PORT FINANCIAL CORP
Form 10-K
March 31, 2003

FORM 10-K

SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2002

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ________ to _________

COMMISSION FILE NUMBER 000-29343

PORT FINANCIAL CORP.

(Exact name of registrant as specified in its charter)

Massachusetts (State or other jurisdiction of incorporation or organization)	04-1145480 (I.R.S. Employer Identification No.)

1380 Soldiers Field Road, Brighton, Massachusetts 02135

(Address of principal executive office-zip code)
Telephone **(617) 779-8300**

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 $.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 twelve months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes __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 registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this form 10-K [ ].

Indicate by check mark if whether the registrant is an accelerated Filer (as defined in Rule 12b-2 of the Act). Yes _x_ No ___.

As of June 30, 2002, the aggregate market value of the voting and non-voting common equity held by non-affiliates of the Registrant, computed by reference to the average of the closing bid and asked price of such stock of $40.09 on the Nasdaq National Market, was $191,677,000. The exclusion from such amount of the market value of the shares owned by any person shall not be deemed an admission by the Registrant that such person is an affiliate of the Registrant.

As of March 12, 2003, 5,287,401 shares of Registrant's common stock were outstanding.

Documents Incorporated by Reference

Part III of Form 10-K - Portions of the Proxy Statement for the Annual Meeting of Stockholders for the year ended December 31, 2002.

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ANNUAL REPORT ON FORM 10-K
FOR THE FISCAL YEAR ENDED
DECEMBER 31, 2002

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Forward Looking Statements

This Annual Report on Form 10-K contains "forward-looking statements" which may be identified by the use of such words as "believe," "expect," "anticipate," "should," "planned," "estimated," and "potential." Examples of forward-looking statements include, but are not limited to, estimates with respect to our financial condition and results of operation and business that are subject to various factors which could cause actual results to differ materially from these estimates. These factors include, but are not limited to:

* general and local economic conditions;
* changes in interest rates, deposit flows, demand for mortgages and other loans, real estate values, and competition;
* changes in accounting principles, policies, or guidelines;
* changes in legislation or regulation; and
* other economic, competitive, governmental, regulatory, and technological factors affecting our operations, pricing, products, and services.

Any or all of our forward-looking statements in this Annual Report on Form 10-K and in any other public statements we make may turn out to be wrong. They can be affected by inaccurate assumptions we might make or known or unknown risks and uncertainties. Consequently, no forward-looking statements can be guaranteed. We disclaim any obligation to subsequently revise any forward-looking statements to reflect events or circumstances after the date of such statements, or to reflect the occurrence of anticipated or unanticipated events.

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Section I

ITEM 1. BUSINESS

General

Port Financial Corp. ("Port" or the "Company") is a Massachusetts-chartered stock holding company, which owns all of the capital stock of Cambridgeport Bank ("Cambridgeport" or the "Bank"). In April 2000, as part of its conversion, the Company converted from a Massachusetts-chartered mutual holding company, Cambridgeport Mutual Holding Company, to a Massachusetts-chartered stock holding company and changed its name to Port Financial Corp.

The Company's principal business is its investment in Cambridgeport, which is a Massachusetts-chartered stock savings bank, chartered in 1853 and headquartered in Cambridge, Massachusetts. The Bank was named for the neighborhood of Cambridge in which it was established. The Cambridgeport district of Cambridge is located along the Charles River between the campuses of Harvard and MIT.

Cambridgeport is a community-oriented bank providing retail and business customers with value-driven products and services to meet customer needs. The Bank offers a wide variety of deposit products, residential mortgage loans, commercial real estate loans, commercial loans and consumer loans to its customers in the cities and towns around Cambridge, Massachusetts. The Bank has a network of eleven full service banking offices and one Telebanking Center. The branch offices are strategically located in cities and towns with a strong base for real estate lending and deposit growth and where community bank competition has been reduced by the consolidating banking industry. As of December 31, 2002 approximately 58% of the Company's total assets were invested in loans. These loans are funded primarily by deposits with some reliance on Federal Home Loan Bank ("FHLB") borrowings. Total deposits amounted to $1.16 billion at December 31, 2002 while FHLB borrowings totaled $175.6 million.

As of December 31, 2002, $297.2 million of the loan portfolio consisted of commercial real estate and commercial construction loans and $76.8 million consisted of home equity lines of credit. Commercial real estate and commercial construction loans grew by $19.9 while home equity lines of credit decreased $13.3 million compared with December 31, 2001. Non-performing assets were .02% of total assets while the Tier 1 leverage capital ratio was 7.6% on that date.

Regulation

Because the Bank is a Massachusetts-chartered savings bank, its deposit accounts are insured up to applicable limits by the Bank Insurance Fund (the "BIF") of the FDIC and by the Depositors Insurance Fund. The Bank is subject to extensive regulation, examination and supervision by both the Commonwealth of Massachusetts Division of Banks (the "Division") as its primary corporate regulator, and by the FDIC as its deposit insurer.

The Company, as a bank holding company controlling the Bank, is subject to the Bank Holding Company Act of 1956, as amended (the "BHCA"), and the rules and regulations of the Federal Reserve Board under the BHCA and to the provisions. The Company is also subject to the Massachusetts General Laws applicable to savings banks and other depository institutions and their holding companies (the "Massachusetts banking laws") and the regulations of the Division under the Massachusetts banking laws. The Company is also subject to the rules and regulations of the Securities and Exchange Commission.

Any change in such laws and regulations, whether by the Division, the FDIC, the Federal Reserve Board, or the Securities and Exchange Commission or through legislation, could have a material adverse impact on the Company and the Bank and their operations and stockholders.

Massachusetts Banking Regulation

Massachusetts Community Reinvestment Act

. Cambridgeport Bank is subject to provisions of the Massachusetts banking laws that, like the provisions of the federal Community Reinvestment Act, impose continuing and affirmative obligations upon a banking institution organized in Massachusetts to serve the credit needs of its local communities. The obligations of the Massachusetts Community Reinvestment Act ("MCRA") are similar to those imposed by the federal Community Reinvestment Act with the exception of the assigned exam

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ratings. Massachusetts banking law provides for an additional exam rating of "high satisfactory" in addition to the federal Community Reinvestment Act ratings of "outstanding," "satisfactory," "needs to improve" and "substantial noncompliance." The Division has adopted regulations to implement the MCRA that are based on the federal Community Reinvestment Act, including periodic assessment of a bank's compliance with the MCRA. See "Federal Banking Regulation - Community Reinvestment Act." The MCRA also requires the Division to make its assessments available to the public.

When reviewing a bank's application to engage in certain transactions, including mergers, asset purchases, new branch offices or new automated teller machines, the Division is required to consider a bank's MCRA rating. Such assessment may serve as a basis for the denial of any such application. Cambridgeport's latest MCRA rating, received by letter from the Division dated July 8, 1999 was "satisfactory."

Loans-to-One-Borrower Limitations

. With specified exceptions, the total obligations of a single borrower to a Massachusetts-chartered savings bank may not exceed 20% of the savings bank's retained earnings account. A savings bank may lend additional amounts up to 100% of the bank's retained earnings account if secured by collateral meeting the requirements of the Massachusetts banking laws. Cambridgeport currently complies with applicable loans-to-one-borrower limitations.

Loans to a Bank's Insiders

. The Massachusetts banking laws prohibit any officer, director or trustee from borrowing, otherwise becoming indebted, or becoming liable for a loan or other extension of credit by such bank to any other person, except under limited circumstances. Any such loans require approval of the majority of the members of the bank's executive committee, excluding any member involved in the loan or extension of credit. No such loan or extension of credit may be granted with an interest rate or other terms that are preferential in comparison to loans granted to persons not affiliated with the savings bank.

Dividends

. Under the Massachusetts banking laws, a stock savings bank may, subject to several limitations, declare and pay a dividend on its capital stock out of the bank's net profits. A dividend may not be declared, credited or paid by a stock savings bank so long as there is any impairment of capital stock. No dividend may be declared on the bank's common stock for any period other than for which dividends are declared upon preferred stock, except as authorized by the Commissioner. The approval of the Commissioner is also required for a stock savings bank to declare a dividend, if the total of all dividends declared by the savings bank in any calendar year shall exceed the total of its net profits for that year combined with its retained net profits of the preceding two years, less any required transfer to surplus or a fund for the retirement of any preferred stock. In addition, federal law may also limit the amount of dividends that may be paid by Cambridgeport. See "Federal Banking Regulation - Prompt Corrective Action" below.

Examination and Enforcement

. The Division is required to examine savings banks at least once every calendar year or at least once each 18-month period if the savings bank qualifies as well capitalized under the prompt corrective action provisions of the Federal Deposit Insurance Act. See "Federal Banking Regulation - Prompt Corrective Action" below.

Federal Banking Regulation

Capital Requirements.

FDIC regulations require BIF-insured banks, such as the Bank, to maintain minimum levels of capital. The FDIC regulations define two tiers, or classes, of capital.--Tier 1 Capital and Tier 2 Capital.

The FDIC regulations establish minimum leverage capital requirements for banks. For banks with a rating of 1 (the highest examination rating of the FDIC for banks) under the Uniform Financial Institutions Rating System, the FDIC may require a minimum leverage capital ratio of not less than a ratio of 3.0% of Tier 1 capital to total assets. For all other banks, the minimum leverage capital requirement is 4.0%, unless a higher ratio is warranted by the particular circumstances or risk profile of the depository institution.

FDIC regulations also require that savings banks meet a risk-based capital standard. The risk-based capital standard requires the maintenance of a ratio of total capital (which is defined as the sum of Tier 1 capital and Tier 2 capital) to risk-weighted assets of at least 8% and a ratio of Tier 1 capital to risk-weighted assets of at least 4%. In determining the amount of risk-weighted assets, all assets, plus certain off balance sheet items, are multiplied by a risk-weight of 0% to 100%, based on risks the FDIC believes are inherent in the type of asset or item.

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The federal banking agencies, including the FDIC, have also adopted regulations to require an assessment of an institution's exposure to declines in the economic value of a bank's capital due to changes in interest rates when assessing the bank's capital adequacy. Under such a risk assessment, examiners will evaluate a bank's capital for interest rate risk on a case-by-case basis, with consideration of both quantitative and qualitative factors.

Institutions with significant interest rate risk may be required to hold additional capital. The agencies also issued a joint policy statement providing guidance on interest rate risk management, including a discussion of the critical factors affecting the agencies' evaluation of interest rate risk in connection with capital adequacy.

At December 31, 2002, the Bank was considered "well-capitalized" under FDIC guidelines.

Activity Restrictions on State-Chartered Banks

. Section 24 of the Federal Deposit Insurance Act (the "FDIA"), which was amended by the Federal Deposit Insurance Corporation Improvement Act of 1991 (the "FDICIA"), generally limits the activities and investments of state-chartered FDIC insured banks and their subsidiaries to those permissible for federally-chartered national banks and their subsidiaries. Section 24 provides an exception for investments by a bank in common and preferred stocks listed on a national securities exchange or the shares of registered investment companies if: (a) the bank held such types of investments during the period from September 30, 1990 through November 26, 1991; (b) the state in which the bank is chartered permitted such investments as of September 30, 1991; and (c) the bank obtains approval from the FDIC to make or retain such investments. Upon receiving such FDIC approval, an institution's investment in such equity securities will be subject to an aggregate limit up to the amount of its Tier 1 capital. The Bank has received approval from the FDIC to retain and acquire such equity investments subject to a maximum permissible investment equal to the lesser of: 100% of the Bank's Tier 1 capital; or the maximum permissible amount specified by the Massachusetts banking laws. Section 24 also limits the activities of majority-owned subsidiaries of a bank.

Before initiating any new investment or activity that is not permissible for a national bank or otherwise permissible under Section 24 of the FDIC regulations, an insured bank must seek approval from the FDIC. As conditions for FDIC approval, banks must meet the FDIC's minimum capital requirements and the FDIC must determine that the activity does not present a significant risk to the FDIC insurance funds.

Enforcement

. The FDIC has extensive enforcement authority over insured savings banks, including Cambridgeport Bank. This enforcement authority includes, among other things, the ability to assess civil money penalties, to issue cease and desist orders and to remove directors and officers. In general, these enforcement actions may be initiated in response to violations of laws and regulations and to unsafe or unsound practices.

The FDIC is required, with some exceptions, to appoint a receiver or conservator for an insured state bank if that bank is "critically undercapitalized." For this purpose, "critically undercapitalized" means having a ratio of tangible capital to total assets of less than 2%. The FDIC may also appoint a conservator or receiver for a state bank on the basis of the institution's financial condition or upon the occurrence of certain events.

Deposit Insurance

. Pursuant to the FDICIA, the FDIC established a system for setting deposit insurance premiums based upon the risks a particular bank or savings association posed to its deposit insurance funds. Under the risk-based deposit insurance assessment system, the FDIC assigns an institution to one of three capital categories based on the institution's financial information, as of the reporting period ending six months before the assessment period. The three capital categories are (1) well capitalized, (2) adequately capitalized and (3) undercapitalized. The FDIC also assigns an institution to one of three supervisory subcategories within each capital group. An institution's assessment rate depends on the capital category and supervisory category to which it is assigned. Any increase in insurance assessments could have an adverse effect on the earnings of insured institutions, including Cambridgeport Bank.

The Deposit Insurance Funds Act of 1996 establishes the assessment base for payments on bonds issued in the late 1980's by the Financing Corporation to recapitalize the now defunct Federal Savings and Loan Insurance Corporation. Beginning January 1, 1997, the assessment base is defined as deposits of institutions such as Cambridgeport Bank that are insured by the Bank Insurance Fund. The rate of assessment for Bank Insurance Fund-assessable deposits is one-fifth of the rate applied to deposits that are insured by the Savings Association Insurance Fund.

Under the FDIA, the FDIC may terminate the insurance of an institution's deposits if the FDIC finds that the institution has engaged in unsafe or unsound practices, is in an unsafe or unsound condition to continue

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operations or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC. The management of Cambridgeport Bank does not know of any practice, condition or violation that might lead to termination of deposit insurance.

Transactions with Affiliates of Cambridgeport Bank

. Transactions between an insured bank, such as Cambridgeport, and any of its affiliates is governed by Sections 23A and 23B of the Federal Reserve Act. An affiliate of a bank is any company or entity that controls, is controlled by or is under common control with the bank. Currently, a subsidiary of a bank that is not also a depository institution is not treated as an affiliate of the bank for purposes of Sections 23A and 23B, but the Federal Reserve Board has proposed a comprehensive regulation implementing Sections 23A and 23B, which would establish certain exceptions to this policy.

Section 23A:

* limits the extent to which the bank or its subsidiaries may engage in "covered transactions" with any one affiliate to an amount equal to 10% of such bank's capital stock and retained earnings, and limit on all such transactions with all affiliates to an amount equal to 20% of such capital stock and retained earnings; and

* requires that all such transactions be on terms that are consistent with safe and sound banking practices.

The term "covered transaction" includes the making of loans, purchase of assets, issuance of guarantees and other similar types of transactions. Further, most loans by a bank to any of its affiliates must be secured by collateral in amounts ranging from 100 to 130 percent of the loan amounts. In addition, any covered transaction by a bank with an affiliate and any purchase of assets or services by a bank from an affiliate must be on terms that are substantially the same, or at least as favorable to the bank, as those that would be provided to a non-affiliate.

Effective April 1, 2003, the Federal Reserve Board, or FRB, is rescinding its interpretations of Sections 23A and 23B of the FRA and is replacing these interpretations with Regulation W. In addition, Regulation W makes various changes to existing law regarding Sections 23A and 23B, including expanding the definition of what constitutes an affiliate subject to Sections 23A and 23B and exempting certain subsidiaries of state-chartered banks from the restrictions of Sections 23A and 23B.

