PORT FINANCIAL CORP
Form 10-Q
May 15, 2003

SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

FORM 10-Q

(Mark One)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2003

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

1380 Soldiers Field Road, Brighton, Massachusetts 02135

(Address of principal executive offices)
(Zip Code)

(617) 779-8300

(Registrant's telephone number including area code)

N/A

(Former name, former address and former fiscal year,
if changed from last Report)

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 whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act).
Yes _X_ No ___.

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of the latest practicable date.

Class	Outstanding at May 8, 2003
Common Stock, Par value $.01	5,288,301

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Part I - FINANCIAL INFORMATION

Item 1. Financial Statements

Port Financial Corp.
Consolidated Balance Sheets
(Dollars in Thousands, Except Share Amounts)

	March 31, 2003	December 31, 2002
ASSETS	(Unaudited)	
Cash and due from banks	$ 12,131	$ 15,406
Other interest bearing cash equivalents	16,186	5,259
Total cash and cash equivalents	28,317	20,665
Certificates of deposit	-	2,262
Investment securities held to maturity, at amortized cost (Fair value of $35,842 in 2003 and $40,619 in 2002)	35,142	39,807
Investment securities available for sale, at fair value	590,395	509,504
Federal Home Loan Bank Stock, at cost	11,171	10,196
Savings Bank Life Insurance Stock, at cost	1,934	1,934
Loans held for sale	9,142	13,718
Loans, net (Allowance for loan losses for $10,086 in 2003 and $10,007 in 2002)	834,863	836,343
Banking premises and equipment, net	22,581	22,843
Accrued interest receivable	6,869	6,074
Other assets	6,076	5,919
Total assets	$ 1,546,490	$ 1,469,265
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits	$ 1,208,886	$ 1,156,609

Mortgagors' escrow payments	4,101	3,919
Federal Home Loan Bank advances	196,636	175,566
Accrued expenses and other liabilities	13,014	12,078
Total liabilities	1,422,637	1,348,172
Commitments and Contingencies (Note 3)		
Stockholders' Equity:		
Preferred stock, $ .01 par value- Authorized - 5,000,000 shares Issued and outstanding - no shares	-	-
Common stock, $ .01 par value - Authorized - 30,000,000 shares Issued - 7,442,818 shares at March 31, 2003 and December 31, 2002; shares outstanding 5,288,101 at March 31, 2003 and 5,257,164 at December 31, 2002	74	74

Port Financial Corp.
Consolidated Balance Sheets-(Continued)
(Dollars in Thousands, Except Share Amounts)

	March 31, 2003	December 31, 2002
	(Unaudited)	
Additional paid-in capital	72,337	72,135
Treasury stock, at cost - 2,154,717 and 2,185,654 shares	(54,581)	(55,365)
Unearned compensation - Recognition and Retention Plan	(2,500)	(2,538)
Unearned compensation - ESOP	(6,713)	(6,775)
Retained earnings	104,671	102,356
Accumulated other comprehensive income	10,565	11,206
Total stockholders' equity	123,853	121,093
Total liabilities and stockholders' equity	$ 1,546,490	$ 1,469,265

See the accompanying notes to the unaudited consolidated financial statements.

Port Financial Corp.
Consolidated Statements of Operations
(Dollars in Thousands Except Share and Per Share Amounts)
(Unaudited)

	Three Months Ended March 31,	
	2003	2002
Interest and dividend income:		
Interest on loans	$ 14,036	$ 14,314
Interest and dividends on investment securities	6,518	4,269
Interest on other cash equivalents	46	76
Interest on certificates of deposit	2	33
Total interest and dividend income	20,602	18,692
Interest expense:		
Interest on deposits	6,446	6,695
Interest on borrowed funds	1,851	1,435
Total interest expense	8,297	8,130
Net interest income	12,305	10,562
Provision for loan losses	75	300
Noninterest income:		
Customer service fees	377	326
Gain on sale of investment securities	-	72
Mortgage banking revenue	887	196
Other income	485	520
Total noninterest income	1,749	1,114
Noninterest expense:		
Compensation and employee benefits	4,296	4,016
Occupancy and equipment expense	957	885
Data processing service fees	534	575
Marketing and investor relations	300	425
Other noninterest expense	1,180	1,015
Total noninterest expenses	7,267	6,916
Income before provision for income taxes	6,712	4,460
Provision for income taxes	3,452	1,632
Net income	$ 3,260	$ 2,828
Earnings per share:		
Basic	$ 0.71	$ 0.57

