SECURITIES AND EXCHANGE COMMISSION

FORM 10-K405

Annual report pursuant to section 13 and 15(d), Regulation S-K Item 405

Filing Date: **1999-03-26** | Period of Report: **1998-12-31**
SEC Accession No. 0000928385-99-000945

(HTML Version on secdatabase.com)

FILER

OCEAN FINANCIAL CORP

CIK:**1004702**| IRS No.: **223412577** | State of Incorp.:**DE** | Fiscal Year End: **1231**
Type: **10-K405** | Act: **34** | File No.: **001-11713** | Film No.: **99573484**
SIC: **6035** Savings institution, federally chartered

Mailing Address
74 BRICK BLVD.
BRICK TOWNSHIP NJ 08723

Business Address
975 HOOPER AVE
TOMS RIVER NJ 08753-8396
9084775200

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

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, 1998
Commission File No.: 0-27428

OCEAN 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 X No ________.

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

The aggregate market value of the voting stock held by non-affiliates of the registrant, i.e., persons other than the directors and executive officers of the registrant, was $185,030,266, based upon the last sales price as quoted on The Nasdaq Stock Market for March 19, 1999.

The number of shares of Common Stock outstanding as of March 19, 1999 is 14,021,905.

DOCUMENTS INCORPORATED BY REFERENCE

THE ANNUAL REPORT TO STOCKHOLDERS FOR THE YEAR ENDED DECEMBER 31, 1998, IS INCORPORATED BY REFERENCE INTO PART II OF THIS FORM 10-K.

THE PROXY STATEMENT FOR THE 1999 ANNUAL MEETING OF SHAREHOLDERS IS INCORPORATED BY REFERENCE INTO PART III OF THIS FORM 10-K.

INDEX

<TABLE>
<CAPTION>

		PAGE
<S>		<C>
	PART I	
Item 1.	Business	1
Item 2.	Properties	30
Item 3.	Legal Proceedings	30
Item 4.	Submission of Matters to a Vote of Security Holders	30
	PART II	
Item 5.	Market for Registrant's Common Equity and Related Stockholder Matters	30
Item 6.	Selected Financial Data	30
Item 7.	Management's Discussion and Analysis of Financial Condition and Results of Operations	30
Item 7A.	Quantitative and Qualitative Disclosures About Market Risk	30
Item 8.	Financial Statements and Supplementary Data	30
Item 9.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	31

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

PART III

Item 10	Directors and Executive Officers of the Registrant............	31
Item 11	Executive Compensation.......................................	31
Item 12	Security Ownership of Certain Beneficial Owners and Management..	31
Item 13	Certain Relationships and Related Transactions................	31

PART IV

Item 14	Exhibits, Financial Statement Schedules and Reports on Form 8-K..	31

</TABLE>

SIGNATURES

PART I

ITEM 1. BUSINESS

GENERAL

Ocean Financial Corp. (the "Company") was organized by the Board of Directors of Ocean Federal Savings Bank (the "Bank") for the purpose of acquiring all of the capital stock of the Bank issued in connection with the Bank's conversion from mutual to stock form, which was completed on July 2, 1996. At December 31, 1998, the Company had consolidated total assets of $1,561.7 million and total equity of $197.7 million. The Company was incorporated under Delaware law and is a savings and loan holding company subject to regulation by the Office of Thrift Supervision ("OTS"), the Federal Deposit Insurance Corporation ("FDIC") and the Securities and Exchange Commission ("SEC"). Currently, the Company does not transact any material business other than through its subsidiary, the Bank.

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

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

MARKET AREA AND COMPETITION

The Bank is a community-oriented financial institution, offering a wide variety of financial services to meet the needs of the communities it serves. The Bank conducts its business through an administrative and branch office located in Toms River, Ocean County, New Jersey, and ten additional branch offices,

nine of which are located in Ocean County and one of which is located in

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

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.

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

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

LENDING ACTIVITIES

Loan Portfolio Composition. The Bank's loan portfolio consists primarily of conventional first mortgage loans secured by one- to four-family residences. At December 31, 1998, the Bank had total loans outstanding of $976.2 million, of which $869.8 million or 89.10% of total loans, were one- to four-family, residential mortgage loans. The remainder of the portfolio consisted of $42.0 million of commercial real estate, multi-family and land loans, or 4.30% of total loans; $6.1 million of real estate construction loans, or .63% of total loans; $51.8 million of consumer loans, primarily home equity loans and lines of credit, equaling 5.31% of total loans; and $6.5 million of commercial loans, or .66% of total loans. The Bank had $25.1 in loans held for sale at December 31, 1998. At that same date, 47.00% of the Bank's total loans had adjustable interest rates.

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

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

<TABLE>
<CAPTION>

	At December 31,			
	1998		1997	
	AMOUNT	PERCENT OF TOTAL	AMOUNT	PERCENT OF TOTAL
	(DOLLARS IN THOUSANDS)			
<S>	<C>	<C>	<C>	<C>
Real estate:				
One- to four-family	$869,769	89.10%	$711,548	89.57%
Commercial real estate, multi-family and land....	42,008	4.30	25,699	3.24
Construction....................................	6,108	.63	8,748	1.10
Consumer (1)..	51,785	5.31	45,417	5.72
Commercial loans....................................	6,483	.66	2,904	.37
Total loans..................................	976,153	100.00%	794,316	100.00%
Less:				
Undisbursed loan funds...........................	1,996		2,867	
Unamortized (premium) discount, net	(62)		9	
Deferred loan fees...............................	608		1,133	

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Allowance for loan losses........................	7,460		6,612	
Total loans, net..........................	966,151		783,695	
Less:				
Mortgage loans held for sale.....................	25,140		-	
Loans receivable, net............................	$941,011		$783,695	
Total loans:				
Adjustable rate................................	$458,809	47.00%	$475,533	59.87%
Fixed rate.....................................	517,344	53.00	318,783	40.13
	$976,153	100.00%	$794,316	100.00%

<CAPTION>

	At December 31,					
	1996		1995		1994	
	AMOUNT	PERCENT OF TOTAL	AMOUNT	PERCENT OF TOTAL	AMOUNT	PERCENT OF TOTAL
			(DOLLARS IN THOUSANDS)			
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Real estate:						
One- to four-family	$628,525	91.05%	$575,010	92.01%	$552,401	91.63%
Commercial real estate, multi-family and land....	15,634	2.26	14,939	2.39	13,885	2.30
Construction....................................	9,287	1.35	8,153	1.30	10,474	1.74
Consumer (1)..	36,860	5.34	26,867	4.30	26,100	4.33
Commercial loans....................................	-	-	-	-	-	-
Total loans..................................	690,306	100.00%	624,969	100.00%	602,860	100.00%
Less:						
Undisbursed loan funds...........................	3,517		2,687		2,661	
Unamortized (premium) discount, net	11		12		13	
Deferred loan fees...............................	1,302		1,679		2,263	
Allowance for loan losses........................	6,021		6,001		5,608	
Total loans, net..........................	679,455		614,590		592,315	
Less:						
Mortgage loans held for sale.....................	727		1,894		-	
Loans receivable, net............................	$678,728		$612,696		$592,315	
Total loans:						
Adjustable rate..............................	$437,706	63.41%	$405,485	64.88%	$386,424	64.10%
Fixed rate...................................	252,600	36.59	219,484	35.12	216,436	35.90
	$690,306	100.00%	$624,969	100.00%	$602,860	100.00%

</TABLE>

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

Loan Maturity. The following table shows the contractual maturity of the Bank's total loans at December 31, 1998. There were $25.1 of loans held for sale at December 31, 1998. The table does not include principal repayments. Principal repayments, including prepayments, on total loans was $182.2, $120.9 million and $103.5 million million for the years ended December 31, 1998, 1997, and 1996, respectively.

<TABLE>
<CAPTION>

	AT DECEMBER 31, 1998					
	ONE- TO FOUR-FAMILY	COMMERCIAL REAL ESTATE, MULTI-FAMILY AND LAND	CONSTRUCTION	CONSUMER	COMMERCIAL LOANS	TOTAL LOANS RECEIVABLE
			(IN THOUSANDS)			
<S>	<C>	<C>	<C>	<C>	<C>	<C>
One year or less...........................	$ 26,838	$ 2,126	$6,108	$ 6,013	$2,918	$ 44,003
After one year:						

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

More than one year to three years.........	59,638	4,334	-	9,922	1,790	75,684
More than three years to five years.......	62,932	12,848	-	9,383	1,296	86,459
More than five years to 10 years..........	161,253	11,452	-	17,234	479	190,418
More than 10 years to 20 years............	279,569	7,259	-	9,233	-	296,061
More than 20 years........................	279,539	3,989	-	-	-	283,528
Total due after December 31, 1999.........	842,931	39,882	-	45,772	3,565	932,150
Total amount due..........................	$869,769	$42,008	$6,108	$51,785	$6,483	976,153
Less:						
Undisbursed loan funds....................						1,996
Unamortized premium, net..................						(62)
Deferred loan fees........................						608
Allowance for loan losses.................						7,460
Total loans, net..........................						966,151
Less: Mortgage loans held for sale..........						25,140
Loans receivable, net........................						$941,011

</TABLE>

The following table sets forth at December 31, 1998, the dollar amount of total loans receivable contractually due after December 31, 1999, and whether such loans have fixed interest rates or adjustable interest rates.

<TABLE>
<CAPTION>

<S>	DUE AFTER DECEMBER 31, 1999 (IN THOUSANDS)		
	FIXED <C>	ADJUSTABLE <C>	TOTAL <C>
Real estate loans:			
One- to four-family.............	$466,760	$376,171	$842,931
Commercial real estate, multi-family and land........	19,097	20,785	39,882
Consumer.............................	21,467	24,305	45,772
Commercial loans......................	3,257	308	3,565
Total loans receivable...........	$510,581	$421,569	$932,150

</TABLE>

Origination, Sale, Servicing and Purchase of Loans. The Bank's residential mortgage lending activities are conducted primarily by commissioned loan representatives in the exclusive employment of the Bank and through the Bank's branch offices. The Bank originates both adjustable-rate and fixed-rate loans. The Bank's ability to originate loans is dependent upon the relative customer demand for fixed-rate or adjustable-rate mortgage loans, which is affected by the current and expected future level of interest rates. The Bank may periodically sell part of the 30-year, fixed-rate mortgage loans that it originates and retain for portfolio ARM loans and shorter term fixed-rate loans with maturities of 15 years or less. The Bank retains all servicing of the loans sold. See "- Loan Servicing." At December 31, 1998 there were $25.1 million in loans categorized as held for sale. In the past, the Bank has also originated loans through commitments negotiated with correspondent mortgage origination firms.

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

<TABLE>
<CAPTION>

<S>	FOR THE YEAR DECEMBER 31, (IN THOUSANDS)		
	1998 <C>	1997 <C>	1996 <C>
Total loans:			
Beginning balance.....................................	$ 794,316	$690,306	$624,969
Loans originated:			

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

One- to four-family	287,842	182,519	170,381
Commercial real estate, multi-family and land	27,354	16,709	2,031
Construction	4,826	4,743	1,537
Consumer	28,203	22,982	21,829
Commercial	3,981	3,177	-
Total loans originated	352,206	230,130	195,778
Loans purchased	29,207	-	-
Total	1,175,729	920,436	820,747
Less:			
Principal repayments	182,170	120,905	103,546
Sales of loans	16,414	2,752	24,711
Transfer to REO	992	2,463	2,184
Total loans	$ 976,153	$794,316	$690,306

</TABLE>

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

At December 31, 1998, the Bank's total loans outstanding were $976.2 million, of which $869.8 million, or 89.10%, 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 $90,000 at December 31, 1998. 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, 1998, the Bank had commitments for the origination of fixed-rate mortgage loans totaling $34.9 million. The normal terms for such commitments provide for a maximum of 90 days rate lock upon receipt of a 1.0% fee charged on the mortgage amount. The Bank may periodically sell part of the 30-year, fixed-rate residential mortgage loans that it originates. The Bank retains the servicing on all loans sold. The Bank generally retains for its portfolio shorter term, fixed-rate loans with maturities of 15 years or less, and certain longer term fixed-rate loans, generally consisting of loans to facilitate the sale of REO, loans to officers, directors or employees of the Bank and "jumbo", non-conforming loans as determined by applicable FNMA and FHLMC guidelines. The Bank may retain all or most of its longer term fixed rate loans after considering volume and yield and after evaluating interest rate risk and capital management considerations. The retention of 30-year fixed-rate mortgage loans may increase the level of interest rate risk carried by the Bank, as the rates on these loans will not adjust during periods of rising interest rates and the loans can be subject to substantial increases in prepayments during periods of falling interest rates.

The Bank's policy is to originate one- to four-family residential mortgage loans in amounts up to 80% of

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

the lower of the appraised value or the selling price of the property securing the loan and up to 97% of the appraised value or selling price if private mortgage insurance is obtained. Mortgage loans originated by the Bank include due-on-sale clauses which provide the Bank with the contractual right to deem the loan immediately due and payable in the event the borrower transfers ownership of the property without the Bank's consent. Due-on-sale clauses are an important means of adjusting the rates on the Bank's fixed-rate mortgage loan portfolio and the Bank has generally exercised its rights under these clauses.

Commercial Real Estate, Multi-Family and Land Lending. The Bank originates commercial real estate loans that are secured by properties generally used for business purposes such as small office buildings or retail facilities located in the Bank's primary market area. The Bank's underwriting procedures provide that commercial real estate loans may be made in amounts up to 80% of the appraised value of the property. The Bank currently originates commercial real estate loans with terms of up to twenty five years with fixed or adjustable rates which are indexed to a margin above the one-, three-, or five-year U.S. Treasury constant maturity yield. In reaching its decision on whether to make a commercial real estate loan, the Bank considers the net operating income of the property and the borrower's expertise, credit history, profitability and the term and quantity of leases. The Bank has generally required that the properties securing commercial real estate loans have debt service coverage ratios of at least 130%. Generally, properties securing a loan are appraised by an independent appraiser and title insurance is required on all first mortgage loans. The Bank typically requires the personal guarantee of the principal borrowers for all commercial real estate loans. The Bank's commercial real estate loan portfolio at December 31, 1998 was $29.1 million, or 3.0% of total loans. The largest commercial real estate loan in the Bank's portfolio at December 31, 1998 was a performing loan for which the Bank had an outstanding carrying balance of $2.6 million, which was secured by a first mortgage on an owner-occupied 38,000 square foot commercial building.

The Bank originates multi-family mortgage loans generally secured by buildings with five or more housing units located in the Bank's primary market area. As a result of market conditions in its primary market area, the Bank currently originates multi-family loans on a limited and highly selective basis. In reaching its decision on whether to make a multi-family loan, the Bank considers the qualifications of the borrower as well as the underlying property. Some of the factors to be considered are: the net operating income of the mortgaged premises before debt service and depreciation; the debt service ratio; and the ratio of loan amount to appraised value. Pursuant to the Bank's current underwriting policies, a multi-family adjustable-rate mortgage loan may only be made in an amount up to 75% of the appraised value of the underlying property to a maximum amount of generally $4 million. In addition, the Bank generally requires a debt service ratio of 120%. Properties securing a loan are appraised by an independent appraiser and title insurance is required on all loans. The Bank's multi-family loan portfolio at December 31, 1998, totaled $12.9 million. The Bank's largest multi-family loan at December 31, 1998, had an outstanding balance of $2.2 million and was secured by a 125-unit affordable-housing apartment complex located in Toms River, New Jersey. To a significantly lesser extent, the Bank also originates land loans, although no such loans were outstanding at December 31, 1998.

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, 1998, construction loans totaled $6.1 million, or .63%, of the Bank's total loans outstanding. The Bank originates single-family construction loans primarily on a construction/permanent basis with such loans converting to an amortizing loan following the completion of the construction phase. Most of the Bank's construction loans are made to individuals building their primary residence, while, to a lesser extent, loans are made to developers known to the Bank in order to build single-family houses under contract for sale, which loans become due and payable over terms not exceeding 18 months. The current policy of the Bank is to charge interest rates on its construction loans which float at margins which are generally 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, 1998, the Bank had 27 construction loans, with the largest loan

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

commitment being approximately $750,000. At December 31, 1998, all of the Bank's construction lending portfolio consisted of loans secured by property located in the State of New Jersey, for the purpose of constructing one- to four-family homes. The Bank may originate construction loans to individuals and contractors on approved building lots in amounts up to 75% of the appraised value of the land and the building. The terms to maturity of the Bank's construction/permanent loans are similar to the Bank's other one- to four-family mortgage products. The Bank requires an appraisal of the property, credit reports, and financial statements on all principals and guarantors, among other items, for all construction loans.

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

Consumer Loans. The Bank also offers consumer loans. At December 31, 1998, the Bank's consumer loans totaled $51.8 million, or 5.31% of the Bank's total loan portfolio. Of that amount, home equity loans comprised $28.2 million, or 54.5%; home equity lines of credit comprised $20.2 million, or 39.0%; loans on savings accounts totaled $1.2 million, or 2.3%; and automobile and student loans totaled $2.2 million, or 4.2%.

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

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

Commercial Lending. At December 31, 1998, commercial loans totaled $6.5 million, or .66% of the Bank's total loans outstanding. During 1996, a Commercial Lending group was established within the Bank. The group's primary function is to service the business communities' banking and financing needs in the Bank's primary market area. The Commercial Lending group originates both commercial loans (including loans for working capital; fixed asset purchases; and acquisition, receivable and inventory financing) and commercial mortgage loans (including acquisition, construction, expansion and refinancing of owner occupied and investment properties). Credit facilities such as lines of credit and term loans will be used to facilitate these requests. In all cases, the Bank will review and analyze financial history and capacity, collateral value, strength and character of the principals, and general payment history of the borrower and principals in coming to a credit decision.

A well-defined credit policy has been approved by the Bank's Board of Directors. This policy discourages high risk credits, while focusing on quality underwriting, sound financial strength, and close management and Board monitoring. Commercial business lending, both secured and unsecured, is generally considered to involve a higher degree of risk than secured residential real estate lending. Risk of loss on a commercial business loan is dependent largely on the borrower's ability to remain financially able to repay the loan out of ongoing operations. If the Bank's estimate of the borrower's financial ability is inaccurate, the Bank may be confronted with a loss of principal on the loan.

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

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

loan amount increases. A minimum of two employees' signatures are required to approve residential loans over $227,150. Loans secured by real estate in amounts over $2.0 million and unsecured loans over $1.0 million require approval by the Loan Committee of the Board of Directors. Loans in excess of $4.0 million require approval by the Board of Directors. Pursuant to OTS regulations, loans to one borrower generally cannot exceed 15% of the Bank's unimpaired capital, which at December 31, 1998 amounted to $25.2 million. At December 31, 1998, the Bank's maximum loan exposure to a single borrower was $5.7 million.

Loan Servicing. Loan servicing includes collecting and remitting loan payments, accounting for principal and interest, making inspections as required of mortgaged premises, contacting delinquent mortgagors, supervising foreclosures and property dispositions in the event of unremedied defaults, making certain insurance and tax payments on behalf of the borrowers and generally administering the loans. The Bank also services mortgage loans for others. All of the loans currently being serviced for others are loans which have been sold by the Bank. At December 31, 1998, the Bank was servicing $132.3 million of loans for others. For the years ended December 31, 1998, 1997 and 1996, loan servicing fees totaled $105,000, $529,000, and $543,000, respectively.

Delinquencies and Classified Assets. The Board of Directors performs a monthly review of all delinquent loan totals which includes loans sixty days or more past due, and the detail of each loan thirty days or more past due that were originated within the past year. In addition, management prepares a quarterly list of all classified loans and a narrative report of classified commercial, commercial real estate, multi-family, land and construction loans. The procedures taken by the Bank with respect to delinquencies vary depending on the nature of the loan and period of delinquency. When a borrower fails to make a required payment on a loan, the Bank takes a number of steps to have the borrower cure the delinquency and restore the loan to current status. The Bank generally sends the borrower a written notice of non-payment after the loan is first past due. In the event payment is not then received,

additional letters and phone calls generally are made. If the loan is still not brought current and it becomes necessary for the Bank to take legal action, which typically occurs after a loan is delinquent at least 90 days or more, the Bank will commence foreclosure proceedings against any real property that secures the loan. If a foreclosure action is instituted and the loan is not brought current, paid in full, or an acceptable workout accommodation is not agreed upon before the foreclosure sale, the real property securing the loan generally is sold at foreclosure.

