819	13,932	15,439
Average diluted shares outstanding (note 1)	13,696	14,756	15,999

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, 2002, 2001 and 2000	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Employee Stock Ownership Plan	Unearned Incentive Awards	Treasury Stock	Total
Balance at December 31, 1999	$ 272	$ 178,850	$ 113,078	$ (9,568)	$ (15,727)	$ (4,030)	$ (95,345)	$ 167,530
Comprehensive income:								
Net income	—	—	16,382	—	—	—	—	16,382
Other comprehensive gain:								
Unrealized gain on securities (net of tax expense $2,153)	—	—	—	3,578	—	—	—	3,578
Reclassification adjustment for losses included in net income (net of tax benefit $573)	—	—	—	1,063	—	—	—	1,063
Total comprehensive income								21,023
Earned Incentive Awards	—	—	—	—	—	1,934	—	1,934
Tax benefit of stock plans	—	258	—	—	—	—	—	258
Purchase 2,422,338 shares of common stock	—	—	—	—	—	—	(28,800)	(28,800)
Allocation of ESOP stock	—	—	—	—	1,571	—	—	1,571
ESOP adjustment	—	697	—	—	—	—	—	697
Cash dividend - $.48 per share	—	—	(7,622)	—	—	—	—	(7,622)
Exercise of stock options	—	—	(192)	—	—	—	1,337	1,145
Balance at December 31, 2000	272	179,805	121,646	(4,927)	(14,156)	(2,096)	(122,808)	157,736
Comprehensive income:								
Net income	—	—	18,159	—	—	—	—	18,159
Other comprehensive gain:								
Unrealized gain on securities (net of tax expense $2,409)	—	—	—	4,103	—	—	—	4,103
Total comprehensive income								22,262
Earned Incentive Awards	—	—	—	—	—	1,935	—	1,935
Tax benefit of stock plans	—	641	—	—	—	—	—	641
Purchase 1,954,714 shares of common stock	—	—	—	—	—	—	(31,921)	(31,921)
Allocation of ESOP stock	—	—	—	—	1,493	—	—	1,493
ESOP adjustment	—	1,334	—	—	—	—	—	1,334
Cash dividend - $.56 per								

share	—	—	(7,943)	—	—	—	—	(7,943)
Exercise of stock options	—	—	(207)	—	—	—	1,399	1,192
Balance at December 31, 2001	272	181,780	131,655	(824)	(12,663)	(161)	(153,330)	146,729
Comprehensive income:								
Net income	—	—	20,143	—	—	—	—	20,143
Other comprehensive loss:								
Unrealized loss on securities (net of tax benefit $1,642)	—	—	—	(2,377)	—	—	—	(2,377)
Total comprehensive income								17,766
Earned Incentive Awards	—	—	—	—	—	161	—	161
Tax benefit of stock plans	—	1,090	—	—	—	—	—	1,090
Purchase 1,240,750 shares of common stock	—	—	—	—	—	—	(27,427)	(27,427)
Allocation of ESOP stock	—	—	—	—	1,415	—	—	1,415
ESOP adjustment	—	2,064	—	—	—	—	—	2,064
Cash dividend - $.69 per share	—	—	(8,916)	—	—	—	—	(8,916)
Exercise of stock options	—	—	(658)	—	—	—	3,081	2,423
Balance at December 31, 2002	$ 272	$ 184,934	$ 142,224	$ (3,201)	$ (11,248)	$ —	$ (177,676)	$ 135,305

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

(in thousands)