Diluted	$ 0.67	$ 0.55
Weighted average shares outstanding:		
Basic	4,599,994	4,956,737
Diluted	4,879,319	5,184,197

See the accompanying notes to the unaudited consolidated financial statements

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Port Financial Corp.
Consolidated Statement of Changes in Stockholders' Equity
For The Three Months Ending March 31, 2003 and 2002
(In Thousands)
(Unaudited)

	Common Stock	Additional Paid-In Capital	Treasury Stock	Unearned Compensation ESOP/RRP	Retained Earnings	Accumulated Other Comprehensive Income	Total	Comprehensive Income
Balance at December 31, 2001	$ 74	$ 70,879	$ (35,095)	$ (10,365)	$ 91,652	$ 6,253	$ 123,398	
Net income	-	-	-	-	2,828	-	2,828	$ 2,828
Change in unrealized gain on securities								
Available for sale, net of taxes $(839)	-	-	-	-	-	(1,568)	(1,568)	(1,568)
Less reclassification of securities gains								
Included in net income, net of taxes $30	-	-	-	-	-	(42)	(42)	(42)
Change in fair market value of swap								
Agreement, net of taxes $ 161	-	-	-	-	-	232	232	232
Purchase of treasury stock	-	-	(5,188)	-	-	-	(5,188)	-
Exercise of stock options	-	(26)	100	-	-	-	74	-
Net forfeiture of RRP awards	-	381	-	(381)	-	-	-	-
Amortization of unearned compensation	-	84	-	297	-	-	381	-
	-	-	-	-	(525)	-	(525)	-

Cash dividends - $.10 per share								
Balance at March 31, 2002	$ 74	$ 71,318	$ (40,183)	$ (10,449)	$ 93,955	$ 4,875	$ 119,590	$ 1,450
Balance at December 31, 2002	$ 74	$ 72,135	$ (55,365)	$ (9,313)	$ 102,356	$ 11,206	$ 121,093	
Net income	-	-	-	-	3,260	-	3,260	$ 3,260
Change in unrealized gain on securities Available for sale, net of taxes $(497)	-	-	-	-	-	(747)	(747)	(747)
Change in fair market value of swap Agreement, net of taxes $ 76	-	-	-	-	-	106	106	106
Exercise of stock options	-	(184)	784	-	-	-	600	-
Grant of RRP stock awards	-	215	-	(215)	-	-	-	-
Amortization of unearned compensation	-	171	-	315	-	-	486	-
Cash dividends - $.20 per share	-	-	-	-	(945)	-	(945)	-
Balance at March 31, 2003	$ 74	$ 72,337	$ (54,581)	$ (9,213)	$ 104,671	$ 10,565	$ 123,853	$ 2,619

See the accompanying notes to the unaudited consolidated financial statements

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Port Financial Corp.
Consolidated Statements of Cash Flows
(In Thousands)
(Unaudited)

	Three months Ended March 31,	
	2003	2002

Cash Flows from Operating Activities:		
Net income	$ 3,260	$ 2,828
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Provision for loan losses	75	300
Depreciation and amortization	438	446
Net gain from sales of available-for-sale investment securities	-	(72)
Amortization of premiums on investment securities, net	552	112
Increase in cash surrender value of life insurance policies	(48)	(48)
Gain on loan sales, net	(882)	(115)
Proceeds from sale of loans	53,901	7,709
Loans originated for sale	(48,443)	(8,848)
Amortization of unearned compensation	486	381
(Increase) decrease in other assets	(109)	291
Increase in accrued interest receivable	(795)	(1,142)
Increase in prepaid deferred tax provision	(290)	(334)
Decrease in deferred loan fees	(195)	(329)
Increase (decrease) in accrued expenses and other liabilities	1,829	(2,344)
Net cash provided by (used in) operating activities	9,779	(1,165)
Cash Flows from Investing Activities:		
Proceeds from sales, maturities and principal repayments of securities available-for-sale	74,930	21,284
Purchases of securities available-for-sale	(157,567)	(50,525)
Proceeds from maturities and principal repayments of securities held-to-maturity	4,615	7,340
Purchases of securities held-to-maturity	-	(31,005)
Proceeds from maturities of certificates of deposit	2,263	-
Purchase of certificates of deposit	-	(33)
Purchase of FHLB stock	(976)	(1,387)
Purchase of premises and equipment	(176)	(392)
Loan originations, net	1,590	(47,000)
Recoveries of loans previously charged-off	10	4
Net cash used in investing activities	(75,311)	(101,714)