Under Regulation W, all transactions entered into on or before December 12, 2002, which either became subject to Sections 23A and 23B solely because of Regulation W, and all transactions covered by Sections 23A and 23B, the treatment of which will change solely because of Regulation W, will become subject to Regulation W on July 1, 2003. All other covered affiliate transactions become subject to Regulation W on April 1, 2003. The Federal Reserve Board expects each depository institution that is subject to Sections 23A and 23B to implement policies and procedures to ensure compliance with Regulation W. We do not expect that the changes made by Regulation W will have a material adverse effect on our business.

Community Reinvestment Act

. Under the federal Community Reinvestment Act ("CRA"), any insured depository institution, including Cambridgeport Bank, has a continuing and affirmative obligation consistent with its safe and sound operation to help meet the credit needs of its entire community, including low and moderate income neighborhoods. The CRA does not establish specific lending requirements or programs for financial institutions nor does it limit an institution's discretion to develop the types of products and services that it believes are best suited to its particular community. The CRA requires the FDIC, in connection with its examination of a savings bank, to assess the depository institution's record of meeting the credit needs of its community. The CRA also requires the FDIC to take such record into account when it evaluates applications by the institution, including applications for additional branches and acquisitions.

The CRA requires the FDIC to provide a written evaluation of an institution's CRA performance utilizing a four-tiered descriptive rating system and requires public disclosure of an institution's CRA rating. Cambridgeport Bank received a "satisfactory" rating in its CRA examination conducted by the FDIC on October 16, 2002.

Safety and Soundness Standards

. Pursuant to the requirements of the FDICIA, as amended by the Riegle Community Development and Regulatory Improvement Act of 1994, each federal banking agency, including the FDIC, has adopted established general standards relating to internal controls, information and internal audit systems, loan documentation, credit underwriting, interest rate exposure, asset growth, asset quality, earnings, and

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compensation, fees and benefits. The FDIC requires an institution to maintain systems and practices to identify and manage the risks and exposures in accordance with the standards. The standards categorize excessive compensation as an unsafe and unsound practice and describe compensation as excessive when the amounts paid are unreasonable or disproportionate to the services performed by an executive officer, employee, director, or principal stockholder.

In addition, FDIC regulations require a bank that it is not satisfying such safety and soundness standards to submit a compliance plan to the FDIC. If, after being notified by the FDIC of such non-compliance, a bank fails to submit an acceptable compliance plan or fails in any material respect to implement an accepted compliance plan, the FDIC may issue an order directing corrective and other actions. These actions may include those specified for a significantly undercapitalized institution under the "prompt corrective action" provisions of the FDICIA. If a bank fails to comply with such an order, the FDIC may seek to enforce such an order in judicial proceedings and to impose civil monetary penalties.

Prompt Corrective Action

. The FDICIA also established a system of prompt corrective action to resolve the problems of undercapitalized institutions. The FDIC, as well as the other federal banking regulators, adopted regulations governing the supervisory actions that may be taken against undercapitalized institutions. The regulations establish five categories, consisting of "well capitalized," "adequately capitalized," "undercapitalized," "significantly undercapitalized" and "critically undercapitalized."

The severity of the action authorized or required to be taken under the prompt corrective action regulations increases as a bank's capital decreases within the three undercapitalized categories. All banks are prohibited from paying dividends or other capital distributions or paying management fees to any controlling person if, following such distribution, the bank would be undercapitalized.

Loans to a Bank's Insiders

. A bank's loans to its executive officers, directors, any owner of 10% or more of its stock (each, an "insider") and any entities affiliated with an insider are subject to the conditions and limitations imposed by Section 22(h) of the Federal Reserve Act and the Federal Reserve Board's Regulation O. Under these restrictions, the aggregate amount of the loans to any insider and any entities affiliated with such insider may not exceed the loans-to-one-borrower limit applicable to national banks, which is comparable to the loans-to-one-borrower limit applicable to Cambridgeport Bank's loans. (See "Massachusetts Banking Regulation - Loans-to-One Borrower Limitations.") All loans by a bank to all insiders and their affiliates in the aggregate may not exceed the bank's unimpaired capital and unimpaired retained earnings. Generally, such loans must be made on substantially the same terms as, and follow credit underwriting procedures that are not less stringent than, those that are prevailing at the time for comparable transactions with other persons. An exception is made for extensions of credit made pursuant to a benefit or compensation plan of a bank that is widely available to employees of the bank and that does not give any preference to insiders of the bank over other employees of the bank.

Section 402 of the Sarbanes-Oxley Act of 2002, or Sarbanes-Oxley, prohibits the extension of personal loans to directors and executive officers of issuers (as defined in Sarbanes-Oxley). The prohibition, however, does not apply to mortgages advanced by an insured depository institution, such as the Bank, that are subject to the insider lending restrictions of Section 22(h) of the FRA.

Holding Company Regulation

Port Financial Corp. is regulated as a bank holding company. Bank holding companies are subject to examination, regulation and periodic reporting under the Bank Holding Company Act, as administered by the Federal Reserve Board. The Federal Reserve Board has adopted minimum capital adequacy requirements for bank holding companies, measured on a consolidated basis, that are substantially similar to those of the FDIC for Cambridgeport Bank. As of December 31, 2002, Port Financial Corp.'s total capital and Tier 1 capital ratios exceeded these minimum capital requirements.

The activities of bank holding companies are generally limited to the business of banking, managing or controlling banks, and other activities that the Federal Reserve Board determines to be so closely related to banking or managing or controlling banks as to be properly incident thereto. In addition, a bank holding company whose controlled depository institutions are all "well capitalized" and "well managed," as defined in FRB Regulation Y, and have all received satisfactory CRA ratings, can declare itself to be a "financial holding company". A financial holding company may engage in a broader spectrum of activities than those generally permitted to bank holding companies. These activities include insurance underwriting and brokerage (including annuities), and underwriting and dealing securities without a revenue limit and without limits on the amounts of equity securities it may hold in

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conducting its underwriting and dealing activities. If a financial holding company does not continue to meet the requirements for financial holding company status, depending on the requirements it fails to meet, it may not be permitted to undertake new activities or acquisitions that are financial in nature and it may lose the ability to conduct activities that are not generally permissible for bank holding companies. The Company has not elected to be regulated as a financial holding company, but may elect to do so in the future.

Regulations of the Federal Reserve Board provide that a bank holding company must serve as a source of strength to any of its subsidiary banks and must not conduct its activities in an unsafe or unsound manner. Under the prompt corrective action provisions of the FDICIA, a bank holding company parent of an undercapitalized subsidiary bank would be directed to guarantee, within limitations, the capital restoration plan that is required of such an undercapitalized bank. See "Federal Banking Regulation - Prompt Corrective Action" above. If an undercapitalized bank fails to file an acceptable capital restoration plan or fails to implement an accepted plan, the Federal Reserve Board may prohibit the holding company of the undercapitalized bank from paying any dividend or making any other form of capital distribution.

As a bank holding company, Port Financial Corp. is required to obtain the prior approval of the Federal Reserve Board to acquire all, or substantially all, of the assets of any bank or bank holding company. Prior Federal Reserve Board approval is required for Port to acquire direct or indirect ownership or control of any voting securities of any bank or bank holding company if, after giving effect to such acquisition, it would, directly or indirectly, own or control more than 5% of any class of voting shares of such bank or bank holding company.

Subject to certain limitations and restrictions, a bank holding company, with the prior approval of the Federal Reserve Board, may acquire an out-of-state bank. Banks in states that do not prohibit out-of-state mergers may merge with other banks only after receiving the approval of the appropriate federal bank regulatory agency. A national or state bank may establish a *de novo* branch out of state if such branching is expressly permitted by the other state.

Securities and Exchange Commission Availability of Filings on Company Web Site. Under the Securities Exchange Act of 1934 Sections 13 and 15(d), periodic and current reports must be filed with the Securities and Exchange Commission ("SEC"). The Company electronically files the following reports with the SEC: Form 10-K (Annual Report), 10-Q (Quarterly Report), DEF 14A (Proxy Statement), and Form S-3 and 8-A (Registration Statements. The Company may also file additional forms. The SEC maintains an internet site, www.sec.gov, in which all forms filed electronically may be accessed. Additionally, all forms filed with the SEC and additional shareholder information is available free of charge on the Company's website: www.PortFinancial.Net

Change in Control Regulations

Federal Restrictions

. Under the federal Change in Bank Control Act, any person (including a company or a group acting in concert) seeking to acquire 10% or more of the outstanding shares of Port's common stock is required to submit prior notice to the Federal Reserve Board, unless the Federal Reserve Board has found that the acquisition of such shares will not result in a change in control of Port. Under the Bank Holding Company Act, the Federal Reserve Board has 60 days within which to act on such a notice, taking into consideration such factors as the financial and managerial resources of the acquirer, the convenience and needs of the communities served by Port and Cambridgeport Bank, and the anti-trust effects of the acquisition. Under the Bank Holding Company Act, any company would be required to obtain prior approval from the Federal Reserve Board before it may obtain "control" of Port. The term "control" is defined generally under the Bank Holding Company Act to mean the ownership or power to vote 25% or more of any class of voting securities of an institution, or the ability to control in any manner the election of a majority of the institution's directors.

Massachusetts Restrictions

. Under the Massachusetts banking laws, the prior approval of the Division is required before any person may acquire a Massachusetts bank holding company, such as Port Financial Corp. For this purpose, the term "person" is defined broadly to mean a natural person or a corporation, company, partnership, or any other form of organized entity. The term "acquire" is defined differently for an existing bank holding company and for other companies or persons. A bank holding company will be treated as "acquiring" a Massachusetts bank holding company if it acquires more than

5% of any class of the voting shares. Any other person will be treated as "acquiring" a Massachusetts bank holding company if it acquires ownership or control of more than 25% of any class of the voting shares.

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Federal Securities Law

The common stock of Port Financial Corp. is registered with the SEC under Section 12(g) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Accordingly, the Company is subject to the information, proxy solicitation, insider trading restrictions and other requirements of the Exchange Act.

USA PATRIOT Act

In response to the events of September 11th, President George W. Bush signed into law the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001, or the USA PATRIOT Act, on October 26, 2001. The USA PATRIOT Act gives the federal government new powers to address terrorist threats through enhanced domestic security measures, expanded surveillance powers, increased information sharing, and broadened anti-money laundering requirements. By way of amendments to the Bank Secrecy Act, Title III of the USA PATRIOT Act takes measures intended to encourage information sharing among bank regulatory agencies and law enforcement bodies. Further, certain provisions of Title III impose affirmative obligations on a broad range of financial institutions, including banks, thrifts, brokers, dealers, credit unions, money transfer agents and parties registered under the Commodity Exchange Act.

Among other requirements, Title III of the USA PATRIOT Act imposes the following requirements with respect to financial institutions:

* Pursuant to Section 352, *all* financial institutions must establish anti-money laundering programs that include, at minimum: (i) internal policies, procedures, and controls, (ii) specific designation of an anti-money laundering compliance officer, (iii) ongoing employee training programs, and (iv) an independent audit function to test the anti-money laundering program. Interim final rules implementing Section 352 were issued by the Treasury Department on April 29, 2002. Such rules state that a financial institution is in compliance with Section 352 if it implements and maintains an anti-money laundering program that complies with the anti-money laundering regulations of its federal functional regulator. Port Financial is in compliance with the OTS's anti-money laundering regulations.

* Pursuant to Section 326, on July 23, 2002 the Secretary of the Department of Treasury, in conjunction with other bank regulators, issued a Proposed Rule that provides for minimum standards with respect to customer identification and verification. On July 23, 2002, the OTS and the other federal bank regulators jointly issued proposed rules to implement Section 326. The proposed rules require financial institutions to establish a program specifying procedures for obtaining identifying information from customers seeking to open new accounts. This identifying information would be essentially the same information currently obtained by most financial institutions for individual customers generally. A financial institution's program would also have to contain procedures to verify the identity of customers within a reasonable period of time, generally through the use of the same forms of identity verification currently in use, such as through driver's licenses, passports, credit reports and other similar means.

* Section 312 requires financial institutions that establish, maintain, administer, or manage private banking accounts or correspondent accounts in the United States for non-United States persons or their representatives (including foreign individuals visiting the United States) to establish appropriate,

specific, and, where necessary, enhanced due diligence policies, procedures, and controls designed to detect and report money laundering. Interim rules under Section 312 were issued by the Treasury Department on July 23, 2002. The interim rules state that a due diligence program is reasonable if it comports with existing best practices standards for banks that maintain correspondent accounts for foreign banks and evidences good faith efforts to incorporate due diligence procedures for accounts posing increased risk of money laundering. In addition, an enhanced due diligence program is reasonable if it comports with best practices standards and focuses enhanced due diligence measures on those correspondent accounts posing a particularly high risk of money laundering based on the bank's overall assessment of the risk posed by the foreign correspondent bank. Finally, a private banking due diligence program must be reasonably designed to detect and report money laundering and the existence of proceeds of foreign corruption. Such a program is reasonable if it focuses on those private banking accounts the present a high risk of money laundering.

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* Effective December 25, 2001, financial institutions are prohibited from establishing, maintaining, administering or managing correspondent accounts for foreign shell banks (foreign banks that do not have a physical presence in any country), and will be subject to certain recordkeeping obligations with respect to correspondent accounts of foreign banks.

* Bank regulators are directed to consider a holding company's effectiveness in combating money laundering when ruling on Federal Reserve Act and Bank Merger Act applications.

Although we anticipate that we will incur additional expense in complying with the provisions of the USA PATRIOT Act and the resulting regulations, management does not expect that such compliance will have a material impact on our results of operations or financial condition.

The Sarbanes-Oxley Act

On July 30, 2002, President George W. Bush signed into law the Sarbanes-Oxley Act of 2002. The Sarbanes-Oxley Act implements a broad range of corporate governance and accounting measures for public companies designed to promote honesty and transparency in corporate America and better protect investors from the type of corporate wrongdoing that occurred in Enron, WorldCom and similar companies. The Sarbanes-Oxley Act's principal legislation includes:

* the creation of an independent accounting oversight board;

* auditor independence provisions which restrict non-audit services that accountants may provide to their audit clients;

* additional corporate governance and responsibility measures, including the requirement that the chief executive officer and chief financial officer certify financial statements;

* the forfeiture of bonuses or other incentive-based compensation and profits from the sale of an issuer's securities by directors and senior officers in the twelve month period following initial publication of any financial statements that later require restatement;

* an increase the oversight of, and enhancement of certain requirements relating to audit committees of public companies and how they interact with the company's independent auditors.

* requirement that audit committee members must be independent and are absolutely barred from accepting consulting, advisory or other compensatory fees from the issuer;

* requirement that companies disclose whether at least one member of the committee is a "financial expert" (as such term will be defined by the Securities and Exchange Commission) and if not, why not;

* expanded disclosure requirements for corporate insiders, including accelerated reporting of stock transactions by insiders and a prohibition on insider trading during pension blackout periods;

* a prohibition on personal loans to directors and officers, except certain loans made by insured financial institutions;

* disclosure of a code of ethics and filing a Form 8-K for a change or waiver of such code;

* mandatory disclosure by analysts of potential conflicts of interest; and

* a range of enhanced penalties for fraud and other violations.

Although we anticipate that we will incur additional expense in complying with the provisions of the Sarbanes-Oxley Act and the resulting regulations, management does not expect that such compliance will have a material impact on our results of operations or financial condition.

