FIRSTFED AMERICA BANCORP INC
Form 10-Q
February 14, 2003

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED DECEMBER 31, 2002

[ ] 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 1-12305

FIRSTFED AMERICA BANCORP, INC.

(Exact name of registrant as specified in its charter)

DELAWARE	04-3331237
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

ONE FIRSTFED PARK, SWANSEA, MASSACHUSETTS 02777

(Address of principal executive offices)

Registrant's telephone number, including area code: (508) 679-8181

(Former name, former address and former fiscal year, if changed since 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 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes [X] No [ ]

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

Yes [X] No [ ]

As of February 4, 2003, there were 8,460,563 shares of the Registrant's Common Stock outstanding.

FIRSTFED AMERICA BANCORP, INC.

INDEX TO FORM 10-Q

FIRSTFED AMERICA BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS)

	DECEMB 200 --- (UNAUD
ASSETS	
Cash on hand and due from banks	$ 56
Short-term investments	

Total cash and cash equivalents	56
Mortgage loans held for sale	324
Investment securities available for sale, at fair value	

(amortized cost of $32,171 and $81,602)	38
Mortgage-backed securities available for sale, at fair value	
(amortized cost of $650,775 and $579,713)	661
Mortgage-backed securities held to maturity	
(fair value of $1,010 and $1,235)	
Stock in Federal Home Loan Bank of Boston, at cost	58
Loans receivable	
Residential mortgages	625
Commercial real estate mortgages	139
Construction and land mortgages	27
Commercial	275
Consumer	175
Allowance for loan losses	(19
Loans receivable, net	1,223
Accrued interest receivable	11
Mortgage servicing rights	4
Office properties and equipment, net	38
Real estate owned	
Bank-owned life insurance	37
Investment in limited partnerships	
Goodwill and other intangible assets	54
Prepaid expenses and other assets	19
Total assets	$ 2,529

LIABILITIES AND STOCKHOLDERS' EQUITY

Liabilities:	
Deposits	
Demand	$ 531
Savings	252
Time	591
Total deposits	1,375
FHLB advances and other borrowings	896
Company obligated, mandatorily redeemable securities	11
Advance payments by borrowers for taxes and insurance	5
Accrued interest payable	4
Other liabilities	51
Total liabilities	2,344
Stockholders' equity:	
Common stock	
Additional paid-in capital	122
Retained earnings	92
Accumulated other comprehensive income	9
Unallocated ESOP shares	(2
Unearned stock incentive plan	
Treasury stock	(37
Total stockholders' equity	185
Total liabilities and stockholders' equity	$ 2,529

See accompanying notes to consolidated financial statements.

FIRSTFED AMERICA BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

	FOR THE THREE MONTH ENDED DECEMBER 31,	
	2002	2001
		(
Interest and dividend income:		
Loans	$ 22,477	$ 16,9
Mortgage-backed securities	8,677	7,6
Investment securities	693	3
Federal Home Loan Bank stock	515	4
Total interest and dividend income	32,362	25,4
Interest expense:		
Deposits	6,397	5,9
Borrowed funds	10,275	9,9
Total interest expense	16,672	15,8
Net interest income before provision for loan losses	15,690	9,5
Provision for loan losses	150	3
Net interest income after provision for loan losses	15,540	9,2
Non-interest income:		
Service charges on deposit accounts	1,311	5
Trust fee income	350	3
Loan servicing (expense) income	(834)	3
Insurance commission income	363	2
Earnings on bank-owned life insurance	484	5
Gain on sale of mortgage loans, net	7,569	1,8
Gain on sale of investment securities available for sale	1,057	
Other income	778	7
Total non-interest income	11,078	4,6
Non-interest expense:		
Compensation and employee benefits	9,223	4,4
Office occupancy and equipment	2,109	1,1
Data processing	702	4
Advertising and business promotion	408	1
Amortization of intangible assets	607	
Other expense	2,318	1,2
Total non-interest expense	15,367	7,4
Income before income tax expense	11,251	6,4
Income tax expense	4,325	2,4
Net income before cumulative effect of accounting change	6,926	3,9
Cumulative effect of change in accounting for derivative instruments and hedging activities, net of $237 tax benefit	-	
Net income	$ 6,926	$ 3,9

Basic earnings per share before cumulative effect of accounting change	$ 0.85	$ 0.
Cumulative effect of accounting change	-	
Basic earnings per share	$ 0.85	$ 0.
Diluted earnings per share before cumulative effect of accounting change	$ 0.82	$ 0.
Cumulative effect of accounting change	-	
Diluted earnings per share	$ 0.82	$ 0.
Weighted average shares outstanding - basic	8,135,464	5,815,4
Weighted average shares outstanding - diluted	8,400,504	5,868,4

See accompanying notes to consolidated financial statements.