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Port Financial Corp.
Consolidated Statements of Cash Flows (Continued)
(In Thousands)
(Unaudited)

	Three months Ended March 31,	
	2003	2002

Cash Flows from Financing Activities:		
Increase (decrease) in certificates of deposit	(1,099)	28,671
Increase in demand deposits, NOW accounts and savings accounts	53,376	53,332
Increase in mortgagors' escrow payments	182	529
Increase in Federal Home Loan Bank advances	21,070	19,951
Exercise of stock options	600	74
Cash dividends	(945)	(525)
Treasury stock purchases	-	(5,188)
Net cash provided by financing activities	73,184	96,844
Net Increase in Cash and Cash Equivalents	7,652	(6,035)
Cash and Cash Equivalents, beginning of year	20,665	36,244
Cash and Cash Equivalents, end of period	$ 28,317	$ 30,209
Supplemental Disclosures of Cash Flow Information:		
Cash paid for interest	$ 8,143	$ 7,851
Cash paid for income taxes	$ 1,225	$ 3,404

See the accompanying notes to the unaudited consolidated financial statements

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Port Financial Corp.
Notes to the Unaudited Consolidated Financial Statements

1) Basis of Presentation

The unaudited consolidated financial statements of Port Financial Corp. ("Port" or the "Company") include the accounts of the Company and its two wholly owned subsidiaries, Cambridgeport Bank (the "Bank") and Brighton Investment Corporation. Brighton Investment Corporation invests in marketable securities. The Bank is a Massachusetts-chartered stock savings bank with its headquarters located in Cambridge, Massachusetts. The Bank has four wholly-owned subsidiaries, Temple Investment Corporation, River Investment Corporation, Cambridgeport Insurance Services, Inc. and Prospect Real Estate Investment Corp. Temple Investment Corporation and River Investment Corporation both invest in securities. Cambridgeport Insurance Services, Inc. was established in April 2000 with the intention of providing insurance. It is not engaged in such activities at this time. Prospect Real Estate Investment Corp. is a real estate investment trust which holds certain mortgage loans originated by the Bank as well as mortgage-backed securities. In addition, the Bank is the sole member of Temple Realty LLC, which owns the Company's administrative center.

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. In the opinion of management, the unaudited consolidated financial statements presented herein reflect all adjustments (consisting only of normal adjustments) necessary for a fair presentation. Interim results are not necessarily indicative of results to be expected for the entire year. The Company believes that the disclosures are adequate to make the information presented not misleading. All significant intercompany balances and transactions have been eliminated in the accompanying consolidated financial statements.

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2) Stock Based Compensation

In October 1995, the FASB issued SFAS No. 123, *Accounting for Stock-Based Compensation*. SFAS No. 123 established a fair-value-based method of accounting for stock-based compensation plans. The Company has determined that it will account for stock-based compensation for employees under APB Opinion No. 25, *Accounting for Stock Issued to Employees*, and elect the disclosure-only alternative under SFAS No. 123.

Had compensation cost for the Company's stock option plan been determined consistent with SFAS No. 123, the pro forma net income would have been as follows:

	Three Months Ended March 31,	
	2003	2002
Net income-		
As reported	$ 3,260	$ 2,828
Deduct:		
Total stock-based employee compensation expense determined under fair value based method for all awards, net of tax	(115)	(104)
Pro forma	$ 3,145	$ 2,724
Basic EPS-		
As reported	$ 0.71	$ 0.57
Pro forma	$ 0.68	$ 0.55
Diluted EPS-		
As reported	$ 0.67	$ 0.55
Pro forma	$ 0.64	$ 0.53

3) Commitments

At March 31, 2003, the Company had outstanding commitments to originate loans amounting to approximately $40.6 million, unadvanced funds on construction loans of approximately $1.9 million and unadvanced funds on lines of credit amounting to approximately $184.4 million.