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Competition

The Company faces intense competition both in making loans and attracting deposits. Eastern Massachusetts has a high concentration of financial institutions, many of which are branches of large money center and regional banks that have emerged from the consolidation of the banking industry in Massachusetts and surrounding states. Some of these competitors have greater resources and therefore may offer services that Port and the Bank do not provide.

Competition for loans comes from commercial banks, savings institutions, mortgage banking firms, credit unions, finance companies, mutual funds, insurance companies and brokerage and investment banking firms. The 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 and other corporate

and government securities funds, and from brokerage firms and insurance companies.

Personnel

As of December 31, 2002, the Company had 163 full-time employees and 36 part-time employees. The employees are not represented by a collective bargaining unit.

ITEM 2. PROPERTIES

Port conducts business from its administrative center at 1380 Soldiers Field Road, Brighton, Massachusetts, and from its ten full-service banking offices. Port and certain administrative and operations departments of the Bank, including the Telebanking Center, occupy approximately 42,000 square feet of the 74,000 square-foot administrative center, which is owned by a subsidiary of the Bank. Tenants under long-term leases occupy the remainder of the building.

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The Bank's headquarters and its main branch are located at 689 Massachusetts Avenue in Cambridge, in a three-story building owned by the Bank. The building contains approximately 40,000 square feet. An unaffiliated company occupies the upper two floors under a long-term lease. As of December 31, 2002, the Company's properties and leasehold improvements had an aggregate net book value of $20.6 million.

Location	Ownership	Year Opened	Lease or License Expiration (1)
Corporate Headquarters 1380 Soldiers Field Road Brighton, MA 02135	Owned	2000	-
Bank Headquarters/Main Office: 689 Massachusetts Avenue Cambridge, MA 02139	Owned	1903	-
Branch Offices: 1751 Massachusetts Avenue Lexington, MA 02420	Leased	1978	2013
522 Main Street Winchester, MA 01890	Leased	1980	2009
Harvard Square Office 1290 Massachusetts Avenue Cambridge, MA 02139	Leased	1985	2016
177 Linden Street Wellesley, MA 02482	Leased	1994	2008
1243 Centre Street Newton, MA 02459	Leased	1995	2010
133 Chapel Street Needham, MA 02492	Leased	1995	2015
860 Massachusetts Avenue Arlington, MA 02476	Leased	2000	2015
315 Harvard Street Brookline, MA 02446	Leased	2002	2016
Supermarket Offices: 150 W. Central Street Natick, MA 01760	Leased	1997	2004
338 Washington Street Westwood, MA 02090	Licensed	1997	2008
Other general office space: 2150 Washington Street	Leased	1998	2003

Newton, MA 02462 (2)

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(1) Lease expiration dates assume all options to extend lease terms are exercised.

(2) This office is currently subleased to an unaffiliated company through the lease term, which expires on September 30, 2003. The Company does not intend to extend this lease after the expiration period.

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ITEM 3. LEGAL PROCEEDINGS

Neither the Company nor the Bank is involved in any pending legal proceeding other than routine legal proceedings occurring in the ordinary course of business. The Company believes that these routine legal proceedings, in the aggregate, are immaterial to its financial condition and results of operation.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matter was submitted to security holders, through the solicitation of proxies or otherwise, during the quarter ended December 31, 2002.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Port's common stock is traded under the symbol "PORT" on the Nasdaq National Market. At December 31, 2002, its common stock closed at $44.60 per share. At March 12, 2003, there were 5,287,401 shares of Port Financial Corp.'s common stock outstanding, which were held of record by approximately 1,889 stockholders, not including persons or entities who hold the stock in nominee or "street" name through various brokerage firms.

Management and the Board of Directors frequently review the Company's cash dividend payout policy. The Board of Directors considers paying dividends, dependent on the results of operations and financial condition of Port, tax considerations, industry standards, economic conditions, regulatory restrictions and other factors. Port's ability to pay dividends also may depend on the dividends it receives from its subsidiary, Cambridgeport Bank. Dividend payments from the Bank are subject to regulations including the Bank's continued compliance with all regulatory capital requirements and its overall financial health.

On January 28, 2003, the Board of Directors of Port Financial Corp. declared a quarterly cash dividend of $.20 per share of common stock, which was paid on February 21, 2002 to shareholders of record on February 7, 2002.

The table below shows the high and low sales price during the periods indicated as well as dividends declared per share. The information set forth in the table below was provided by the Nasdaq Stock Market. Such information reflects interdealer prices without retail mark-up or mark-down, and may not represent actual transactions.

	Price Range		Dividends
For the Fiscal Year Ended December 31, 2002	High	Low	
Fourth Quarter ended December 30, 2002	$45.27	$37.50	$.18
Third Quarter ended September 30, 2002	40.85	35.50	.15
Second Quarter ended June 30, 2002	40.09	30.05	.15
First Quarter ended March 31, 2002	32.68	24.58	.10
	Price Range		Dividends

For the Fiscal Year Ended December 31, 2001	High	Low	
Fourth Quarter ended December 30, 2001	$28.39	$22.20	$.07
Third Quarter ended September 30, 2001	23.88	19.92	.07
Second Quarter ended June 30, 2001	20.25	17.75	.05
First Quarter ended March 31, 2001	20.25	17.06	.05

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ITEM 6. SELECTED FINANCIAL AND OTHER DATA

The summary information presented below at or for each of the years presented is derived in part from the consolidated financial statements of Port Financial Corp. The following information is only a summary and should be read in conjunction with the consolidated financial statements and notes beginning on page F-1.

	At December 31,				
	2002	2001	2000	1999	1998
	(In thousands)				
Selected Financial Data:					
Total assets.	$1,469,265	$1,138,210	$1,004,669	$762,741	$678,087
Loans, net(1)	850,061	776,220	688,205	577,029	496,390
Investment securities available for sale	509,504	265,495	181,196	131,647	144,829
Investment securities held to maturity	39,807	14,444	22,332	-	-
Deposits (2)	1,160,528	888,519	809,822	621,319	568,075
Federal Home Loan Bank advances	175,566	115,249	35,801	55,891	27,066
Stockholders' equity/retained earnings	121,093	123,398	152,053	79,130	76,088
Allowance for loan losses	10,007	9,321	8,059	7,081	6,633
Non-performing assets	361	133	134	128	963

	For the Years Ended December 31,				
	2002	2001	2000	1999	1998
	(In thousands)				
Selected Operating Data:					
Interest and dividend income	$ 81,358	$ 69,636	$ 62,398	$ 49,971	$ 48,656
Interest expense	36,238	34,748	32,703	25,706	25,880
Net interest income	45,120	34,888	29,695	24,265	22,776
Provision for loan losses	650	1,225	916	740	1,760
Net interest income after provision for loan losses	44,470	33,663	28,779	23,525	21,016
Total non-interest income	5,396	7,296	2,559	3,059	3,571
Total non-interest expenses	28,336	24,790	22,290	19,620	18,042
Income before provision for income taxes	21,530	16,169	9,048	6,964	6,545
Provision for income taxes	7,951	5,803	3,147	2,190	2,357
Net income	$ 13,579	$ 10,366	$ 5,901	$ 4,774	$ 4,188
Basic earnings per share	$ 2.85	$ 1.74	N/A	N/A	N/A
Diluted earnings per share	$ 2.72	$ 1.71	N/A	N/A	N/A

(1) Loans include loans held for sale and are shown net of deferred loan fees and allowance for loan loss.

(2) Includes mortgagor's escrow payments.

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	At or for the Years Ended December 31,				
	2002	2001	2000	1999	1998
Selected Financial Ratios and Other Data					
Performance Ratios:					
Return on average assets	1.03%	1.01%	0.67%	0.67%	0.63%
Return on average equity	11.95	7.69	4.60	6.34	5.93
Average equity to average assets	8.58	13.15	14.65	10.56	10.71
Equity to total assets at end of period	8.24	10.84	15.13	10.37	11.22
Average interest rate spread	3.18	2.89	2.77	2.98	2.94
Net interest margin(3)	3.53	3.56	3.56	3.53	3.56
Average interest-earning assets to average interest-bearing liabilities	111.54	117.79	120.10	114.71	115.32
Total non-interest expense to average assets	2.14	2.42	2.55	2.76	2.73
Efficiency ratio(4)	56.09	58.77	69.11	71.81	68.64
Dividend payout ratio	21.14	14.12	N/A	N/A	N/A
Regulatory Capital Ratios:					
Regulatory Tier 1 leverage capital	7.58	10.56	15.37	10.42	10.66
Tier 1 risk-based capital	15.41	18.33	24.83	17.51	18.74
Total risk-based capital	17.14	20.05	26.50	19.29	20.54
Asset Quality Ratios:					
Non-performing loans as a percent of total loans	0.04	0.02	0.02	0.02	0.19
Non-performing assets as a percent of total assets	0.02	0.01	0.01	0.02	0.14
Allowance for loan losses as a percent of total loans	1.18	1.19	1.16	1.21	1.32
Number of:					
Full-service offices	11	10	11	10	10
Telebanking Center	1	1	1	1	1
Full-time equivalent employees	180	191	196	193	179

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

(4) The efficiency ratio represents the ratio of non-interest expenses divided by the sum of net interest income and non-interest income excluding gains or losses on sales of investments and provision for loan losses.

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

For the Years Ended 2002, 2001, and 2000

The following discussion and analysis of financial condition and results of operations of the Company and its subsidiaries should be read in conjunction with the consolidated financial statements and accompanying notes and selected statistical information incorporated by reference.

Critical Accounting Policies

The Company's significant accounting policies are described in Note 1 to the consolidated financial statements included in Item 14 of this Form 10-K. The Company considers the following accounting policies to be most critical in their potential effect on its financial position or results of operations:

Allowance for Loan Losses

The allowance for loan losses is established through a charge to the provision for loan losses, which are made in order to reserve for estimated future loan losses. The allowance for loan losses represents a significant estimate. Therefore, the Company regularly reviews the adequacy of the allowance by assessing such factors as: changes in the mix and size of the loan portfolio; trends in portfolio credit quality including payment delinquencies and loan charge-offs; and other economic conditions or events that may affect a borrower's ability to repay. The Company's methodology with respect to the assessment of the adequacy of the allowance for loan losses is more fully discussed on pages 24-25 of Management's Discussion and Analysis.

Income Taxes

The Company must estimate income tax expense for each period for which a statement of operations is presented. This involves estimating the Company's actual current tax exposure as well as assessing temporary differences resulting from differing treatment of items, such as timing of the deduction of expenses for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are included in the Company's consolidated balance sheets. The Company must also assess the likelihood that any deferred tax assets will be recovered from future taxable income and establish a valuation allowance for those assets determined to not likely be recoverable. Management judgement is required in determining the amount and timing of recognition of the resulting deferred tax assets and liabilities, including projections of future taxable income. As of December 31, 2002, there were no valuation allowances set aside against any deferred tax assets.

Interest Income Recognition

Interest on loans is included in income as earned based upon interest rates applied to unpaid principal. Interest is not accrued on loans 90 days or more past due unless the loans are adequately secured and in the process of collection. Interest is not accrued on other loans when management believes collection is doubtful. All loans considered impaired are nonaccruing. Interest on nonaccruing loans is recognized as payments are actually received and when the ultimate collectibility of interest is no longer considered doubtful. When a loan is placed on nonaccrual status, all unpaid interest previously accrued is reversed against current-period interest income.

General

Port's operating results reflect earnings on its investments and the net income of its principal operating subsidiary, Cambridgeport. Cambridgeport's results of operations depend primarily on net interest income. Net interest income is the difference between the income earned on interest-earning assets and the interest paid on interest-bearing liabilities.

Interest-earning assets consist of residential mortgage loans including home equity loans, commercial mortgage loans, consumer loans, mortgage-backed securities, other investment securities and interest-bearing cash balances. Interest-bearing liabilities include certificates of deposit, savings, money market and NOW account deposits, and borrowings from the Federal Home Loan Bank of Boston. The Company's operating results also depend on the provision for loan losses, non-interest income, and non-interest expense. Non-interest expense includes salaries and employee benefits, occupancy expenses and other general and administrative expenses. Non-interest income includes service fees and charges.

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Port's results of operations may be affected significantly by economic and competitive conditions in its market area and elsewhere, including government policies, actions of regulatory authorities, and other events that may have an influence on interest rates. Future changes in applicable laws, regulations or government policies may materially impact the Company and the Bank. Furthermore, much of the Bank's loan portfolio is concentrated in loans secured by real estate located in the Boston metropolitan area.

The Company's total assets increased $331.1 million, or 29.1%, to $1.47 billion at December 31, 2002, from $1.14 billion at December 31, 2001. This asset growth included a $73.8 million increase in net loans and loans held for sale, nearly all of which were secured by residential or commercial real estate. Asset growth also included an increase of $273.5 million in investment securities, including mortgage-backed securities.

Asset growth was funded by deposits, which rose by $272.0 million, or 30.6%, to $1.16 billion at December 31, 2002, and by an increase in Federal Home Loan Bank borrowings of $60.3 million, or 52.3%. During 2002, the Bank focused its marketing efforts on acquiring new core deposit and loan relationships. The Bank's Money Manager Checking Account marketing campaign began in April, offering a premium-rate checking account to high balance checking account customers. The promotion offered a rate of 4%, guaranteed through September 30, 2002. This promotion was the primary reason for the deposit growth during 2002.

Total stockholders' equity at December 31, 2002 was $121.1 million, a reduction of $2.3 million from $123.4 million at December 31, 2001. The Company repurchased a total of 593,365 shares during 2002 at a total cost of $21.6 million, which reduced stockholders' equity. The effect of these repurchases on stockholders' equity was partially offset by increases of $10.7 million in retained earnings and $5.0 million in accumulated other comprehensive income.

FINANCIAL CONDITION

Investment Portfolio

Port's investment policy provides that its investment portfolio be used to limit the Company's exposure to interest rate changes, to generate a favorable return without incurring undue credit risk and to maintain adequate levels of liquidity. Therefore, short and intermediate term government, government agency, and investment grade (rated "A" or better) corporate fixed income securities comprise $538.8 million of the portfolio as of December 31, 2002. Other marketable equity securities of $10.5 million include shares of Cambridge Bancorp, whose principal subsidiary is Cambridge Trust Company. Additional equity holdings include investment in the Federal Home Loan Bank of Boston and the Savings Bank Life Insurance Company.

The Company believes that the credit quality of the portfolio is high, with 96% of the fixed income portfolio invested in securities issued or guaranteed by U.S. Government Agencies as of December 31, 2002. These include securities that are backed by residential mortgages, which are predominately adjustable-rate mortgages. The mortgage-backed securities portfolio also includes securities backed by 5-year and 7-year balloon mortgages. The entire principal balance of a balloon mortgage is due prior to the completion of the normal 30-year amortization schedule. The remaining 4% of the fixed income portfolio consists of corporate bonds with maturities of less than five years. The amortized cost of the securities that mature or reprice within five years is $81.1 million or 15.1% of the total fixed income securities portfolio.

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The following table sets forth the composition of the investment securities portfolio at the dates indicated.