The Bank's Internal Asset Classification Committee, which is chaired by an officer who reports directly to the Audit Committee of the Board of Directors, reviews and classifies the Bank's assets quarterly and reports the results of its review to the Board of Directors. The Bank classifies assets in accordance with certain regulatory guidelines established by the OTS which are applicable to all savings associations. At December 31, 1998, the Bank had $5.8 million of assets, including all REO, classified as Substandard, $8,000 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 $3.2 million at December 31, 1998, and consisted primarily of loans secured by single-family, owner-occupied residences. These loans are classified as Special Mention due to past delinquencies or other identifiable weaknesses. At December 31, 1998, the largest loan classified as Special Mention had a balance of $548,000 and the largest loan classified as Substandard had a balance of $246,000.

Non-Accrual Loans and REO

The following table sets forth information regarding non-accrual loans and REO. The Bank had no troubled-debt restructured loans within the meaning of SFAS 114, and 4 REO properties at December 31, 1998. 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, 1998, 1997, 1996, 1995 and 1994, 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 $270,000, $278,000, $345,000, $428,000 and $607,000.

<TABLE>
<CAPTION>

December 31,

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

	1998	1997	1996	1995	1994
	(Dollars in Thousands)				
Non-accrual loans:					
Real estate:					
One- to four-family................	$ 4,605	$ 5,062	$7,148	$ 8,296	$10,280
Commercial real estate, multi-family and land..............	574	382	122	154	96
Construction........................	-	-	314	--	265
Consumer.............................	245	110	113	221	298
Total.........................	5,424	5,554	7,697	8,671	10,939
REO, net(1)............................	43	1,198	1,555	1,367	1,580
Total non-performing assets..........	$ 5,467	$ 6,752	$9,252	$10,038	$12,519
Allowance for loan losses as a percent of total loans receivable (2)...............................	.76%	.83%	.88%	.97%	.94%
Allowance for loan losses as a percent of total non-performing loans (3)...	137.54	119.03	78.23	69.21	51.27
Non-performing loans as a percent of total loans receivable(2)(3)........	.56	.70	1.12	1.40	1.83
Non-performing assets as a percent of total assets(3).....	.35	.45	.71	.97	1.29

</TABLE>

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

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

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

Allowance for Loan Losses. The allowance for loan losses is established through a provision for loan losses based on management's evaluation of the risks inherent in its loan portfolio and the general economy. The allowance for loan losses is maintained at an amount management considers sufficient to provide for estimated losses based on evaluating known and inherent risks in the loan portfolio based upon management's continuing analysis of the factors underlying the quality of the loan portfolio. These factors include changes in the size and composition of the loan portfolio, actual loan loss experience, current and anticipated economic conditions, detailed analysis of individual loans for which full collectibility may not be assured, and the determination of the existence and realizable value of the collateral and guarantees securing the loan. Additions to the allowance are charged to earnings. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the Bank's allowance for loan losses. Such agencies may require the Bank to make additional provisions for loan losses based upon information available to them at the time of their examination. Although management uses the best information available, future adjustments to the allowance may be necessary due to economic, operating, regulatory and other conditions beyond the Company's control. As of December 31, 1998 and 1997, the Bank's allowance for loan losses was .76% and .83%,

respectively, of total loans. The Bank had non-accrual loans of $5.4 million and $5.6 million at December 31, 1998 and 1997, 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.

<TABLE>
<CAPTION>

	AT OR FOR THE YEAR ENDED				
	1998	1997	1996	1995	1994

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

(DOLLARS IN THOUSANDS)

<S>	<C>	<C>	<C>	<C>	<C>
Balance at beginning of year....................	$6,612	$6,021	$6,001	$5,608	$5,504
Charge-offs:					
Real Estate:					
One- to four-family........................	63	328	599	510	907
Commercial real estate, multi-family and land....................	--	--	30	28	141
Construction...............................	--	--	--	--	--
Consumer......................................	2	9	63	30	5
Total...................................	65	337	692	568	1,053
Recoveries.....................................	13	28	12	11	28
Net charge-offs	52	309	680	557	1,025
Provision for loan losses.......................	900	900	700	950	1,129
Balance at end of year..........................	$7,460	$6,612	$6,021	$6,001	$5,608
Ratio of net charge-offs during the year to average net loans outstanding during the year.....................................	.01%	.05%	.11%	.09%	.18%

</TABLE>

The following tables set 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).

<TABLE>
<CAPTION>

	1998			1997		
	Amount	Percent of Allowance to Total Allowance	Percent of Loans in Each Category to Total Loans	Amount	Percent of Allowance to Total Loans	Percent of Loans in Each Category to Total Loans
<S>	<C>	<C>	<C>	<C>	<C>	C>
One- to four-family	$2,824	37.86%	89.10%	$2,485	37.58%	89.57%
Commercial real estate, multi-family and land	993	13.30	4.30	591	8.94	3.24
Construction	31	.42	.63	44	.67	1.10
Consumer	505	6.77	5.31	471	7.12	5.72
Commercial	220	2.95	.66	58	.88	.37
Unallocated	2,887	38.70	--	2,963	44.81	-
Total	$7,460	100.00%	100.00%	$6,612	100.00%	100.00%

<CAPTION>

	At December 31,					
	1996			1995		
	Amount	Percent of Allowance to Total Loans	Percent of Loans in Each Category to Total Loans	Amount	Percent of Allowance to Total Loans	Percent of Loans in Each Category to Total Loans
<S>	<C>	<C>	<C>	<C>	<C>	<C>
One- to four-family	$2,659	44.16%	91.05%	$2,790	46.49%	92.01%
Commercial real estate, multi-family and land	330	5.48	2.26	556	9.27	2.39
Construction	75	1.25	1.35	41	.68	1.30

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Consumer	324	5.38	5.34	273	4.55	4.30
Commercial	--	--	--	--	--	--
Unallocated	2,633	43.73	--	2,341	39.01	--
Total	$6,021	100.00%	100.00%	$6,001	100.00%	100.00%

<CAPTION>

	1994		
	Amount	Percent of Allowance to Total Loans	Percent of Loans in Each Category to Total Loans
<S>	<C>	<C>	<C>
One- to four-family	$2,809	50.09%	91.63%
Commercial real estate, multi-family and land	483	8.61	2.30
Construction	79	1.41	1.74
Consumer	268	4.78	4.33
Commercial	--	--	--
Unallocated	1,969	35.11	--
Total	$5,608	100.00%	100.00%

</TABLE>

INVESTMENT ACTIVITIES

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

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

Investment and mortgage-backed securities identified as held to maturity are carried at cost, adjusted for amortization of premium and accretion of discount, which are recognized as adjustments to interest income. Management determines the appropriate classification of securities at the time of purchase. If management has the intent and the Bank has the ability at the time of purchase to hold securities until maturity, they are classified as held to maturity. Securities to be held for indefinite periods of time and not intended to be held to maturity are classified as available for sale. Securities available for sale include securities that management intends to use as part of its asset/liability management strategy. Such securities are carried at fair value and unrealized gains and losses, net of related tax effect, are excluded from earnings, but are included as a separate component of stockholders' equity. At December 31, 1998, 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

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

intermediaries may be private issuers, or agencies including FHLMC, FNMA and GNMA that guarantee the payment of principal and interest to investors. Mortgage-backed securities typically are issued with stated principal amounts, and the securities are backed by pools of mortgages that have loans with interest rates that are within a range and have varying maturities. The underlying pool of mortgages can be composed of either fixed- or ARM loans.

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

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

The Bank has significant investments in mortgage-backed securities and has utilized such investments to complement its mortgage lending activities. At December 31, 1998, mortgage-backed securities totaled $381.8 million, or 24.4% of total assets, all of which were classified as available for sale. The Bank invests in a large variety of mortgage-backed securities, including ARM, balloon and fixed-rate mortgage-backed securities, the majority of which are directly insured or guaranteed by FHLMC, GNMA and FNMA. At such date, the mortgage-backed securities portfolio had a weighted average interest rate of 6.32%.

The Bank generally purchases short-term, straight sequential or planned amortization class collateralized mortgage obligations ("CMOs"). CMOs are securities created by segregating or portioning cash flows from mortgage pass-through securities or from pools of mortgage loans. CMOs provide a broad range of mortgage investment vehicles by tailoring cash flows from mortgages to meet the varied risk and return preferences of investors. These securities enable the issuer to "carve up" the cash flows from the underlying securities and thereby create multiple classes of securities with different maturity and risk characteristics. The Bank invests in U.S. Government and agency-backed CMOs and privately issued CMOs, all of which have agency-backed collateral. All of the Bank's CMOs and mortgage-backed securities are currently rated "AAA". Prior to purchasing mortgage-backed securities, each security is tested for Federal Financial Institutions Examination Council ("FFIEC") qualification. At December 31, 1998, the Bank's investment in CMOs had an amortized cost and market value of $137.2 million.

At December 31, 1998 the Bank had outstanding CMO's from one issuer, Residential Funding Corp., in excess of ten percent of stockholders equity. The aggregate book and market values of these securities was $43.4 million and $43.8 million, respectively, at December 31, 1998.

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

<TABLE>
<CAPTION>

	FOR THE YEAR ENDED DECEMBER 31,		
	1998	1997	1996
		(IN THOUSANDS)	
<S>	<C>	<C>	<C>
Beginning balance.....................................	$ 457,148	$ 395,542	$ 265,113
Mortgage-backed securities purchased...	181,095	248,917	251,004
Less: Principal repayments........................	(204,359)	(164,291)	(117,048)
Mortgage-backed securities sold.........	(48,824)	(19,149)	-

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

	1998	1997	1996
Amortization of premium................	(3,230)	(3,504)	(1,804)
Change in net unrealized gain (loss) on mortgage-backed securities available for sale................	10	(367)	(1,723)
Ending balance...	$ 381,840	$ 457,148	$ 395,542

</TABLE>

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.

<TABLE>
<CAPTION>

	At December 31,					
	1998		1997		1996	
	AMORTIZED COST	MARKET VALUE	AMORTIZED COST	MARKET VALUE	AMORTIZED COST	MARKET VALUE
	(IN THOUSANDS)					
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Mortgage-backed securities:						
FHLMC................	$106,762	$107,166	$245,414	$245,559	$316,773	$317,735
FNMA.................	74,027	74,434	109,873	109,991	69,190	69,108
GNMA.................	63,041	63,073	97,714	98,172	2,800	2,931
CMOs.................	137,230	137,167	3,378	3,426	5,643	5,768
Total mortgage-backed securities...........	$381,060	$381,840	$456,379	$457,148	$394,406	$395,542

</TABLE>

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.

<TABLE>
<CAPTION>

	AT DECEMBER 31,					
	1998		1997		1996	
	AMORTIZED COST	MARKET VALUE	AMORTIZED COST	MARKET VALUE	AMORTIZED COST	MARKET VALUE
	(IN THOUSANDS)					
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Investment securities:						
U.S. Government and agency obligations................	$ 59,983	$ 60,387	$204,992	$205,648	$175,003	$173,327
State and municipal obligations.......................	1,946	1,935	393	400	693	701
Corporates........................	74,976	72,249	--	--	--	--
Equity investments.......................	3,226	2,834	1,170	1,309	--	--
Total investment securities................	$140,131	$137,405	$206,555	$207,357	$175,696	$174,028

</TABLE>

The table below sets forth certain information regarding the amortized cost, weighted average yields and contractual maturities of the Bank's investment and mortgage-backed securities, excluding equity securities, as of December 31, 1998.

<TABLE>
<CAPTION>

At December 31, 1998

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

	ONE YEAR OR LESS	MORE THAN ONE YEAR TO FIVE YEARS	MORE THAN FIVE YEARS TO TEN YEARS
	AMORTIZED COST	AMORTIZED COST	AMORTIZED COST
<S>	<C>	<C>	<C>
Investment securities:			
U.S. Government and agency obligations.........	$ --	$ 34,983	$ 25,000
State and municipal obligations (1)...........	--	199	1,747
Corporate debt................................	--	--	--
Total investment securities.....................	$ --	$ 35,182	$ 26,747
Weighted average yield..........................	--%	6.79%	6.79%
Mortgage-backed securities:			
FHLMC...	$ 7,417	$ 47,347	$ 8,792
FNMA..	367	17,016	22,247
GNMA..	--	116	995
CMOs..	--	406	--
Total mortgage-backed securities................	$ 7,784	$ 64,885	$ 32,034
Weighted average yield..........................	6.86%	6.69%	5.80%

<CAPTION>

	AT DECEMBER 31, 1998		
	MORE THAN TEN YEARS	TOTAL	
	AMORTIZED COST	AMORTIZED COST	MARKET VALUE
		(DOLLARS IN THOUSANDS)	
<S>	<C>	<C>	<C>
Investment securities:			
U.S. Government and agency obligations.........	$ --	$ 59,983	$ 60,387
State and municipal obligations (1)...........	--	1,946	1,935
Corporate debt................................	74,976	74,976	72,249
Total investment securities.....................	$ 74,976	$ 136,905	$ 134,571
Weighted average yield..........................	6.26%	6.50%	
Mortgage-backed securities:			
FHLMC...	$ 43,206	$ 106,762	$ 107,166
FNMA..	34,397	74,027	74,434
GNMA..	61,930	63,041	63,073
CMOs..	136,824	137,230	137,167
Total mortgage-backed securities................	$ 276,357	$ 381,060	$ 381,840
Weighted average yield..........................	6.28%	6.32%	

</TABLE>

____
(1) Tax equivalent yield.

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 and other borrowings are the primary sources of the Bank's funds for use in lending, investing and for other general purposes.

Deposits. The Bank offers a variety of deposit accounts with a range of interest rates and terms. The Bank's deposits consist of savings accounts, NOW accounts, money market accounts, non-interest bearing accounts and time deposits. For the year ended December 31, 1998, time deposits constituted 65.6% 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

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

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:

<TABLE>
<CAPTION>

	FOR THE YEAR ENDED DECEMBER 31,		
	1998	1997	1996
		(IN THOUSANDS)	
<S>	<C>	<C>	<C>
Net deposits (withdrawals)...............................	$ 8,890	$ 2,946	$ (29,111)
Acquisition of deposits	10,732	--	--
Interest credited on deposit accounts....................	38,865	39,088	37,283
Total increase in deposit accounts.......................	$ 58,487	$ 42,034	$ 8,172

</TABLE>

At December 31, 1998, the Bank had $67.0 million in certificate accounts in amounts of $100,000 or more maturing as follows:

<TABLE>
<CAPTION>

MATURITY PERIOD	AMOUNT	WEIGHTED AVERAGE RATE
	(DOLLARS IN THOUSANDS)	
<S>	<C>	<C>
Three months or less..................................	$25,568	4.97%
Over three through six months.........................	9,661	5.48
Over six through 12 months............................	13,315	5.36
Over 12 months..	18,501	5.89
Total...	$67,045	5.38

</TABLE>

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.

<TABLE>
<CAPTION>

	AT OR FOR THE YEARS ENDED DECEMBER 31,					
	1998			1997		
	AVERAGE BALANCE	PERCENT OF TOTAL AVERAGE DEPOSITS	WEIGHTED AVERAGE YIELD	AVERAGE BALANCE	PERCENT OF TOTAL AVERAGE DEPOSITS	WEIGHTED AVERAGE YIELD
				(DOLLARS IN THOUSANDS)		
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Money market deposit accounts....................	$ 71,800	7.10%	2.59%	$ 68,972	7.18%	2.90%
Savings accounts.................................	167,058	16.53	2.03	168,733	17.56	2.28
NOW accounts.....................................	89,679	8.87	1.59	77,785	8.09	1.84
Non-interest-bearing accounts....................	18,749	1.86	-	8,115	.84	-
Total..	347,286	34.36	1.90	323,605	33.67	2.21
Time deposits:						
Six months or less............................	87,087	8.62	4.57	78,724	8.19	5.05
Over Six through 12 months....................	135,919	13.44	4.98	146,951	15.29	5.41
Over 12 through 24 months.....................	219,706	21.74	5.45	178,440	18.57	5.77
Over 24 months................................	108,748	10.76	6.07	120,709	12.56	6.10
IRA/KEOGH.....................................	112,023	11.08	5.57	112,602	11.72	5.84
Total time deposits.......................	663,483	65.64	5.35	637,425	66.33	5.69

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Total average deposits	$1,010,769	100.00%	4.08%	$961,030	100.00%	4.52%

<CAPTION>

	AT OR FOR THE YEARS ENDED DECEMBER 31,		
	1996		
	AVERAGE BALANCE	PERCENT OF TOTAL AVERAGE DEPOSITS	WEIGHTED AVERAGE YIELD
<S>	<C>	<C>	<C>
Money market deposit accounts	$ 70,209	7.52%	2.90%
Savings accounts	175,060	18.75	2.28
NOW accounts	72,265	7.74	1.84
Non-interest-bearing accounts	6,425	.69	--
Total	323,959	34.70	2.27
Time deposits:			
Six months or less	71,353	7.64	4.95
Over Six through 12 months	151,485	16.23	5.23
Over 12 through 24 months	150,085	16.08	5.49
Over 24 months	124,056	13.29	6.09
IRA/KEOGH	112,641	12.06	5.86
Total time deposits	609,620	65.30	5.55
Total average deposits	$933,579	100.00%	4.44%

</TABLE>

Borrowings

From time to time the Bank has obtained advances from the FHLB as an alternative to retail deposit funds and may do so in the future as part of its operating strategy. FHLB advances may also be used to acquire certain other assets as may be deemed appropriate for investment purposes. These advances are collateralized primarily by certain of the Bank's mortgage loans and mortgage-backed securities and secondarily by the Bank's investment in capital stock of the FHLB. The Bank has an available overnight line of credit with the FHLB-NY for $50.0 million which expires November 20, 1999. The Bank also has available from the FHLB a one-month overnight repricing line of credit for $50.0 million which expires on November 20, 1999. When utilized, both lines carry a floating interest rate of 1/8% over the current federal funds rate and are secured by the Bank's mortgage loans, mortgage-backed securities, U.S. Government securities and FHLB stock. The maximum amount that the FHLB will advance to member institutions, including the Bank, fluctuates from time to time in accordance with the policies of the OTS and the FHLB. At December 31, 1998, the Bank had borrowed $30.0 million against the FHLB line of credit.

The Bank also borrows funds using securities sold under agreements to repurchase. Under this form of borrowing specific U.S. Government agency and/or mortgage-backed securities are pledged as collateral to secure the borrowing. These securities are not under the Bank's control. At December 31, 1998, the Bank had borrowed $282.1 million through securities sold under agreements to repurchase. (See note 11 to the consolidated financial statements in the 1998 Annual Report to Stockholders.)

SUBSIDIARY ACTIVITIES

The Bank owns two subsidiaries - Ocean Investment Services Corp. (formerly Dome Financial Services, Inc.) and Ocean Federal Realty Inc.

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

Ocean Federal Realty Inc. 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 Ocean Federal Realty Inc., the Bank transferred $668 million of mortgage loans to this subsidiary.

PERSONNEL

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

As of December 31, 1998, the Bank had 221 full-time employees and 53 part-time employees. The employees are not represented by a collective bargaining unit and the Bank considers its relationship with its employees to be good.

REGULATION AND SUPERVISION

GENERAL

The Company, as a savings and loan holding company, is required to file certain reports with, and otherwise comply with the rules and regulations of the Office of Thrift Supervision ("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 ("FHLB") System and its deposit accounts are insured up to applicable limits by 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. As a unitary savings and loan holding company, the Company generally is not restricted under existing laws as to the types of business activities in which it may engage, provided that the Bank continues to be a qualified thrift lender ("QTL"). See "Federal Savings Institution Regulation - QTL Test." Upon any non-supervisory acquisition by the Company of another savings institution or savings bank that meets the QTL 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 ("BHC Act"), subject to the prior approval of the OTS, and certain activities authorized by OTS regulation.