Years Ended December 31, 2002, 2001 and 2000	2002	2001	2000
Cash flows from operating activities:			
Net income	$ 20,143	$ 18,159	$ 16,382
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization of premises and equipment	2,048	1,960	1,640
Amortization of Incentive Awards	161	1,935	1,934
Amortization of ESOP	1,415	1,493	1,571
ESOP adjustment	2,064	1,334	697
Tax benefit of stock plans	1,090	641	258
Amortization and impairment of servicing asset	4,423	2,503	673
Amortization of intangible assets	105	359	103
Net premium amortization in excess of discount accretion on securities	1,451	683	384
Net accretion of deferred fees and discounts in excess of premium amortization on loans	(469)	(407)	(280)
Provision for loan losses	1,650	1,250	985
Deferred taxes	554	(1,500)	(318)
Net gain on sales of real estate owned	(148)	(308)	(209)
Net (gain) loss on sales of loans and securities available for sale	(4,530)	(5,954)	41
Proceeds from sales of mortgage loans held for sale	459,440	427,876	119,139
Mortgage loans originated for sale	(488,410)	(424,162)	(130,761)
Increase in value of Bank Owned Life Insurance	(1,874)	(1,696)	(1,194)
Decrease (increase) in interest and dividends receivable	1,254	1,686	(752)
(Increase) decrease in other assets	(491)	(3,988)	6,914
Increase in other liabilities	1,830	9,280	1,398
Total adjustments	(18,437)	12,985	2,223
Net cash provided by operating activities	1,706	31,144	18,605
Cash flows from investing activities:			
Net increase in loans receivable	(36,807)	(165,307)	(95,377)
Proceeds from sales of investment and mortgage-backed securities available for sale	—	—	30,279
Purchase of investment securities available for sale	(13,758)	(1,292)	(21,089)
Purchase of mortgage-backed securities available for sale	(65,845)	(49,006)	(5,059)
Proceeds from maturities of investment securities available for sale	—	24,470	37,700
Principal payments on mortgage-backed securities available for sale	156,723	89,916	58,901
Purchases (redemptions) of Federal Home Loan Bank of New York stock	4,860	(3,560)	(3,200)
Proceeds from sales of real estate owned	757	786	1,211
Purchases of premises and equipment	(3,026)	(4,014)	(2,108)
Purchase of Bank Owned Life Insurance	—	—	(8,000)
Acquisition of Columbia Equities, Ltd., net of cash and cash equivalents	—	—	(2,954)
Net cash provided by (used in) investing activities	42,904	(108,007)	(9,696)
Cash flows from financing activities:			
Increase in deposits	75,793	4,855	47,238
(Decrease) increase in short-term borrowings	(67,748)	41,338	50,127
Proceeds from Federal Home Loan Bank advances	25,000	155,000	55,000
Repayments of Federal Home Loan Bank Advances	(43,000)	(38,000)	(127,696)

Proceeds from securities sold under agreements to repurchase	—	10,000	85,000
Repayments of securities sold under agreements to repurchase	—	(48,000)	(86,000)
Decrease in advances by borrowers for taxes and insurance	(419)	(17)	(73)
Exercise of stock options	2,423	1,192	1,145
Dividends paid	(8,916)	(7,943)	(7,622)
Purchase of treasury stock	(27,427)	(31,921)	(28,800)
Net cash (used in) provided by financing activities	(44,294)	86,504	(11,681)
Net increase (decrease) in cash and due from banks	316	9,641	(2,772)
Cash and due from banks at beginning of year	16,876	7,235	10,007
Cash and due from banks at end of year	$ 17,192	$ 16,876	$ 7,235
Supplemental Disclosure of Cash Flow Information:			
Cash paid during the year for:			
Interest	$ 48,063	$ 64,798	$ 66,073
Income taxes	3,240	7,600	5,310
Noncash investing activities:			
Transfer of loans receivable to real estate owned	617	454	768
Mortgage loans securitized into mortgage-backed securities	$ 129,623	$ 90,563	$ 23,042

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 REIT Holdings, Inc., OceanFirst Realty Corp. and OceanFirst Services, LLC. and its wholly-owned subsidiary OFB Reinsurance, LTD. 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.

In April 2002, the FASB issued SFAS No. 145, “Rescission of FASB Statement No. 4, 44 and 65, Amendment of FASB Statement No.13, and Technical Corrections.” The Statement, among other things, rescinds SFAS No. 4, “Reporting Gains and Losses from Extinguishments of Debt”, as amended. Under SFAS No. 4, as amended, gains and losses from the extinguishment of debt were required to be classified as an extraordinary item, if material. Under SFAS No. 145, gains or losses from the extinguishment of debt are to be classified as a component of operating income, rather than an extraordinary item.

The Company elected to adopt the provisions related to the rescission of SFAS No. 4 effective April 1, 2002. The adoption resulted in a debt prepayment penalty of $72,000 for the year ended December 31, 2002, being classified in general and administrative expenses. The Company recognized an extraordinary loss, net of tax of $1,085,000 for the year ended December 31, 2001 pertaining to debt prepayment penalties. The gross prepayment penalty of $1,669,000 has been reclassified as a component of general and administrative expenses in 2001, with the related tax benefit of $584,000 reported as a component of income tax expense in the consolidated financial statement for the year ending December 31, 2001.

Shares and related share amounts for prior periods have been adjusted for the 3-for-2 stock split effected in the form of a 50% stock dividend paid on May 17, 2002.

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 accounting principles generally accepted in the United States of America. 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, the valuation of real estate acquired in connection with foreclosures or in settlement of loans and the valuation of mortgage servicing rights. In connection with the determination of the allowances for loan losses and Real Estate Owned (REO), management obtains independent appraisals for significant properties.

Cash Equivalents

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

Investment and Mortgage-Backed Securities

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

Loans Receivable

Loans receivable, other than loans held for sale, are stated at unpaid principal balance, plus unamortized premiums less unearned discounts, net of deferred loan origination and commitment fees and costs, and the allowance for loan losses.

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 regularly sells part of its mortgage 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 loan losses 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 loan losses. 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 are amortized in proportion to and over the estimated period of net servicing income. The estimated fair value of MSR 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 with any impairment recognized as a component of loan servicing fee income through a valuation allowance.