4) Earnings Per Share

Basic earnings per share is computed by dividing net income by the weighted-average number of common shares outstanding during the period presented. In calculating basic earnings per share, the number of shares of common stock outstanding is reduced by the number of shares held by Port's Employee Stock Ownership Plan (the "ESOP") and its 2000 Recognition and Retention Plan (the "RRP") that have not been allocated or are not committed for release to participants' individual accounts. Diluted earnings per share reflects additional common shares that would have been outstanding if dilutive potential common shares had been issued, as well as any adjustment to income that would result from the assumed conversion. Potential common shares that may be issued by the Company relate solely to outstanding stock options and unearned RRP shares and are determined using the treasury stock method.

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The following table summarizes the calculation of basic and diluted earnings per share:

	Three Months Ended March 31,	
	2003	2002
(Dollars in thousands, Except Shares and Per Share amounts)		
Net income	$ 3,260	$ 2,828
Weighted average common shares outstanding	4,599,994	4,956,737
Dilutive effect of common stock equivalents	279,325	227,460
Weighted average common and common Equivalent shares outstanding	4,879,319	5,184,197
Basic earnings per share	$ 0.71	$ 0.57
Dilutive effect of common stock equivalents	(0.04)	(0.02)
Diluted earnings per share	$ 0.67	$ 0.55

For the three months ended March 31, 2003 and 2002, there were -0- options to purchase shares of common stock, which were excluded from the calculation of diluted earnings per share because the options exercise price was greater than the average market price of the Company's common stock for the period and their inclusion would have been anti-dilutive.

5) Merger Agreement

On April 17, 2003, Port and Citizens Financial Group, Inc. ("Citizens") entered into an Agreement and Plan of Merger (the "Agreement") by and among Citizens Bank of Massachusetts ("Citizens Bank"), a wholly-owned subsidiary of Citizens, Citizens and Port. Under the terms of the Agreement, Citizens will acquire Port in a cash merger transaction for $54 per share. Pursuant to the Agreement, CambridgePort Bank will become part of Citizens Bank. The acquisition is subject to customary conditions, including shareholder and regulatory approval, and is expected to close in the third quarter of 2003.

6) Stock Repurchases

On January 22, 2003, the Company announced an eighth 5% repurchase program for a total of 262,000 shares. As of March 31, 2003 no shares have been purchased under this repurchase program.

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7) Loans

The loan portfolio consisted of the following (in thousands):

	March 31, 2003	December 31, 2002
	(Unaudited)	
Real estate loans-		
Residential	$464,693	$468,561
Commercial	303,589	292,160
Home equity lines of credit	68,770	76,801
Construction and land	3,945	5,000
Total real estate loans	840,997	842,522
Commercial	1,275	1,078
Consumer	2,677	2,750
Total loans	844,949	846,350
Less-Allowance for loan losses	10,086	10,007
Total loans, net	$834,863	$836,343

8) Deposits

A summary of deposit balances, by type, is as follows (in thousands):

	March 31, 2003	December 31, 2002

	(Unaudited)	
Demand deposit accounts	$ 58,577	$ 58,159
NOW accounts	136,254	158,748
Regular savings accounts	68,405	64,997
Money market accounts	584,968	512,924
Total noncertificate accounts	848,204	794,828
Term certificates-		
Term certificates less than $100,000	262,363	263,865
Term certificates of $100,000 and over	98,319	97,916
Total term certificate accounts	360,682	361,781
Total deposits	$ 1,208,886	$ 1,156,609

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Forward Looking Statements

This Quarterly Report on Form 10-Q contains certain statements that may be considered forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Port Financial Corp.'s (the "Company") actual results could differ materially from those projected in the forward-looking statements. Important factors that might cause such a difference include: changes in national or regional economic conditions; changes in loan default and charge-off rates; reductions in deposit levels necessitating increased borrowing to fund loans and investments; changes in interest rates; changes in the size and the nature of the Company's competition; and changes in the assumptions used in making such forward-looking statements. The Company disclaims any obligation to publicly announce future events or developments, which may affect the forward-looking statements contained herewith.