A savings and loan holding company is prohibited from, directly or indirectly, acquiring more than 5% of the voting stock of another savings institution or holding company thereof, without prior written approval of the OTS; or 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 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 prescribe such restrictions on subsidiary savings institutions as described below. The Bank must notify the OTS 30 days

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

before declaring any dividend to the Company. In addition, the financial impact of a holding company on its subsidiary institution is a matter that is evaluated by the OTS and the agency has authority to order cessation of activities or divestiture of subsidiaries deemed to pose a threat to the safety and soundness of the institution.

FEDERAL SAVINGS INSTITUTION REGULATION

Business Activities. The activities of federal savings institutions are governed by federal law and regulations. These laws and regulations delineate the nature and extent of the activities in which federal associations may engage. In particular, many types of lending authority for federal associations, 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 3% leverage capital ratio 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 capital ratio (3% for institutions receiving the highest rating on the CAMEL financial institution rating system), and, together with the risk-based capital standard itself, a 4% Tier I 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 not permissible for a national bank.

The risk-based capital standard for savings institutions requires the maintenance of Tier I (core) and total capital (which is defined as core capital and supplementary capital) to risk-weighted assets of 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%, as assigned by the OTS capital regulation based on the risks OTS believes are inherent in the type of asset. The components of Tier I (core) capital currently include 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 purchased 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 and the allowance for loan and lease losses limited to a maximum of 1.25% of risk-weighted assets. Overall, the amount of supplementary capital included as part of total capital cannot exceed 100% of core capital.

The capital regulations also incorporate an interest rate risk component. Savings institutions with "above normal" interest rate risk exposure are subject to a deduction from total capital for purposes of calculating their risk-based capital requirements. For the present time, the OTS has deferred implementation of the interest rate risk component. At December 31, 1998, the Bank met each of its capital requirements.

The following table presents the Bank's capital position at December 31, 1998 relative to fully phased-in regulatory requirements.

<TABLE>
<CAPTION>

	ACTUAL CAPITAL	REQUIRED CAPITAL	EXCESS (DEFICIENCY) AMOUNT	CAPITAL ACTUAL PERCENT	CAPITAL REQUIRED PERCENT
	(DOLLARS IN THOUSANDS)				
<S>	<C>	<C>	<C>	<C>	<C>
Tangible.............	$167,881	$23,371	$144,510	10.78%	1.50%
Core (Leverage).......	167,881	46,742	121,139	10.78%	3.00%
Risk-based...........	175,113	61,514	113,599	22.77%	8.00%

</TABLE>

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 I (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

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

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 banking regulator 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. Deposits of the Bank are presently insured by 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 risk adjusted, determined semiannually by the FDIC, and currently range from zero to 27 basis points.

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 1998, FICO payments for SAIF members approximated 6.10 basis points, while Bank Insurance Fund ("BIF") members paid 1.22 basis points. By law, there will be equal sharing of FICO payments between SAIF and BIF members on the earlier of January 1, 2000 or the date the SAIF and BIF are merged.

The Bank's assessment rate for fiscal 1998 was zero basis points and the premium paid for this period, all of which was related to FICO payments, was $599,000. 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.

Thrift Rechartering Legislation. Legislation enacted in 1996 provided that the BIF and SAIF were to have merged on January 1, 1999 if there were no more savings associations as of that date. Various proposals to eliminate the federal savings association charter, create a uniform financial institutions charter, abolish the OTS and restrict savings and loan holding company activities have been introduced in Congress. The Bank is unable to predict whether such legislation will be enacted or the extent to which the legislation would restrict or disrupt its operations.

Loans to One Borrower. Federal law provides savings institutions are generally subject to the limits on loans to one borrower applicable to national banks. A savings institutions 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 readily-marketable collateral. At December 31, 1998, the Bank's limit on loans to one borrower was $25.2 million. At December 31, 1998, the Bank's largest aggregate outstanding balance of loans to one borrower was $5.7 million.

QTL Test. Federal law requires savings institutions to meet a QTL test. Under the QTL test, a savings and loan 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: (i) specified liquid assets up to 20% of total assets; (ii) intangibles, including goodwill; and (iii) 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 9 months out of each 12 month period.

A savings institution that fails the QTL test is subject to certain operating

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

restrictions and may be required to convert to a bank charter. As of December 31, 1998, the Bank maintained in excess of 100% of its portfolio assets in qualified thrift investments and, therefore, met the QTL 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 savings institutions, such as cash dividends, payments to repurchase or otherwise acquire its shares and payments to shareholders of another institution in a cash-out merger. The regulation, which became effective in 1998, established three tiers of institutions based primarily on an institution's capital level. An institution that exceeded all capital requirements before and after a proposed capital distribution ("Tier 1 Bank") and had not been advised by the OTS that it is in need of more than normal supervision, could, after prior notice but without obtaining approval of the OTS, make capital distributions during a calendar year equal to the greater of (i) 100% of its net earnings to date during the calendar year plus the amount that would reduce by one-half its "surplus capital ratio" (the excess capital over its fully phased-in capital requirements) at the beginning of the calendar year or (ii) 75% of its net income for the previous four quarters. Any additional capital distributions would require prior regulatory approval. Effective April 1, 1999, the OTS's capital distribution regulation will change. Under the new regulation, an application to and the prior approval of the OTS will be 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 the 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. 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. At December 31, 1998, the Bank was a Tier 1 Bank.

Liquidity. The Bank is required to maintain an average daily balance of specified liquid assets equal to a monthly average of not less than a specified percentage of its net withdrawable deposit accounts plus short-term borrowings. This liquidity requirement is currently 4% but may be changed from time to time by the OTS to any amount within the range of 4% to 10% depending upon economic conditions and the savings flows of member institutions. Monetary penalties may be imposed for failure to meet the liquidity requirement. The Bank's liquidity ratio for December 31, 1998 was 12.5%, which exceeded the applicable requirement. The Bank has never been subject to monetary penalties for failure to meet its liquidity requirement.

Assessments. Savings institutions are required to pay assessments to the OTS to fund the agency's operations. The general assessments, paid on a semi-annual basis, are computed upon the savings institution's total assets, including consolidated subsidiaries, as reported in the Bank's latest quarterly thrift financial report. The assessments paid by the Bank for the fiscal year ended December 31, 1998 totaled $267,000.

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 by federal law. The purchase of low quality assets from affiliates is generally prohibited. Transactions with affiliates must be on terms and under circumstances, that are at least as favorable to the institution as those prevailing at the time for comparable transactions with non-affiliated companies. In addition, savings institutions are prohibited from lending to any affiliate that is engaged in activities that are not permissible for bank holding companies and no savings institution may purchase the securities of any affiliate other than a subsidiary.

The Bank's authority to extend credit to executive officers, directors and 10%

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

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

Enforcement. The OTS has primary enforcement responsibility over savings institutions and has the authority to bring actions against the institution and all institution-affiliated parties, including stockholders, and any attorneys, appraisers and accountants who knowingly or recklessly participate in wrongful action likely to have an adverse effect on an insured institution. Formal enforcement action may range from the issuance of a capital directive or cease and desist order to removal of officers and/or

directors to institution of receivership, conservatorship or termination of deposit insurance. Civil penalties cover a wide range of violations and can amount to $25,000 per day, or even $1 million per day in especially egregious cases. The FDIC has the authority to recommend to the Director of the OTS 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 an 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 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 Federal Reserve Board regulations generally required for 1998 that reserves be maintained against aggregate transaction accounts as follows: for accounts aggregating $46.5 million or less (subject to adjustment by the Federal Reserve Board) the reserve requirement is 3%; and for accounts aggregating greater than $46.5 million, the reserve requirement is $1.395 million plus 10% (subject to adjustment by the Federal Reserve Board between 8% and 14%) against that portion of total transaction accounts in excess of $46.5 million. The first $4.9 million of otherwise reservable balances (subject to adjustments by the Federal Reserve Board) are exempted from the reserve requirements. The Bank is in compliance 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 1998 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

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

enacted on August 20, 1996, requires savings institutions to recapture (i.e., take into taxable income) certain portions of their accumulated bad debt reserves. The 1996 Act repeals the reserve method of accounting for bad debts effective for tax years beginning after 1995. Thrift institutions that would be treated as small banks are

allowed to utilize the Experience Method applicable to such institutions, while thrift institutions that are treated as large banks (those generally exceeding $500 million in assets) are required to use only the specific charge-off method. Thus, the PTI Method of accounting for bad debts is no longer available for any financial institution.

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

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

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

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

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

SAIF Recapitalization Assessment. The Funds Act levied a 65.7-cent fee on every $100 of thrift deposits held on March 31, 1995. For financial statement purposes, this assessment was reported as an expense for the quarter ended September 30, 1996. The Funds Act includes a provision which states that the amount of any special assessment paid to capitalize SAIF under this legislation is deductible under Section 162 of the Code in the year of payment.

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

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

current earnings exceeds its AMTI (determined without regard to this preference and prior to reduction for net operating losses). In addition, for taxable years beginning after December 31, 1986 and before January 1, 1996, an environmental tax of .12% of the excess of AMTI. (with certain modifications) over $2.0 million is imposed on corporations, including the Bank, whether or not an Alternative Minimum Tax ("AMT") is paid. The Bank does not expect to be subject to the AMT.

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

STATE AND LOCAL TAXATION

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

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

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

ITEM 2. PROPERTIES

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

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 1998 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 1998 Annual Report to Stockholders on pages 11 and 12 and is incorporated herein by reference.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The above-captioned information appears under "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Registrant's 1998 Annual Report to Stockholders on pages 13 through 20 and is incorporated

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

herein by reference.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The above captioned information appears under "Management Discussion and Analysis of Financial Condition and Results of Operations - Management of Interest Rate Risk" in the Registrant's 1998 Annual Report to Stockholders on pages 14 and 15.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The Consolidated Financial Statements of Ocean Financial Corp. and its subsidiary, together with the report thereon by KPMG LLP appears in the Registrant's 1998 Annual Report to Stockholders on pages 21 through 36 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 22 , 1999, at pages 5 through 7.

ITEM 11. EXECUTIVE COMPENSATION

The information relating to directors' compensation and executives' compensation is incorporated herein by reference to the Registrant's Proxy Statement for the Annual Meeting of Stockholders to be held on April 22, 1999, at pages 8 and 9 and pages 14 through 18 (excluding the Executive Compensation Committee Report and Stock Performance Graph).

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information relating to security ownership of certain beneficial owners and management is incorporated herein by reference to the Registrant's Proxy Statement for the Annual Meeting of Stockholders to be held on April 22, 1999, at pages 3 through 4 and 6 through 7.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information relating to certain relationships and related transactions is incorporated herein by reference to the Registrant's Proxy Statement for the Annual Meeting of Stockholders to be held on April 22, 1999, at page 18.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

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

(1) Consolidated Financial Statements of the Company are incorporated by reference to the following indicated pages of the 1998 Annual Report to Stockholders.

<TABLE>
<CAPTION>

<S>	PAGE <C>
Independent Auditors' Report.......................................	36
Consolidated Statements of Financial Condition at December 31, 1998 and 1997.......................................	21
Consolidated Statements of Income and Comprehensive Income for the Years Ended December 31, 1998, 1997 and 1996......................	22
Consolidated Statements of Changes in Stockholders' Equity for the Years Ended December 31, 1998, 1997 and 1996.............	23
Consolidated Statements of Cash Flows for the	

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Years Ended December 31, 1998, 1997 and 1996..................... 24

Notes to Consolidated Financial Statements for the
Years Ended December 31, 1998, 1997 and 1996........................ 25-35
</TABLE>

The remaining information appearing in the 1998 Annual Report to Stockholders is not deemed to be filed as part of this report, except as expressly provided herein.

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

(3) Exhibits

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

3.1	Certificate of Incorporation of Ocean Financial Corp.*
3.2	Bylaws of Ocean Financial Corp.*
4.0	Stock Certificate of Ocean Financial Corp.*
10.1	Form of Ocean Federal Savings Bank Employee Stock Ownership Plan*
10.1(a)	Amendment to Ocean Federal Savings Bank Employee Stock Ownership Plan (filed previously)
10.2	Ocean Federal Savings Bank Employees' Savings and Profit Sharing Plan*
10.3	Ocean Federal Savings Bank 1995 Supplemental Executive Retirement Plan*
10.4	Ocean Federal Savings Bank Deferred Compensation Plan for Directors*
10.5	Ocean Federal Savings Bank Deferred Compensation Plan for Officers*
10.6	Ocean Federal Savings Bank Long-Term Award Program*
10.7	Ocean Federal Savings Bank Performance Achievement Awards Program*
10.8	Amended and Restated Ocean Financial Corp. 1997 Incentive Plan (filed previously)
10.9	Form of Employment Agreement between Ocean Federal Savings Bank and certain executive officers, including Michael J. Fitzpatrick and John R. Garbarino*
10.10	Form of Employment Agreement between Ocean Financial Corp. and certain executive officers, including Michael J. Fitzpatrick and John R. Garbarino*
10.11	Form of Change in Control Agreement between Ocean Federal Savings Bank and certain executive officers, including Michael E. Barrett, John K. Kelly and Karl E. Reinheimer*
10.12	Form of Change in Control Agreement between Ocean Financial Corp. and certain executive officers, including Michael E. Barrett, John K. Kelly and Karl E. Reinheimer *
13.0	Portions of 1998 Annual Report to Stockholders (filed herewith)
21.0	Subsidiary information is incorporated herein by reference to "Part I - Subsidiaries"
23.0	Consent of KPMG LLP (filed herewith)
27.0	Financial Data Schedule (filed herewith)

(b) Reports on Form 8-K

None.

____

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

CONFORMED SIGNATURES

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

OCEAN FINANCIAL CORP.

By: /s/John R. Garbarino

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

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Date: March 17, 1999

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 17, 1999
/s/ Michael J. Fitzpatrick Michael J. Fitzpatrick Executive Vice President and Chief Financial Officer (principal accounting and financial officer)	March 17, 1999
/s/ Michael E. Barrett Michael E. Barrett Director	March 17, 1999
/s/ Thomas F. Curtin Thomas F. Curtin Director	March 17, 1999
/s/ Carl Feltz, Jr. Carl Feltz, Jr. Director	March 17, 1999

/s/ Robert E. Knemoller Robert E. Knemoller Director	March 17, 1999
/s/ Donald E. McLaughlin Donald E. McLaughlin Director	March 17, 1999
/s/ Diane F. Rhine Diane F. Rhine Director	March 17, 1999
/s/ Frederick E. Schlosser Frederick E. Schlosser Director	March 17, 1999
/s/ James T. Snyder James T. Snyder Director	March 17, 1999

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

O c e a n   F i n a n c i a l   C o r p .

[PHOTO]

1 9 9 8

A n n u a l   R e p o r t

[MAP]

Our Mission Statement

Ocean Financial Corp. develops shareholder value as a community-focused financial services organization.

[PHOTO]

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

Table of Contents

Financial Highlights	1
Letter to our Shareholders	2
Board of Directors	5
Bank Services	6
Selected Financial Data	11
Management's Discussion and Analysis	13
Consolidated Financial Statements	21
Directors and Senior Officers	38
Shareholder Information	Inside Back Cover

Financial Highlights

(dollars in thousands, except per share amounts)

<TABLE>
<CAPTION>

At or For The Year Ended December 31,	1998	1997	1996
<S>	<C>	<C>	<C>
Total assets	$ 1,561,744	$ 1,510,947	$ 1,303,865
Loans receivable, net	941,011	783,695	678,728
Deposits	1,035,251	976,764	934,730
Stockholders' equity	197,740	215,544	252,789
Net interest income	44,158	43,048	36,379
Provision for loan losses	900	900	700

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Net income before non-recurring items	13,525	13,825	11,576
Net income (loss)	12,972	13,825	(1,729)
Diluted earnings per share (3)	0.95	0.88	N/A
Stockholders' equity per common share (3)	13.52	13.72	13.95
Stockholders' equity to total assets at end of year	12.66%	14.27%	19.39%
Performance Ratios (1):			
Return on average assets	0.88%	0.97%	1.00%
Return on average stockholders' equity	6.63	6.00	6.91
Average interest rate spread	2.39	2.39	2.61
Net interest margin	2.98	3.12	3.22
Operating expenses to average assets	1.66	1.63	1.73
Operating efficiency ratio	53.69	50.80	51.11
Actual contributions to stockholders' equity and resultant cash earnings data (2) (before non-recurring items):			
Cash earnings	$ 16,688	$ 16,823	$ 12,456
Diluted cash earnings per share (3)	1.22	1.08	N/A
Return on average assets	1.09%	1.19%	1.07%
Return on average stockholders' equity	8.18	7.30	7.43
Operating efficiency ratio	44.60	41.76	47.87

</TABLE>

(1) Performance ratios are calculated to exclude the effect of non-recurring charges in 1998 relating to the loss on the sale of mortgage-backed securities and in 1996 for a charitable donation and the special Savings Association Insurance Fund assessment.

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

(3) Per share amounts for prior periods have been adjusted for the two-for-one stock split effected in the form of a 100% stock dividend paid on May 15, 1998.

Ocean Federal Savings Bank, the sole subsidiary of Ocean Financial Corp., founded in 1902, is a federally chartered stock savings bank with ten branches located in Ocean County and one in Middlesex County. It is the oldest and largest community-based financial institution headquartered in Ocean County, New Jersey.

Letter to our Shareholders

March, 1999

Dear Fellow Shareholders,

Of the goals established for 1998, enhancing the value of your shares in Ocean Financial Corp. was, as always, preeminent. While we can claim to have added value to your Ocean Financial investment during the past twelve months, we believe that consistent attention to this goal over time argues for a reflection on how shareholder value is actually enhanced.

In our view, with Ocean Federal Savings Bank, the subsidiary of the Ocean Financial Corp., positioned as the Community Bank of choice in one of New Jersey's fastest growing markets, shareholder value is principally built from the intrinsic, franchise value accorded to the Bank. It therefore follows that to succeed in building shareholder value over time, it is paramount to make the Bank a more profitable, yet attractive institution to both the community and its employees. This strategic objective has become a key focus of the Company's current mission.

For Ocean Financial Corp., 1998 was more than the transition into the third year

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

of operations for a parent Holding Company of a Financial Institution with nearly 100 years experience. It marked the next step in the Company's long-term plan for building shareholder value:

- Diluted earnings per common share for the year amounted to $.95, an 8% increase over the $.88 earned in 1997.
- Cash earnings (the amount by which stockholder equity changes solely by virtue of operating results) grew to $1.22 from $1.08 per diluted share in 1997, a 13% increase.
- In May, the cash dividend on the common stock was increased 20% and the stock was split two-for-one.
- The Board of Directors authorized the fourth and fifth stock repurchase programs. When completed, all five repurchase programs will have resulted in the Company repurchasing over four million shares, amounting to 22.6% of the common stock originally issued in 1996.
- Stock repurchases have been invaluable in reducing the healthy, though inflated, capital ratio of the Company from over 20% in 1996, to 14.3% and 12.7% at the respective 1997 and 1998 year ends.

[PHOTO]

The Ocean Federal Savings Bank senior management team (from left to right) John R. Garbarino, President and Chief Executive Officer; Karl E. Reinheimer; Michael J. Fitzpatrick; Michael E. Barrett and John K. Kelly.

Cash earnings (the amount by which stockholder equity changes solely by virtue of operating results) grew to $1.22 from $1.08 per diluted share in 1997, a 13% increase.

- The $.12 per share paid to stockholders of record early in 1999 marks the eighth consecutive quarterly dividend declared by the Board.

Throughout the year additional shareholder value was thus created through the activities of Ocean Financial Corp.

Similarly, among significant benchmarks for the subsidiary Bank:

- Deposits surpassed $1 billion, representing 6% growth entirely in core accounts, as CD balances remained essentially unchanged in the low interest rate environment.
- The Bank's loan portfolio grew over 20%, topping $941 million at year end. Commercial loan growth was solid for the year.
- As a pleasant consequence of this growth mix, the Bank's loan-to-deposit ratio increased dramatically from 80% to 91%.
- At midyear, the Bank purchased the branch deposits of the Whiting office closed by Summit Bank. These deposits were successfully transferred to the existing Ocean Federal branch across the street.
- A new branch office was also opened in the Lake Ridge section of Toms River, attracting $13 million in deposits in only nine months.