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. Statement of Financial Accounting Standards No. 123, Accounting for Stock-based Compensation as amended by Statement of Financial Accounting Standards No. 148, Accounting for Stock-based Compensation-Transition and Disclosure, 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):

	2002	2001	2000
Net income:			
As reported	$ 20,143	$ 18,159	$ 16,382
Stock based employee compensation expense included in reported net income, all relating to earned incentive awards, net of related tax effects	105	1,257	1,257
Total stock-based employee compensation expense determined under the fair value			

	2002	2001	2000
based method, including earned incentive awards and stock option grants, net of related tax effects	(523)	(2,175)	(2,140)
Net stock based employee compensation expense not included in reported net income, all relating to stock option grants, net of related tax effects	(418)	(918)	(883)
Pro forma	$ 19,725	$ 17,241	$ 15,499
Basic earnings per share:			
As reported	$ 1.57	$ 1.30	$ 1.06
Pro forma	1.54	1.24	1.00
Diluted earnings per share:			
As reported	$ 1.47	$ 1.23	$ 1.02
Pro forma	1.44	1.17	.97
Weighted average fair value of an option share granted during the year	$ 4.85	$ 3.08	$ 3.09

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:

	2002	2001	2000
Risk-free interest rate	4.79%	4.91%	6.06%
Expected option life	6 years	6 years	6 years
Expected volatility	31%	22%	24%
Expected dividend yield	3.25%	3.35%	3.25%

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

Intangible Assets
For the year ended December 31, 2001 and 2000, goodwill and core deposit premiums were amortized using the straight line method over periods from five to ten years. Effective January 1, 2002 the Company adopted SFAS 142 “Goodwill and Other Intangible Assets.” SFAS 142 established new standards for goodwill acquired in a business combination. SFAS 142 eliminated amortization of goodwill and instead required a transitional goodwill impairment test to be performed within six months from the date of adoption and requires an annual impairment test be performed thereafter. As of December 31, 2001 the Company had $1.0 million in unamortized goodwill with annual amortization of $253,000, or $.01 per share, which ceased upon the adoption of SFAS 142. The cessation of goodwill for the year ended December 31, 2002 did not have a significant impact on the Company’s consolidated financial statements as compared to the same prior year periods. The Company has determined that there is no impairment to goodwill based on the criteria of SFAS 142. The adoption of SFAS 142 did not impact the Company’s accounting for currently recorded intangible assets, primarily core deposit intangibles which are being amortized over a period of ten years.

Segment Reporting
As a community-oriented financial institution, substantially all of the Bank’s operations involve the delivery of loan and deposit products to customers. The Bank makes operating decisions and assesses performance based on an ongoing review of these community banking operations, which constitute the only operating segment for financial reporting purposes.

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, 2002, 2001 and 2000 (in thousands):

Year ended December 31,		**2002**	**2001**	**2000**
Weighted average shares outstanding		14,305	15,768	17,649
Less:	Unallocated ESOP shares	(1,418)	(1,588)	(1,770)
	Unallocated Incentive			
	Award shares	(68)	(248)	(440)
Average basic shares outstanding		12,819	13,932	15,439
Add:	Effect of dilutive securities:			
	Stock options	822	623	338
	Incentive Awards	55	201	222
Average diluted shares outstanding		13,696	14,756	15,999

(2) Acquisition
The Bank completed the acquisition of Columbia, a mortgage brokerage company based in Westchester County, 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, 2002 was approximately $7.9 million. The liquidation account will be maintained for the benefit of eligible account holders who continue to maintain their accounts at the Bank after the conversion. The liquidation account will be reduced annually to the extent that the eligible account holders have reduced their qualifying deposits as of each anniversary date. Subsequent increases will not restore an eligible account holder’s interest in the liquidation account. In the event of a complete liquidation, each eligible account holder will be entitled to receive a distribution from the liquidation account in an amount

proportionate to the current adjusted qualifying balances for accounts then held.

Office of Thrift Supervision (OTS) regulations require savings institutions to maintain minimum levels of regulatory capital. Under the regulations in effect at December 31, 2002, 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, 2002 and 2001 the Bank was considered well capitalized.