The following discussion and analysis should be read in conjunction with the unaudited consolidated financial statements and related notes included in this report.

General

Port Financial Corp. is a Massachusetts-chartered stock holding company, which owns all of the capital stock of Cambridgeport Bank (the "Bank"). The Company converted from a Massachusetts-chartered mutual holding company, formerly known as Cambridgeport Mutual Holding Company, to a Massachusetts-chartered stock holding company and changed its name to Port Financial Corp. and sold 7,442,818 shares of its common stock, par value $0.01 per share, to the Company's eligible depositors, management and employees and to the Company's Employee Stock Ownership Plan ("ESOP"). Net proceeds of the stock offering were $71.8 million. The conversion and stock offering were completed on April 11, 2000.

The Company's principal business is its investment in the Bank, a Massachusetts stock savings bank, chartered in 1853, with headquarters in the Cambridgeport neighborhood of Cambridge, Massachusetts. The Cambridgeport neighborhood is located near the Charles River, between the campuses of Harvard and MIT. The Bank is a community-oriented bank, with eleven full service banking offices and a Telebanking Center. It provides retail and business customers with value-driven products and services, including a wide variety of deposit products, investment management services, residential mortgage loans, commercial real estate loans, commercial loans and consumer loans. Most of its customers are located in the cities and towns around Cambridge, Massachusetts. The Bank's newest branch office, located in Brookline, Massachusetts opened in April, 2002.

The Bank's revenues are derived principally from interest on loans and investment securities. The Bank's primary sources of funds are deposits, scheduled amortization and prepayments of loan principal and mortgage-backed securities, maturities and calls of

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investment securities, and funds provided by operations. The Bank also uses borrowings from the Federal Home Loan Bank as a source of funds for loans, investments and other assets. The largest component of the Bank's expenses is the interest it pays on deposits.

Comparison of Financial Condition at March 31, 2003 and December 31, 2002

Total assets increased by $77.2 million, from $1.47 billion at December 31, 2002 to $1.55 billion at March 31, 2003. This growth included increases in investment securities of $76.2 million and cash and cash equivalents of $7.7 million, partially offset by a decrease in net loans and loans held for sale of $6.1 million.

The trend in portfolio loan balances reflects residential mortgage refinancing activity in the current low interest rate environment.

Non-performing assets totaled $337,000 and $361,000 at March 31, 2003 and December 31, 2002, respectively. The balance of non-performing assets at March 31, 2003 consists of a single residential mortgage and several student loans.

The allowance for loan losses was $10.1 million at March 31, 2003, or 1.20% of total loans. This compares to $10.0 million and 1.18% at December 31, 2002. The Company believes that the current allowance for loan losses accurately reflects the size and level of risk in the loan portfolio. The Company continues to apply its consistent, systematic methodology for measuring the adequacy of the allowance for loan losses.

Deposits at March 31, 2003 totaled $1.21 billion, an increase of $52.3 million from $1.16 billion at December 31, 2002. The growth was primarily concentrated in money market accounts, which increased $72.0 million to $585.0 million at March 31, 2003. During the first quarter of 2003, the Bank continued to market its Money Manager Savings account, offering premium rates for new customer deposits.

NOW account balances declined $22.5 million, from $158.7 million at December 31, 2002 to $136.3 million at March 31, 2003, as customers transferred funds into higher yielding accounts.

Borrowings from the Federal Home Loan Bank totaled $196.6 million at March 31, 2003, an increase of $21.1 million from December 31, 2002. The Company increased its utilization of low cost, short-term borrowings during the quarter to fund loans held for sale and other short-term assets.

The $2.8 million increase in stockholders' equity to $123.9 million at March 31, 2003 from $121.1 million at December 31, 2002 was due primarily to growth of $2.3 million in retained earnings. During the quarter there was also a $784,000 reduction in treasury stock, as stock options were exercised. The effects of higher retained earnings and treasury stock balances were partially offset by a $641,000 reduction in accumulated other comprehensive income.

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The following tables set forth information relating to the Company's financial condition and net interest income at and for the first quarter ending March 31, 2003 and 2002 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 of terms, and fees earned when real estate loans were prepaid or refinanced.