FIRSTFED AMERICA BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE NINE MONTHS ENDED DECEMBER 31, 2002
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)
(UNAUDITED)

	COMMON STOCK	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	ACCUMULA OTHE COMPREHE INCOM
Balance at March 31, 2002	$ 106	$119,149	$ 79,245	$ 1
Earned SIP stock awards	-	(154)	-	
Earned ESOP shares charged to expense	-	872	-	
Stock options exercised	1	1,288	-	
Cash dividends declared and paid (1st quarter at $0.14 per share; 2nd and 3rd quarters at $0.15 per share)	-	-	(3,658)	
Common stock acquired for certain employee benefit plans (2,751 shares at an average price of $26.04 per share)	-	-	-	
Common stock issued in private placement (202,430 shares at $24.70 per share)	-	1,796	-	
Common stock issuance costs	-	(13)	-	
Comprehensive income:				
Net income	-	-	17,007	
Other comprehensive income, net of tax				
Unrealized holding gains on available for sale securities	-	-	-	17
Reclassification adjustment for gains included in net income	-	-	-	(2

Net unrealized gains	-	-	-	15
Tax effect	-	-	-	(7
Net-of-tax effect	-	-	-	8
Total comprehensive income	-	-	-	
Balance at December 31, 2002	$ 107	$122,938	$ 92,594	$ 9

	UNALLOCATED ESOP SHARES	UNEARNED STOCK-BASED INCENTIVE PLAN (SIP)	TREASURY STOCK	TOTAL STOCKHOL EQUITY
Balance at March 31, 2002	$(2,323)	$ (1,553)	$ (40,678)	$ 155,3
Earned SIP stock awards	-	1,435	-	1,2
Earned ESOP shares charged to expense	-	-	-	8
Stock options exercised	-	-	-	1,2
Cash dividends declared and paid (1st quarter at $0.14 per share; 2nd and 3rd quarters at $0.15 per share)	-	-	-	(3,6
Common stock acquired for certain employee benefit plans (2,751 shares at an average price of $26.04 per share)	-	-	(72)	(
Common stock issued in private placement (202,430 shares at $24.70 per share)	-	-	3,204	5,0
Common stock issuance costs	-	-	-	(
Comprehensive income:				
Net income				
Other comprehensive income, net of tax	-	-	-	17,0
Unrealized holding gains on available for sale securities	-	-	-	
Reclassification adjustment for gains included in net income	-	-	-	
Net unrealized gains	-	-	-	
Tax effect	-	-	-	
Net-of-tax effect	-	-	-	8,2
Total comprehensive income	-	-	-	25,2
Balance at December 31, 2002	$(2,323)	$ (118)	$ (37,546)	$ 185,3

See accompanying notes to consolidated financial statements.

FIRSTFED AMERICA BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(IN THOUSANDS)
(UNAUDITED)

	2
Cash flows from operating activities:	
Net income	$
Adjustments to reconcile net income to net cash used in operating activities:	
(Accretion) amortization of:	
Premiums/discounts, net	
Deferred loan origination costs	
Mortgage servicing rights	
Intangible assets	
Provision for loan losses	
Gains on sales of:	
Mortgage loans	(
Investment securities available for sale	
Mortgage-backed securities available for sale	
Office properties and equipment	
Real estate owned	
Net proceeds from sales of mortgage loans	1,8
Origination of mortgage loans held for sale	(2,0
Earnings on bank-owned life insurance	
Unrealized loss on investments in limited partnerships	
Depreciation of office properties and equipment	
Appreciation in fair value of ESOP shares	
Earned SIP shares	
Increase or decrease in:	
Accrued interest receivable	
Other assets	
Accrued interest payable	
Other liabilities	
Net cash used in operating activities	(1
Cash flows from investing activities:	
Purchase of investment securities available for sale	
Purchase of mortgage-backed securities available for sale	(3
Payments received on mortgage-backed securities	2
Proceeds from sale of investment securities available for sale	
Proceeds from sale of mortgage-backed securities available for sale	
Maturities of investment securities available for sale	
Net (increase) decrease in loans	(
Purchase of office properties and equipment	
Proceeds from sales of office properties and equipment	
Proceeds from sales of real estate owned	
Purchase of investments in limited partnerships	
Net cash (used in) provided by investing activities	(1
Cash flows from financing activities:	