The following is a summary of the Bank's actual capital amounts and ratios as of December 31, 2002 and 2001, 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	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2002:						
Tangible capital	$ 115,304	6.6%	$ 26,132	1.5%	$ —	— %
Core capital	115,304	6.6	52,265	3.0	87,108	5.0
Tier 1 risk-based capital	115,304	10.7	43,175	4.0	64,763	6.0
Risk-based capital	125,240	11.6	86,350	8.0	107,938	10.0
As of December 31, 2001:						
Tangible capital	$ 125,952	7.2%	$ 26,396	1.5%	$ —	— %
Core capital	125,952	7.2	52,791	3.0	87,985	5.0
Tier 1 risk-based capital	125,952	12.0	41,947	4.0	62,920	6.0
Risk-based capital	136,223	13.0	83,894	8.0	104,867	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, 2002 and 2001 are as follows (in thousands):

December 31, 2002	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
United States Government and agency obligations	$ 1,200	$ 16	$ —	$ 1,216
State and municipal obligations	5,562	42	—	5,604
Corporate debt securities	88,439	—	(9,032)	79,407
Equity investments	4,449	1,302	—	5,751
	$ 99,650	$ 1,360	$ (9,032)	$ 91,978

December 31, 2001	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
United States Government and agency obligations	$ 1,200	$ —	$ (2)	$ 1,198
State and municipal obligations	5,561	—	(248)	5,313
Corporate debt securities	75,199	—	(6,946)	68,253
Equity investments	3,849	1,404	—	5,253
	$ 85,809	$ 1,404	$ (7,196)	$ 80,017

There were no gains or losses realized on the sale of investment securities available for sale during 2002, 2001 or 2000.

The amortized cost and estimated market value of investment securities available for sale, excluding equity investments, at December 31, 2002 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, 2002, investment securities available for sale with an amortized cost and estimated market value of $80,841,000 and $71,851,000, respectively, were callable prior to the maturity date.

December 31, 2002	Amortized Cost	Estimated Market Value
Less than one year	$ 14,360	$ 14,376
Due after one year through five years		
Due after five years through ten years		
Due after ten years	80,841	71,851
	$ 95,201	$ 86,227

The carrying value of investment securities pledged as required security for deposits and for other purposes required by law amounted to $1,216,000 and $998,000 at December 31, 2002 and 2001, respectively.

(5) Mortgage-Backed Securities Available for Sale
The amortized cost and estimated market value of mortgage-backed securities available for sale at December 31, 2002 and 2001 are as follows (in thousands):

December 31, 2002	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
FHLMC	$ 14,615	$ 245	$ (4)	$ 14,856
FNMA	31,293	363	(3)	31,653
GNMA	13,432	910	—	14,342
Collateralized mortgage obligations	77,066	754	(14)	77,806
	$ 136,406	$ 2,272	$ (21)	$ 138,657

December 31, 2001	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
FHLMC	$ 29,650	$ 733	$ —	$ 30,383
FNMA	22,646	445	(3)	23,088
GNMA	23,229	420	—	23,649
Collateralized mortgage obligations	153,293	2,889	—	156,182
	$ 228,818	$ 4,487	$ (3)	$ 233,302

Gross losses on the sale of mortgage-backed securities available for sale of $1,636,000 were realized in 2000. There were no gains realized during 2002, 2001 or 2000.

Collateralized mortgage obligations issued by FHLMC, FNMA, GNMA and private interests amounted to $27,951,000, $16,021,000, $20,275,000 and $13,559,000, respectively, at December 31, 2002 and $45,338,000, $22,254,000, $24,328,000 and $64,262,000, respectively, at December 31, 2001. 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 and Government Sponsored Enterprise 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.

The carrying value of mortgage-backed securities pledged as required security for deposits and for other purposes required by law amounted to $1,141,000 and $3,080,000 at December 31, 2002 and December 31, 2001, respectively.

(6)Loans Receivable, Net

A summary of loans receivable at December 31, 2002 and 2001 follows (in thousands):

December 31,	**2002**	**2001**
Real estate mortgage:		
One to four-family	$ 1,033,243	$ 1,070,096
Commercial real estate, multi-family and land	139,654	112,318
FHA insured & VA guaranteed	5,107	2,358
	1,178,004	1,184,772
Real estate construction	11,079	9,082
Consumer	80,218	67,039
Commercial	77,968	51,756
Total loans	1,347,269	1,312,649
Loans in process	(3,531)	(2,458)
Deferred origination costs, net	2,239	1,048
Unamortized (discount) premium	(5)	1
Allowance for loan losses	(10,074)	(10,351)
	(11,371)	(11,760)
	$ 1,335,898	$ 1,300,889

At December 31, 2002, 2001 and 2000 loans in the amount of $2,688,000, $6,180,000, and $2,923,000, 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, 2002 and 2000. At December 31, 2001, the impaired loan portfolio consisted of one commercial loan for $2,368,000 for which general and specific allocations to the allowance for loan losses of $1,184,000 were identified. If interest income on nonaccrual loans and impaired loans had been current in accordance with their original terms, approximately $87,000, $379,000 and $132,000 of interest income for the years ended December 31, 2002, 2001 and 2000, respectively, would have been recorded. At December 31, 2002, 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, 2002, 2001 and 2000 is as follows (in thousands):

Year Ended December 31,	**2002**	**2001**	**2000**

Balance at beginning of year	$ 10,351	$ 9,138	$ 8,223
Provision charged to operations	1,650	1,250	985
Charge-offs	(2,519)	(98)	(92)
Recoveries	592	61	22
Balance at end of year	$ 10,074	$ 10,351	$ 9,138

An analysis of the servicing asset for the years ended December 31, 2002, 2001 and 2000 is as follows (in thousands):

Year Ended December 31,	2002	2001	2000
Balance at beginning of year	$ 7,628	$ 6,363	$ 2,244
Purchase, net of sales	—	—	3,481
Capitalized mortgage servicing rights	4,702	3,768	1,311
Amortization and impairment charges	(4,423)	(2,503)	(673)
Balance at end of year	$ 7,907	$ 7,628	$ 6,363

The estimated fair value of the servicing asset at December 31, 2002 was $8,300,000.