Port Financial Corp.
Average Balance Sheet
For the Third Quarter Ending March 31,

	2003			2002		
	Average Balance	Interest	Average Yield/ Cost	Average Balance	Interest	Average Yield/ Cost
			(Dollars in thousands)			
Assets:						
Interest earning assets:						
Short term investments(1)	$ 18,978	$ 46	0.98%	$ 19,065	$ 76	1.62%
Certificates of deposit	126	2	6.44%	2,127	33	6.29%
Investment securities(2)	559,461	6,518	4.66%	285,847	4,269	5.97%
Loans(3)	858,408	14,036	6.50%	813,910	14,314	6.99%
Total interest earning assets	1,436,973	20,602	5.70%	1,120,949	18,692	6.63%
Allowance for loan losses	(10,014)			(9,457)		
Total noninterest earning assets	58,740			53,954		
Total assets	1,485,699			1,165,446		
Liabilities and Equity:						
Interest bearing liabilities:						
NOW accounts	142,979	163	0.46%	108,915	312	1.16%
Savings accounts	66,769	124	0.75%	58,194	210	1.46%
Money market deposit accounts	547,818	2,853	2.11%	355,896	2,248	2.56%
Certificate of deposit accounts	361,224	3,306	3.71%	344,633	3,925	4.62%
Total interest bearing	1,118,790	6,446	2.34%	867,638	6,695	3.13%

deposits						
Borrowed funds	185,020	1,851	4.00%	117,761	1,435	4.87%
Total interest bearing liabilities	1,303,810	8,297	2.58%	985,399	8,130	3.34%
Noninterest bearing deposits	60,768			52,659		
Other noninterest bearing liabilities	7,464			8,874		
Total noninterest bearing liabilities	68,232			61,533		
Total liabilities	1,372,042			1,046,932		
Stockholders' equity/retained earnings	113,657			118,514		
Total liabilities and stockholders' Equity/retained earnings	$1,485,699			$1,165,446		
Net interest income		$ 12,305			$ 10,562	
Net interest rate spread (4)			3.12%			3.29%
Net interest margin (5)			3.47%			3.82%
Ratio of average interest-earning assets to average interest-bearing liabilities			110.21			113.76

(1) Short term investments includes 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 held 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.

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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.

Port Financial Corp.
Rate/Volume Analysis

	Three Months Ending March 31, 2003 Net Interest Income Increase/(Decrease)		
	Due to		
	Volume	Rate	Net
	(In thousands)		
Interest earning assets:			
Short term investments	$ -	$ (30)	$ (30)
Certificates of deposit	(36)	5	(31)
Investment securities	7,922	(5,673)	2,249
Loans	3,373	(3,651)	(278)
Total interest earning assets	11,259	(9,349)	1,910
Interest bearing liabilities:			
NOW accounts	470	(619)	(149)
Savings accounts	172	(258)	(86)
Money market deposit accounts	2,872	(2,267)	605
Certificate of deposit accounts	1,110	(1,729)	(619)
Borrowed funds	1,878	(1,462)	416
Total interest bearing liabilities	6,502	(6,335)	167
Change in net interest income	$ 4,757	$(3,014)	$ 1,743

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Comparison of Operating Results for the Three Months Ended March 31, 2003 and 2002

Net income for the quarter ended March 31, 2003 was $3.3 million, or $.67 per diluted share, compared to $2.8 million, or $.55 per diluted share, for the comparable prior year period. The 2003 period included an accrual of $837,000 representing an estimate of the additional state tax liability, including interest, relating to the deduction for dividends received from the Bank's real estate investment trust subsidiary (the "REIT") for the 2001 and 2002 fiscal years. Excluding the effect of this charge, the Company's after-tax income in the 2003 period was $4.1 million, or $.84 per diluted share.

Interest Income

Interest income increased $1.9 million, or 10.2%, to $20.6 million. This increase reflected the 28.2% growth in the average balance of interest-earning assets to $1.44 billion in the first quarter of 2003, from $1.12 billion in the comparable 2002 period. Partially offsetting the effect of earning asset growth was a 93 basis point decline in yield, the result of lower market interest rates in the 2003 period.

Interest on loans was $278,000 lower in the 2003 period as declining yields more than offset growth in average portfolio balances. The average yield on loans declined by 49 basis points, from 6.99% to 6.50%, while the average portfolio balance increased by $44.5 million, or 5.5%, in the 2003 period compared to the first quarter of 2002.