With 11 current branches, and more planned for 1999, Ocean Federal Savings Bank is the only well-established community bank headquartered in Ocean County serving the Jersey shore. This has extended Ocean Federal the unique opportunity to essentially "redefine" community banking in the area. Through these activities, franchise value was added to the Bank, further enhancing Ocean Financial Corp. shareholder value.

As the Corporate mission statement (see inside cover) clearly sets forth, the Company is focused on shareholder value built in a community banking niche. The Company is NOT a nationwide or statewide banking organization and has no international exposure. Neither is planned growth driven by a voracious appetite for acquisitions and the need to expand operations or market reach at all costs.

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

At the other end of the spectrum, the Company is far more than a de novo, start-up community bank, devoid of essential financial products or the technology and capital resources required to deliver efficient, effective service.

Ocean Federal Savings Bank is purely and simply, clearly focused on the communities served since the turn of the last century. As Money Magazine noted recently, Monmouth and Ocean Counties remain among the "most desirable regions" in which to live in the entire nation, based on economic stability, employment opportunities, and other quality-of-life factors. We certainly agree with those editors, and feel fortunate indeed to conduct our business in such a desirable market.

In the coming year, the Bank will seek to continue to grow franchise value by pursuing a more diverse customer base and providing new products and services through expanded delivery systems:

- Plans for two new branch offices are well under way in Spring Lake Heights and Wall Township, broadening the reach into southern Monmouth County.
- Extended service hours for customers to conduct their banking more conveniently will be introduced.
- A Web site will be launched to further facilitate the delivery of the Bank's financial services to the customer who chooses a computer banking option.

Year Over Year Loan Growth

[BAR CHART APPEARS HERE]

1995	1996	1997	1998
3.4%	10.8%	15.5%	20.1%

Loan-to-Deposit Ratio

[BAR CHART APPEARS HERE]

1995	1996	1997	1998
66.1%	72.6%	80.2%	90.9%

- Commercial loans and core deposits will be targeted to become a greater percentage of the balance sheet as the Bank seeks to capture a more significant portion of the underserved small business market.
- Trust and Asset Management services will be implemented as a community financial services business line.
- The Bank's non-traditional deposit product program and related services, "Investment Services at the Ocean", will support the Company's plans to grow non-interest income, while fulfilling the community's expectations of the Bank as a trusted resource providing a full range of financial services.

These improvements establish a greater competitive edge for the Community Bank, and once realized, provide the Company with a stronger capacity for enhancing future franchise and ultimately, shareholder value.

These plans will be implemented with a clear focus on the most important remaining event of this century, the coming of the new millennium. At your company, "Y2K" is not merely a new buzzword in the 1999 vocabulary, rather for some time at Ocean Financial, it has represented a very important, potential problem which every employee has been focused on addressing. Ocean Financial has been getting ready for the year 2000, technologically, since early in 1997. We're looking forward to successfully serving the financial needs of our community in the new century... and so are our computers.

Despite the ambitious plans and past success, however, the personal satisfaction we realize in "making a difference" is often life's greatest reward. We continue to take great pride in our active involvement with local charities, schools, and social service agencies, fulfilling our commitment to the community. Through the operations of The Ocean Federal Foundation, established and fully expensed by the Bank in 1996, nearly $3 million in grants has been awarded to needy and deserving organizations throughout our local communities, $1.2 million in 1998

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

alone. As important, though perhaps less visible, were the quiet efforts of individual Ocean Federal employees unselfishly volunteering their own time to community activities too numerous to document here.

At Ocean Financial Corp., we encourage such extra effort -- but not merely for its good corporate citizenship and benefits to society. It is because, above all, we believe in just that: Extra effort.

Only by working smarter... trying harder... and planning ahead to reach each well-defined community banking goal... can we build value for your investment and help you, our shareholders, reach your goals.

And that, more than anything else, is what we value most.

On behalf of the employees, officers, and Directors of Ocean Financial Corp. and Ocean Federal Savings Bank, I thank you for your trust in us -- and look forward to seeing you at the Annual Meeting on April 22, 1999.

Sincerely,

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

We're looking
forward to
successfully
serving the
financial needs
of our community
in the new century
...and so are
our computers.

Board of Directors

[PHOTO]

Pictured from top right, clockwise:

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

Donald E. McLaughlin - Audit Committee Chairman

Thomas F. Curtin - Human Resources/Compensation Committee Chairman

Michael E. Barrett - Executive Vice President

Frederick E. Schlosser - Audit Committee, Human Resources/Compensation Committee

Robert E. Kuemoller - Audit Committee Budget and Planning Committee

Diane F. Rhine - Human Resources/ Compensation Committee

Carl Feltz Jr. - Budget and Planning Committee

James T. Snyder - Budget and Planning Committee Chairman

The Value of Personal Service

Financial experts have been predicting it for years: The age of consolidation.

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

An era of megamergers, economies of scale, and growth through insatiable acquisitions.

At Ocean Financial Corp., we believe in "consolidating" too. Except our efforts are concentrated on bringing everything together locally. As THE Community Bank in our local market, thinking first about those who live, work, bank and invest here is not just being "responsive." It's our responsibility.

Which is why such careful thought went into the 1998 introduction of new products designed to serve our customers better, and to ultimately build value for our shareholders. Offering a wider choice in retail checking -- including a spectrum of interest-

[PHOTO]

Assistant Manager, Ruth D. Louis, at our Toms River branch, greets each customer with a smile.

bearing accounts and a VISA(R) check card -- allowed us to broaden relationships with existing customers while attracting over 9,000 new checking accounts. Our investment services, including mutual funds, annuities and other non-traditional products, also encouraged a full-service connection that might otherwise have been lost to competition.

On that note, retaining customers, enhancing branch traffic and cross-selling bank services were a major focus in 1998 and will continue to be emphasized going forward.

Our Retail Division is designed to cater to customer needs with a team approach to service that provides one-stop decision making and even faster responses to their requests. We believe these efforts, and other aggressive measures, will give the Bank a competitive edge in 1999 and beyond.

For example, stronger penetration into the consumer loan, equity loan and line of credit markets will be pursued in 1999, along with our sustained emphasis on originating residential mortgage loans. Retail deposit growth will also continue to be a priority, improving the mix of core deposits vs. lower-margin funding such as CDs. Traditional fee income enhancement will also be sought, as will the analysis of office support functions to provide maximum operating efficiencies. Finally, to increase the Bank's market presence, two new branches will open in 1999, representing our first entree into Monmouth County. Our Spring Lake Heights office is scheduled for the third quarter, followed by our Wall Township office slated for the fourth quarter.

Overall, these efforts are built on the belief that thoughtful planning serves us far better than a philosophy of quick fixes. In an age when consolidations can alter relationships overnight, remaining true to our community bank strengths will not just ensure we survive "merger mania."

We will thrive because of it.

Checking Account Growth

[BAR CHART APPEARS HERE]

[PHOTO]

"I live here...
and work here.
But most banks
seem to do neither.
Why should I
'reach high' or
'climb mountains'
when there's
someone around
the corner who
wants to help me?"

"Our old bank said

a loan was 'out of

the question.' so I

[PHOTO]

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

asked them one:

How can you

make a lending

decision about my

main office when

your's isn't even in

the state?"

The Value of Relationships

A marina owner in Ocean County was content with his large regional bank. That is, until his business line of credit matured, and his loan officer wouldn't return calls. After being "stood up" for a scheduled meeting without even receiving an apology, he called the Commercial Lending team at Ocean Federal instead. Shortly after, a new $1.2 million line was all his, along with merchant services to help his business grow faster.

A local doctor's practice in Monmouth County was expanding, with plans to add an office in Ocean County. Yet his commercial mortgage application had been lingering for a month throughout his bank's vast loan department. With time running out to acquire the perfect location, he asked Ocean Federal for help. Our team responded with a verbal commitment in 24 hours, resulting in a mortgage for the new office and refinancing the mortgage on the original location. Now he is looking forward to the opening of our new branch office in Wall Township later this year.

These are true stories with real, happy endings. Yet for those who've become disenchanted with the lending policies of larger, non-community-based banks, they are actually happy beginnings.

The new relationships developed through our loan officers provide solid proof that no one knows Jersey Shore businesses better, or understands their unique challenges quite so well. Which is why the newly expanded Commercial Lending division has seen such impressive growth in its short history, improving in sales and shareholder value each year. In 1998, over $26 million in total loans were originated, representing a 41.8% increase from the prior year. Working closely with our retail branch managers and residential lending officers, our team shared referrals -- and success stories -- with commercial customers in promising markets like commercial real estate, manufacturing, and healthcare.

Also in 1998, we expanded our commercial product menu, including new enhancements to Cash Management services like Account Analysis and Sweep Investment Accounts.

Adding to our core business banking services like deposit accounts, escrow management and employee retirement plans, we will continue to roll out new products in 1999. For example, business customers can look forward to Internet account access in 1999, providing added speed and convenience for their company banking needs.

With an ever present emphasis on quality, loan growth remains a priority. Our focus will be to capitalize on current relationships by providing in-depth local knowledge and prompt, responsive service -- then cross-selling whenever possible over business lines. Additionally, Ocean Federal's growing branch network, including our upcoming Monmouth County offices, will also open more avenues.

Of course, our most important "address" isn't located in any one branch. It is in how we address each customer: With the respect they deserve as successful members of our business community.

And with the friendliness one shares with a good neighbor.

[PHOTO]

Mary Huff, Vice President Commercial Lending, visits a local -- and loyal -- business customer to discuss financing options for the company's expansion.

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

The Value of Commitment

You could call it "investing in our future" with a positive "return on equity" that Ocean Financial Corp. shares in the community.

We prefer to think of it as "giving back" to those who've supported us.

In 1998, our commitment to the community was stronger than ever, especially in support of the service organizations and programs that make our neighborhoods a better place to live. This was perhaps most obvious through the continued activities of The Ocean Federal Foundation, the private nonprofit foundation established and fully expensed in 1996 by Ocean Federal Savings Bank to provide assistance to charitable endeavors in our communities.

Over $1.2 million was awarded by the Foundation last year -- including grants to such deserving efforts as programs to support the arts, education, not-for-profit medical organizations, and housing for the disadvantaged.

[PHOTO]

From funding for the disadvantaged to support for the arts, the Foundation continues to help improve quality of life in our community.

Cerebral Palsy of Monmouth and Ocean, for example, obtained over $100,000 to help build a home for individuals with physical handicaps. Coastal Caregivers and Caregivers of Toms River received over $37,000 in funding for their ongoing efforts to provide services for the elderly. A grant for $73,000 made it possible to establish a local Big Brothers Big Sisters chapter. In addition, cultural programs such as the "Festival of the Atlantic" and Brick Township's Summerfest were able to continue with the assistance of the Foundation. These popular summer concert series on our beaches are enjoyed by thousands of residents and vacationers.

On a related note, as most of America cheered them on to a World Championship, we took special pride in the accomplishments of the 1998 Toms River East Little League team. Although our loan to finance their all-season practice facility may not be the only reason our "home team" enjoyed such success -- it felt good to be one of their earliest fans.

Fans, who like all loyal supporters, are with the team through thick and thin. Just as we've been for our neighbors for nearly 100 years.

[PHOTO]

Crowned World Champion in 1998, the Toms River East Little League team brought pride and more than a few smiles to all of us here in Ocean County.

In 1998, our commitment to the community was stronger than ever, especially in support of the service organizations and programs that make our neighborhoods a better place to live.

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.

<TABLE>
<CAPTION>

At December 31,	1998	1997	1996	1995	1994
(dollars in thousands)					
<S>	<C>	<C>	<C>	<C>	<C>
Selected Financial Condition Data:					

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Total assets	$ 1,561,744	$ 1,510,947	$ 1,303,865	$ 1,036,445	$ 971,651
Investment securities held to maturity	--	--	--	--	127,451
Investment securities available for sale	137,405	207,357	174,028	114,881	--
FHLB-NY stock	16,800	14,980	8,457	7,723	7,323
Mortgage-backed securities held to maturity	--	--	--	--	224,569
Mortgage-backed securities available for sale	381,840	457,148	395,542	265,113	--
Loans receivable, net	941,011	783,695	678,728	612,696	592,315
Mortgage loans held for sale	25,140	--	727	1,894	--
Deposits	1,035,251	976,764	934,730	926,558	867,420
Federal Home Loan Bank borrowings	30,000	20,400	8,800	10,400	--
Securities sold under agreements to repurchase	282,108	288,200	99,322	--	--
Stockholders' equity	197,740	215,544	252,789	92,351	82,334

For the Year Ended December 31,	1998	1997	1996	1995	1994
(dollars in thousands except per share amounts)					
Selected Operating Data:					
Interest income	$ 105,557	$ 98,656	$ 80,236	$ 70,210	$ 63,683
Interest expense	61,399	55,608	43,857	40,004	32,373
Net interest income	44,158	43,048	36,379	30,206	31,310
Provision for loan losses	900	900	700	950	1,129
Net interest income after provision for loan losses	43,258	42,148	35,679	29,256	30,181
Other income	2,411	2,509	2,881	1,356	2,057
Operating expenses	25,457	23,145	39,206	18,006	17,104
Income (loss) before provision for income taxes	20,212	21,512	(646)	12,606	15,134
Provision for income taxes	7,240	7,687	1,083	4,659	5,405
Net income (loss)	$ 12,972	$ 13,825	$ (1,729)	$ 7,947	$ 9,729
Basic earnings (loss) per share	$ .97	$ .90	$ (.39)	N/A	N/A
Diluted earnings (loss) per share	$ .95	$ .88	$ (.39)	N/A	N/A
Net income before non-recurring items (2)	$ 13,525	$ 13,825	$ 11,576	$ 7,947	$ 9,729

</TABLE>
Earnings (loss) per share for 1996 is for the period from July 2, 1996 (date of conversion) to December 31, 1996 Per share amounts for prior periods have been adjusted for the two-for-one stock split effected in the form of a 100% stock dividend paid on May 15, 1998.

Selected Consolidated Financial and Other Data (continued)

<TABLE>
<CAPTION>

At or for the Year Ended December 31,	1998	1997	1996	1995	1994
<S>	<C>	<C>	<C>	<C>	<C>
Selected Financial Ratios and Other Data (1):					
Performance Ratios:					
Return on average assets	0.85%	0.97%	(.15)%	0.80%	1.02%
Return on average assets, as adjusted (2)	0.88	0.97	1.00	0.80	1.02

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Return on average stockholders' equity	6.36	6.00	(1.03)	9.44	12.54
Return on average stockholders' equity, as adjusted (2)	6.63	6.00	6.91	9.44	12.54
Average stockholders' equity to average assets	13.33	16.25	14.42	8.51	8.11
Stockholders' equity to total assets at end of year	12.66	14.27	19.39	8.91	8.47
Average interest rate spread (3)	2.39	2.39	2.61	2.79	3.07
Net interest margin (4)	2.98	3.12	3.22	3.13	3.34
Average interest-earning assets to average					
interest-bearing liabilities	114.35	117.95	115.84	107.98	107.71
Operating expenses to average assets	1.66	1.63	3.37	1.82	1.79
Operating expenses to average assets, as adjusted (2)	1.66	1.63	1.73	1.82	1.79
Operating efficiency ratio (5)	54.67	50.80	99.86	57.05	51.26
Operating efficiency ratio, as adjusted (2)(5)	53.69	50.80	51.11	57.05	51.26
Regulatory Capital Ratios (Bank Only):					
Tangible capital	10.78	11.91	12.69	8.72	8.43
Core capital	10.78	11.91	12.69	8.72	8.43
Risk-based capital	22.77	29.88	32.04	21.34	20.34
Asset Quality Ratios:					
Non-performing loans as a percent of total loans receivable (6)(7)	0.56	0.70	1.12	1.40	1.83
Non-performing assets as a percent of total assets (7)	0.35	0.45	0.71	0.97	1.29
Allowance for loan losses as a percent of total loans receivable (6)	0.76	0.83	0.88	0.97	0.94
Allowance for loan losses as a percent of total non-performing loans (7)	137.54	119.03	78.23	69.21	51.27
Number of full-service customer facilities	11	10	9	8	8

</TABLE>

(1) With the exception of end of year ratios, all ratios are based on average daily balances for 1998, 1997, 1996 and 1995 and average monthly balances for 1994.

(2) Performance ratios are calculated to exclude the effect of non-recurring charges in 1998 relating to the loss on the sale of mortgage-backed securities and in 1996 relating to a charitable donation and the special Savings Association Insurance Fund assessment.

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

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

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

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

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

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

General

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

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

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

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

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

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

The Company conducts business, primarily through its ownership of the Bank which operates its administrative/branch office located in Toms River and ten other branch offices. Ten of the eleven branch offices are located in Ocean County, New Jersey with the eleventh branch in Middlesex County.

The Company has historically operated as a consumer-oriented federal savings bank, with a focus on offering traditional savings deposit and loan products to its local community. In recent years, the Company's strategy has been to maintain profitability while limiting its credit and interest rate risk exposure. To accomplish these objectives, the Company has sought to: (1) control credit risk by emphasizing the origination of single-family, owner-occupied residential mortgage loans and consumer loans, consisting primarily of home equity loans and lines of credit; (2) offer superior service and competitive rates to increase the core deposit base consistent with its capital management goals; (3) invest funds in excess of loan demand in mortgage-backed and investment securities; and (4) control operating expenses.

The Company expects to continue to capitalize on its strengths -- the delivery of traditional thrift products and services (primarily single-family mortgages) with a high level of customer service, thereby maintaining its community orientation. Despite this emphasis, the Company took steps from 1996 to 1998 to modify its historical operating strategy. 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, in the second half of 1996 the Company assembled an experienced team of commercial lending professionals and began offering commercial loan and deposit services and merchant credit card services to businesses in Ocean County and surrounding communities.

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

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

Management is also seeking to increase the Company's market share in its primary market area by expanding the Bank's branch network. During 1996, the Company opened a branch office in Toms River at the site of its new administrative offices. In February 1997, a new branch opened in Lacey Township. In 1998, the Company opened an additional branch office in Toms River during the second quarter. Branches in Wall Township and Spring Lake Heights, both in Southern Monmouth County, are expected to open during the latter part of 1999. The Company is also evaluating additional office sites within its existing market area.

Management is also seeking to diversify its retail product line. During 1998,

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

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 will be expanded to include life insurance. The Company is also planning the introduction of trust and asset management services during 1999.

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

Management of Interest Rate Risk

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

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

In recent years, the Company has utilized the following strategies to manage interest rate risk: (i) emphasizing the origination for portfolio of fixed-rate mortgage loans having terms to maturity of not more than fifteen years, adjustable-rate loans, and consumer loans consisting primarily of home equity loans and lines of credit; (ii) holding primarily short-term and/or adjustable-rate mortgage-backed and investment securities; and (iii) attempting to reduce the overall interest rate sensitivity of liabilities by emphasizing core and longer-term deposits. The Company also periodically sells 30-year fixed-rate mortgage loans into the secondary market. In determining whether to retain 30-year fixed-rate mortgages, management considers the Company's overall interest rate risk position, the volume of such loans, the loan yield and the types and amount of funding sources. During 1997 and 1998 the Company began retaining most of its 30-year fixed rate mortgage loan production in order to improve yields and increase balance sheet leverage. Management felt that the significant capital position of the Company resulting from the Conversion, mitigated the additional interest rate risk associated with retaining these mortgages. Additionally, the Company extended the maturity on part of its wholesale borrowings for up to ten years.

The matching of assets and liabilities may be analyzed by examining the extent to which such assets and liabilities are "interest rate sensitive" and by monitoring an institution's interest rate sensitivity "gap." An asset or liability is said to be interest rate sensitive within a specific time period if it will mature or reprice within that time period. The interest rate sensitivity gap is defined as the difference between the amount of interest-earning assets maturing or repricing within a specific time period and the amount of interest-bearing liabilities maturing or repricing within that time period. A gap is considered positive when the amount of interest rate sensitive assets exceeds the amount of interest rate sensitive liabilities. A gap is considered negative when the amount of interest rate sensitive liabilities exceeds the amount of interest rate sensitive assets. Accordingly, during a period of rising interest rates, an institution with a negative gap position generally would not

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

be in as favorable a position, compared to an institution with a positive gap, to invest in higher yielding assets. This may result in the yield on the institution's assets increasing at a slower rate than the increase in its cost of interest-bearing liabilities. Conversely, during a period of falling interest rates, an institution with a negative gap might experience a repricing of its assets at a slower rate than its interest-bearing liabilities, which, consequently, may result in its net interest income growing at a faster rate than an institution with a positive gap position.