(7) Interest and Dividends Receivable
A summary of interest and dividends receivable at December 31, 2002 and 2001 follows (in thousands):

December 31,	2002	2001
Loans	$ 5,284	$ 5,829
Investment securities	329	436
Mortgage-backed securities	765	1,367
	$ 6,378	$ 7,632

(8) Premises and Equipment, Net
Premises and equipment at December 31, 2002 and 2001 are summarized as follows (in thousands):

December 31,	2002	2001
Land	$ 3,195	$ 3,195
Buildings and improvements	15,366	14,203
Leasehold improvements	2,042	1,667
Furniture and equipment	11,656	9,820
Automobiles	264	164
Construction in progress	36	484
Total	32,559	29,533
Accumulated depreciation and amortization	(14,851)	(12,803)
	$ 17,708	$ 16,730

(9) Deposits
Deposits, including accrued interest payable of $178,000 and $560,000 at December 31, 2002 and 2001, respectively, are summarized as follows (in thousands):

December 31,	2002		2001	
	Amount	Weighted Average Cost	Amount	Weighted Average Cost
Non-interest bearing accounts	$ 86,290	— %	$ 73,799	— %
NOW accounts	260,762	.99	212,328	1.60
Money market deposit accounts	123,960	1.38	78,903	1.86
Savings accounts	234,995	1.00	196,879	1.54
Time deposits	478,829	3.36	547,134	4.39
	$ 1,184,836	1.92%	$ 1,109,043	2.88%

Included in time deposits at December 31, 2002 and 2001, respectively, is $69,168,00 and $82,498,000 in deposits of $100,000 and over.

Time deposits at December 31, 2002 mature as follows (in thousands):

Year ended December 31,	2002
2003	$ 309,908
2004	106,259
2005	19,041
2006	14,760
2007	15,860
Thereafter	13,001
	$ 478,829

Interest expense on deposits for the years ended December 31, 2002, 2001 and 2000 was as follows (in thousands):

Year ended December 31,	2002	2001	2000

NOW accounts	$ 3,610	$ 4,476	$ 2,534
Money market deposit accounts	1,813	1,744	1,998
Savings accounts	2,955	3,342	3,445
Time deposits	19,105	31,927	36,689
	$ 27,483	$ 41,489	$ 44,666

(10) Borrowed Funds
Borrowed funds are summarized as follows (in thousands):

December 31,	2002		2001	
	Amount	Weighted Average Rate	Amount	Weighted Average Rate
Federal Home Loan Bank advances	$ 214,000	5.17%	$ 272,000	3.97%
Securities sold under agreements to repurchase	184,584	4.39	212,332	4.88
	$ 398,584	4.81%	$ 484,332	4.37%

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	
	2002	2001	2002	2001
Average balance	$ 237,987	$ 188,411	$ 180,692	$ 234,608
Maximum amount outstanding at any month end	309,900	272,000	190,455	254,996
Average interest rate for the year	4.88%	4.73%	4.72%	5.43%
Amortized cost of collateral:				
Corporate securities	—	—	$ 59,430	$ —
Mortgage-backed securities	—	—	114,934	219,540
Estimated market value of collateral:				
Corporate securities	—	—	52,147	—
Mortgage-backed certificates	—	—	117,054	223,691

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, 2002 as follows (in thousands):

	FHLB Advances	Reverse Repurchase Agreements
2003	$ 30,000	$ 69,584
2004	27,000	45,000
2005	67,000	—
2006	45,000	20,000
2007	25,000	15,000
Thereafter	20,000	35,000

	$ 214,000	$ 184,584
Amount callable by lender prior to the maturity date	$ 110,000	$ 105,000

Notes to Consolidated Financial Statements *(continued)*

In the fourth quarter of 2001, the Bank prepaid $23,000,000 of outstanding borrowings with a weighted average cost of 6.23%, incurring a prepayment penalty on the early debt extinguishment of $1,669,000. In the second quarter of 2002, the Bank prepaid $8,000,000 of outstanding borrowings with a weighted average cost of 3.70%, incurring a prepayment penalty of $72,000.