Income from short-term investments and investment securities rose $2.2 million, or 50.0%, reflecting the effect of higher average balances of cash, cash equivalents and investment securities in the 2003 period. Balances in these categories averaged $271.5 million, or 88.4%, higher in the 2003 period than in the first quarter of 2002. The lower interest rate environment reduced the average yield on these assets by 116 basis points, from 5.70% in the 2002 period to 4.54% in the first quarter of 2003.

Interest Expense

Total interest expense for the three months ended March 31, 2003 was $8.3 million, up $167,000 from the same period in 2002. Interest expense on deposit accounts declined $249,000 as a result of significantly lower rates on interest-bearing deposits. The average cost of interest-bearing deposits was 2.34% in the 2003 period, a reduction of 79 basis points from the first quarter of 2002. The decline in deposit rates also reflects the general reduction in market rates that occurred through 2002.

A $67.3 million increase in the average balance of borrowings resulted in a borrowing expense of $1.9 million for the three months ended March 31, 2003 compared with $1.4 million in the first quarter of 2002. The average cost of borrowings declined by 87 basis points from 4.87% in the first quarter of 2002 to 4.0% in the 2003 period.

Net Interest Income

Net interest income increased 16.5%, or $1.7 million, in the first quarter of 2003 as compared to the same period last year. The net interest margin was 3.47%, down from

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3.82% in the 2002 quarter. The interest rate spread was 3.12% in the quarter ended March 31, 2003, compared with 3.29% during the same period last year.

Provision for Loan Losses

The Company recorded a provision for loan losses of $75,000 for the quarter ended March 31, 2003 and $300,000 in the same quarter of 2002. The lower provision reflects primarily the slower growth in portfolio loan balances in the 2003 period.

The Company establishes provisions for loan losses, which are charged to operations, in order to maintain an allowance for loan losses at a level that is deemed to be appropriate based upon an assessment of a number of factors. These factors include prior loss experience, industry standards, past due loans, economic conditions, the volume and type of loans in the Bank's portfolio and other factors related to the collectibility of the Bank's loan portfolio.

Non-Interest Income

Non-interest income totaled $1.7 million in the first quarter of 2003 compared to $1.1 million for the three months ended March 31,2002. Revenue from mortgage banking activities was $887,000 in the 2003 period, an increase of $691,000 over the comparable period in 2002, as low interest rates generated high volumes of fixed rate mortgage applications during the first quarter of 2003. The Company normally sells 30-year fixed rate mortgages it originates. Mortgage banking revenue in 2003 and 2002 included gains on sales of residential mortgages of $843,000 and $115,000 respectively. Customer service fees of $377,000 increased $51,000 in the first quarter of 2003 over the 2002 quarter, largely because of the increased number of checking accounts and fees derived from activity in those accounts.

Non-Interest Expense

Non-interest expense increased $351,000, or 5.1%, to $7.3 million for the first quarter of 2003, compared to $6.9 million in the 2002 period. Compensation and benefits expense represented the largest portion of that increase, up $280,000. The increase reflects higher commissions paid to mortgage originators, as well as higher costs of stock benefit plans, which increase as the market price of the Company's stock rises.

Occupancy expense rose $72,000 primarily reflecting the cost of the Brookline Branch, which opened in the second quarter of 2002.

The annualized expense ratio, the ratio of non-interest expense to average assets, was 1.98% for the three months ended March 31, 2003 compared to 2.41% in the 2002 period.

Provision for Income Taxes

As mentioned above, the provision for income taxes in the first quarter of 2003 includes an accrual of $837,000 for REIT-related state tax liability in 2001 and 2002. Excluding this charge, the Company's tax provision in the 2003 period was $2.6 million, representing an effective tax rate of 39.0%, compared to 36.6% for the 2002 period. The

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higher tax rate reflects the fact that under the recently enacted changes to the state tax code, dividends received from REITs are no longer excluded from taxable income.