	At December 31,					
	2002		2001		2000	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(Dollars in thousands)					
Investment securities available for sale:						
Federal agency securities	$ 59,127	$ 59,769	$ 24,759	$ 25,358	$ 51,123	$ 51,427
Other debt securities	21,000	21,436	57,039	58,908	66,112	66,859
Mortgage-backed securities	408,228	417,798	171,950	173,012	45,126	45,436
Collateralized Mortgage obligations	-	-	-	-	10,012	10,078
Total investment securities	488,355	499,003	253,748	257,278	172,373	173,800
Marketable equity securities	2,795	10,501	1,645	8,217	1,844	7,396
Total securities available for sale	491,150	509,504	255,393	265,495	174,217	181,196
Investment securities held to maturity:						
Federal agency securities	5,000	5,005	12,000	12,042	19,000	19,019
Mortgage-backed securities	34,807	35,605	2,444	2,583	3,332	3,423
Total securities held to maturity	39,807	40,610	14,444	14,625	22,332	22,442
Total securities	$ 530,957	$ 550,114	$ 269,837	$ 280,120	$ 196,549	$ 203,638
Federal Home Loan Bank stock	10,196	10,196	6,273	6,273	4,951	4,951
Savings Bank Life Insurance stock	1,934	1,934	1,934	1,934	1,934	1,934

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The following table sets forth the amortized cost and fair value of mortgage-backed and mortgage-related securities, which are classified as available for sale or held to maturity as of the dates indicated.

At December 31,								
2002			2001			2000		
Amortized Cost	Percent of	Fair Value	Amortized Cost	Percent of	Fair Value	Amortized Cost	Percent of	Fair Value

	Total		Total			Total		
			(Dollars in thousands)					
Mortgage-backed and mortgage-related securities available for sale:								
Ginnie Mae	$ 71,719	17.57%	$ 72,444	$ 6,991	4.07%	$ 7,054	$10,420	18.90%	$10,351
Fannie Mae	224,548	55.00	231,165	112,495	65.42	113,022	24,032	43.59	24,263
Freddie Mac	111,961	27.43	114,189	52,464	30.51	52,936	10,674	19.36	10,822
Collateralized mortgage obligations	-	-	-	-	-	-	10,012	18.15	10,078
Total mortgage-backed and mortgage-related securities available for sale	$408,228	100.00%	$417,798	$171,950	100.00%	$173,012	$55,138	100.00%	$55,514
Mortgage-backed and mortgage-related securities held to maturity:									
Fannie Mae	$ 34,807	100.00%	$ 35,605	$ 2,444	100.00%	$ 2,583	$ 3,332	100.00%	$ 3,423
Total mortgage-backed and mortgage-related securities held to maturity	$ 34,807	100.00%	$ 35,605	$ 2,444	100.00%	$ 2,583	$ 3,332	100.00%	$ 3,423

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The composition and maturities of the investment securities portfolio (debt securities) and the mortgage-backed securities portfolio at December 31, 2002 are summarized in the following table. Maturities are based on the final contractual payment dates, and do not reflect the impact of prepayments or redemptions that may occur.

	One Year or Less		More than One Year Through Five Years		More than Five Years Through Ten Years		More than Ten Years		Total Securities		
	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Market Value	Weighted Average Yield
					(Dollars in thousands)						
Investment securities available for sale:											
Federal agency securities	$ 5,0[illegible]	[illegible]4%	$41,1[illegible]	[illegible]9%	$ 13,0[illegible]	[illegible]8%	$ -	-%	$ 59,127	$ 59,769	3.60%
Other debt securities	17,0[illegible]	[illegible]2	3,9[illegible]	[illegible]3	-	-	-	-	21,000	21,436	7.05
Mortgage-backed securities	6[illegible]	[illegible]0	8,3[illegible]	[illegible]1	162,97[illegible]	[illegible].71	236,261	5.08	408,228	417,798	4.93

Total securities available for sale	22,661	1.62	53,500	3.60	175,974	4.76	236,261	5.08	488,355	499,003	4.86
Investment securities held to maturity:											
Federal agency securities	5,000	1.68	-	-	-	-	-	-	5,000	5,005	1.68
Mortgage-backed securities	-	-	-	-	24,815	5.06	9,992	4.91	34,807	35,605	5.02
Total securities held to maturity	5,000	1.68	-	-	24,815	5.06	9,992	4.91	39,807	40,610	4.60
Total	$27,661	[illegible]	$53,500	3.60%	$200,789	4.79%	$246,253	5.07%	$528,162	$539,613	4.84%

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Loan Portfolio

The Bank provides one- to-four-family residential first mortgage loans, home equity loans and credit lines, commercial real estate loans, construction loans, consumer loans and commercial business loans. The Bank's loan policy establishes underwriting standards to address the risks of these types of loans, including maximum loan-to-value ratios for various collateral categories. The policy also contains lending authority guidelines by loan type. All commercial real estate must be approved by the Credit Committee, which consists of the Chief Executive Officer, the Executive Vice President, the Chief Financial Officer and two outside members of the Board of Directors. Minutes of the weekly Credit Committee meetings list all approved loans. At its monthly meetings, the Bank's Board of Directors reviews the Credit Committee minutes as well as summaries of all Credit Committee loan approvals. The Bank's lending strategy emphasizes real estate financing, and the importance of staffing key officer, management and director positions with individuals who have many years of commercial and residential lending experience in Eastern Massachusetts, and who are well-known in the marketplace.

As part of its strategy to limit exposure to interest rate fluctuations, the Bank generally sells most 30-year fixed rate residential loans it originates, and retains most adjustable rate loans and its Express Mortgage loans. Express Mortgages are 10-year and 15-year fully amortizing fixed rate first mortgage loans. At December 31, 2002, the gross loan portfolio totaled $860.1 million, up $74.5 million, or 9.5%, from the 2001 year-end balance of $785.6 million. At the end of 2002, 73.0% of total loans were scheduled to mature or reprice within five years.

Loans collateralized by real estate represented $856.2 million, or 99.6% of total gross loans at the end of 2002, compared to $780.6 million, or 99.4%, at the end of 2001. Residential first mortgage loans of $482.3 million comprised 56.1% of the December 31, 2002 loan portfolio, up from 52.6% at the end of 2001. Of the total residential mortgage portfolio, $102.5 million represented Express Mortgages at December 31, 2002 compared to a balance of $57.8 million at December 31, 2001. Declining residential mortgage rates during 2002 produced strong demand from homeowners interested in refinancing into fixed rate mortgages, including both Express and 30-year mortgages.

Commercial real estate and commercial construction loan balances of $297.2 million were up $19.9 million, or 7.2%, over the year-end 2001 balance of $277.3 million. The percentage of the gross loan portfolio represented by commercial real estate and construction loans declined from 35.3% at the end of 2001 to 34.6% at the end of 2002. Within the December 31, 2002 commercial real estate portfolio balance, loans secured by multi-unit residential buildings represent the largest segment, $98.8 million, or 33.8% of the total portfolio, compared to $84.2 million, or 31.7% of the total portfolio balance at December 31, 2001. The next two largest segments, by collateral type, are loans secured by mixed office/retail properties and office buildings, representing 18.1% and 15.5% of the portfolio respectively. Loans secured by hospitality properties declined during 2002, from $16.8 million or 6.3% of the portfolio balance at the end of 2001, to $15.1 million or 5.1% of the portfolio at December 31, 2002. In addition to the pledged collateral, all hospitality loans are fully guaranteed by the property owners, and all are performing.

Outstanding balances under home equity lines of credit were $76.8 million at December 31, 2002, representing a 14.8% decrease from $90.1 million at December 31, 2001. Home equity lines of credit balances represented 8.9% of total gross loans as of December 31, 2002 compared to 11.5% at year-end 2001. Many home equity customers took advantage of low interest rates during 2002 to combine their home equity outstandings with refinanced first mortgages.

Loan portfolio balances at the end of 2001 were up $88.0 million, or 12.8%, from the end of 2000. All of the growth was in loans collateralized by real estate.

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The following table presents the composition of the loan portfolio in dollar amounts and in percentages of the total portfolio at the dates indicated.

	At December 31,									
	2002		2001		2000		1999		1998	
	Amount	Percent Of Total	Amount	Percent of Total	Amount	Percent Of Total	Amount	Percent of Total	Amount	Percent of Total
	(Dollars in thousands)									
Real estate loans:										
Residential (1)	$482,279	56.07%	$413,201	52.60%	$354,341	50.89%	$297,709	50.97%	$247,205	49.14%
Commercial	292,160	33.97	265,854	33.84	241,325	34.66	212,833	36.44	188,541	37.48
Home equity lines of credit	76,801	8.93	90,105	11.47	82,885	11.90	62,458	10.68	56,502	11.24
Construction and land	5,000	0.58	11,442	1.46	11,458	1.66	3,716	0.64	2,741	0.54
Total real estate loans	$856,240	99.55 %	$780,602	99.37 %	$690,009	99.10 %	$576,716	98.73 %	$494,989	98.40 %
Other loans:										
Commercial	1,078	0.13	653	0.08	1,083	0.16	1,348	0.23	724	0.15
Consumer	2,750	0.32	4,286	0.55	5,172	0.74	6,046	1.04	7,310	1.45
Total other loans	3,828	0.45	4,939	0.63	6,255	0.90	7,394	1.27	8,034	1.60
Total gross loans	860,068	100.00%	785,541	100.00%	696,264	100.00%	584,110	100.00%	503,023	100.00%
Less:										
Allowance for loan losses	10,007		9,321		8,059		7,081		6,633	

Total loans, net	$850,061	$776,220	$688,205	$577,029	$496,390

(1) Includes loans held for sale.

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The following table shows the repricing dates or contractual maturity dates of the Bank's loans as of December 31, 2002. The table does not reflect prepayments or scheduled principal amortization.

	At December 31, 2002						
	Residential Loans	Commercial Real Estate	Home Equity Line of Credit	Construction and Land Loans	Commercial Loans	Consumer Loans	Totals
				(In thousands)			
Amounts due:							
Within one year	$ 30,165	$ 37,002	$76,801	$5,000	$ 388	$2,004	$151,360
After one year:							
One to three years	79,445	56,491	-	-	320	676	136,932
Three to five years	195,668	143,335	-	-	55	70	339,128
Five to ten years	55,830	46,117	-	-	315	-	102,262
Ten to twenty years	86,949	8,960	-	-	-	-	95,909
Over twenty years	34,222	255	-	-	-	-	34,477
Total due after one year	452,114	255,158	-	-	690	746	708,708
Total amount due:	$482,279	$292,160	$76,801	$5,000	$1,078	$2,750	$860,068
Less:							
Allowance for loan losses							10,007
Loans, net							$850,061

The following table presents, as of December 31, 2002, the dollar amount of all loans contractually due or scheduled to reprice after December 31, 2003 and whether such loans have fixed interest rates or adjustable interest rates.

	Due After December 31, 2003		
	Fixed	Adjustable	Total
		(In thousands)	
Real Estate Loans			
Residential	$159,245	$292,869	$452,114
Commercial	62,220	192,938	255,158
Total real estate loans	221,465	485,807	707,272
Other Loans			

Commercial	690	-	690
Consumer	746	-	746
Total other loans	1,436	-	1,436
Total loans	$222,901	$485,807	$708,708

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Loan Portfolio Quality

One of the Company's operating objectives is to maintain a high level of asset quality. The Company believes that it sets sound credit standards for new loans and follows careful loan administration procedures. These practices and relatively favorable economic and real estate market conditions have resulted in low delinquency ratios and, in recent years, a low level of non-performing assets. The Company's policies require frequent monitoring of the status of the loan portfolio and monthly reporting to the Board of Directors and the Credit Committee. These management reports include information on delinquent loans and foreclosed real estate, as well as management's plans to cure any delinquent loans and to dispose of the foreclosed property.

The Company generally stops accruing income when interest or principal payments are 90 days in arrears. It may stop accruing income on certain loans earlier than 90 days, when the collection of contractual interest or principal payments appears to be doubtful. When a loan is designated non-accrual, the Company reverses all unpaid interest that had previously been credited to income. If the Company receives a payment on a non-accrual loan, it may recognize a portion of that payment as interest income if the ultimate collectibility of principal is no longer in doubt. However, such loans would remain on non-accrual status. For a loan to return to accrual status the borrower must have made all past due interest and principal payments, and the full collection of principal and interest must no longer be in doubt.

At December 31, 2002 and 2001, the Company classified approximately $361,000 and $133,000 respectively as non-accrual loans. The non-accrual loan balance at the end of 2002 included one residential mortgage totaling $283,000, with the remaining balance comprised of consumer loans; all non-accrual loans as of December 31, 2001 were consumer loans.

Under the Company's loan policy, any non-accrual commercial real estate and commercial loans would be considered impaired. Impaired loans are individually assessed to determine whether the carrying value exceeds the fair value of the collateral or the present value of the cash flow generated from the underlying collateral. Smaller balance homogeneous loans that have been designated as non-accrual, such as residential mortgage loans, are evaluated collectively for impairment.

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The following table presents information regarding non-accrual real estate loans, accruing loans delinquent 90 days or more, and foreclosed real estate as of the dates indicated. If all non-performing loans had been performing in accordance with their original terms and had been outstanding from the earlier of the beginning of the period or origination, the Company would have recorded interest income on these loans of approximately $25,000 for 2002, $14,000 for 2001, and $7,000 for 2000.

	At December 31,				
	2002	2001	2000	1999	1998
	(In thousands)				
Non-accrual real estate loans					
Residential	$283	$ -	$ -	$ 32	$290

Total non-accrual real estate loans	283	-	-	32	290
Other loans:					
Commercial	-	-	-	-	-
Consumer	78	133	134	96	-
Total non-accrual other loans	78	133	134	96	-
Total non-accrual real estate and other loans	-	133	134	128	290
Accruing loans delinquent 90 days or more	-	-	-	-	673
Total non-performing loans	361	133	134	128	963
Foreclosed real estate, net	-	-	-	-	-
Total non-performing assets	361	133	134	128	963
Non-performing loans to total loans	0.04 %	0.02 %	0.02 %	0.02 %	0.19 %
Non-performing assets to total assets	0.02 %	0.01 %	0.01 %	0.02 %	0.14 %

Allowance for Loan Losses

The Company maintains an allowance for loan losses through a provision that is charged to income. Management determines the adequacy of the allowance through regular monitoring of the loan portfolio, and quarterly assessments of the loss potential in the portfolio. Although it involves significant uncertainties, this review process takes into account historical loan loss experience, known and inherent risks in the loan portfolio, changes in categories with higher loss potential such as commercial real estate loans and jumbo residential mortgage loans and the estimated values of the underlying collateral. Management also considers the effects on the portfolio and its underlying collateral from economic and market trends. Management's methodology for assessing the adequacy of the allowance includes a review of the components, which include a formula allowance for performing loans and a specific allowance for any identified problem loans. Changes in the volume and concentrations of performing loans affects the formula allowance and the allocation of the allowance among types of loans. Changes in the balance of impaired loans affect the specific allowance.

The specific allowance incorporates the results of measuring impairment for specifically identified problem loans in accordance with SFAS No. 114, "Accounting By Creditors for Impairment of a Loan," and SFAS No. 118, "Accounting by Creditors for Impairment of a Loan--Income Recognition and Disclosures." In accordance with SFAS No.'s 114 and 118, the specific allowance reduces the carrying amount of the impaired loans to their estimated fair value. A loan is recognized as impaired when it is probable that principal and/or interest are not collectible in accordance with the loan's contractual terms. Measurement of impairment is based on the present value of anticipated future cash flows, fair value of collateral, or the loan's observable market price. Measurement of impairment does not apply to large groups of smaller balance homogeneous loans such as consumer installment and student loans. As of December 31, 2002, the Company had no impaired loans. At December 31, 2002 the

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Company identified potential problems loans of $13.9 million not included in non-performing loans. Payments on these loans are all current as of December 31, 2002.