At December 31, 1998 the Company's one year gap was negative 10.6%. In performing this calculation, except as stated below, the amount of assets and liabilities which reprice or mature during a particular period were determined in accordance with the earlier of term to repricing or the contractual maturity of the asset or liability. Loans receivable reflect principal balances expected to be redeployed and/or repriced as a result of contractual amortization and anticipated prepayments of adjustable-rate loans and fixed-rate loans, and as a result of contractual rate adjustments on adjustable-rate loans. Loans on residential properties were projected to repay at rates between 6% and 30% annually. Mortgage-backed securities were projected to prepay at rates between 20% and 30% annually. Passbook accounts, negotiable order of withdrawal ("NOW") and money market accounts were assumed to decay at 3.33% per month. Prepayment and decay rates can have a significant impact on the Company's estimated gap. There can be no assurance that projected prepayment rates for loans and mortgage-backed securities will be achieved or that projected decay rates will be realized.

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

Another method of analyzing an institution's exposure to interest rate risk is by measuring the change in the institution's net portfolio value ("NPV") and net interest income under various interest rate scenarios. NPV is the difference between the net present value of assets, liabilities and off-balance sheet contracts. The NPV ratio, in any interest rate scenario, is defined as the NPV in that scenario divided by the market value of assets in the same scenario. The Company's interest rate sensitivity is monitored by management through the use of an interest rate risk ("IRR") model which measures IRR by modeling the change in NPV and net interest income over a range of interest rate scenarios. The Office of Thrift Supervision ("OTS") also produces an NPV only analysis using its own model, based upon data submitted on the Bank's quarterly Thrift Financial Reports, the results of which 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 table below sets forth the Company's NPV and net interest income as of December 31, 1998 and 1997, as calculated by the Company.

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 measurements below 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.

<TABLE>
<CAPTION>

Change in Interest	December 31, 1998		December 31, 1997	
	Net Portfolio Value	Net Interest Income	Net Portfolio Value	Net Interest Income

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Rates in Basis Points (Rate Shock)	Amount	% Change	NPV Ratio	Amount	% Change	Amount	% Change	NPV Ratio	Amount	% Change
(dollars in thousands)										
400	$ 140,420	(42.6)%	10.0	$ 40,490	(16.1)%	$ 148,630	(40.7)%	10.9	$ 36,892	(22.1)%
300	170,890	(30.1)	11.8	43,131	(10.6)	181,482	(27.6)	12.9	40,423	(14.6)
200	202,431	(17.2)	13.5	45,347	(6.0)	213,613	(14.8)	14.7	44,085	(6.9)
100	225,510	(7.8)	14.7	46,979	(2.7)	234,059	(6.6)	15.8	45,959	(2.9)
Static	244,538	--	15.5	48,260	--	250,697	--	16.5	47,342	--
(100)	256,618	4.9	15.9	49,023	1.6	255,243	1.8	16.5	48,446	2.3
(200)	261,974	7.1	15.9	49,392	2.3	256,799	2.4	16.3	49,072	3.7
(300)	264,595	8.2	15.9	49,336	2.2	258,282	3.0	16.1	50,261	6.2
(400)	264,239	8.1	15.6	48,951	1.4	258,579	3.1	15.8	51,310	8.4

</TABLE>

Analysis of Net Interest Income

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

The following table sets forth certain information relating to the Company at December 31, 1998 and for each of the years ended December 31, 1998, 1997, and 1996. 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.

<TABLE>
<CAPTION>

	At December 31,		Years Ended December 31,					
	1998		1998			1997		
	Balance	Average Yield/ Cost	Average Balance	Interest	Average Yield/ Cost	Average Balance	Interest	Average Yield/ Cost
Assets:								
Interest-earning assets:								
Interest-earning deposits and short-term investments	$ 7,424	2.94%	$ 5,375	$ 295	5.49%	$ 2,852	$ 155	5.43%
Investment securities (1)	137,405	6.50	173,158	11,461	6.62	196,650	13,302	6.76
Loans receivable, net (2)	966,151	7.55	863,172	67,038	7.77	725,866	57,540	7.93
Mortgage-backed securities (3)	381,840	6.32	423,516	25,669	6.06	442,500	26,907	6.08
FHLB stock	16,800	7.00	15,096	1,094	7.25	11,271	752	6.67
Total interest-earning assets	1,509,620	7.11	1,480,317	105,557	7.13	1,379,139	98,656	7.15
Non-interest-earning assets	52,124		49,428			38,829		
Total assets	$1,561,744		$1,529,745			$1,417,968		
Liabilities and Equity:								
Interest-bearing liabilities:								
Money market deposit accounts	$ 77,690	2.59%	$ 71,800	2,026	2.82%	$ 68,972	2,028	2.94%
Savings accounts	172,036	2.03	167,058	3,442	2.06	168,733	3,877	2.30

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

NOW accounts	106,363	1.59	89,679	1,517	1.69	77,785	1,388	1.78
Time deposits	657,008	5.35	663,483	36,819	5.55	637,425	35,667	5.60
Total	1,013,097	4.18	992,020	43,804	4.42	952,915	42,960	4.51
FHLB borrowings	30,000	5.13	19,947	1,061	5.32	7,207	414	5.74
Securities sold under agreements to repurchase	282,108	5.33	282,590	16,534	5.85	209,089	12,234	5.85
Total interest-bearing liabilities	1,325,205	4.45	1,294,557	61,399	4.74	1,169,211	55,608	4.76
Non-interest-bearing liabilities	38,799		31,222			18,395		
Total liabilities	1,364,004		1,325,779			1,187,606		
Stockholders' equity	197,740		203,966			230,362		
Total liabilities and equity	$1,561,744		$1,529,745			$1,417,968		
Net interest income				$44,158			$43,048	
Net interest rate spread (4)		2.66%			2.39%			2.39%
Net interest margin (5)		3.20%			2.98%			3.12%
Ratio of interest-earning assets to interest-bearing liabilities	113.92%		114.35%			117.95%		

</TABLE>

<TABLE>
<CAPTION>

	1996		
	Average Balance	Interest	Average Yield/ Cost
<S>	<C>	<C>	<C>
Assets:			
Interest-earning assets:			
Interest-earning deposits and short-term investments	$ 4,872	$ 251	5.15%
Investment securities (1)	148,378	9,710	6.54
Loans receivable, net (2)	637,453	50,324	7.89
Mortgage-backed securities (3)	331,669	19,413	5.85
FHLB stock	8,323	538	6.46
Total interest-earning assets	1,130,695	80,236	7.10
Non-interest-earning assets	31,810		
Total assets	$1,162,505		
Liabilities and Equity:			
Interest-bearing liabilities:			
Money market deposit accounts	$ 70,209	1,994	2.84%
Savings accounts	175,060	4,069	2.32
NOW accounts	72,265	1,371	1.90
Time deposits	609,620	33,555	5.50
Total	927,154	40,989	4.42
FHLB borrowings 30,000	39,135	2,298	5.87
Securities sold under agreements to repurchase	9,803	570	5.81
Total interest-bearing liabilities	976,092	43,857	4.49

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Non-interest-bearing liabilities	18,778		
Total liabilities	994,870		
Stockholders' equity	167,635		
Total liabilities and equity	$ 1,162,505		
Net interest income		$36,379	
Net interest rate spread (4)			2.61%
Net interest margin (5)			3.22%
Ratio of interest-earning assets to interest-bearing liabilities	115.84%		

</TABLE>

(1) Includes investment securities available for sale.

(2) 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.

(3) Includes mortgage-backed securities available for sale.

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

(5) 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 proportionally to the changes due to volume and the changes due to rate.

<TABLE>
<CAPTION>

	Year Ended December 31, 1998 Compared to Year Ended December 31, 1997			Year Ended December 31, 1997 Compared to Year Ended December 31, 1996		
	Increase (Decrease) Due to			Increase (Decrease) Due to		
	Volume	Rate	Net	Volume	Rate	Net
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Interest-earning assets:						
Interest-earning deposits and short-term investments	$ 138	$ 2	$ 140	$ (109)	$ 13	$ (96)
Investment securities	(1,569)	(272)	(1,841)	3,256	336	3,592
Loans receivable, net	10,681	(1,183)	9,498	6,962	254	7,216
Mortgage-backed securities	(1,150)	(88)	(1,238)	6,705	789	7,494
FHLB stock	272	70	342	196	18	214
Total interest-earning assets	8,372	(1,471)	6,901	17,010	1,410	18,420
Interest-bearing liabilities:						
Money market deposit accounts	82	(84)	(2)	(35)	69	34
Savings accounts	(38)	(397)	(435)	(155)	(37)	(192)
NOW accounts	202	(73)	129	104	(87)	17
Time deposits	1,469	(317)	1,152	1,510	602	2,112

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Total	1,715	(871)	844	1,424	547	1,971
FHLB borrowings	679	(32)	647	(1,834)	(50)	(1,884)
Securities sold under agreements to repurchase	4,300	--	4,300	11,660	4	11,664
Total interest-bearing liabilities	6,694	(903)	5,791	11,250	501	11,751
Net change in net interest income	$ 1,678	$ (568)	$ 1,110	$ 5,760	$ 909	$ 6,669

</TABLE>

Comparison of Financial Condition at December 31, 1998
and December 31, 1997

Total assets at December 31, 1998 were $1.562 billion, an increase of $50.8 million, compared to $1.511 billion at December 31, 1997.

Investment securities available for sale decreased by $70.0 million, to a balance of $137.4 million at December 31, 1998, compared to a balance of $207.4 million at December 31, 1997, and mortgage-backed securities available for sale decreased by $75.3 million, to $381.8 million at December 31, 1998, from $457.1 million at December 31, 1997. The investment and mortgage-backed securities available for sale portfolios decreased in order to fund growth in the Bank's loans receivable. In December 1998, the Bank also sold $51.3 million of adjustable-rate mortgage-backed securities with high prepayment speeds. The sale proceeds funded the purchase of $28.9 million in whole loans. Loans receivable, net, increased by $157.3 million, or 20.1%, to a balance of $941.0 million at December 31, 1998, compared to a balance of $783.7 million at December 31, 1997. The increase was largely attributable to robust residential loan growth (including mortgage refinance activity) in the Bank's market area, as well as commercial lending (including commercial real estate) initiatives which accounted for $20.4 million of this growth. Included in the residential loan growth is $125.7 million of 30-year fixed-rate mortgage loans which the Bank retained in portfolio, while $16.1 million of 30-year fixed-rate mortgage loans were sold. The Company is also holding $25.1 million of mortgage loans held for sale at December 31, 1998, all of which were 30-year fixed rate mortgage loans. The sale was completed in January 1999 at an after-tax gain of $328,000. In the past, the Bank has often sold most of its fixed-rate 30-year loan production into the secondary market. For the loans retained, the Bank acquired funding with terms of three to ten years, mitigating part of the interest rate risk associated with retaining these mortgages.

Total deposits at December 31, 1998 were $1.035 billion, an increase of $58.5 million, compared to $976.8 million at December 31, 1997. On June 29, 1998, the Company completed the purchase of $10.7 million in deposit balances from Summit Bank's Whiting, New Jersey branch, for a deposit premium of $1.0 million. Stockholders' equity at December 31, 1998 was $197.7 million, compared to $215.5 million at December 31, 1997. The Company repurchased 1.1 million shares of common stock during the year ended December 31, 1998 for $18.6 million, fully completing the remainder of a 5% repurchase program announced in October 1997; another 5% repurchase program announced in July 1998; and partially completing an additional 5% repurchase program announced in November 1998. Additionally, during the second quarter of 1998, the Company loaned $8.2 million to the Bank's Employee Stock Ownership Plan ("ESOP" or the "Plan") which enabled the ESOP trustee to purchase 422,500 shares of common stock. Allocations during the initial 12 year ESOP term which expires in year 2008, will not be affected by the purchase of these shares and, therefore, no compensation expense will be recognized by the Company relating to the allocation of these shares to plan participants until at least the year 2009.

Results of Operations

General

Net income decreased to $13.0 million for the year ended December 31, 1998 as compared to net income of $13.8 million for the year ended December 31, 1997. Diluted earnings per share, however, increased 8.0%, to $.95 for the year ended December 31, 1998, as compared to $.88 for the year ended December 31, 1997.

The increase in earnings per share is the result of the Company's repurchase program and the additional ESOP purchases, both of which reduced the number of shares outstanding for purposes of calculating earnings per share.

Interest Income

Interest income for the year ended December 31, 1998 was $105.6 million, compared to $98.7 million for the year ended December 31, 1997, an increase of $6.9 million or 7.0%. The increase in interest income was the result of an

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

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

Interest Expense

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

Provision for Loan Losses

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

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

Other Income

Other income decreased to $2.4 million for the year ended December 31, 1998, compared to $2.5 million for the same prior year period. The decrease was due to the recognition of a $850,000 loss on the sale of mortgage-backed securities. Excluding the loss, other income increased $752,000, or 30.0% for the year ended December 31, 1998, as compared to the prior year. The increase was primarily due to gains recognized on the sale of 30-year fixed-rate mortgage loans, which the Company periodically sells as part of the management of interest rate risk. These gains amounted to $228,000 for the year ended December 31, 1998. Additionally, deposit related fees (part of fees and service charges) increased by $476,000 for the year ended December 31, 1998, as compared to the same prior year period, due to growth in commercial account services and retail core account balances. The Company also realized $104,000 in fee income during 1998 from the sale of alternative investment products, a service the Company introduced late in this year's second quarter. The growth in these fees was partly offset by reductions in loan servicing fees due to prepayments of the loans underlying the servicing portfolio. Total servicing fee income declined by $424,000 for the year ended December 31, 1998, as compared to the prior year.

Operating Expenses

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

Provision for Income Taxes

Income tax expense was $7.2 million for the year ended December 31, 1998, compared to $7.7 million for the year ended December 31, 1997. The effective tax

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

rate was relatively stable at 35.8% for the year ended December 31, 1998, as compared to 35.7% for the same prior year period.

Comparison of operating results for the years ended December 31, 1997 and December 31, 1996

General

Net income increased to $13.8 million for the year ended December 31, 1997, as compared to a net loss of $1.7 million for the year ended December 31, 1996. Prior year amounts were adversely affected by a charge of $5.7 million ($3.7 million after tax) representing the Bank's share of a special assessment to recapitalize the Savings Association Insurance Fund ("SAIF") of the FDIC. Additionally, concurrent with the close of the Company's stock offering on July 2, 1996, the Company funded The Ocean Federal Foundation with a one-time donation of 1,342,092 shares of common stock, resulting in a charge of $13.4 million ($9.7 million after tax).

Interest Income

Interest income for the year ended December 31, 1997 was $98.6 million, compared to $80.2 million for the year ended December 31, 1996, an increase of $18.4 million, or 23.0%. The increase in interest income was the result of increases in the average size of the investment and mortgage-backed securities available for sale portfolios, due to the investment, in 1997, of funds received from wholesale borrowings. Also, the average balance of loans receivable increased $88.4 million for the year ended December 31, 1997, as compared to the same prior year period. The increase in interest income was further augmented by an increase in the yield on average interest earning assets, which improved to 7.15% on average in 1997, from 7.10% on average in 1996.

Interest Expense

Interest expense for the year ended December 31, 1997 was $55.6 million, compared to $43.9 million for the year ended December 31, 1996, an increase of $11.7 million or 26.8%. The

increase in interest expense was primarily the result of an increase in the average outstanding balance of total borrowings, as previously discussed, and a smaller average increase in deposits. The average cost of interest-bearing liabilities also increased to 4.76% for the year ended December 31, 1997, as compared to 4.49% for the same prior year period due to a greater percentage increase in higher cost wholesale funding over retail deposit funding.

Provision for Loan Losses

For the year ended December 31, 1997, the Company's provision for loan losses was $900,000, compared to $700,000 for the same prior year period. The increase was due to overall loan growth and the introduction of commercial business loans which generally carry greater credit risk than the 1-4 family mortgage loans which have been the Bank's historical focus.

Other Income

Other income was $2.5 million for the year ended December 31, 1997, compared to $2.9 million for the same prior year period. Income from the net gain (loss) on sales of loans and securities decreased $410,000 for the year ended December 31, 1997, compared to the same prior year period. The decrease was due to the recognition of a loss of $142,000 in 1997 on the sale of a mortgage-backed security. Additionally, the Company sold $2.7 million of 30-year fixed rate mortgage loans in 1997, a decrease of $21.5 million as compared to $24.2 million sold in 1996. Management determined that the significant capital position of the Company mitigated the additional interest rate risk associated with retaining these mortgages.

Operating Expenses

Operating expenses were $23.1 million and $39.2 million for the year ended December 31, 1997, a decrease of $16.1 million compared to the same prior year period. The charitable donation to The Ocean Federal Foundation in the third quarter of 1996 accounted for $13.4 million of the decrease. Additionally, federal deposit insurance expense declined by $7.3 million for the year ended December 31, 1997, compared to the same prior year period due to the special SAIF assessment of $5.7 million recorded in the third quarter of 1996. As a result of the special assessment insurance premiums on SAIF-insured deposits declined to 6.5 basis points per $100 of deposits effective January 1, 1997, as compared to 23 basis points in 1996.

The increase in compensation and employee benefits expense of $3.7 million for the year ended December 31, 1997, as compared to the same prior year period, was due to the expense associated with the amortization, beginning in February 1997,

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

of incentive stock awards and the higher expense associated with the Bank's Employee Stock Ownership Plan as a result of the increase in the Company's stock price over its initial $10 per share cost. The ESOP expense was partly offset by eliminating matching contributions under the Bank's 401K Plan.

Equipment expense increased by $426,000 for the year ended December 31, 1997, compared to the same prior year period due to the establishment of two new branch offices and the upgrade of computer equipment. General and administrative expenses increased by $386,000 for the year ended December 31, 1997, compared to the same prior year period due to expenses associated with operating as a publicly-owned holding company.

Provision for Income Taxes

Income tax expense was $7.7 million for the year ended December 31, 1997, compared to $1.1 million for the year ended December 31, 1996 due to the significant increase in income before income taxes.

Liquidity and Capital Resources

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

At December 31, 1998, the Company had $30.0 million of outstanding overnight borrowings from the FHLB, representing an increase from $20.4 million at December 31, 1997. The Company utilizes the overnight line from time to time to fund short-term liquidity needs. The Company also borrowed $282.1 million at December 31, 1998 through securities sold under agreements to repurchase, a decrease from $288.2 million at December 31, 1997. These borrowings were used to fund a wholesale leverage strategy designed to improve returns on invested capital.

The Company's cash needs for the year ended December 31, 1998, were principally provided by maturities of investment securities available for sale, principal payments on loans and mortgage-backed securities, proceeds from the sale of mortgage-backed securities, and increased deposits, including a deposit acquisition. The cash provided was principally used for investing activities, which included the purchase of investment and mortgage-backed securities, the origination of loans and the purchase of treasury stock. For the year ended December 31, 1997, the cash needs of the Company were primarily satisfied by principal payments on loans and mortgage-backed securities, securities sold under agreements to repurchase and increased deposits. The cash provided was principally utilized for loan originations, purchases of investment and mortgage-backed securities and the purchase of treasury stock.

Federal regulations require the Bank to maintain minimum levels of liquid assets. The required percentage has varied from time to time based upon economic conditions and savings flows and is currently 4% of net withdrawable savings deposits and borrowings payable on demand or in one year or less during the preceding calendar month. Liquid assets for purposes of this ratio include cash, accrued interest receivable, certain time deposits, U.S. Treasury and Government agencies and other securities and obligations generally having remaining maturities of less than five years. The levels of these assets are dependent on the Bank's operating, financing, lending and investing activities during any given period. As of December 31, 1998 and 1997, the Bank's liquidity ratios were 12.5% and 9.8%, respectively, both in excess of the minimum regulatory requirement.