The Bank has an available overnight line of credit with the FHLB for $50,000,000 which expires November 25, 2003. The Bank also has available from the FHLB, a one-month overnight repricing line of credit for $50,000,000 which expires November 25, 2003. 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 $389,000 and $778,000 at December 31, 2002 and 2001, respectively. The Company has accrued for this liability in the consolidated financial statements.

Retained earnings at December 31, 2002 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, 2002 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, 2002, 2001 and 2000 consists of the following (in thousands):

Year Ended December 31,	2002	2001	2000
Current:			
Federal	$ 8,556	$ 10,922	$ 7,091
State	642	58	53
Total Current	9,198	10,980	7,144
Deferred:			
Federal	1,355	(1,500)	(318)
State	(801)	—	—
Total deferred	554	(1,500)	(318)
	$ 9,752	$ 9,480	$ 6,826

On July 2, 2002, the New Jersey legislature passed the New Jersey Business Tax Reform Act. The legislation provided for an Alternative Minimum Assessment (AMA) tax based on either gross receipts or gross profits and also increased the tax rate on savings institutions, such as the Bank, from 3% to 9%. The legislation was retroactive to January 1, 2002. The net effect of the legislation on the Company was to recognize a tax benefit of $374,000 for the year ended December 31, 2002, as deferred tax assets were increased to reflect their expected recognition at the higher tax rate of 9%.

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 $(1,642,000), $2,409,000 and $2,726,000 for the years ended December 31, 2002, 2001 and 2000, respectively.

A reconciliation between the provision for income taxes and the expected amount computed by multiplying income before the provision for income taxes times the applicable statutory Federal income tax rate for the years ended December 31, 2002, 2001 and 2000 is as follows (in thousands):

Year Ended December 31,	2002	2001	2000

Income before provision for income taxes	$ 29,895	$ 27,639	$ 23,208
Applicable statutory Federal income tax rate	35.0%	35.0%	35.0%
Computed "expected" Federal income tax expense	$ 10,463	$ 9,674	$ 8,123
Increase(decrease) in Federal income tax expense resulting from:			
Decrease in deferred tax valuation allowance relating to charitable donation	—	—	(1,060)
ESOP adjustment	722	467	244
ESOP dividends	(229)	—	—
Earnings on life insurance	(656)	(594)	(418)
State income taxes net of Federal benefit	(391)	38	35
Other items, net	(157)	(105)	(98)
	$ 9,752	$ 9,480	$ 6,826

Included in other assets at December 31, 2002 and 2001 is a net deferred tax asset of $6,257,000 and $5,075,000, respectively. In addition, at December 31, 2002 and 2001 the Company recorded a current tax payable of $7,519,000 and $2,730,000, respectively.

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 2002 and 2001 are presented below (in thousands):

December 31,	2002	2001
Deferred tax assets:		
Allowance for loan and real estate owned losses per books	$ 4,258	$ 3,836
Reserve for uncollected interest	44	117
Deferred compensation	456	460
Premises and equipment, differences in depreciation	769	528
Other reserves	136	168
Stock awards	212	713
ESOP	178	176
Unrealized loss on securities available for sale	2,220	484
Intangible assets	126	131
Lease termination costs	128	138
Penalty on early extinguishment of debt	465	607
Partnership investment income	—	223
State alternative minimum tax	299	—
Other	—	8
Total deferred tax assets	9,291	7,589
Deferred tax liabilities:		
Allowance for loan and real estate owned losses for tax purposes	(164)	(287)
Excess servicing on sale of mortgage loans	(1,028)	(882)
Investments, discount accretion	(177)	(117)
Deferred loan and commitment costs, net	(1,665)	(1,228)
Total deferred tax liabilities	(3,034)	(2,514)
Net deferred tax assets	$ 6,257	$ 5,075

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, was able to carry forward any unused portion of the deduction for five years following the year in which the contribution was 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 employees contribution. During 2002, 2001 and 2000, 13,847, 15,565 and 16,291 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 2,013,137 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 633,750 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, 2002 and 2001, contributions to the ESOP, which were used to fund principal and interest payments on the ESOP debt, totaled $2,548,000 and $2,689,000, respectively. During 2002 and 2001, $1,035,000 and $935,000, respectively, of dividends paid on unallocated ESOP shares were used for debt service. At December 31, 2002 and 2001, the loan had an outstanding balance of $11,644,000 and $13,111,000, respectively, and the ESOP had unallocated shares of 1,333,905 and 1,501,719, respectively. At December 31, 2002, the unallocated shares had a fair value of $29,946,000. 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, 2002, 2001 and 2000, the Bank recorded compensation expense related to the ESOP of $3,479,000, $2,827,000, and $2,268,000, respectively, including $2,063,777, $1,334,000 and $697,000, 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, 2002, 1,156,174 shares had been allocated to participants and 156,809 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 1,006,569 shares in the open market at a cost of $10,176,000. 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, were subject to the attainment of performance goals established by the Committee. The performance goals could 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 was subject to a performance goal was to be distributed to an employee until the Committee confirmed that the underlying performance goal had been achieved. No Stock Award that was subject to a performance goal is to be distributed to an Outside Director until an independent third party confirmed that the underlying performance goal had been achieved. The Committee established certain levels of earnings per share growth as the performance goal for 2001. As a result of the Company attaining the earnings per share growth specified by the Committee, all of the shares in the fifth annual installment vested on February 4, 2002. The Company recorded compensation expense relating to stock awards of $161,000, $ 1,935,000 and $ 1,934,000 for the years ended December 31, 2002, 2001 and 2000, respectively.