The formula allowance is calculated by applying loss factors to outstanding loans by type, excluding loans for which a specific allowance has been determined, loans held for sale and loans that are secured by pledged deposits. Each quarter, the Bank prepares an allowance for loan loss worksheet which categorizes the loan portfolio by risk characteristics such as loan type and loan grade. Changes in the mix of loans and the internal loan grades affect the amount of the formula allowance. Loss factors are assigned to each category based on the Bank's assessment of each category's inherent risk. In determining the loss factors to apply to each loan category, the Bank considers historical losses, peer group comparisons, industry data and loss percentages used by banking regulators for similarly graded loans. Because the determination of future loss potential is inherently uncertain, a portion of the formula allowance is not allocated to any loan category. This non-specific reserve is maintained because the analysis of the economy, the business environment, and other external factors is inherently a subjective and imprecise process, and therefore the impact of such external factors on the portfolio can be precisely measured.

For the fiscal year ended December 31, 2002, the Company increased the allowance for loan losses through a $650,000 provision for loan losses, based on an evaluation process described above. The provision, plus net recoveries totaling $36,000 of previously charged off loans, increased the allowance for loan losses to $10.0 million, from $9.3 million at the end of 2001. At December 31, 2002, the allowance represented 1.18% of total loans, net of loans held for sale and loans secured by cash deposits. This compares to 1.19% at the end of 2001. The $650,000 provision represented a decrease of $575,000 from the 2001 provision of $1.2 million. Management cited several factors in its decision to reduce the provision. First, the total loan growth, not including loans held for sale, of $62.4 million in 2002, was down from growth of $89.3 million the previous year. Second, growth in commercial real estate and construction loans was $19.9 million during 2002 compared to $24.5 million during 2001. Third, the portion of the portfolio representing home equity lines of credit declined by $13.3 million during 2002; during 2001, the home equity lines of credit portfolio grew by $7.2 million. The allowance for loan losses as of December 31, 2002 as a percentage of total loans was 1.18%, essentially unchanged from 1.19% at December 31, 2001.

The unallocated portion of the allowance was $1.2 million at December 31, 2002, $2.1 million at December 31, 2001 and $1.4 million at December 31, 2000. This represented 11.8% of the total allowance as of December 31, 2002, 22.0% as of December 31, 2001, and 17.9% as of December 31, 2000.

Although the Company believes that the allowance for loan losses is adequate, future additions may be necessary if economic conditions, real estate values and other factors differ substantially from the current operating environment.

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The following table presents the activity in the allowance for loan losses and other ratios at or for the dates indicated.

	At or for Years Ended December 31,				
	2002	2001	2000	1999	1998
	(Dollars in thousands)				
Balance at beginning of year	$ 9,321	$ 8,059	$ 7,081	$ 6,633	$ 4,907
Charge-offs:					
Residential	-	(18)	-	-	-
Commercial loans	-	(2)	-	-	-
Consumer loans	(42)	(28)	(38)	(407)	(44)
Total charge-offs	(42)	(48)	(38)	(407)	(44)
Recoveries:					
Residential	-	-	-	5	2
Commercial real estate	-	-	-	107	3
Consumer loans	78	85	100	3	5
Total recoveries	78	85	100	115	10
Net (charge-offs) recoveries	36	37	62	(292)	(34)
Provision for loan losses	650	1,225	916	740	1,760
Balance at end of year	$ 10,007	$ 9,321	$ 8,059	$ 7,081	$ 6,633
Total loans receivable (1)	$845,427	$782,666	$694,527	$582,875	$498,194
Average loans outstanding	$846,687	$756,233	$638,438	$533,733	$462,528

Allowance for loan losses as a Percent of total loans receivable(1)	1.18%	1.19%	1.16%	1.21 %	1.33 %
Net loans (charged off) recoveries as a Percent of average loans outstanding	0.00%	0.00%	0.01%	(0.05)%	(0.01)%

(1) Does not include loans held for sale or passbook loans.

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The following tables set forth the allowance for loan losses allocated by loan category, the total loan balances by category, and the percent of loans in each category to total loans indicated

	At December 31,											
	2002			2001			2000			1999		
Loan Category	Amount	Loan Balances by Category	Percent of Loans in Each Category to Total Loans	Amount	Loan Balances by Category	Percent of Loans in Each Category to Total Loans	Amount	Loan Balances by Category	Percent of Loans in Each Category to Total Loans	Amount	Loan Balances by Category	Perce of Loa in Eac Catego to Tot Loan
Real estate-mortgages:												
Residential(1)	$ 3,910	$545,362	64.51%	$3,171	$501,735	64.11%	$2,823	$436,403	62.85%	$2,352	$360,167	61.8
Commercial and land	4,793	297,160	35.15	3,914	277,296	35.43	3,552	252,783	36.41	3,042	216,549	37
Commercial loans	17	1,078	0.13	10	653	0.08	17	1,083	0.16	22	1,348	0
Consumer loans(2)	103	1,827	0.21	176	2,979	0.38	228	4,031	0.58	297	4,471	0
Unallocated	1,184	-	-	2,050	-	-	1,439	-	-	1,368	-	
Total allowance for loan losses	$10,007	$845,427	100.00%	$9,321	$782,663	100.00%	$8,059	$694,300	100.00%	$7,081	$582,535	100.0

(1) Includes home equity lines of credit, excludes loans held for sale.

(2) Excludes passbook loans.

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Deposits

Deposit flows are influenced by a number of factors including general economic conditions, economic conditions in communities served by the Company's branches, the perceived strength of the stock market, prevailing interest rates and competition from other financial institutions. Most of the Company's deposits come from areas surrounding its branch offices. To attract and retain deposits, the Company utilizes a strategy that incorporates competitive pricing with high quality service. It determines deposit rates by evaluating competitors' pricing, the cost of obtaining funds from other sources, rates on U.S. Treasury securities and other related financial instruments.

Total deposits rose by $272.0 million, or 30.6%, to $1.2 billion at December 31, 2002, from $888.5 million at the end of 2001. During 2002, the Company focused its branch strategy and marketing efforts on acquiring new consumer and small business core deposit relationships. The Money Manager Checking marketing campaign, which was introduced in March, offered a premium rate guaranteed through September 30, 2002. In September the Company introduced the Money Manager Savings account, a money market account available to checking account customers. As the Company reduced the rate on the Money Manager Checking account during the fourth quarter of 2002, many customers moved funds from Money Manager Checking into Money Manager Savings. The promotion was the primary reason for the deposit growth during 2002, which was also a period when customers were moving funds out of the stock market. This included 41.1% growth in NOW account balances, which rose from $112.5 million at December 31, 2001 to $158.7 million at the end of 2002, and 53.3% growth in money market account balances, from $334.7 million at the end of 2001 to $512.9 million at the end of 2002. Another reason for the deposit growth was the addition of a new branch office. In April, 2002 the Company opened a new banking office in Brookline, Massachusetts. At December 31, 2002, the Brookline branch had total deposit balances of $59.8 million.

Demand deposit balances increased $3.8 million, to $62.1 million at December 31, 2002 from $58.2 million at the end of the previous year. Certificates of Deposit rose $34.7 million, to $361.8 million at the end of 2002 from $327.1 million at December 31, 2001. Savings account balances increased by $9.0 million, to $65.0 million at December 31, 2002 from $56.0 million at December 31, 2001. Balances in savings accounts have remained relatively stable over the past five years, despite market rate fluctuations and higher rate account promotions by Cambridgeport and its competitors.

Year-end 2001 total deposits of $888.5 million represented an increase of $78.7 million over the December 31, 2000 total of $809.8 million. The growth included $51.7 million in demand and NOW account balances, most of which was in the Money Manager Checking account, and $18.5 million in time deposits.

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The following table sets forth the distribution of deposit accounts, by account type, at the dates indicated.

	At December 31,								
	2002			2001			2000		
	Amount	Percent	Weighted Average Rates	Amount	Percent	Weighted Average Rates	Amount	Percent	Weighted Average Rates
	(Dollars in thousands)								
Demand and deposits (1)	$ 62,078	5.35%	0.00%	$ 58,232	6.55%	0.00%	$49,939	6.17%	0.00%
Now deposits	158,748	13.68	0.87	112,521	12.66	1.04	69,101	8.53	0.96
Savings deposits	64,997	5.60	1.00	55,963	6.30	1.49	51,864	6.40	1.79
	512,924	44.20	2.12	334,686	37.67	2.42	330,297	40.79	5.44

Money market deposits									
Total non-certificate accounts	798,747	68.83	1.61	561,402	63.18	1.80	501,201	61.89	3.90
Certificate of deposit									
Due within 1 year	160,914	13.87	3.20	220,749	24.84	4.88	195,017	24.09	5.73
Over 1 year through 3 years	176,559	15.21	4.21	93,974	10.58	4.69	105,555	13.03	6.35
Over 3 years	24,308	2.09	4.49	12,394	1.40	5.62	8,049	0.99	6.31
Total certificate accounts	361,781	31.17	3.78	327,117	36.82	4.85	308,621	38.11	5.96
Total	$1,160,528	100.00%	2.29%	$888,519	100.00%	2.92%	$809,822	100.00%	4.69%

(1) Includes mortgagor's escrow payments.

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The following table summarizes deposit activity for the periods indicated.

	At December 31,		
	2002	2001	2000
	(Dollars in thousands)		
Balance at beginning of year	$ 888,519	$809,822	$621,319
Net increase before interest credited (1)	242,678	47,554	157,766
Interest credited	29,331	31,143	30,737
Balance at end of year	$1,160,528	$888,519	$809,822
Total increase in deposit accounts	$272,009	$ 78,697	$188,503
Percentage increase	30.61%	9.72%	30.34%

(1) Includes mortgage escrow payments.

At December 31, 2002, the Bank had $97.9 million in certificates of deposit with balances of over $100,000 and maturing as follows:

Maturity Period	Amount	Weighted Average Rate
	(Dollars in thousands)	

Three months or less	$10,675	2.92%
Over three months through six months	9,119	3.10
Over six months through 12 months	14,879	3.81
Over 12 months	63,243	4.39
Total	$97,916	4.02%

The following table sets forth, by interest rate ranges, information concerning certificates of deposit at December 31, 2002:

	At December 31, 2002					
	Period to Maturity					
Interest Rate Change	Less than One Year	One to Two Years	Two to Three Years	More than Three Years	Total	Percentage of Total
	(Dollars in thousands)					
2.00% and below	$ 12,947	$ -	$ -	$ -	$ 12,947	3.58%
2.01% to 3.00%	103,536	12,812	1,761	98	118,207	32.67
3.01% to 4.00%	11,572	21,798	15,180	3,688	52,238	14.44
4.01% to 5.00%	10,191	103,418	2,344	20,008	135,961	37.58
5.01% to 6.00%	5,694	9,829	1,901	514	17,938	4.96
6.01% to 7.00%	16,974	1,047	5,835	-	23,856	6.59
7.01% and above	-	-	634	-	634	0.18
Total	$160,914	$148,904	$27,655	$24,308	$361,781	100.00%

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Borrowings

Deposits are the Company's primary source of funds; however, the Company may also use borrowings and other non-deposit sources of funds in order to acquire specific assets, fund asset growth that exceeds the level of deposits, and manage interest rate risk. Through the Bank, the Company may obtain funds from the Federal Home Loan Bank of Boston. The Bank increased borrowings from the Federal Home Loan Bank by $60.3 million to $175.5 million at December 31, 2002 from $115.2 million at December 31, 2001. These borrowings were sought to take advantage of low interest rates to increase intermediate-term and long-term funding. Included in the 2002 and 2001 figures were $13.1 million and $13.4 million, respectively, representing the remaining outstanding balance of a $14.5 million, 20-year advance used to finance the construction of the Company's administrative center.

The following table sets forth information concerning balances and interest rates on borrowings from the Federal Home Loan Bank at the dates and for the periods indicated.

	At or for the Year Ended December 31,		
	2002	2001	2000
	(Dollars in thousands)		
Federal Home Loan Bank advances:			
Average balance outstanding	$146,362	$ 66,387	$37,992
Maximum amount outstanding			

at any month-end during the period	205,508	117,289	59,266
Balance outstanding at end of the period	175,566	115,249	35,801
Weighted average interest rate during the period	4.65%	5.42%	5.14%
Weighted average interest rate at end of period	4.11%	4.91%	6.38%

Stockholders' Equity

The Company's equity decreased by $2.3 million from $123.4 million at December 31, 2001 to $121.1 million at December 31, 2002. This change resulted primarily from share repurchases during the year, partially offset by increases in retained earnings and accumulated other comprehensive income. During 2002, the Company repurchased 593,365 shares at a total cost of $21.6 million.

During 2001 the Company repurchased 1,653,712 shares at a total cost of $35.4 million. This was the primary reason for the $28.6 million decrease in total equity at December 31, 2001 compared to December 31, 2000.

The capital to assets ratios at the end of 2002, 2001 and 2000 were 8.2%, 10.84% and 15.13%, respectively. In every case, the ratios exceeded regulatory requirements.

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RESULTS OF OPERATIONS

General

Port's net income in 2002 was $13.6 million, up $3.2 million from the previous year's net income of $10.4 million, which included non-recurring after-tax gains of $1.7 million ($3.2 million pre-tax). The gains in resulted from the termination of the Company's defined benefit pension plan, the sale of shares in the New York Cash Exchange (NYCE) ATM network, and the sale of deposits at its Quincy branch.

The primary reason for the growth in net income during 2002 was higher net interest income, which rose 29.2% to $45.1 million from $34.9 million in 2001. The main contributors to this improvement were higher average balances of earning assets and a 102 basis point reduction in the cost of interest-bearing liabilities. Non-interest income totaled $5.4 million in 2002, compared to $7.3 million in 2001. The non-recurring gains mentioned above were included in 2001's non-interest income.

The Company reduced its provision for loan losses in 2002 to $650,000 compared to $1.2 million in 2001, as non-performing asset and payment delinquencies continued to be minimal. Operating expenses grew by $3.5 million, or 14.3%, in 2002 compared with 2001.

Net Interest Income

Net interest income increased $10.2 million in 2002 compared to 2001, primarily because of growth in the average balance of earning assets and lower average cost of deposits and borrowings, partially offset by lower yields on assets. The net interest margin--the ratio of net interest income to average earning assets--declined 3 basis points in 2002 compared to the previous year. However, the effect of the lower margin was more than offset by growth in the balance sheet.

Net interest income in 2001 rose $5.2 million compared with 2000. Average earning assets increased by $145.3 million in 2001 to $980.7 million, from $835.4 million the year before. At the same time, interest-bearing liabilities increased $136.7 million, to $832.1 million in 2001. Therefore, the difference between earning assets and interest-bearing liabilities was $8.6 million higher in 2001 than in 2000. Non-interest bearing deposits and additional capital funded these additional assets--their average balances were up $5.1 million and $6.7 million respectively in 2001.

Interest Income

Interest and dividend income in 2002 totaled $81.4 million, an increase of 16.8%, compared to 2001. The average balance of earning assets grew $297.4 million, or 30.3%, to $1.28 billion compared to an average earning asset balance of $980.7 million in 2001. Earning asset growth offset the effect of a 73 basis point decline in their average yield, as rates on new loans and investments in 2002 were lower than in the previous year. See the "Average Balance Sheet" and "Rate/Volume Analysis" tables below.

Interest earned on loans totaled $58.7 million in 2002, up $5.5 million from 2002, as average balance of loans, which was $133.4 million, or 18.7%, higher in 2002. This growth more than offset declining loan yields, which were 52 basis points lower in the 2002 period. Loan portfolio growth during 2002 reflected customer demand for residential and commercial real estate loans in the low interest rate environment that prevailed during the year.