At December 31, 1998, the Bank exceeded all of its regulatory capital requirements with tangible capital of $167.9 million, or 10.8%, of total adjusted assets, which is above the required level of $23.4 million or 1.5%; core capital of $167.9 million or 10.8% of total adjusted assets, which is above the required level of $46.8 million, or 3.0%; and risk-based capital of $175.1 million, or 22.8% of risk-weighted assets, which is above the required level of $61.5 million or 8.0%. The Bank is considered a "well capitalized" institution under the Office of Thrift Supervision's prompt corrective action regulations.

Impact of Year 2000

The Company has developed a formal project plan to prepare its systems, hardware and facilities for the Year 2000. The project plan has been in place since 1997 and was developed following guidelines set forth by the Federal Financial Institutions Examination Council. These guidelines mandate that the Year 2000 project address five specific phases: awareness, assessment, renovation, validation (testing), and implementation. During the first quarter of 1998, the Bank completed the awareness and assessment phases by identifying all potentially impacted systems and vendors. During the fourth quarter of

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

1998, vendors were carefully monitored to ensure that Year 2000 compliant software and hardware was delivered on schedule to meet testing time frames. As a result, the renovation phase was substantially complete at December 31, 1998.

In September 1998 BISYS, the Bank's data processing agent and the primary provider of mission critical services, delivered remediated software and provided a testing facility for Year 2000 validation purposes. In conjunction with BISYS, scheduled testing commenced in November 1998 and is expected to continue through March of 1999. During that time, all mission critical systems and functions that BISYS provides will be tested by Company personnel to ensure compliance. A formal reporting structure between BISYS and the Company has been designed to ensure the timely correction of any issues found during testing. In the event that the validation process proves existing services to be non-compliant, a contingency agreement with BISYS allows the Company the option to convert to a fully compliant system by the end of 1999. All other primary service providers have completed the Year 2000 reprogramming. Testing with these vendors is underway and is also expected to be completed by March 1999.

The Company has completed inventories of all mission critical functions, funds takers and funds providers, and is making every effort to ensure compliance in each of these areas. In the case of failure caused by a Year 2000 problem, the Bank has documented contingency plans that will be initiated to resolve mission critical issues.

The Company has established a formal process for measuring potential credit risk associated with the Year 2000. Major customers in the Residential and Commercial Loan portfolios have been assessed to determine an appropriate risk rating and the Company is monitoring the progress of these borrowers towards Year 2000 compliance on an ongoing basis.

Expenses related to the Bank's Year 2000 effort in 1998 totaled $327,000. This expense consists of $102,000 in costs associated with the renovation of software, hardware purchases and consulting charges and $225,000 representing an estimate of the direct cost for compensation and fringe benefits of internal employees working on the Year 2000 project. The Bank expects to spend an additional $400,000 to $600,000 in 1999. This figure represents costs associated with initiating customer awareness programs, testing, implementation and consulting expenses and includes $125,000 to $175,000 for the direct cost of internal employees. Estimated expenses and completion dates associated with this project are based upon all known facts and available resources. The Company expects that the represented estimates will not change materially, but there can be no guarantee that the estimates will be achieved. Factors that may influence changes in estimates include, but are not limited to, expenses associated with obtaining qualified personnel, ability to correctly identify and renovate all functions related to the Year 2000 and other similar items.

The Company believes that it is taking all reasonable steps to prepare for the Year 2000, especially in the case of mission critical functions. However, management cannot make representations that all systems and especially those of significant third parties will be Year 2000 compliant or that they will not be adversely affected by Year 2000 issues.

Impact of Inflation and Changing Prices

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

Impact of New Accounting Pronouncements

In June 1997, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 131, Disclosures about Segments of an Enterprise and Related Information (SFAS 131). SFAS 131 establishes standards for the way public business enterprises are to report information about operating segments in annual financial statements and requires those enterprises to report selected financial information about operating segments in interim financial reports to shareholders. SFAS 131 is effective for financial statements for periods beginning after December 15, 1997. Based upon the current operations of the Company and established reporting mechanisms, the Company does not have separate reportable operating segments and, therefore, the adoption of SFAS 131 did not have an impact on the company's financial disclosures.

In June 1998, the FASB issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." This statement establishes accounting and

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

reporting standards for derivative instruments, and for hedging activities. SFAS No. 133 supersedes the disclosure requirements in SFAS No. 80, 105 and 119. This statement is effective for fiscal years beginning after June 15, 1999. The adoption of SFAS No. 133 is not expected to have a material impact on the financial position or results of operations of the Company.

In October 1998, the FASB issued SFAS No. 134 "Accounting for Mortgage-Backed Securities Retained after the Securitization of Mortgage Loans Held for Sale by a Mortgage Banking Enterprise." This Statement amends FASB Statement 65 "Accounting for Certain Mortgage Banking Activities" to require that after the securitization of mortgage loans held for sale, an entity engaged in mortgage banking activities classify the resulting mortgage-backed securities or other retained interests based on its ability and intent to sell or hold those investments. This Statement is effective for the first fiscal quarter beginning after December 15, 1998. The adoption of this Statement is not expected to have a material impact on the financial position or results of operations of the Company.

Private Securities Litigation Reform Act
Safe Harbor Statement

In addition to historical information, this annual report may include certain forward looking statements based on current management expectations. The Company's actual results could differ materially from those management expectations. Factors that could cause future results to vary from current management expectations include, but are not limited to, general economic conditions, legislative and regulatory changes, monetary and fiscal policies of the federal government, changes in tax policies, rates and regulations of federal and state tax authorities, changes in interest rates, deposit flows, the cost of funds, demand for loan products, demand for financial services, competition, changes in the quality or composition of the Bank's loan and investment portfolios, changes in accounting principles, policies or guidelines, and other economic, competitive, governmental and technological factors affecting the Company's operations, markets, products, services and prices. Further description of the risks and uncertainties to the business are included in Item 1, BUSINESS of the Company's 1998 Form 10-K.

Consolidated Statements of Financial Conditions

<TABLE>
<CAPTION>

December 31, 1998 and 1997	1998	1997
(dollars in thousands, except per share amounts)		
Assets		
Cash and due from banks	$ 10,295	$ 2,225
Investment securities available for sale (notes 4, 11 and 15)	137,405	207,357
Federal Home Loan Bank of New York stock, at cost (note 15)	16,800	14,980
Mortgage-backed securities available for sale (notes 5, 11 and 15)	381,840	457,148
Loans receivable, net (notes 6 and 15)	941,011	783,695
Mortgage loans held for sale	25,140	--
Interest and dividends receivable (note 7)	9,820	11,064
Real estate owned, net (note 9)	43	1,198
Premises and equipment, net (note 8)	13,947	14,279
Other assets (note 12)	25,443	19,001
Total assets	$ 1,561,744	$ 1,510,947
Liabilities and Stockholders' Equity		
Deposits (note 10)	$ 1,035,251	$ 976,764
Federal Home Loan Bank borrowings (note 15)	30,000	20,400
Securities sold under agreements to repurchase (note 11)	282,108	288,200
Advances by borrowers for taxes and insurance	5,096	4,773

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Other liabilities (notes 12 and 13)	11,549	5,266
Total liabilities	1,364,004	1,295,403
Stockholders' Equity (notes 2, 3, 12, 13 and 14):		
Preferred stock, $.01 par value, 5,000,000 shares authorized, no shares issued	--	--
Common stock, $.01 par value, 55,000,000 shares authorized, 18,118,248 shares issued and 14,629,776 and 15,705,720 shares outstanding at December 31, 1998 and 1997, respectively	181	181
Additional paid-in capital	178,309	177,223
Retained earnings-substantially restricted	103,982	97,487
Accumulated other comprehensive (loss) income	(1,226)	989
Less: Unallocated common stock held by		
Employee Stock Ownership Plan	(17,376)	(10,903)
Unearned Incentive Awards	(5,963)	(7,897)
Treasury stock, 3,488,472 and 2,412,528 shares at December 31, 1998 and 1997, respectively	(60,167)	(41,536)
Total stockholders' equity	197,740	215,544
Commitments and contingencies (note 15)		
Total liabilities and stockholders' equity	$ 1,561,744	$ 1,510,947

</TABLE>

See accompanying notes to consolidated financial statements.

Consolidated Statements of Income
and Comprehensive Income

<TABLE>
<CAPTION>

Years Ended December 31,1998, 1997 and 1996	1998	1997	1996
(in thousands, except per share amounts)			
<S>	<C>	<C>	<C>
Interest income:			
Loans	$ 67,038	$ 57,540	$ 50,324
Mortgage-backed securities	25,669	26,907	19,413
Investment securities and other	12,850	14,209	10,499
Total interest income	105,557	98,656	80,236
Interest expense:			
Deposits (note 10)	43,804	42,960	40,989
Borrowed funds	17,595	12,648	2,868
Total interest expense	61,399	55,608	43,857
Net interest income	44,158	43,048	36,379
Provision for loan losses (note 6)	900	900	700
Net interest income after provision for loan losses	43,258	42,148	35,679
Other income:			
Fees and service charges	2,087	1,905	1,819
Net (loss) gain on sales of loans and securities available for sale (note 5)	(622)	(132)	278
Net income from other real estate operations	209	223	355
Other	737	513	429

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Total other income	2,411	2,509	2,881
Operating expenses:			
Compensation and employee benefits (notes 13 and 14)	14,604	13,969	10,296
Occupancy (note 15)	1,936	1,919	1,882
Equipment	1,362	1,288	862
Marketing	1,427	750	818
Federal deposit insurance (note 18)	865	719	8,051
Data processing	1,278	1,243	941
General and administrative	3,985	3,257	2,937
Charitable donation (notes 2 and 12)	--	--	13,419
Total operating expenses	25,457	23,145	39,206
Income (loss) before provision for income taxes	20,212	21,512	(646)
Provision for income taxes (note 12)	7,240	7,687	1,083
Net income (loss)	12,972	13,825	(1,729)
Other Comprehensive Income:			
Unrealized (loss) gain on securities available for sale arising during period	(4,370)	1,952	(3,762)
Reclassification adjustment for losses included in net income	850	142	--
Unrealized (loss) gain on securities available for sale	(3,520)	2,094	(3,762)
Income tax (benefit) expense	(1,305)	770	(1,357)
Other comprehensive (loss) income	(2,215)	1,324	(2,405)
Comprehensive income (loss)	$ 10,757	$ 15,149	$ (4,134)
Basic earnings (loss) per share	$ .97	$ .90	$ (.39)
Diluted earnings (loss) per share	$ .95	$ .88	$ (.39)
Average basic shares outstanding (note 1)	13,335	15,344	16,860
Average diluted shares outstanding (note 1)	13,677	15,638	16,860

</TABLE>

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

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Stockholders' Equity

<TABLE>
<CAPTION>

For The Years Ended 31, 1998, 1997 and 1996	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Employee Stock Ownership Plan	Unearned Incentive Awards	Treasury Stock	Total
(dollars in thousands, except per share amounts)								
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Balance at December 31, 1995	$ --	$ --	$ 90,281	$ 2,070	$ --	$ --	$ --	$ 92,351
Sale of 16,776,156 shares of common stock in conversion	168	163,216	(84)	--	--	--	--	163,300
Donation of 1,342,092 shares of common stock to the Ocean Federal Foundation at par value	13	13,414	(6)	--	--	--	--	13,421
Acquisition of 1,342,092 shares of stock by ESOP	--	--	--	--	(13,421)	--	--	(13,421)

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Allocation of ESOP stock	--	--	--	--	1,090	--	--	1,090
ESOP adjustment	--	182	--	--	--	--	--	182
Net loss	--	--	(1,729)	--	--	--	--	(1,729)
Other comprehensive income net of tax, unrealized loss on securities available for sale	--	--	--	(2,405)	--	--	--	(2,405)
Balance at December 31, 1996	181	176,812	88,462	(335)	(12,331)	--	--	252,789
Acquisition of 671,046 shares of common stock for Incentive Awards	--	(506)	--	--	--	(9,670)	--	(10,176)
Earned Incentive Awards	--	--	--	--	--	1,773	--	1,773
Purchase 2,412,528 shares of common stock	--	--	--	--	--	--	(41,536)	(41,536)
Allocation of ESOP stock	--	--	--	--	1,428	--	--	1,428
ESOP adjustment	--	917	--	--	--	--		917
Cash dividend - $.30 per share	--	--	(4,800)	--	--	--	--	(4,800)
Net income	--	--	13,825	--	--	--	--	13,825
Other comprehensive income net of tax, unrealized gain on securities available for sale	--	--	--	1,324	--	--	--	1,324
Balance at December 31, 1997	181	177,223	97,487	989	(10,903)	(7,897)	(41,536)	215,544
Earned Incentive Awards -	--	--	--	--			1,934	1,934
Tax benefit of stock plans	--	463	--	--	--	--	--	463
Purchase 1,078,292 shares of common stock	--	--	--	--	--	--	(18,672)	(18,672)
Allocation of ESOP stock	--	--	--	--	1,727	--	--	1,727
ESOP adjustment	--	623	--	--	--	--		623
Cash dividend - $.46 per share	--	--	(6,470)	--	--	--	--	(6,470)
Acquisition of 422,500 shares of common stock by ESOP	--	--	--	--	(8,200)	--	--	(8,200)
Exercise of stock options - 2,348 shares	--	--	(7)	--	--	--	41	34
Net income	--	--	12,972	--	--	--	--	12,972
Other comprehensive income net of tax, unrealized loss on securities available for sale	--	--	--	(2,215)	--	--	--	(2,215)
Balance at December 31, 1998	$ 181	$178,309	$103,982	$ (1,226)	$(17,376)	$ (5,963)	$(60,167)	$ 197,740

</TABLE>

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

<TABLE>
<CAPTION>

Years Ended December 31, 1998, 1997 and 1996	1998	1997	1996
(dollars in thousands)			
<S>	<C>	<C>	<C>
Cash flows from operating activities:			
Net income (loss)	$ 12,972	$ 13,825	$ (1,729)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Donation of 1,342,092 shares of common stock to the Ocean Federal Foundation	--	--	13,419

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Depreciation and amortization of premises and equipment	1,472	1,354	760
Amortization of Incentive Awards	1,934	1,773	--
Amortization of ESOP	1,727	1,428	1,090
ESOP adjustment	623	917	182
Tax benefit of stock plans	463	--	--
Amortization of servicing asset	572	197	204
Amortization of deposit premium	52	--	--
Net premium amortization in excess of discount accretion on securities	3,190	3,498	1,761
Net accretion of deferred fees and discounts in excess of premium amortization on loans	(533)	(382)	(487)
Provision for loan losses	900	900	700
Deferred taxes	1,749	529	(3,263)
Net gain on sales of real estate owned	(173)	(457)	(507)
Net loss (gain) on sales of loans and securities available for sale	622	132	(278)
Proceeds from sales of mortgage loans held for sale	16,301	2,705	24,173
Mortgage loans originated for sale	(41,604)	(2,008)	(23,453)
Decrease (increase) in interest and dividends receivable	1,244	(1,307)	(2,277)
Increase in other assets	(6,092)	(4,865)	(830)
Increase in other liabilities	6,283	874	577
Total adjustments	(11,270)	5,288	11,771
Net cash provided by operating activities	1,702	19,113	10,042
Cash flows from investing activities:			
Net increase in loans receivable	(129,468)	(107,948)	(68,429)
Loans purchased	(29,207)	--	--
Proceeds from sales of mortgage-backed securities available for sale	47,974	19,006	--
Purchase of investment securities available for sale	(128,751)	(51,154)	(105,006)
Purchase of mortgage-backed securities available for sale	(181,095)	(248,917)	(251,004)
Proceeds from maturities of investment securities available for sale	195,216	20,300	43,858
Principal payments on mortgage-backed securities available for sale	204,359	164,291	117,048
Purchases of Federal Home Loan Bank of New York stock	(1,820)	(6,523)	(734)
Proceeds from sales of real estate owned	2,320	3,277	2,503
Purchases of premises and equipment	(1,140)	(1,533)	(7,219)
Net cash used in investing activities	(21,612)	(209,201)	(268,983)
Cash flows from financing activities:			
Acquisition of deposits	10,732	--	--
Deposit premium	(1,030)	--	--
Increase in deposits	47,755	42,034	8,172
Increase (decrease) in Federal Home Loan Bank borrowings	9,600	11,600	(1,600)
(Decrease) increase in securities sold under agreements to repurchase	(6,092)	188,878	99,322
Increase in advances by borrowers for taxes and insurance	323	941	511
Net proceeds of common stock issuance	--	--	149,886
Purchase of Incentive Award shares	--	(10,176)	--

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Exercise of stock options	34	--	--
Dividends paid	(6,470)	(4,800)	--
Purchase of ESOP shares	(8,200)	--	--
Purchase of treasury stock	(18,672)	(41,536)	--
Net cash provided by financing activities	27,980	186,941	256,291
Net increase (decrease) in cash and due from banks	8,070	(3,147)	(2,650)
Cash and due from banks at beginning of year	2,225	5,372	8,022
Cash and due from banks at end of year	$ 10,295	$ 2,225	$ 5,372
Supplemental Disclosure of Cash Flow Information:			
Cash paid during the year for:			
Interest	$ 60,658	$ 54,863	$ 43,624
Income taxes	30	7,246	4,231
Non cash investing activities:			
Transfer of loans receivable to real estate owned	992	2,463	2,184
Mortgage loans securitized into mortgage-backed securities	$ 16,082	$ 2,025	$ 23,392

</TABLE>

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

December 31, 1998 and 1997

(1) Summary of Significant Accounting Policies

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

Principles of Consolidation
The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Ocean Federal Savings Bank, and its wholly-owned subsidiaries, Ocean Federal Realty, Inc. and Ocean Investment Services Corp. All significant intercompany accounts and transactions have been eliminated in consolidation.

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

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

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

Material estimates that are particularly susceptible to significant change in

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

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

Cash Equivalents

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

Investment and Mortgage-Backed Securities

Investment and mortgage-backed securities identified as held to maturity are carried at cost, adjusted for amortization of premiums and accretion of discounts, which are recognized as adjustments to interest income using a method which approximates a level yield over the estimated average life of the security and adjusted, in the case of mortgage-backed securities, for actual prepayments. Management determines the appropriate classification of securities at the time of purchase. If management has the intent and the Company has the ability at the time of purchase to hold securities until maturity, they are classified as held to maturity.

Debt securities 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. Gains or losses on the sale of such securities are included in other income using the specific identification method.

Loans Receivable

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

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

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

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

Mortgage Loans Held for Sale

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

Allowance for Loan Losses

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

Management believes that the allowance for losses on loans is adequate. While management uses available information to recognize losses on loans, future additions to the allowance may be necessary based on changes in economic

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

conditions in the Company's market area. In addition, various regulatory agencies, as an integral part of their routine examination process, periodically review the Bank's allowance for losses on loans. Such agencies may require the Bank to recognize additions to the allowances based on their judgments about information available to them at the time of their examination.

Real Estate Owned

Real estate owned is carried at the lower of cost or fair value, less estimated costs to sell. When a property is acquired, the excess of the loan balance over fair value is charged to the allowance for loan losses. A reserve for real estate owned has been established to provide for subsequent declines in the fair values of properties. Real estate owned is carried net of the related reserve. Operating results from real estate owned, including rental income, operating expenses, and gains and losses realized from the sales of real estate owned are recorded as incurred.

Premises and Equipment

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

Income Taxes

The Company utilizes the asset and liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

Pension Plan

Pension plan costs for 1997 and 1996 are charged to expense based on the actuarial computation of current and future benefits for employees. The Plan was terminated on July 22, 1998 and all vested benefits were paid to participants.

Stock Based Compensation

The Company accounts for stock based compensation using the intrinsic value method under Accounting Principles Board No. 25 and accordingly has recognized no compensation expense under this method. The fair value pro forma disclosures required by Statement of Financial Accounting Standards No. 123 are included in note 14 -- Incentive Plan.

Comprehensive Income

Effective January 1, 1998, the Company adopted Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income" (SFAS 130) which establishes standards for reporting and display of comprehensive income and its components in a full set of general purpose financial statements. Under SFAS 130, comprehensive income is divided into net income and other comprehensive income. Other comprehensive income includes items previously recorded directly in equity, such as unrealized gains or losses on securities available for sale. Comparative financial statements provided for earlier periods have been reclassified to conform with the provisions of this Statement.

Stock Dividend

Shares and related share amounts for prior periods have been adjusted for the 2-for-1 stock split effected in the form of a 100% stock dividend paid on May 15, 1998.