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, withdrawals of deposits and operating expenses. The Company's 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. The Bank also can borrow funds from the Federal Home Loan Bank based on eligible collateral of loans and securities. The Bank's maximum borrowing capacity from the Federal Home Loan Bank at March 31, 2003 was approximately $119.0 million, net of borrowings that were currently outstanding. In addition, the Bank can enter into reverse repurchase agreements with approved broker-dealers. Reverse repurchase agreements are agreements that allow the Bank to borrow money, using securities as collateral.

Liquidity management is both a daily and long term function of business management. The measure of a company's liquidity is its ability to meet its cash commitments at all times with available cash or by conversion of other assets to cash at a reasonable price. Loan repayments 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. Management believes that the Company has sufficient liquidity to meet its current operating needs.

At March 31, 2003, the Company exceeded each of the applicable regulatory capital requirements. The Company's leverage Tier 1 capital was $113.3 million, or 15.6% of risk-weighted assets, and 7.6% of average assets. The Company had a risk-based total capital of $125.5 million and a risk-based capital ratio of 17.3%.

See the "Consolidated Statements of Cash Flows" in the Unaudited Consolidated Financial Statements included in this Form 10-Q for the sources and uses of cash flows for operating and financing activities for the three month periods ended March 31, 2003 and March 31, 2002.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Quantitative and qualitative information about market risk is presented in the Securities and Exchange Commission Form 10-K filed by the Company for the year ended December 31, 2002.

The table below provides quantitative information on market risk as of March 31, 2003. It 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.

As of March 31, 2004

(Dollars in thousands)

Changes in Interest Rates (Basis Points)	Net Interest Income	% Change
+200	43,241	-1.54%
0	43,919	-
-200	44,831	2.08%

During 2001, the Company entered into an interest rate swap agreement with a notional value of $20.0 million. The Company utilizes interest rate swaps to manage the risk associated with interest rate changes. Under the terms of the swap agreement, the Company receives payments based on the 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. This swap is intended to reduce the impact on net interest income from a rise in interest rates. This swap has been designated as a cash flow hedge of the variable cash flows associated with interest expense on the Treasury Index deposit accounts. As of March 31, 2003, the Company was receiving a variable rate of 1.174% and paying a fixed rate of 4.10% on this swap. The fair value of the swap of $114,735 as of March 31, 2003 was recorded as a liability with changes in the fair value recorded in accumulated other comprehensive income.

Item 4. Controls and Procedures

During the 90-day period prior to the filing date of this report, management, including the Company's Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures. This evaluation included meeting with the Financial Reporting Committee comprised of key officers of the Bank who oversee audit, operations and accounting functions. Based upon, and as of the date of that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the disclosure controls and procedures were effective, in all material respects, to ensure that information required to be disclosed in the reports the Company files and submits under the Exchange Act is recorded, processed, summarized and reported as and when required.

There have been no significant changes in the Company's internal controls or in other factors that could significantly affect internal controls subsequent to the date the Company carried out its evaluation. There were no significant deficiencies or material weaknesses identified in the evaluation and therefore, no corrective actions were taken.

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Part II - <u>OTHER INFORMATION</u>

Item 1. Legal Proceedings

None

Item 2. Changes in Securities and Use of Proceeds

None

Item 3. Defaults Upon Senior Securities

None

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

None

Item 5. Other Information

The Company's Chief Executive Officer and Chief Financial Officer have furnished statements relating to its Form 10-Q for the quarter ended March 31, 2003 pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002. The statements are attached hereto as Exhibit 99.1.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

99.1 Certifications of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act.

99.2 Bank Merger Agreement

99.3 Stockholder Voting Agreement

(b) Reports on Form 8-K

On March 11, 2003, the Company filed a Current Report on Form 8-K announcing the accrual for REIT related state tax liability.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Port Financial Corp.
(Registrant)

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

By: /s/ Charles Jeffrey
Charles Jeffrey

Senior Vice President and
Chief Financial Officer
(Principal Financial Officer)

May 8, 2003

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CERTIFICATION

I, James Keegan, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Port Financial Corp.;

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

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

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

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

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

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

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

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

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

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

May 8, 2003

/s/ James Keegan

Chairman and Chief Executive Officer

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CERTIFICATION

I, Charles Jeffrey, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Port Financial Corp.;

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

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

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

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

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

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

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

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

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

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

May 8, 2003

/s/ Charles Jeffrey

Senior Vice President, Chief Financial Officer and Treasurer

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