Interest earned on short term investments, certificates of deposits and investment securities totaled $22.7 million in 2002, an increase of $6.2 million over 2001. The average balance of investment securities was $177.8 million higher in 2002, offsetting the effect of a 100 basis point decline in yield on that portfolio.

Total interest and dividend income rose $7.2 million in 2001 to $69.6 million, compared to $62.4 million in 2000. The growth in average earning assets mentioned above was the reason for the increase, which was partially offset by a decline of 37 basis points in yield on those assets, from 7.43% in 2000 to 7.06% in 2001. As market interest rates declined during 2001, cash flow from amortization and payoffs of higher yielding loans and securities was redeployed into lower yielding assets.

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Interest Expense

Total interest expense increased by $1.5 million in 2002, to $36.2 million, compared to $34.7 million in 2001. Interest paid on deposits declined by $1.8 million, while interest paid on borrowings rose $3.3 million. The average cost of deposits was 113 basis points lower in 2002 than in the previous year, as Federal Reserve rate reductions during 2001 and 2002 enabled the Company to reduce deposit rates, which more than offset the effect of growth in the average balance of deposits. The average balance of interest bearing deposits rose $233.4 million, to $999.0 million in 2002, compared to an average balance of $765.6 million in 2001. The previously mentioned marketing promotion of the Money Manager Checking and Savings account was a major reason for the growth in NOW account and money market account balances, which averaged $94.6 and $79.3 million respectively higher in 2002 than in 2001. Time deposit balances were also higher in 2002, averaging $359.5 million in 2002 compared to $308.9 million in 2001. In the declining rate environment, some customers opted for the guaranteed yields offered by the Company's time deposit products.

The average balance of borrowings rose $79.9 million in 2002, as the Company took advantage of low rates to increase its longer term borrowings from the Federal Home Loan Bank of Boston. The average cost of borrowed funds declined by 70 basis points, from 5.35% in 2001 to 4.65% in 2002 reflecting the lower interest rate environment.

Total interest expense increased by $2.0 million in 2001 compared to 2000. Interest paid on borrowings rose $1.6 million, while interest paid on deposits increased $400,000. Average balances of deposits and borrowings grew 19.7% in 2001 compared with 2000, reflecting the success of the Bank's Real Banking and Premier Banking marketing campaigns, which offered high rate money market accounts for customers who maintained core checking accounts with the Bank. Average money market balances grew 37.3% in 2001, to $315.1 million, compared to $229.5 million in 2000. Average balances of NOW accounts grew 62.9%, to $88.3 million, compared to $54.2 million the previous year. Average balances of Federal Home Loan Bank borrowings also rose during 2001 as the Bank took advantage of low interest rates to increase intermediate and long-term funding, and thus reduce its exposure to rising interest rates. Federal Home Loan Bank borrowings averaged $66.5 million in 2001 compared to $38.1 million in 2000. Lower deposit rates, particularly the reduced cost of money market accounts, largely offset the impact of higher average balances of interest-bearing deposits and borrowings. Two factors explain the lower average cost of money market deposits in 2001, which declined 143 basis points compared with the previous year. First, the promotional rate period on the Real Savings money market account expired on March 31, 2001. The Bank introduced the Real Savings account in June, 2000, to coincide with large bank merger activity in the region. The promotional rate of 6.25% was guaranteed through March 31, 2001. The second cause of lower money market deposit costs were the actions during 2001 taken by the Federal Reserve to lower interest rates. The unprecedented reductions in the Federal Reserve's overnight borrowing rate created an environment in which the Company could reduce rates on all money market accounts to levels significantly below the rates paid in 2000.

The average cost of borrowings rose by 27 basis points from 5.08% in 2000 to 5.35% in 2001. During 2000, the Company capitalized a portion of the interest paid on the $14.5 million borrowing used to fund construction of the Company's administrative center. The capitalized interest totaled $478,000; had it been included in interest expense, the cost of borrowings during 2000 would have been 6.13%.

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The following tables set forth information relating to Port's financial condition and net interest income at and for the fiscal years ended December 31, 2002, 2001 and 2000, and reflect the average yield on assets and average cost of liabilities for the periods indicated. Yields and costs are derived by dividing interest income by the average balance of interest-earning assets and interest expense by the average balance of interest-bearing liabilities for the periods shown. Average balances are derived from actual daily balances over the periods indicated. Interest income includes fees earned from making changes in loan rates or terms, and fees earned when commercial real estate loans were prepaid or refinanced.

	For the Fiscal Year Ended December 31,								
	2002			2001			2000		
	Average Balance	Interest	Average Yield/ Cost	Average Balance	Interest	Average Yield/ Cost	Average Balance	Interest	Average Yield/ Cost
	(Dollars in thousands)								
Assets:									
Interest earning assets:									
Short term investments(1)	$ 23,725	$ 368	1.55%	$ 37,581	$ 1,648	4.39%	$ 21,304	$ 1,423	6.68%
Certificates of deposit	2,177	135	6.20	2,079	130	6.25	1,539	115	7.47
Investment securities(2)	404,982	22,193	5.48	227,263	14,721	6.48	173,867	11,505	6.62
Loans(3)	846,687	58,662	6.93	713,250	53,137	7.45	638,439	49,355	7.73

Total interest earning assets	1,277,571	81,358	6.33	980,173	69,636	7.06	835,149	62,398	7.43
Allowance for possible loan losses	(9,779)			(8,506)			(7,520)		
Total noninterest earning assets	55,647			52,480			47,344		
Total assets	1,323,439			1,024,147			874,973		
Liabilities and Equity:									
Interest bearing liabilities:									
NOW accounts	182,861	3,635	1.99	88,260	1,258	1.43	54,174	657	1.21
Savings accounts	62,265	781	1.25	53,351	862	1.62	53,724	1,048	1.95
Money market deposit accounts	394,447	9,741	2.47	315,143	11,757	3.73	229,520	11,834	5.16
Certificate of deposit accounts	359,469	15,174	4.22	308,886	17,266	5.59	319,817	17,198	5.38
Total interest bearing deposits	999,042	29,331	2.94	765,640	31,143	4.07	657,235	30,737	4.68
Borrowed funds	146,376	6,907	4.65	66,465	3,605	5.35	38,135	1,966	5.08
Total interest bearing liabilities	1,145,418	36,238	3.15	832,105	34,748	4.17	695,370	32,703	4.70
Noninterest bearing deposits	55,348			48,633			43,486		
Other noninterest bearing liabilities	8,675			8,325			7,733		
Total noninterest bearing liabilities	64,023			56,958			51,219		
Total liabilities	1,209,441			889,063			746,589		
Stockholders' equity/retained earnings	113,998			135,084			128,384		
Total liabilities and stockholders' equity/retained earnings	$1,323,439			$1,024,147			$874,973		
Net interest income		$45,120			$34,888			$29,695	
Net interest rate spread(4)			3.18			2.89			2.73
Net interest margin(5)			3.53			3.56			3.56
Ratio of average interest earning assets to average interest bearing liabilities			111.54X			117.79X			120.10X

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(1) Short-term investments include federal funds sold.

(2) Investment securities that are considered available for sale are carried at market value, while securities that are held to maturity are carried at cost. Also includes both Federal Home Loan Bank and Savings Bank Life Insurance stock carried at cost.

(3) Loans are net of deferred loan origination costs (fees).

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

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

The following table shows how 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:

* Interest income changes attributable to changes in volume (changes in volume multiplied by prior rate);

* Interest income changes attributable to changes in rate (changes in rate multiplied by prior volume); and

* The net change.

The changes attributable to the combined impact of volume and rate have been allocated proportionately to the changes due to volume and the changes due to rate.

	Year Ended December 31, 2002 Compared to Year Ended December 31, 2001 Increase/(Decrease)			Year Ended December 31, 2001 Compared to Year Ended December 31, 2000 Increase/(Decrease)		
	Due to			**Due to**		
	Volume	Rate	Net	Volume	Rate	Net
			(In thousands)			
Interest earning assets:						
Short term investments	$ (465)	$(815)	$(1,280)	$ 829	$ (604)	$ 225
Certificates of deposit	6	(1)	5	36	(21)	15
Investment securities	10,037	(2,565)	7,472	3,464	(248)	3,216
Loans	9,426	(3,901)	5,525	5,620	(1,838)	3,782
Total interest earning assets	$19,004	$(7,282)	$11,722	$9,949	$(2,711)	$7,238
Interest bearing liabilities:						
NOW accounts	1,741	636	2,377	466	135	601
Savings accounts	133	(214)	(81)	(7)	(179)	(186)
Money market deposit accounts	2,530	(4,546)	(2,016)	3,722	(3,799)	(77)
Certificates of deposit	2,552	(4,644)	(2,092)	(595)	663	68
Borrowed funds	3,817	(515)	3,302	1,535	104	1,639
Total interest bearing liabilities	$10,773	$(9,283)	$ 1,490	$5,121	$(3,076)	$2,045

Change in net interest income	$ 8,236	$ 1,996	$10,232	$4,828	$ 365	$5,193

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Provision for Loan Losses

For the fiscal year ended December 31, 2002, the Company increased the allowance for loan losses through a $650,000 provision for loan losses based on an evaluation of the items discussed above in the section entitled "Allowance for Loan Losses". The $650,000 provision represented a decrease of $575,000 from the 2001 provision of $1.2 million. Management cited several factors in its decision to reduce the provision. First, the total gross loan growth of $74.5 million in 2002 was down from the loan growth of $89.3 million the previous year. Second, growth in commercial real estate and construction loans was $19.9 million during 2002 compared to $24.5 million during 2001. Third, the portion of the portfolio representing home equity lines of credit declined by $13.3 million in 2002. In 2001, the home equity lines of credit portfolio grew by $7.2 million. The allowance for loan losses as of December 31, 2002 as a percentage of total loans was 1.18%, essentially unchanged from 1.19% at December 31, 2001.

The Company's $1.2 million provision for loan losses in 2001 represented an increase of $309,000 from the 2000 provision expense of $916,000. Management cited several factors in its decision to increase the provision. First, the general economy deteriorated in 2001, as growth slowed from the previous year. Management believed that the impact of the economic slowdown might be felt across all segments of the loan portfolio. Second, the market for commercial real estate deteriorated as vacancy rates rose, rental rates declined, and major companies scaled back expansion plans. Third, the Company downgraded certain commercial real estate loans based on the deteriorating financial condition of tenant occupants. Fourth, the impact of the September 11 attacks on the travel and hospitality industries prompted downgrades within the hospitality sector of the commercial real estate portfolio.

The unallocated portion of the allowance was $1.2 million at December 31, 2002, $2.1 million at December 31, 2001 and $1.4 million at December 31, 2000. This represented 11.8% of the total allowance as of December 31, 2002, 22.0% as of December 31, 2001, and 17.9% as of December 31, 2000.

Future provisions for loan losses will continue to be based upon the Company's assessment of the overall loan portfolio and its underlying collateral, the mix of loans within the portfolio, delinquency trends, economic conditions, current and prospective trends in real estate values, and other relevant factors.

Non-interest Income

Non-interest income includes service fees and charges for bank services, fees from sales of investment products, gains or losses from loan sales, and other income resulting from miscellaneous transactions. Non-interest income totaled $5.4 million in 2002 compared to $7.3 million in 2001, which included $3.2 million pre-tax in non-recurring gains mentioned above. Gains from sales of fixed rate residential mortgages, and revenue from servicing mortgages, totaled $1.7 million in 2002, compared to $1.1 million in 2001. Declining mortgage rates generated higher volumes of 30-year fixed rate mortgages in 2002, which the Company normally sells. Customer service fees increased by $209,000 in 2002, reflecting the growth in the number of demand deposit and NOW accounts as well as activity in those accounts. Fees from sales of insurance and investment products totaled $914,000 in 2002, an increase of $98,000 from 2001. The Company initiated sales of annuities and other investment products in April 2001.

Non-interest income, excluding non-recurring items, totaled $4.2 million in 2001 compared to $2.7 million in 2000. The 2000 results included a non-recurring loss of $603,000 from the sale of investment securities and a non-recurring gain of $448,000 from the curtailment of the Bank's defined benefit pension plan. The main reasons for the growth in non-interest income in 2001 were increased customer service fees, fees earned from sales of investment products, gains from the sale of fixed rate residential mortgages, and increases in the cash surrender value of life insurance policies. Customer services fees rose $213,000 in 2001 compared with the previous year primarily because of the higher number of transaction accounts, which generate activity-related fees. Fees from investment product sales were $816,000 in 2001 compared to $205,000 in 2000. The Company expanded its wealth management product line during 2001, generating increased fees from sales of annuities and other investment products. Loan sale gains in 2001 were $370,000 higher than in 2000, as declining mortgage rates during 2001 produced more demand for fixed rate mortgages. The cash surrender value of bank-owned life insurance policies increased by $194,000 in 2001 compared to an increase of $10,000 in 2000. During 2000, the Company changed the investments of the insurance policy-related assets from equities to fixed income securities in order to reduce earnings volatility related to stock market performance.

Non-interest Expense

Total non-interest expense increased $3.5 million, or 14.3%, to $28.3 million in 2002 compared to $24.8 million in 2001. Compensation and benefits expense increased $2.5 million, or 17.3%, to $17.1 million in 2002 from

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$14.6 million in 2001. The higher expense in 2002 reflects annual wage adjustments as well as higher costs of short and long-term incentive plans, health and life insurance plans, retirement plans and stock benefit plans. Occupancy costs of $3.8 million in 2002 represented an increase of $511,000 over the previous year, primarily because of added cost from the expanded and renovated Harvard Square branch and the new branch in Brookline. Marketing expense increased $210,000 in 2002, reflecting the cost of the Money Manager Checking marketing campaign mentioned above.

Total non-interest expense rose $2.5 million in 2001 compared to the 2000 total of $22.3 million. Compensation and benefits expense increased $2.2 million or 17.2% to $14.6 million from $12.4 million in 2000. This increase included $688,000, which was the effect of a full year of expense from the RRP. The RRP expenses commenced following shareholder approval in October 2000. Expenses related to other stock-based benefit plans rose $168,000 in 2001 compared to the previous year, largely because of the increase in the market price of the Company's common stock during 2001. The remaining $1.2 million compensation expense increase was the result of annual wage adjustments and higher commissions paid to mortgage originators and other sales representatives. Transaction account volume and the costs of internet banking services were the main factors leading to an increase of $428,000 in data processing expense, which totaled $2.0 million in 2001 compared to $1.6 million in 2000. Occupancy expense decreased $232,000 in 2001 compared with 2000, as the Company received a full year of rental income from its administrative center tenants in 2001. Rental income is accounted for as an offset to occupancy expense.

Income Taxes

The 2002 tax provision of $8.0 million represented an effective tax rate of 36.9% in 2002 compared to $5.8 million, or 35.9%, in 2001. Increased earnings in the Bank during 2002 resulted in higher state tax liability than in the previous year.

In March 2003, the Company announced that it would accrue a liability in the first quarter of 2003 of approximately $840,000, representing an estimate of the additional state tax liability, including interest (net of any federal and state tax deductions associated with such taxes and interest), relating to the deduction for dividends received from its real estate investment trust subsidiary ("REIT") for the 2001 and 2002 fiscal years. The accrued liability is the result of new legislation signed by the Governor of Massachusetts that amended Massachusetts law to expressly disallow the deduction for dividends received from a REIT. This amendment applies retroactively to tax years ending on or after December 31, 1999. As a result of the enactment of this legislation, the Company also ceased recording the tax benefits associated with the dividend received deduction effective for the 2003 tax year and accrued the liability described above.