Contributions

Contributions made are recognized as expenses in the period made and as decreases of assets or increases of liabilities depending on the form of the benefits given. Contributions made are measured at the fair values of the asset given or, if made in the form of a settlement or cancellation of a donee's liabilities, at the fair value of the liabilities canceled.

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Earnings (Loss) Per Share
Basic earnings (loss) per share is computed by dividing net income (loss) by the weighted average number of shares of common stock outstanding. Diluted earnings (loss) per share is calculated by dividing net income (loss) 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). Loss per share for 1996 was computed on net loss and average shares outstanding for the period from July 2, 1996 (conversion date) through December 31, 1996.

The following reconciles shares outstanding for basic and diluted earnings per share for the years ended December 31, 1998 and 1997 and for the period from July 2, 1996 to December 31, 1996 (in thousands):

Year Ended December 31,	1998	1997	For the period from July 2, 1996 to December 31, 1996
Weighted average shares net of Treasury shares	15,174	17,112	18,118
Less: Unallocated ESOP shares	(1,281)	(1,160)	(1,258)
Unallocated incentive award shares	(558)	(608)	--
Average basic shares outstanding	13,335	15,344	16,860
Add: Effect of dilutive securities:			
Stock options	171	144	--
Incentive awards	171	150	--
Average diluted shares outstanding	13,677	15,638	16,860

(2) Stock Form of Ownership

On August 17, 1995, the Board of Directors of the Bank adopted a Plan of Conversion to convert from a federally chartered mutual savings bank to a federally chartered stock savings bank with the concurrent formation of a holding company. As part of the conversion, the Company was incorporated under Delaware law on November 21, 1995. The Company completed its initial public offering on July 2, 1996 with the issuance of 16,776,156 shares of common stock to the Bank's eligible depositors and the Bank's Employee Stock Ownership Plan (the "ESOP"), resulting in proceeds of $163.3 million (net of $4.5 million in costs). The Company retained $81.6 million of the net proceeds and used the remaining net proceeds to purchase all of the outstanding stock of the Bank.

Concurrent with the close of the conversion, an additional 1,342,092 shares of common stock (8% of the offering) were issued and donated by the Company to The Ocean Federal Foundation (the "Foundation"), a private foundation dedicated to charitable purposes within Ocean County, New Jersey and its neighboring communities. The fair market value of the contribution of $13.4 million was reflected as a current expense and as an increase to capital stock and paid in capital for the same amount. The Company also recorded a related tax benefit of $3.7 million with a corresponding increase to the Company's deferred tax assets.

At the time of the conversion, 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, 1998 was approximately $22.9 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.

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.

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

(3) Regulatory Matters

Office of Thrift Supervision (OTS) regulations require savings institutions to maintain minimum levels of regulatory capital. Under the regulations in effect at December 31, 1998, 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, 1998 and 1997 the Bank was considered well-capitalized.

The following is a summary of the Bank's actual capital amounts and ratios as of December 31, 1998 and 1997, 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, 1998:						
Tangible capital	$167,881	10.8%	$ 23,371	1.5%	$ --	-%
Core capital	167,881	10.8	46,742	3.0	77,903	5.0
Tier 1 risk-based capital	167,881	21.8	30,757	4.0	46,135	6.0
Risk-based capital	175,113	22.8	61,514	8.0	76,892	10.0
As of December 31, 1997:						
Tangible capital	$178,592	11.9%	$ 22,491	1.5%	$ --	-%
Core capital	178,592	11.9	44,982	3.0	74,969	5.0
Tier 1 risk-based capital	178,592	28.8	24,763	4.0	37,144	6.0
Risk-based capital	184,970	29.9	49,525	8.0	61,906	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. Based on these limitations, approximately $107,054,000 of the Bank's capital is unavailable for distribution to the Company.

(4) Investment Securities Available for Sale

The amortized cost and estimated market value of investment securities available for sale at December 31, 1998 and December 31, 1997 are as follows (in thousands):

December 31, 1998

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
United States Government and agency obligations	$ 59,983	$ 404	$ -	$ 60,387
State and municipal obligations	1,946	7	(18)	1,935

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Corporates	74,976	-	(2,727)	72,249
Equity investments	3,226	-	(392)	2,834
	$140,131	$ 411	$ (3,137)	$137,405

December 31, 1997

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
United States Government and agency obligations	$204,992	$948	$(292)	$ 205,648
State and municipal obligations	393	7	-	400
Equity investments	1,170	139	-	1,309
	$ 206,555	$1,094	$(292)	$ 207,357

The amortized cost and estimated market value of investment securities available for sale, excluding equity investments, at December 31, 1998 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, 1998, investment securities available for sale with an amortized cost and estimated market value of $136,706,000 and $134,365,000, respectively, were callable prior to the maturity date.

December 31, 1998

	Amortized Cost	Estimated Market Value
Due after one year through five years	$ 35,182	$ 35,456
Due after five years through ten years	26,747	26,866
Due after 10 years	74,976	72,249
	$136,905	$134,571

(5) Mortgage-Backed Securities Available for Sale

The amortized cost and estimated market value of mortgage-backed securities available for sale at December 31, 1998 and December 31, 1997 are as follows (in thousands):

December 31, 1998

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

December 31, 1997

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
FHLMC	$ 245,414	$ 1,549	$(1,404)	$ 245,559
FNMA	109,873	719	(601)	109,991
GNMA	97,714	465	(7)	98,172
Collaterized mortgage obligations	3,378	48	-	3,426
	$ 456,379	$ 2,781	$(2,012)	$ 457,148

Gross losses on the sale of mortgage-backed securities available for sale of $850,000 and $142,000 were realized in 1998 and 1997, respectively.

Collateralized mortgage obligations issued by FHLMC, FNMA and private interests amounted to $15,705,000, $9,699,000 and $111,763,000, respectively, at December 31, 1998 and $2,274,000, $519,000 and $633,000, respectively, at December 31, 1997. 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 credit worthiness 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 adequete to protect the Company from losses and has, therefore, not provided an allowance for losses on it's privately-issued CMOs.

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

(6) Loans Receivable, Net

A summary of loans receivable at December 31, 1998 and 1997 follows (in thousands):

December 31,	1998	1997
Real estate mortgage:		
One to four-family	$ 844,129	$ 710,880
Commercial real estate, multi-family and land	42,008	25,699
FHA insured & VA guaranteed	500	668
	886,637	737,247
Real estate construction	6,108	8,748
Consumer	51,785	45,417
Commercial	6,483	2,904
Total loans	951,013	794,316
Loans in process	(1,996)	(2,867)
Deferred fees	(608)	(1,133)
Unearned premium (discount)	62	(9)
Allowance for loan losses	(7,460)	(6,612)
	(10,002)	(10,621)
	$ 941,011	$ 783,695

At December 31, 1998, 1997 and 1996, loans in the amount of $5,424,000, $5,554,000 and $7,697,000, respectively, were three or more months delinquent or in the process of foreclosure and the Company was not accruing interest income. If these loans had continued to realize interest in accordance with their

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

contractual terms, approximately $270,000, $278,000 and $345,000 of additional interest income would have been recognized for the years ended December 31, 1998, 1997 and 1996, respectively. The Company was not committed to lend additional funds on any nonaccrual loans at December 31, 1998.

An analysis of the allowance for loan losses for the years ended December 31, 1998, 1997 and 1996 is as follows (in thousands):

Year Ended December 31,	1998	1997	1996
Balance at beginning of year	$ 6,612	$ 6,021	$ 6,001
Provision charged to operations	900	900	700
Charge-offs	(65)	(337)	(692)
Recoveries	13	28	12
Balance at end of year	$ 7,460	$ 6,612	$ 6,021

At December 31, 1998, 1997 and 1996, the Company serviced loans for others in the amount of $132,334,000, $144,230,000 and $152,717,000, respectively.

(7) Interest and Dividends Receivable

A summary of interest and dividends receivable at December 31, 1998 and 1997 follows (in thousands):

December 31,	1998	1997
Loans	$ 4,644	$ 4,018
Investment securities	2,279	3,190
Mortgage-backed securities	2,897	3,856
	$ 9,820	$11,064

(8) Premises and Equipment, Net

Premises and equipment at December 31, 1998 and 1997 are summarized as follows (in thousands):

December 31,	1998	1997
Land	$ 3,195	$ 3,195
Buildings and improvements	11,038	10,922
Leasehold improvements	1,090	1,322
Furniture and equipment	6,532	5,613
Automobiles	144	150
Construction in progress	2	181
Total	22,001	21,383
Accumulated depreciation and amortization	(8,054)	(7,104)
	$13,947	$ 14,279

(9) Real Estate Owned, Net

An analysis of the allowance for losses on real estate owned for the years ended December 31, 1998, 1997 and 1996 is as follows (in thousands):

Year Ended December 31,	1998	1997	1996
Balance at beginning of year	$ 367	$ 402	$ 411
Losses charged off	(31)	(35)	(9)

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Balance at end of year	$ 336	$ 367	$ 402

(10) Deposits

Deposits, including accrued interest payable of $238,000 and $175,000 at December 31, 1998 and 1997, respectively, are summarized as follows (in thousands):

December 31,	1998		1997	
	Amount	Weighted Average Cost	Amount	Weighted Average Cost
Non-interest bearing accounts	$ 22,154	- %	$ 13,149	- %
NOW accounts	106,363	1.59	77,994	1.84
Money market deposit accounts	77,690	2.59	67,979	2.90
Savings accounts	172,036	2.03	163,202	2.28
Time deposits	657,008	5.35	654,440	5.69
	$1,035,251	4.08%	$976,764	4.52%

Included in time deposits at December 31, 1998 and 1997, respectively, is $67,045,000 and $59,504,000 in deposits of $100,000 and over.

Time deposits at December 31, 1998 mature as follows (in thousands):

December 31,	1998
1999	$450,709
2000	119,432
2001	50,672
2002	22,668
2003	7,018
Thereafter	6,509
	$657,008

Interest expense on deposits for the years ended December 31, 1998, 1997 and 1996 was as follows (in thousands):

Year ended December 31,	1998	1997	1996
NOW accounts	$ 1,517	$ 1,388	$ 1,371
Money market deposit accounts	2,026	2,028	1,994
Savings accounts	3,442	3,877	4,069
Time deposits	36,819	35,667	33,555
	$43,804	$42,960	$40,989

(11) Securities Sold Under Agreements to Repurchase

Securities sold under agreements to repurchase are as follows (in thousands):

	1998	1997	1996
Balance at December 31	$282,108	$288,200	$ 99,322
Average Balance	282,590	209,089	9,803
Maximum amount outstanding at any month end	302,736	294,826	99,322
Average interest rate:			

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

During the year	5.85%	5.85%	5.81%
At December 31	5.33	6.01	5.69

At December 31, 1998, securities sold under agreements to repurchase matured as follows: $117,108,000 in 1999; $30,000,000 in 2002; $40,000,000 in 2003; $35,000,000 in 2004; $25,000,000 in 2005; and $35,000,000 in 2008. At December 31, 1998, $165,000,000 of the securities sold under agreements to repurchase were callable prior to the maturity date. Securities sold under agreements to repurchase are collateralized by U.S. Government agency and mortgage-backed securities with an amortized cost and a market value of $291,552,000 and $292,936,000, respectively, at December 31, 1998 and $301,117,000 and $301,231,000, respectively, at December 31, 1997. The securities underlying the agreements are not under the Company's control.

(12) 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 of $2,333,000. The Company has accrued for this liability in the consolidated financial statements.

Retained earnings at December 31, 1998 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, 1998 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, 1998, 1997 and 1996 consists of the following (in thousands):

Year Ended December 31,	1998	1997	1996
Current:			
Federal	$ 5,460	$ 6,921	$ 4,001
State	31	237	345
Total Current	5,491	7,158	4,346
Deferred:			
Federal	1,746	584	(2,992)
State	3	(55)	(271)
Total Deferred	1,749	529	(3,263)
	$ 7,240	$ 7,687	$ 1,083

A reconciliation between the provision for income taxes and the expected amount computed by multiplying income before provision for income taxes times the applicable statutory Federal income tax rate for the years ended December 31, 1998, 1997 and 1996 is as follows (in thousands):

Year Ended December 31,	1998	1997	1996
Income (loss) before provision for income taxes	$ 20,212	$ 21,512	$ (646)
Applicable statutory Federal income tax rate	35.0%	35.0%	35.0%
Computed "expected" Federal income tax expense (benefit)	$ 7,074	$ 7,529	$ (226)
Increase(decrease) in Federal income tax expense resulting from:			
Valuation allowance	--	--	1,166

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

ESOP adjustment	218	316	62
State income taxes net of Federal benefit	22	119	49
Other items, net	(74)	(277)	32
	$ 7,240	$ 7,687	$ 1,083
Effective tax rate	35.8%	35.7%	N/A

Included in other assets at December 31, 1998 and 1997 is a net deferred tax asset of $3,750,000 and $4,194,000, respectively. In addition, included in other liabilities at December 31, 1998 and 1997 is a current tax payable of $5,387,000 and $491,000, 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, 1998 and 1997 are presented below (in thousands).

December 31,	1998	1997
Deferred tax assets:		
Allowance for loan and real estate owned losses per books	$ 2,913	$ 2,601
Reserve for uncollected interest	110	113
Deferred compensation	409	331
Accrued pension expense	3	194
Premises and equipment, differences in depreciation	244	286
Other reserves	199	173
Stock awards	677	652
Charitable donation	3,003	3,599
Unrealized loss on securities available for sale	727	--
Other	97	8
Total gross deferred tax assets	8,382	7,957
Less valuation allowance	(1,166)	(1,166)
Deferred tax assets, net	7,216	6,791
Deferred tax liabilities:		
Allowance for loan and real estate owned losses for tax purposes	(726)	(858)
Unrealized gain on securities available for sale	--	(578)
Excess servicing on sale of mortgage loans	(130)	(94)
Investments, discount accretion	(20)	(26)
Deferred loan and commitment fees	(648)	(371)
Undistributed income of real estate investment trust subsidiary	(1,942)	(670)
Total deferred tax liabilities	(3,466)	(2,597)
Net deferred tax assets	$ 3,750	$ 4,194

As disclosed in footnote 2, the Company, as part of the conversion, recorded a charitable donation expense of $13,419,000. Under the Internal Revenue Code, charitable donations are tax deductible subject to a limitation based on 10% of the Company's annual taxable income. The Company, however, is able to carry forward any unused portion of the deduction for five years following the year in which the contribution is made. Based on the Company's estimate of taxable income for 1996 and the carry forward period, $3,419,000 of the charitable donation expense was considered non-tax deductible as it was unlikely that the Company would realize sufficient earnings over the six year period to take the full deduction. As a result, the Company has established a deferred tax valuation allowance of $1,166,000 relating to the nondeductible expense.

The Company has determined that it is not required to establish a valuation

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

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.

---

(13) Employee Benefit Plans

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

The ESOP originally borrowed $13,421,000 from the Company to purchase 1,342,092 shares of common stock issued in the conversion. On May 12, 1998, the initial loan agreement was amended to allow the ESOP to borrow an additional $8,200,000 in order to fund the purchase of 422,500 shares of common stock. At the same time the term of the loan was extended from the initial twelve years to thirty years. The amended loan is to be repaid from discretionary contributions by the Bank to the ESOP trust. The Bank intends to make contributions to the ESOP in amounts at least equal to the principal and interest requirement of the debt, assuming a fixed interest rate of 8.25%. The Bank's obligation to make such contributions is reduced to the extent of any dividends paid by the Company on unallocated shares and any investment earnings realized on such dividends. As of December 31, 1998 and 1997, contributions to the ESOP, which were used to fund principal and interest payments on the ESOP debt, totaled $3,111,000 and $2,133,000, respectively. During 1998 and 1997, $601,000 and $368,000, respectively, of dividends paid on unallocated ESOP shares were used for debt service. At December 31, 1998 and 1997, the loan had an outstanding balance of $17,615,000 and $11,184,000, respectively, and the ESOP had unallocated shares of 1,373,814 and 1,087,884, respectively. At December 31, 1998, the unallocated shares had a fair value of $22,840,000. 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, 1998 and 1997, the Bank recorded compensation expense related to the ESOP of $2,350,000 and $2,345,000, respectively, including $623,000 and $917,000, respectively, representing adjustments to expense to reflect the increase in the average fair value of allocated shares in excess of cost. As of December 31, 1998, 261,109 shares had been allocated to participants and 129,669 shares were committed to be released.

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

The following table sets forth the Plan's latest available funded status and amounts recognized at December 31, 1997 in the Company's consolidated statements of financial condition (in thousands):

	1997
Actuarial present value of benefit obligations - accumulated benefit obligation:	
Vested	$(1,625)
Non-vested	(106)
Projected benefit obligation for service	

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

rendered to date	(1,731)
Plan assets at fair value, primarily a group annuity contract	1,456
Plan assets less than projected benefit obligation	(275)
Unrecognized net loss	120
Unrecognized net transition asset	(311)
Accrued pension cost (included in other liabilities)	$ (466)

The components of net pension expense for the years ended December 31, 1997 and 1996 are as follows (in thousands):

	1997	1996
Service cost - benefits earned during the year	$--	$ 98
Interest cost on projected benefit obligation	113	136
Actual return on plan assets	(81)	(89)
Net amortization and deferral	(39)	(42)
Net pension (benefit) expense	$ (7)	$ 103
Assumptions used to develop the net periodic pension cost are:		
Discount rate	6.51%	6.51%
Expected long-term rate of return on assets	6.75	6.75
Rate of increase in compensation level	N/A	5.00

The Bank also maintains an incentive savings plan for eligible employees. An employee may make contributions to the plan of 1% to 15% of his or her compensation. Prior to July 1, 1996, the Bank contributed 75% of the first 6% of the employee's contribution to the employee's account. From to July 1, 1996 through March 31, 1997, the Bank contributed 50% of the first 6% of the employees contribution to the employee's account. Effective March 31, 1997, the Bank eliminated their matching obligation under this plan. The Bank's contributions under this plan were $53,000 and $161,000 for the years ended December 31, 1997 and 1996, respectively.

(14) Incentive Plan

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

During 1997, the Company acquired 671,046 shares in the open market at a cost of $10,176,000. At December 31, 1998, 647,758 of these shares have been awarded to officers and directors. Such amounts represent deferred compensation and have been accounted for as a reduction of stockholders' equity. Awards vest at the rate of 20% per year except that the Company has determined that certain awards are also contingent upon attainment of certain performance goals by the Company, which performance goals would be established by a committee of outside directors ("Committee"). The first and second annual installments will vest on the first and second anniversary dates of the date of grant. Vesting of 25% of the third annual installment, and 50% of each of the fourth and fifth annual installments, will be subject to the attainment of performance goals established by the Committee. The performance goals may be set by the Committee on an individual basis, for all Stock Awards made during a given period of time, or for all Stock

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Awards for indefinite periods. No Stock Award that is subject to a performance goal is to be distributed to an employee until the Committee confirms that the underlying performance goal has been achieved. No Stock Award that is subject to a performance goal is to be distributed to an Outside Director until an independent third party confirms that the underlying performance goal has been achieved. The Company recorded compensation expense relating to stock awards of $1,934,000 and $1,773,000 for the years ended December 31, 1998 and 1997, respectively.

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

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

	1998	1997
Net income:		
As reported	$ 12,972	$ 13,825
Pro forma	12,059	13,000
Basic earnings per share:		
As reported	$ .97	$ .90
Pro forma	.90	.85
Diluted earnings per share:		
As reported	$ .95	$ .88
Pro forma	.88	.83
Weighted average fair value of an option share granted during the year	$ 4.35	$ 4.08

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

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

A summary of option activity for the years ended December 31, 1998 and 1997 follows:
<TABLE>
<CAPTION>

	1998		1997	
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
<S>	<C>	<C>	<C>	<C>
Outstanding at beginning of year	1,567,402	$ 14.46	--	--
Granted	112,402	17.23	1,621,758	$ 14.45
Exercised	(2,348)	14.41	--	--
Forfeited	(34,629)	14.41	(54,356)	14.41
Outstanding at end of year	1,642,827	$ 14.67	1,567,402	$ 14.46

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

At December 31,	1998	1997
Options exercisable	310,527	None
Range of exercise prices	$13.94 -- $19.88	$14.41 -- $18.56
Weighted average remaining contractual life	8.2 years	9.1 years

</TABLE>

(15) 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, 1998, the following commitments and contingent liabilities existed which are not reflected in the accompanying consolidated financial statements (in thousands):

December 31,	1998
Unused consumer and construction loan lines of credit (primarily floating- rate)	$16,363
Unused commercial loan lines of credit (primarily floating rate)	3,864
Other commitments to extend credit:	
Fixed Rate	34,938
Adjustable Rate	11,808
Floating Rate	560

The Company's fixed-rate loan commitments expire within 90 days of issuance and carried interest rates ranging from 6.00% to 7.00% at December 31, 1998.