Under the Incentive Plan and Stock Option Plan, the Company is authorized to issue up to 2,516,421 shares and 946,500 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.

A summary of option activity for the years ended December 31, 2002, 2001 and 2000 follows:

	2002		2001		2000	
	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	2,253,773	$ 10.01	2,348,567	$ 9.90	2,511,004	$ 9.82
Granted	514,261	17.95	52,667	15.08	132,662	12.63
Exercised	(248,662)	9.75	(119,864)	9.95	(162,465)	9.91
Forfeited	(36,226)	16.55	(27,597)	12,67	(132,634)	10.49
Outstanding at end of year	2,483,146	$ 11.58	2,253,773	$ 10.01	2,348,567	$ 9.90
Options exercisable	1,889,429		1,632,341		1,282,271	

The following table summarizes information about stock options outstanding at December 31, 2002:

	Options Outstanding			Options Exercisable	
Exercise Prices	Number of Options	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
$9.29 to $9.87	1,620,157	4.10 years	$ 9.61	1,616,089	$ 9.61
10.00 to 12.87	308,344	5.78	11.21	254,575	11.06
13.06 to 16.96	57,934	7.88	14.20	18,089	13.91

17.14 to 17.88	483,356	9.00	17.88	676	17.52
18.64 to 22.01	13.355	9.34	20.44	—	—
	2,483,146	5.38 years	$ 11.58	1,889,429	$ 9.85

(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, 2002, the following commitments and contingent liabilities existed which are not reflected in the accompanying consolidated financial statements (in thousands):

December 31,	2002
Unused consumer and construction loan lines of credit (primarily floating-rate)	$ 56,865
Unused commercial loan lines of credit (primarily floating-rate)	40,164
Other commitments to extend credit:	
Fixed-Rate	109,504
Adjustable-Rate	34,568
Floating-Rate	16,015

The Company's fixed-rate loan commitments expire within 90 days of issuance and carried interest rates ranging from 5.5% to 6.75% at December 31, 2002.

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, 2002, the Company is obligated under noncancelable operating leases for premises and equipment. Rental expense under these leases aggregated approximately $1,263,000, $1,647,000 and $843,000 for the years ended December 31, 2002, 2001 and 2000, respectively.

The projected minimum rental commitments as of December 31, 2002 are as follows (in thousands):

Year ended December 31,		
2003	$	989
2004		990
2005		765
2006		720
2007		627
Thereafter		2,528
	$	6,619

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 or the outstanding borrowings to the FHLB.

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, 2002 and 2001 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, 2002	Book Value	Fair Value
Financial Assets:		
Cash and due from banks	$ 17,192	$ 17,192
Investment securities available for sale	91,978	91,978
Mortgage-backed securities available for sale	138,657	138,657
Federal Home Loan Bank of New York stock	18,700	18,700
Loans receivable and mortgage loans held for sale	1,402,524	1,444,850
Financial Liabilities:		
Deposits	1,184,836	1,192,417
Borrowed funds	$ 398,584	$ 425,123

December 31, 2001	Book Value	Fair Value
Financial Assets:		
Cash and due from banks	$ 16,876	$ 16,876
Investment securities available for sale	80,017	80,017
Mortgage-backed securities available for sale	233,302	233,302
Federal Home Loan Bank of New York stock	23,560	23,560
Loans receivable and mortgage loans held for sale	1,338,717	1,351,532
Financial Liabilities:		
Deposits	1,109,043	1,114,551
Borrowed funds	$ 484,332	$ 509,897

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, 2002 and 2001 and condensed statements of operations and cash flows for the years ended December 31, 2002, 2001 and 2000 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,	2002	2001

Assets		
Cash and due from banks	$ 7	$ 7
Advances to subsidiary Bank	5,455	3,003
Investment securities	5,751	5,253
ESOP loan receivable	11,644	13,111
Investment in subsidiary Bank	113,065	125,936
Total assets	$ 135,922	$ 147,310
Liabilities and Stockholders' Equity		
Other liabilities	$ 617	$ 581
Stockholders' equity	135,305	146,729
Total liabilities and stockholders' equity	$ 135,922	$ 147,310

CONDENSED STATEMENTS OF OPERATIONS
(in thousands)