The Company believes that this legislation will be challenged, especially the retroactive provisions, on constitutional and other grounds. The Company intends to support such a challenge and defend vigorously its position that the deductibility of dividends received by the Bank from its REIT was fully compliant with Massachusetts law at the time.

Income tax expense was $3.1 million in 2000, representing an effective tax rate of 34.8%. The higher effective tax rate in 2001 was primarily the result of the Company moving into a higher federal tax bracket.

Liquidity and Capital Resources

The term "liquidity" refers to the Company's ability to generate adequate amounts of cash to fund loan originations, loan purchases, deposit withdrawals and operating expenses. Primary sources of liquidity are deposits, scheduled amortization and prepayments of loan principal and mortgage-backed securities, maturities and calls of investment securities and funds provided by operations. Loan repayment and maturing investment securities are a relatively predictable source of funds. However, deposit flows, calls of investment securities and prepayments of loans and mortgage-backed securities are strongly influenced by interest rates, general and local economic conditions and competition in the marketplace. These factors reduce the predictability of the timing of these sources of funds.

The Bank also can borrow funds from the Federal Home Loan Bank based on eligible collateral of loans and securities. Its maximum borrowing capacity from the Federal Home Loan Bank is approximately $152.5 million, net of borrowings that are already outstanding. In addition, the Bank may enter into reverse repurchase agreements with approved broker-dealers. Reverse repurchase agreements are agreements that allow the Bank to borrow using investment securities as collateral.

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Total deposits increased $272.0 million and $78.7 million during the 2002 and 2001, respectively. Time deposit accounts scheduled to mature within one year were $160.9 million at December 31, 2002. Based on the Company's experience and current pricing strategy, it anticipates that a significant portion of these certificates of deposit will remain on deposit. At December 31, 2002, outstanding borrowings from Federal Home Loan Bank were $175.6 million, $60.3 million above the level at December 31, 2001. During 2002, the Bank took advantage of low intermediate and long-term rates, and increased its extended-term borrowings from the Federal Home Loan Bank.

The Company's primary investing activities are the origination of one- to four-family real estate, and commercial real estate loans, and the purchase of investment securities. During 2002, it originated loans of approximately $526.9 million, and during the previous year it originated loans of approximately $379.6 million. Purchases of investment securities totaled $427.0 million during 2002 and $176.7 million during 2001. At December 31, 2002, Cambridgeport had loan commitments to borrowers of approximately $56.0 million, and available home equity and unadvanced lines of credit of approximately $191.3 million.

The Company monitors its liquidity position daily and expects to have sufficient funds to meet its current funding commitments.

At December 31, 2002, Port exceeded each of the applicable regulatory capital requirements. Tier 1 leverage capital was $109.9 million, or 15.4% of risk-weighed assets, and 7.6% of average assets. It had a risk-based total capital of $121.1 million and a risk-based capital ratio of 17.0%.

The Company does not anticipate any material capital expenditures during calendar year 2003. It does not have any balloon or other payments due on any long-term obligations or any off-balance-sheet items other than the commitments and unused lines of credit noted above and an interest swap agreement.

Contractual Obligations and Commitments

The following table summarizes the Company's contractual cash obligations and other commitments.

	At December 31, 2002				
	Maturity Distribution of Contractual Obligations				
	Less than One Year	One to Three Years	Three to Five Years	Over Five Years	Total
	(Dollars in Thousands)				
Contractual Obligations:					
FHLB Advances	$ 21,485	$36,758	$80,895	$ 36,428	$175,566

	At December 31, 2002				
	Time Period of Expiration of Commitments				
	Less than One Year	One to Three Years	Three to Five Years	Over Five Years	Total
	(Dollars in Thousands)				
Commitments:					
Commitments to originate loans	$ 56,035	$ -	$ -	$ -	$ 56,035
Unadvanced lines of credit	5,008	21,873	38,910	125,475	191,266
Forward commitments to sell loans	43,374	-	-	-	43,374
Standby letters of credit	28	-	-	-	28
Total commitments	$104,445	$21,873	$38,910	$125,475	$290,703

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ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk is the risk of loss in a financial instrument arising from adverse changes in market rates/prices such as interest rates, foreign currency exchange rates, commodity prices, and equity prices. Port is exposed to interest rate risk, which occurs from interest rate volatility. Fluctuations in interest rates may impact both its income and expense on a large portion of assets and liabilities, as well as the market value of all interest-earning assets.

The ongoing monitoring and management of interest rate risk is an important component of the Company's asset/liability management process. This process is governed by policies established by the Board of Directors. The Board reviews these policies annually, and reviews the Company's interest rate risk position quarterly. The Board of Directors delegates responsibility for carrying out the asset/liability management policies to the Asset/Liability Management Committee ("ALCO"), comprised of the Chief Executive Officer, the President, the Chief Financial Officer and various other members of management. ALCO develops strategies based upon estimated market risk sensitivity, policy limits and overall market interest rate levels and trends. The primary goal of the interest rate management strategy is to limit fluctuations in net interest income as interest rates rise or fall. ALCO seeks to coordinate asset and liability decisions so that, under changing interest rate scenarios, the Company's net interest income will remain within an acceptable range.

The Company's lending activities have emphasized one-to-four family and commercial mortgage loans. Its largest source of funds has been deposits, consisting of certificates of deposit, which generally have shorter terms to maturity than the loan portfolio, savings and money market accounts, and transaction accounts. The Company has also funded loan growth with Federal Home Loan Bank advances. It has employed several strategies to manage the interest rate risk inherent in the asset/liability mix, including but not limited to:

* Selling most 30 year fixed-rate mortgages to the secondary market;

* Maintaining the diversity of the existing loan portfolio through the origination of commercial and consumer real estate loans, which typically have variable rates and shorter amortization schedules than residential mortgages;

* Emphasizing investments with short- and intermediate-term maturities of less than ten years, with most maturities or rate resets currently under 5 years; and

* Entering into interest rate swap agreements, as appropriate, to hedge the Company's interest rate risk.

Loan repayment activity can be significantly impacted by changes in market interest rates. Prepayment rates vary due to a number of other factors, including regional economic conditions, demographic variables, borrowers' refinancing opportunities, and competition. The Company monitors interest rate sensitivity in order to make timely adjustments to its asset and liability mix and minimize the negative effects of changing rates. The Company uses a simulation model to monitor interest rate risk. The model calculates the net interest income at risk under different interest rate environments. It performs an analysis of changes in net interest income over a two-year period, assuming market interest rates rise or fall 200 basis points in the first twelve months following the current financial statement. The Company also uses the model to simulate other scenarios, altering the modeling assumptions on interest rate changes to include a swing of 400 basis points, and extending the analysis to include a five-year period. The Company's policy objective is to maintain net interest income over a one-year period within 10% of the current level, given a 200 basis point change in market interest rates in either direction.

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The table below sets forth the estimated changes in net interest income that would result from a 200 basis point change in interest rates over the applicable twelve-month period.

For the Fiscal Year Ended December 31, 2003
(Dollars in thousands)

Changes in Interest Rates (Basis Points)	Net Interest Income	% Change
200	42,067	-1.22%
0	42,587	-
-200	43,333	1.75%

In addition to net interest income simulation, the Company uses gap analysis to monitor interest rate risk. Gap analysis entails measuring the extent to which such assets and liabilities are "interest rate sensitive". An asset or liability is deemed to be interest rate sensitive within a specific time period if it is scheduled to mature or reprice within that time period. The interest rate sensitivity gap for a given time period is defined as the difference between the amount of interest-earning assets and the amount of interest-bearing liabilities maturing or repricing within that time period.

A gap is considered positive when the amount of interest-earning assets exceeds the amount of interest-bearing liabilities maturing or repricing within a specific time period. A gap is considered negative when the amount of interest-bearing liabilities exceeds the amount of interest-earning assets maturing or repricing within the same period. When interest rates rise, a financial institution with a negative gap position would be expected, absent the effects of other factors, to experience a greater increase in the costs of its liabilities relative to the yields of its assets. Thus, net interest income would likely decrease. An institution with a positive gap position would be expected, absent the effect of other factors, to experience the opposite result. Conversely, during a period of declining interest rates, a negative gap would tend to result in an increase in net interest income. A positive gap would tend to reduce net interest income.

At December 31, 2002, based on the assumptions outlined below, the Company's interest-bearing liabilities maturing or repricing within one year exceeded interest-earning assets maturing or repricing within the same period by $75.9 million. This represented a negative cumulative one-year interest rate sensitivity gap of 5.4% of total assets (within the Company's policy limit of 20%) and a ratio of cumulative interest-earning assets maturing or repricing within one year to cumulative interest-bearing liabilities maturing or repricing within one year of 89.3%. The negative gap position could more adversely impact net interest income in a rising rate environment than a positive gap position.

The following table presents information as of December 31, 2002. It shows the amounts of interest-earning assets and interest-bearing liabilities that reprice or mature in each of the future time periods shown. Except as stated below, the repricing/maturity schedule corresponds with the earlier of the repricing date or the contractual maturity date. The information is also based on the following assumptions:

- Various mortgage-related products will prepay principal balances depending on the interest rate environment, mortgage product type, outstanding principal balances, average life to maturity and other factors. The residential mortgage portfolio is segregated based on these factors and prepayment speeds are calculated using analytical historical data from the Office of Thrift Supervision.

- 10% of commercial mortgages and home equity loans are assumed to prepay annually.

- Federal agency securities with call features that are likely to exercised were reported at the next call date. Other agency securities were reported at the contractual maturity date.

- Higher earning savings accounts and money market accounts are reported in the three-month category. This classification is based on regulatory guidance, as modified by historical analysis of deposit levels during periods of changing market rates.

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Deposit assumptions, prepayment rates and anticipated call dates can have a significant impact on the estimated interest sensitivity gap. While the Company believes that its assumptions are reasonable, they may not be indicative of actual future deposit activity, mortgage and mortgage-backed securities prepayments, and the actual timing of federal agency calls.

	Amounts Maturing or Repricing as of December 31, 2002							
	Less than 3 months	3 to 6 months	6 months to 1 year	1 to 2 years	2 to 3 years	3 to 5 years	> 5 yrs.	Total
	(Dollars in thousands)							
Interest earning Assets(1)								
Short term investments (2)	$ 5,274	-	-	-	-	-	-	$ 5,274
Certificates of Deposit	2,262	-	-	-	-	-	-	2,262
Investment securities(3)	45,036	$ 18,022	$ 29,153	$ 3,964	-	-	$ 3,877	100,052

Mortgage and asset backed securities(3)	58,720	59,415	114,283	79,257	$ 46,293	$ 42,373	42,694	443,035
Loans(4)	149,343	45,873	106,355	161,228	141,648	193,365	62,256	860,068
Total interest earning assets	260,635	$123,310	$249,791	$244,449	$187,941	$235,738	$108,827	$1,410,691
Interest Bearing Liabilities								
NOW accounts(5)	-	-	-	-	-	-	$158,748	$ 158,748
Regular savings accounts	-	-	-	-	-	-	64,997	64,997
Money market accounts(6)	$512,924	-	-	-	-	-	-	512,924
Certificate of deposit accounts	47,922	$ 43,916	$68,542	$149,666	$27,306	$22,429	-	361,781
Borrowed funds	15,137	5,698	15,527	37,598	17,072	53,114	31,420	175,566
Total interest bearing liabilities	$575,983	$ 49,614	$ 84,069	$187,264	$ 44,378	$ 77,543	$255,165	$1,274,016
Interest sensitivity gap	(315,348)	73,696	165,722	57,185	143,563	158,195	(146,338)	
Cumulative interest sensitivity gap	(315,348)	(241,652)	(75,930)	(18,745)	124,818	283,013	136,675	
Cumulative interest sensitivity gap as a percent of total assets	-21.46%	-16.45%	-5.17%	-1.28%	8.50%	19.26%	9.30%	
Cumulative interest sensitivity gap as a percent of total interest-earning assets	-22.35%	-17.13%	-5.38%	-1.33%	8.85%	20.06%	9.69%	
Cumulative interest-earning assets as a percentage of cumulative interest bearing liabilities	45.25%	61.37%	89.30%	97.91%	113.26%	127.78%	110.73%	

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

(2) Includes interest bearing overnight bank balances and money market mutual funds.

(3) Debt securities are presented at amortized cost.

(4) For the purposes of the gap analysis, the allowance for loan losses has been excluded.

(5) NOW accounts also include Appreciation, Premier and Money Manager checking and are included in the over five year column.

(6) Treasury Index, Premier Index, Money Manager Savings and Real Savings accounts are included in 3 months or less.

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During 2001, the Company entered into an interest-rate-swap agreement, designated as a "cash flow' hedge, with a notional value of $20.0 million. An interest rate swap is an agreement whereby one party agrees to receive a variable rate of interest on a notional value in exchange for paying a fixed rate of interest on the same notional amount for a predetermined period of time from a second party. The purpose of this swap is to hedge the variability of interest expense payments on Treasury Index deposit accounts attributable to changes in interest rates. Under the terms of the swap agreement, the Company receives payments based on weekly average rate on three month U.S. Treasury bills in exchange for payments based on a fixed rate. The swap has a maturity of 2 years and is not callable. As of December 31, 2002, the Company was receiving a variable rate of 1.207% and paying a fixed rate of 4.10% on this swap. As a result of this interest rate swap, the Company realized interest expense of $492,000 for the year ended December 31, 2002. As of December 31, 2002, the fair value of the swap of $296,000 was recorded as a liability and the change in fair value (net of tax) of $71,000 recorded against accumulated other comprehensive income in accordance with SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The consolidated financial statements of Port Financial Corp. and Subsidiaries as of December 31, 2002 and 2001 are included in pages F-1 through F-41of this report.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Effective May 10, 2002, the Audit Committee terminated the engagement of Arthur Andersen LLP ("Andersen") as independent public accountant of Port Financial. Effective as of and on May 28, 2002, based on the recommendation of the Audit Committee, the Board of Directors voted to engage KPMG LLP to serve as the independent auditors for Port Financial for the fiscal year ending December 31, 2002. The decision to change accountants was recommended and approved by the Audit Committee of the Board of Directors of Port Financial.

During the fiscal years ended December 31, 2002 and 2001 and subsequent interim periods, the financial statements of Port Financial did not contain an adverse opinion or a disclaimer of opinion and was not qualified or modified as to uncertainty, audit scope, or accounting principles. Further, there were no disagreements with Andersen on any matter of accounting principles or practices, financial statement disclosure, or auditing scope of procedure, which disagreements, if not resolved to Andersen's satisfaction, would have caused Andersen to make reference in connection with their report to the subject matter of the disagreement.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The following information included on pages 7 - 15 and 24 of Port Financial Corp.'s Proxy Statement for the 2002 Annual Meeting of Stockholders (the "Proxy Statement") is incorporated herein by reference: "Election of Directors," "Information as to Nominees and Continuing Directors," "Nominees for Election as Director," "Executive Officers," and " Section 16(a) Beneficial Ownership Reporting Compliance."

ITEM 11. EXECUTIVE COMPENSATION

The following information included on pages 16 through 23 of the Proxy Statement is incorporated herein by reference: "Compensation of Directors and Executive Officers--Directors' Compensation," "Executive Compensation," "Employment Agreements," and "Benefits."

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ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following information included on pages 3 through 6 of the Proxy Statement is incorporated herein by reference: "Security Ownership of Certain Beneficial Owners and Management--Principal Stockholders of Port Financial Corp." and "Security Ownership of Management."