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. The unused consumer and construction loan lines of credit are collateralized by mortgages on real estate.

The Bank has an available overnight line of credit with the Federal Home Loan Bank of New York ("FHLB") for $50,000,000 which expires November 20, 1999. The Bank also has available from the FHLB, a one-month overnight repricing line of credit for $50,000,000 which expires November 20, 1999. When utilized, both lines carry a floating interest rate of 1/8% over the current Federal funds rate and are secured by the Bank's mortgage loans, mortgage-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.

At December 31, 1998, the Company is obligated under noncancellable operating leases for premises and equipment. Rental expense under these leases aggregated approximately $573,000, $515,000 and $822,000 for the years ended December 31, 1998, 1997 and 1996 respectively.

The projected minimum rental commitments as of December 31, 1998 are as follows (in thousands):

December 31   December 31, 1998

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

1999	$504
2000	453
2001	377
2002	353
2003	279
Thereafter	3,368
	$ 5,334

The Company grants one to four-family first mortgage real estate loans and multi-family 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.

(16) Fair Value of Financial Instruments

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

Cash and due from banks

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

Investments and Mortgage-backed securities

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

Federal Home Loan Bank of New York stock

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

Loans

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

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

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

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Deposits
The fair value of deposits with no stated maturity, such as non-interest bearing demand deposits, savings, and NOW and money market accounts, is equal to the amount payable on demand. 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.

Federal Home Loan Bank borrowings
Federal Home Loan Bank borrowings are short-term in nature and the carrying amount approximates fair value.

Securities sold under agreements to repurchase
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, 1998 and 1997 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, 1998	Book Value	Fair Value
Financial Assets:		
Cash and due from banks	$ 10,295	$ 10,295
Investment securities available for sale	137,405	137,405
Mortgage-backed securities available for sale	381,840	381,840
Federal Home Loan Bank of New York stock	16,800	16,800
Loans receivable and mortgage loans held for sale	966,151	982,009
Financial Liabilities:		
Deposits	1,035,251	1,042,528
Federal Home Loan Bank borrowings	30,000	30,000
Securities sold under agreements to repurchase	$ 282,108	281,437

December 31, 1997	Book Value	Fair Value
Financial Assets:		
Cash and due from banks	$ 2,225	$ 2,225
Investment securities available for sale	207,357	207,357
Mortgage-backed securities available for sale	457,148	457,148
Federal Home Loan Bank of New York stock	14,980	14,980
Loans receivable and mortgage loans held for sale	783,695	807,651
Financial Liabilities:		
Deposits	976,764	978,631
Federal Home Loan Bank borrowings	20,400	20,400
Securities sold under agreements to repurchase	$288,200	$288,547

Limitations
Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

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.

(17) Parent-Only Financial Information

The following condensed statements of financial condition at December 31, 1998 and 1997 and condensed statements of operations and cash flows for the years ended December 31, 1998 and 1997 and for the period from July 2, 1996 (date of conversion) to December 31, 1996 for Ocean Financial Corp. (parent company only) reflects the Company's investment in its wholly-owned subsidiary, the Bank, using the equity method of accounting. The Company had no results of operations prior to July 2, 1996.

CONDENSED STATEMENTS OF FINANCIAL CONDITION

December 31,	1998	1997
(in thousands)		
Assets		
Cash and due from banks	$ 7	$ 7
Advances to subsidiary Bank	7,639	9,931
Investment securities	2,834	10,780
ESOP loan receivable	17,615	11,184
Investment in subsidiary Bank	167,885	181,470
Other assets	2,143	3,320
Total Assets	$198,123	$216,692
Liabilities and Stockholders' Equity		
Taxes payable	$ 383	$ 1,148
Stockholders' Equity	197,740	215,544
Total Liabilities and Stockholders' Equity	$198,123	$216,692

CONDENSED STATEMENTS OF OPERATIONS

Year ended December 31,	1998	1997	For the period from July 2, 1996 to December 31, 1996
(in thousands)			
Dividend income - Subsidiary Bank	$ 18,000	$ --	$ --
Interest income - Investment securities	354	2,889	--
Interest income - Advances to subsidiary Bank	234	132	1,840
Interest income - ESOP loan receivable	1,342	1,015	547
Total dividend and interest income	19,930	4,036	2,387
Other income	--	2	--

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Charitable donation	--	--	13,419
Other operating expenses	421	383	152
Income (loss) before income taxes and equity in (distribution in excess of) undistributed earnings of subsidiary Bank	19,509	3,655	(11,184)
Provision (benefit) for income taxes	562	1,233	(2,755)
Income (loss) before equity in (distribution in excess of) undistributed earnings of subsidiary Bank	18,947	2,422	(8,429)
Equity in (distribution in excess of) undistributed earnings of subsidiary Bank	(5,975)	11,403	1,817
Net income (loss)	$ 12,972	$ 13,825	$ (6,612)

CONDENSED STATEMENTS OF CASH FLOWS

Year ended December 31,	1998	1997	For the period from July 2, 1996 to December 31, 1996
(in thousands)			
Cash flows from operating activities:			
Net income (loss)	$ 12,972	$ 13,825	$ (6,612)
Donation of 1,342,092 shares of common stock to the Ocean Federal Foundation	--	--	13,419
Decrease (increase) in advances to subsidiary Bank	2,292	61,622	(71,553)
Equity in (distribution in excess of) undistributed earnings of subsidiary Bank	5,975	(11,403)	(1,817)
Decrease (increase) in other assets	1,177	289	(3,470)
(Decrease) increase in taxes payable	(765)	458	690
Reduction in Incentive Awards	1,934	1,773	--
Net cash provided by (used in) operating activities	23,585	66,564	(69,343)
Cash flows from investing activities:			
Purchase of investment securities	(2,046)	(71,170)	--
Sale of investment securities	10,000	60,000	--
Funding of ESOP loan receivable, net of repayments	(6,431)	1,118	(12,302)
Payments for investments in subsidiary Bank	--	--	(81,650)
Net cash provided by (used in) investing activities	1,523	(10,052)	(93,952)
Cash flows from financing activities:			
Net proceeds of common stock issuance	--	--	163,302
Dividends paid	(6,470)	(4,800)	--
Purchase of Incentive Award shares	--	(10,176)	--
Purchase of treasury stock	(18,672)	(41,536)	--

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Exercise of stock options	34	--	--
Net cash (used in) provided by financing activities	(25,108)	(56,512)	163,302
Net increase in cash and due from banks	--	--	7
Cash and due from banks at beginning of period	7	7	--
Cash and due from banks at end of period	$ 7	$ 7	$ 7

(18) Recapitalization of Savings Association Insurance Fund (SAIF)

On September 30, 1996, legislation was enacted which, among other things, imposed a special one-time assessment on Saving Association Insurance Fund (SAIF) member institutions, including the Bank, to recapitalize the SAIF and spread the obligations for payment of Financing Corporation (FICO) bonds across all SAIF and Bank Insurance Fund (BIF) members. The Federal Deposit Insurance Corporation (FDIC) special assessment amounted to 65.7 basis points on SAIF assessable deposits held as of March 31, 1995. The Company incurred a charge of $5,720,000 before taxes as a result of the FDIC special assessment. This legislation eliminated the substantial disparity between the amount that BIF and SAIF member institutions had been paying for deposit insurance premiums.

Effective January 1, 1997, BIF members paid a portion of the FICO payment equal to 1.3 basis points on BIF-insured deposits compared to 6.5 basis points on SAIF-insured deposits, and will pay a pro rata share of the FICO payment on the earlier of January 1, 2000, or the date upon which the last savings association ceases to exist. The legislation also requires BIF and SAIF to be merged by January 1, 1999, provided that subsequent legislation is adopted to eliminate the savings association charter and no savings associations remain as of that time.

Beginning January 1, 1997 SAIF assessment rates ranged from 0 to 27 basis points based upon an institutions risk classification and capital group. Based upon its current classification the rate applicable to the Bank is 0.

Independent Auditors' Report

The Board of Directors and Stockholders

Ocean Financial Corp:

We have audited the consolidated statements of financial condition of Ocean Financial Corp. and subsidiary as of December 31, 1998 and 1997, and the related consolidated statements of income and comprehensive income, changes in stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 1998. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Ocean Financial Corp. and subsidiary as of December 31, 1998 and 1997, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 1998 in conformity with generally accepted accounting principles.

/s/ KPMG LLP

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Short Hills, New Jersey

January 21, 1999

Selected Consolidated Quarterly Financial Data

(Unaudited)

Quarter ended	Dec. 31	Sept. 30	June 30	March 31
(dollars in thousands, except per share data)				
1998				
Interest income	$ 26,618	$ 26,494	$ 26,219	$ 26,226
Interest expense	15,283	15,660	15,310	15,146
Net interest income	11,335	10,834	10,909	11,080
Provision for loan losses	225	225	225	225
Net interest income after provision for loan losses	11,110	10,609	10,684	10,855
Other income (loss)	(139)	876	1,053	621
Operating expenses	6,499	6,304	6,673	5,981
Income before provision for income taxes	4,472	5,181	5,064	5,495
Provision for income taxes	1,547	1,845	1,862	1,986
Net income	$ 2,925	$ 3,336	$ 3,202	$ 3,509
Basic earnings per share	$ .23	$ .25	$ .23	$ .26
Diluted earnings per share	$ .23	$ .25	$ .23	$ .24
1997				
Interest income	$ 26,233	$ 25,568	$ 24,310	$ 22,545
Interest expense	15,407	14,658	13,510	12,033
Net interest income	10,826	10,910	10,800	10,512
Provision for loan losses	225	225	225	225
Net interest income after provision for loan losses	10,601	10,685	10,575	10,287
Other income	776	572	575	586
Operating expenses	6,116	5,724	5,845	5,460
Income before provision for income taxes	5,261	5,533	5,305	5,413
Provision for income taxes	1,781	1,993	1,889	2,024
Net income	$ 3,480	$ 3,540	$ 3,416	$ 3,389
Basic earnings per share	$ .24	$ .24	$ .22	$ .20
Diluted earnings per share	$ .24	$ .23	$ .21	$ .20

Ocean Financial Corp.
Ocean Federal Savings Bank

Ocean Financial Corp.

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Ocean Federal Savings Bank

BOARD OF DIRECTORS

Michael E. Barrett
Executive Vice President
Ocean Federal Savings Bank

Thomas F. Curtin
Partner
The Foristall Company.

Carl Feltz, Jr.
Principal
Feltz Associates

John R. Garbarino
President and Chairman of the Board

Robert E. Knemoller
Retired, Executive Officer
Ocean Federal Savings Bank

Donald E. McLaughlin
Owner
Donald E. McLaughlin, CPA, P.C.

Diane F. Rhine
Owner
Citta & Cobb, Inc.

Frederick E. Schlosser
Retired
Steinbach & Co.

James T. Snyder
Retired
Proprietor, Wallach's Inc.

Roy M. Hyde
Director Emeritus

OCEAN FINANCIAL CORP.
EXECUTIVE OFFICERS

John R. Garbarino
President and Chairman of the Board

Michael J. Fitzpatrick
Executive Vice President
and Chief Financial Officer

John K. Kelly
Senior Vice President
and Corporate Secretary

Ocean Federal Savings Bank

CORPORATE OFFICERS

John R. Garbarino
President and Chief Executive Officer

Michael E. Barrett
Executive Vice President
Residential Loan Division

Michael J. Fitzpatrick
Executive Vice President and
Chief Financial Officer

Karl E. Reinheimer
Executive Vice President and
Chief Operating Officer

John K. Kelly
Senior Vice President and
General Counsel

Barbara A. Reitmeyer
Corporate Secretary

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

SENIOR VICE PRESIDENTS

James J. Flynn
Mortgage Lending

William J. Ruckert, III
Commercial Lending

Kirby H. Wood
Retail Banking

Stephen J. Wilson
Retail Banking

VICE PRESIDENTS

Philip J. Bailey
Deposit Services

M. Eileen Bergin
Legal

Jennifer Bizub
Human Resources

Victoria J. Bonavito
Branch Administration

Owen J. Bonner
Loan Review and
Quality Control

William J. Glinski
Treasurer

Jill Apito Hewitt
Marketing

Mary C. Huff
Commercial Lending

Percy Keynton
Internal Audit

Frank J. Recca
Loan Servicing

Kevin B. Runyon
Information Technology

John Van Eenennaam
Controller

Barbara Yack
Branch Administration

Ocean Federal Savings Bank

ASSISTANT VICE PRESIDENTS

Elizabeth M. Alexander

Douglas A. Blyth

Christine B. Boldt

Patricia A. Broadfoot

Lorraine L. Campanile

Sharon L. Danielson

Judith A. DiLauro

Edward R. Fryer

Michael L. Frankovich

Pauline A. Higgins

Sharon Labash

Jeanette M. Loftus

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Lilia C. Madero

Karen A. Olsen

Marvin L. Penn

Lynn Rhoads

Catherine R. Rollo

Doreen L. Rowe

M. Jane Ruhnke

George E. Ryll

Adrienne L. Sanchez

Frank A. Scarpone

Matthew J. Schwing

Patricia M. Siciliano

Lorraine P. Smith

Peggy S. Staab

Michael T. Stocko

Nancy Uffer

Lois A. Velardo

ASSISTANT SECRETARY

Geraldine J. LaBrutto

Banking Offices

BERKELEY
Holiday City Plaza
(732)341-4100
Lois A. Velardo
Manager

Holiday City Plaza III
(732)914-0137
Lorraine P. Smith
Manager

BRICK
Main Office
321 Chambers Bridge Road
(732)477-5151
Douglas A. Blyth
Manager

70 Brick Boulevard
(732)477-3800
Patricia M. Siciliano
Manager

CONCORDIA
Concordia Shopping Mall
(609)395-7080
Lorraine L. Campanile
Manager

LACEY
900 Lacey Road
(609)242-1800
Jeanette M. Loftus
Manager

POINT PLEASANT BEACH
701 Arnold Avenue

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

(732)892-8500
Sharon Labash
Manager

POINT PLEASANT BORO
2400 Bridge Avenue
(732)899-2800
Frank A. Scarpone
Manager

TOMS RIVER
975 Hooper Avenue
(732)244-8989
Lilia C. Madero
Manager

The Shoppes at Lake Ridge
147 Route 70, Suite 1
(732)363-2727
Judith A. DiLauro
Manager

WHITING
Whiting Shopping Center
(732)849-0500
Catherine R. Rollo
Manager

Shareholder Information

ADMINISTRATIVE OFFICES

975 Hooper Avenue
Toms River, NJ 08754-2009
(732)240-4500

ANNUAL MEETING OF SHAREHOLDERS

The Annual Meeting of Shareholders will be held on April 22, 1999 at 10 a.m. at the Crystal Point Yacht Club at 3900 River Road at the intersection of State Highway 70, Point Pleasant, New Jersey.

INVESTOR RELATIONS

Copies of the Company's earnings releases and financial publications, including the annual report on Form 10-K (without exhibits) filed with the Securities and Exchange Commission are available without charge by contacting:

Sally Dennis
Ocean Financial Corp.
975 Hooper Avenue
Toms River, New Jersey 08754-2009
(732)240-4500, ext. 7516

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 and Trust Co.
Shareholder Relations Department
40 Wall Street, 46th Floor
New York, NY 10005
(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

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Market Information for Common Stock

Ocean Financial Corp.'s common stock is traded on the Nasdaq National Market under the symbol OCFC. The stock is customarily listed as OCEANFIN in the Asbury Park Press and the Ocean County Observer. Shares of the common stock were made available to qualified subscribers at $10.00 per share during the initial offering. The table below shows the reported high and low sales prices of the common stock during the periods indicated in 1998 and 1997. Share prices for prior periods have been adjusted for the two-for-one stock split effected in the form of a 100% stock dividend paid on May 15, 1998.

1998

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
High	19	20	19 9/16	16 5/8
Low	16 5/8	18 1/4	13 7/8	12

1997

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
High	16 1/4	17 13/16	18 1/4	19 3/8
Low	12 11/16	13 7/16	16 1/8	17 1/16

As of December 31, 1998, the Company had approximately 6,000 shareholders of record, including the number of persons or entities holding stock in nominee or street name through various brokers and banks.

Ocean Financial Corp.
975 Hooper Avenue
Toms River, NJ 08754-2009
(732) 240-4500
NASDAQ . OCFC

Member FDIC . Equal Housing Lender [LOGO] . Equal Opportunity Lender

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Exhibit 23

INDEPENDENT ACCOUNTANTS' CONSENT

The Board of Directors
Ocean Financial Corp.:

We consent to incorporation by reference in the registration statement (No. 33-34143) on Form S-8, pertaining to the Ocean Financial Corp. 1997 Incentive Plan, and to the registration statement (No. 33-34145), on Form S-8, pertaining to the Retirement Plan for Ocean Federal Savings Bank, of Ocean Financial Corp., of our report dated January 21, 1999, relating to the consolidated statements of financial condition of Ocean Financial Corp. and subsidiary as of December 31, 1998 and 1997 and the related consolidated statements of income and comprehensive income, changes in stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 1998, which report is incorporated by reference in the December 31, 1998 Annual Report on Form 10-K of Ocean Financial Corp.

KPMG LLP

Short Hills, New Jersey
March 26, 1999

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

<TABLE> <S> <C>

<ARTICLE> 9
<MULTIPLIER> 1,000

<S>	<C>
<PERIOD-TYPE>	YEAR
<FISCAL-YEAR-END>	DEC-31-1998
<PERIOD-START>	JAN-01-1998
<PERIOD-END>	DEC-31-1998
<CASH>	10,295
<INT-BEARING-DEPOSITS>	0
<FED-FUNDS-SOLD>	0
<TRADING-ASSETS>	0
<INVESTMENTS-HELD-FOR-SALE>	519,245
<INVESTMENTS-CARRYING>	0
<INVESTMENTS-MARKET>	0
<LOANS>	941,011
<ALLOWANCE>	7,460
<TOTAL-ASSETS>	1,561,744
<DEPOSITS>	1,035,251
<SHORT-TERM>	302,108
<LIABILITIES-OTHER>	16,645
<LONG-TERM>	0
<PREFERRED-MANDATORY>	0
<PREFERRED>	0
<COMMON>	181
<OTHER-SE>	197,559
<TOTAL-LIABILITIES-AND-EQUITY>	1,561,744
<INTEREST-LOAN>	67,038
<INTEREST-INVEST>	38,519
<INTEREST-OTHER>	0
<INTEREST-TOTAL>	105,557
<INTEREST-DEPOSIT>	43,804
<INTEREST-EXPENSE>	61,399
<INTEREST-INCOME-NET>	44,158
<LOAN-LOSSES>	900
<SECURITIES-GAINS>	(850)
<EXPENSE-OTHER>	25,457
<INCOME-PRETAX>	20,212
<INCOME-PRE-EXTRAORDINARY>	20,212
<EXTRAORDINARY>	0
<CHANGES>	0
<NET-INCOME>	12,972
<EPS-PRIMARY>	.97
<EPS-DILUTED>	.95
<YIELD-ACTUAL>	7.13

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

<LOANS-NON>	5,424
<LOANS-PAST>	0
<LOANS-TROUBLED>	0
<LOANS-PROBLEM>	0
<ALLOWANCE-OPEN>	6,612
<CHARGE-OFFS>	65
<RECOVERIES>	13
<ALLOWANCE-CLOSE>	7,460
<ALLOWANCE-DOMESTIC>	4,573
<ALLOWANCE-FOREIGN>	0
<ALLOWANCE-UNALLOCATED>	2,887

</TABLE>

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document