Year ended December 31,	2002	2001	2000
Dividend income - Subsidiary Bank	$ 35,000	$ 15,000	$ 46,000
Interest income - Investment securities	659	140	144
Interest income - Advances to subsidiary Bank	57	411	1,229
Interest income - ESOP loan receivable	1,082	1,204	1,328
Total dividend and interest income	36,798	16,755	48,701
Operating expenses	1,299	1,226	1,198
Income before income taxes and equity in (distributions in excess) undistributed earnings of subsidiary Bank	35,499	15,529	47,503
Provision(benefit) for income taxes	187	156	(597)
Income before equity in (distributions in excess of) undistributed earnings of subsidiary Bank	35,312	15,373	48,100
Equity in (distributions in excess of) undistributed earnings of subsidiary Bank	(15,169)	2,786	(31,718)
Net income	$ 20,143	$ 18,159	$ 16,382

CONDENSED STATEMENTS OF CASH FLOWS
(in thousands)

Year ended December 31,	2002	2001	2000
Cash flows from operating activities:			
Net income	$ 20,143	$ 18,159	$ 16,382
(Increase) decrease in advances to subsidiary Bank	(2,452)	18,969	(16,100)
(Equity in) distributions in excess of undistributed earnings of subsidiary Bank	15,169	(2,786)	31,718
Deferred taxes	—	1,309	(381)
Increase (decrease) in other liabilities	32	(307)	311
Reduction in Incentive Awards	161	1,935	1,934
Net cash provided by operating activities	33,053	37,279	33,864
Cash flows from investing activities:			
Purchase of investment securities	(600)	(92)	(89)
Repayments on ESOP loan receivable	1,467	1,485	1,502
Net cash provided by investing activities	867	1,393	1,413
Cash flows from financing activities:			
Dividends paid	(8,916)	(7,943)	(7,622)
Purchase of treasury stock	(27,427)	(31,921)	(28,800)
Exercise of stock options	2,423	1,192	1,145
Net cash used in financing activities	(33,920)	(38,672)	(35,277)
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)				
2002				
Interest income	$ 25,902	$ 27,271	$ 26,869	$ 28,414
Interest expense	10,973	11,699	12,206	12,746
Net interest income	14,929	15,572	14,663	15,668
Provision for loan losses	400	375	375	500
Net interest income after provision for loan losses	14,529	15,197	14,288	15,168
Other income	3,986	1,340	3,106	2,425
Operating expenses	10,557	9,899	9,810	9,878
Income before provision for income taxes	7,958	6,638	7,584	7,715
Provision for income taxes	2,790	1,848	2,448	2,666
Net Income	$ 5,168	$ 4,790	$ 5,136	$ 5,049
Basic earnings per share	$ .41	$ .38	$ .40	$ .38
Diluted earnings per share	$ .39	$ .35	$ .37	$ .36
2001				
Interest income	$ 29,480	$ 29,950	$ 29,420	$ 29,310
Interest expense	14,390	15,700	16,479	16,579
Net interest income	15,090	14,250	12,941	12,731
Provision for loan losses	470	265	260	255
Net interest income after provision for loan losses	14,620	13,985	12,681	12,476
Other income	4,353	2,480	3,292	2,800
Operating expenses	9,735	9,471	9,063	9,110
Income before provision for income taxes	9,238	6,994	6,910	6,166
Provision for income taxes	3,190	2,312	2,417	2,145
Net Income	$ 4,963	$ 4,682	$ 4,493	$ 4,021
Basic earnings per share	$ .37	$ .34	$ .31	$ .28
Diluted earnings per share	$ .35	$ .32	$ .30	$ .27

Independent Auditors' Report

The Board of Directors and Stockholders

OceanFirst Financial Corp.:

We have audited the consolidated statements of financial condition of OceanFirst Financial Corp. and subsidiary as of December 31, 2002 and 2001, 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, 2002. 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, 2002 and 2001, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2002 in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the Consolidated Financial Statements, the Company adopted Financial Accounting Standards No. 145 "Rescission of FASB Statement No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections."

KPMG LLP

Short Hills, New Jersey
January 23, 2003

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 24, 2003 at 10:00 a.m. at Crystal Point Yacht Club, 3900 River Road, 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, Assistant Vice President, 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 2002 and 2001.

2002	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
High	20.20	24.14	24.00	22.90
Low	15.97	19.67	19.58	16.95

2001	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
High	16.00	17.97	17.80	17.08

Low	14.29	14.33	15.67	15.53

As of December 31, 2002, the Company had approximately 3,400 shareholders, including the number of persons or entities holding stock in nominee or street name through various brokers and banks.

Exhibit 23

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 23, 2003, relating to the consolidated statements of financial condition of OceanFirst Financial Corp. and subsidiary as of December 31, 2002 and 2001 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, 2002, which report is incorporated by reference in the December 31, 2002 Annual Report on Form 10-K of OceanFirst Financial Corp.

KPMG LLP

Short Hills, New Jersey
March 25, 2003