The following table sets forth the aggregate information of our equity compensation plans in effect as of December 31, 2002.

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) [1] (c)
Equity compensation plans approved by security holders	687,022	$18.81	3,700
Equity compensation plans not approved by security holders	-	-	-
Total	687,022	$18.81	3,700

(1) The number of securities remaining for future issuance under equity compensation plans and also includes 3,700 shares available for issuance under the 2000 Recognition and Retention Plan.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The following information included on page 24 of the Proxy Statement is incorporated herein by reference: "Compensation of Directors and Executive Officers--Transactions with Certain Related Persons."

ITEM 14. CONTROLS AND PROCEDURES

Within the 90 days prior to the date of this report, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer along with the Company's Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to the Securities Exchange Act of 1934 ("Exchange Act") Rule 13a-14. Based upon that evaluation, the Company's Chief Executive Officer along with the Company's Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective in timely alerting them to material information relating to the Company (including its consolidated subsidiaries) required to be included in the Company's periodic Securities and Exchange Commission ("SEC") filings. There have been no significant changes in the Company's internal controls or in other factors which could significantly affect these controls subsequent to the date the Company carried out its evaluation.

Disclosure controls and procedures are Company controls and other procedures that are designed to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

Disclosure controls and procedures include, without limitations, controls and procedures designed to ensure that information required to be disclosed by the Company in the reports that it files under the Exchange Act is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

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PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a) Listed below are all financial statements and exhibits filed as part of this report:

(1) The consolidated balance sheets of Port Financial Corp. and Subsidiaries as of December 31, 2002 and 2001 and the related consolidated statements of operations, changes in shareholders' equity and cash flows for each of the years in the three-year period ended December 31, 2002, together with the related notes.

(2) Independent auditors reports

(3) Schedules omitted, as they are not applicable.

(4) Exhibits

2.1 Plan of Conversion and Stock Issuance Plan of Cambridgeport Mutual Holding Company (including the Amended and Restated Charter and Bylaws of Cambridgeport Bank)*

3.1 Articles of Organization of Port Financial Corp.*

3.2 Bylaws of Port Financial Corp.*

4.1 Articles of Organization of Port Financial Corp. (See Exhibit 3.1)*

4.2 Bylaws of Port Financial Corp. (See Exhibit 3.2)*

4.3	Form of Stock Certificate of Port Financial Corp.*
10.1	Form of Employee Stock Ownership Plan of Port Financial Corp.*
10.2	Form of ESOP Restoration Plan of Port Financial Corp.*
10.3	Form of Employment Agreement, between James Keegan and Port Financial Corp.*
10.4	Form of Employment Agreement, between Jane Lundquist and Port Financial Corp.*
10.5	Form of Trust Agreement under the Cambridgeport Bank Nonqualified Pension Plans and Supplemental Executive Retirement Plan*
10.6	Form of 1999 Nonqualified Pension Plan of Cambridgeport Bank and Amendment thereto*
10.7	Form of Directors' Emeritus Consultation Plan of Port Financial Corp.*
10.8	Form of Officers' Deferred Compensation Plan of Cambridgeport Bank*
10.9	Long-Term Incentive Plan of Port Financial Corp.*
10.10	Form of Employment Agreement, between Charles Jeffrey and Port Financial Corp.**
10.11	Amendments to the Employee Stock Ownership Plan of Port Financial Corp.
21.1	Subsidiaries of the Registrant*
99.1	Section 302 Certifications
99.2	Section 906 Certifications

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* Incorporated herein by reference to Registration Statement No. 333-91549 on Form S-1 of Port Financial Corp. filed with the Securities and Exchange Commission on November 23, 1999, as amended.

** Incorporated herein by reference to Exhibit 10.1 filed on November 14, 2000 on Form 10-Q for the quarter ended September 30, 2000.

*** Incorporated herein by reference to the Exhibit 21.1 filed on March 29, 2001 on the Form 10-K for the fiscal year ended December 31, 2000.

(b) The Company has not filed any reports on Form 8-K for the quarter ended December 31, 2002.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant certifies that it has duly caused this report to be signed on its behalf by the undersigned, hereunto duly authorized, in the City of Boston, Commonwealth of Massachusetts, on March 24, 2003.

Port Financial Corp.

/s/ James B. Keegan
By: James B. Keegan
Chairman and Chief Executive Officer

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

Name	Title	Date
/s/ James B. Keegan James B. Keegan	Director, Chairman of the Board and Chief Executive Officer (Principal Executive Officer)	March 24 , 2003
/s/ Charles Jeffrey Charles Jeffrey	Senior Vice President, Treasurer and Chief Financial Officer (Principal Financial and Accounting Officer)	March 24, 2003
/s/ Maliz E. Beams Maliz E. Beams	Director	March 21, 2003
/s/ Paul R. Corcoran, Jr. Paul R. Corcoran, Jr.	Director	March 21, 2003
/s/ Daniel C. Crane Daniel C. Crane	Director	March 21, 2003
/s/ Samuel C. Fleming Samuel C. Fleming	Director	March 21, 2003
/s/ Thomas J. Galligan III Thomas J. Galligan III	Director	March 24, 2003
/s/ Robert D. Happ Robert D. Happ	Director	March 22, 2003
/s/ Jane L. Lundquist Jane L. Lundquist	Director and President	March 24, 2003
/s/ Frances K. Moseley Frances K. Moseley	Director	March 24, 2003
/s/ Thomas H. Niles Thomas H. Niles	Director	March 21, 2003
/s/ Rudolph R. Russo Rudolph R. Russo	Director	March 21, 2003
/s/ Sandra J. Sucher Sandra J. Sucher	Director	March 21, 2003

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PORT FINANCIAL CORP.

Consolidated Financial Statements
as of December 31, 2002, 2001 and 2000
Together with Independent Auditors' Reports

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

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Independent Auditors' Report

The Board of Directors
Port Financial Corp.:

We have audited the accompanying consolidated balance sheets of Port Financial Corp. and subsidiaries (the Company) as of December 31, 2002 and the related consolidated statements of operations, changes in stockholders' equity and cash flows for the year then ended. 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 audit. The 2001 and 2000 consolidated financial statements of the Company were audited by other auditors who have ceased operations. That auditors' report, dated February 22, 2002, was unqualified.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Port Financial Corp. and its subsidiaries as of December 31, 2002 and the results of their operations and their cash flows for the year ended then ended, in conformity with accounting principles generally accepted in the United States of America.

/s/ KPMG LLP

Boston, Massachusetts
January 17, 2003, except as to Note 7,
which is as of March 7, 2003

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Independent Auditors' Report

To the Shareholders and Board of Directors of
Port Financial Corp.

We have audited the accompanying consolidated balance sheets of Port Financial Corp. and subsidiaries (collectively, the Company) as of December 31, 2001 and 2000 and the related consolidated statements of operations, changes in stockholders' equity and cash flows for each of the three years in the period ended December 31, 2001. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. 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 consolidated financial position of Port Financial Corp. and its subsidiaries as of December 31, 2001 and 2000 and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States.

/s/ Arthur Andersen LLP

Arthur Andersen LLP

Boston, Massachusetts
February 22, 2002

This report of Independent Certified Public Accountants is a copy of a previously issued Arthur Andersen LLP ("Andersen") report and has not been reissued by Andersen. This inclusion of this previously issued Andersen report is made pursuant to Section 2.02(e) of regulation S-X. Note that this previously issued Andersen report includes references to certain fiscal years which are not required to be presented in the accompanying consolidated financial statements as of and for the years ended December 31, 2002.

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PORT FINANCIAL CORP.

Consolidated Balance Sheets

(in thousands, except share data)

	December 31,	
Assets	2002	2001
Cash and Cash Equivalents (Note 1):		
Cash and due from banks	$ 15,406	$ 14,170
Federal funds sold	-	12,825
	5,259	9,249
Short-term investments		
Total cash and cash equivalents	20,665	36,244
Certificates of Deposit	2,262	2,126
Investment Securities Held-to-Maturity, at amortized cost (Note 2)	39,807	14,444
Investment Securities Available-for-Sale, at fair value (Notes 2 and 6)	509,504	265,495
Federal Home Loan Bank Stock, at cost (Note 6)	10,196	6,273
Savings Bank Life Insurance Stock, at cost	1,934	1,934
Loans Held for Sale (Note 3)	13,718	1,571
Loans, net of allowance for loan losses of $10,007 and $9,321 in 2002 and 2001		
Respectively (Notes 3 and 6)	836,343	774,649
Banking Premises and Equipment, net (Note 4)	22,843	23,430
Accrued Interest Receivable	6,074	5,452
	5,919	6,592
Other Assets (Note 10)		
	$1,469,265	$1,138,210
Total assets		
Liabilities and Stockholders' Equity		
Liabilities:		
Deposits (Note 5)	$1,156,609	$ 884,529
Mortgagors' escrow payments	3,919	3,990
Federal Home Loan Bank advances (Note 6)	175,566	115,249
Accrued expenses and other liabilities (Notes 7 and 10)	12,078	11,044

Total liabilities	1,348,172	1,014,812
Commitments and Contingencies (Notes 7, 8 and 11)		
Stockholders' Equity (Note 10):		
Preferred stock, $.01 par value. Authorized: 5,000,000 shares; Outstanding: None	-	-
Common stock, $.01 par value. Authorized: 30,000,000 shares Issued - 7,442,818 shares as of December 31, 2002 and 2001 Outstanding - 5,257,164 and 5,803,606 shares as of December 31, 2002 and 2001, respectively	74	74
Additional paid-in capital	72,135	70,879
Treasury stock, at cost - 2,185,654 and 1,639,212 as of December 31, 2002 and 2001, respectively	(55,365)	(35,095)
Unearned compensation - Recognition and retention plan	(2,538)	(3,339)
Unearned compensation - ESOP	(6,775)	(7,026)
Retained earnings	102,356	91,652
Accumulated other comprehensive income	11,206	6,253
Total stockholders' equity	121,093	123,398
Total liabilities and stockholders' equity	$1,469,265	$1,138,210

The accompanying notes are an integral part of these consolidated financial statements.

PORT FINANCIAL CORP.

Consolidated Statements of Operations

(in thousands)

	Year Ended December 31,		
	2002	2001	2000
Interest and Dividend Income:			
Interest on loans	$ 58,662	$ 53,137	$ 49,355
Interest and dividends on investment securities	22,193	14,721	11,505
Interest on other cash equivalents	368	1,648	1,423

			115
Interest on certificates of deposit	135	130	
			62,398
Total interest and dividend income	81,358	69,636	
Interest Expense:			
Interest on deposits	29,331	31,143	30,737
Interest on borrowed funds	6,907	3,605	1,966
			32,703
Total interest expense	36,238	34,748	
Net interest income	45,120	34,888	29,695
			916
Provision for Loan Losses (Note 3)	650	1,225	
			28,779
Net interest income after provision for loan losses	44,470	33,663	
Noninterest Income:			
Customer service fees	1,484	1,275	1,062
Gain (loss) on sales of investment securities, net (Note 2)	72	374	(603)
Mortgage banking revenue	1,720	1,064	770
Gain on pension plan termination/curtailment	47	2,212	448
Gain on sale of deposits	-	529	-
			882
Other income	2,073	1,842	
			2,559
Total noninterest income	5,396	7,296	
Noninterest Expenses:			
Compensation and employee benefits (Note 10)	17,109	14,580	12,435
Occupancy and equipment expenses (Note 4 and Note 8)	3,833	3,322	3,554
Data processing service fees	2,010	2,016	1,588
Marketing and investor relations	1,400	1,190	1,124
			3,589
Other noninterest expenses	3,984	3,682	

			22,290
Total noninterest expenses	28,336	24,790	
Income before provision for income taxes	21,530	16,169	9,048
			3,147
Provision for Income Taxes (Note 7)	7,951	5,803	
			$ 5,901
Net income	$ 13,579	$ 10,366	
Weighted Average Shares Outstanding (Notes 1 and 10):			
Basic	4,760,836	5,960,006	-
			-
Common stock equivalents	231,974	100,925	
			-
Diluted	4,992,810	6,060,931	
Earnings per Share:			
Basic	$ 2.85	$ 1.74	Not Meaningful
Diluted	$ 2.72	$ 1.71	Not Meaningful

The accompanying notes are an integral part of these consolidated financial statements.

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PORT FINANCIAL CORP.

Consolidated Statements of Changes in Stockholder's Equity
for the Years Ended December 30, 2002, 2001 and 2000

(in thousands, except share data)

	Common Stock	Additional Paid-In Capital	Treasury Stock	Unearned Compensation ESOP/RRP	Retained Earnings	Accumulated Other Comprehensive Income	Total	Comprehensive Income
Balance, December 31, 1999	-	-	-	-	77,221	1,909	79,130	$ 3,042
Net income	-	-	-	-	5,901	-	5,901	$ 5,901

Issuance of stock less stock offering costs (of $2.6 million)	74	71,746	-	-	-	-	71,820	-
Change in unrealized gains on securities available-for-sale, net of taxes of $1,273	-	-	-	-	-	2,227	2,227	2,227
Less reclassification of securities gains included in net income, net of taxes of $213	-	-	-	-	-	390	390	390
ESOP unearned compensation:	-	-	-	-	-	-	-	-
Acquisition of shares	-	-	-	(7,514)	-	-	(7,514)	-
Amortization of unearned compensation	-	50	-	237	-	-	287	-
RRP unearned compensation:	-	-	-	-	-	-	-	-
Grant of RRP stock awards	-	4,488	-	(4,488)	-	-	-	-
Amortization of unearned compensation	-	-	-	184	-	-	184	-
Cash dividend - $0.05 per share	-	-	-	-	(372)	-	(372)	-
Balance, December 31, 2000	74	76,284	-	(11,581)	82,750	4,526	152,053	$ 8,518
Net income	-	-	-	-	10,366	-	10,366	$ 10,366
Change in unrealized gains on securities available-for-sale, net of taxes of $1,154	-	-	-	-	-	1,970	1,970	1,970
Change in fair market value of swap agreements, net of taxes ($169)	-	-	-	-	-	(243)	(243)	(243)

Purchase of RRP stock	-	(5,453)	-	-	-	-	(5,453)	-
Purchase of treasury stock	-	-	(35,390)	-	-	-	(35,390)	-
Exercise of stock options	-	(65)	295	-	-	-	230	-
Net forfeiture of RRP awards	-	(82)	-	82	-	-	-	-
Amortization of unearned compensation	-	163	-	1,134	-	-	1,297	-
Cash dividend - $0.24 per share					(1,464)		(1,464)	
RRP and Stock Option Tax benefits	-	32	-	-	-	-	32	-
Balance, December 31, 2001	$ 74	$ 70,879	$ (35,095)	$ (10,365)	$ 91,652	$ 6,253	$123,398	$ 12,093

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PORT FINANCIAL CORP.

Consolidated Statements of Changes in Stockholder's Equity (Continued)
for the Years Ended December 30, 2002, 2001 and 2000

(in thousands, except share data)

	Common Stock	Additional Paid-In Capital	Treasury Stock	Unearned Compensation ESOP/RRP	Retained Earnings	Accumulated Other Comprehensive Income	Total	Comprehensive Income
Balance, December 31, 2001	$ 74	$ 70,879	$ (35,095)	$ (10,365)	$ 91,652	$ 6,253	$123,398	$ 12,093
Net income	-	-	-	-	13,579	-	13,579	$ 13,579
Change in unrealized gains on securities available-for-sale, net of taxes of $3,399	-	-	-	-	-	4,924	4,924	4,924
Less reclassification of securities gains	-	-						

included in net
income, net of
taxes of $30