Net increase in deposits	
Proceeds from FHLB advances and other borrowings	4,8
Repayments on FHLB advances and other borrowings	(4,7
Net change in advance payments by borrowers for taxes and insurance	
Cash dividends paid	
Common stock issued in private placement	
Payments to acquire common stock for treasury stock and stock issuance costs	
Stock options exercised	

Net cash provided by financing activities	1

Net (decrease) increase in cash and cash equivalents	(
Cash and cash equivalents at beginning of period	1

Cash and cash equivalents at end of period	$
	=====
Supplemental disclosures of cash flow information:	
Cash paid during the year for:	
Interest	$
	=====
Income taxes	$
	=====
Supplemental disclosures of noncash investing activities:	
Property acquired in settlement of loans	$
	=====

See accompanying notes to consolidated financial statements.

FIRSTFED AMERICA BANCORP, INC. AND SUBSIDIARIES
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) BASIS OF PRESENTATION

The accompanying consolidated financial statements include the accounts of FIRSTFED AMERICA BANCORP, INC. (the "Company"), its wholly-owned subsidiaries, First Federal Savings Bank of America (the "Bank"), FAB FUNDING CORPORATION ("FAB FUNDING") and FIRSTFED INSURANCE AGENCY, LLC (the "Agency"), People's Bancshares Capital Trust ("Capital Trust I"), People's Bancshares Capital Trust II ("Capital Trust II"), and the Company's 65% interest in FIRSTFED TRUST COMPANY, N.A. (the "Trust Company"). The remaining 35% interest of the Trust Company is held by M/D Trust, LLC, a minority owner. The Bank includes its wholly-owned subsidiaries, People's Mortgage Corporation ("PMC"), FIRSTFED INVESTMENT CORPORATION and CELMAC INVESTMENT CORPORATION.

On February 28, 2002, the Company completed the acquisition of People's Bancshares, Inc. ("People's"), New Bedford, Massachusetts, for $40.3 million in cash and 1.9 million shares of the Company's common stock (the "People's acquisition"). The People's acquisition was accounted for as a purchase in accordance with Statement of Financial Accounting Standards ("SFAS") No. 141, "Business Combinations," and the total cost, including the fair value of stock options assumed and certain merger costs, was $75.0 million. The Company recorded goodwill of $42.5 million and other intangible assets of $12.4 million in connection with the acquisition. The results of People's operations have been included in the consolidated financial statements since March 1, 2002.

The interim consolidated financial statements reflect all normal and recurring adjustments which are, in the opinion of management, considered necessary for a fair presentation of the financial condition and results of operations for the periods presented. Certain amounts previously reported have been reclassified to conform to the current presentation. The results of operations for the nine months ended December 31, 2002 are not necessarily indicative of the results of operations that may be expected for all of fiscal year 2003.

Certain information and note disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted, pursuant to the rules and regulations of the Securities and Exchange Commission. These unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company's Annual Report to Stockholders on Form 10-K for the fiscal year ended March 31, 2002.

(2) GOODWILL AND OTHER INTANGIBLE ASSETS

The Company adopted the provisions of SFAS No. 142, "Goodwill and Other Intangible Assets," effective April 1, 2002. As of the date of adoption, the Company had goodwill in the amount of $43.5 million, a core deposit intangible asset of $11.7 million and a non-compete intangible asset of $498,000, all of which will be subject to the transition provisions of SFAS No. 142. The Company has completed the transitional impairment testing provisions of SFAS No. 142, and concluded that the amount of recorded goodwill was not impaired as of April 1, 2002. The Company does not currently have any other indefinite-lived intangible assets recorded in the consolidated balance sheet. In addition, no material reclassifications or adjustments to the useful lives of finite-lived intangible assets were made as a result of adopting the new standard. The estimated amortization expense of intangible assets for fiscal year 2003 is expected to increase to $2.4 million from $294,000 in fiscal year 2002 due to amortization of the identifiable intangible assets recorded in connection with the People's acquisition, partially offset by discontinuing all goodwill amortization. The retroactive adoption of SFAS No. 142 would have resulted in an insignificant effect on net income and diluted earnings per share for the nine months ended December 31, 2001.

6

The changes in the carrying amount of goodwill and other intangible assets are as follows (in thousands):

	GOODWILL	CORE DEPOSIT INTANGIBLE ASSET
Balance at March 31, 2002	$ 43,535	$ 11,746
Recorded during the period	95	-
Amortization expense	-	(1,626)
Impairment recognized	-	-
Adjustment of purchase accounting estimates	201	-
Change in deferred taxes related to purchase accounting adjustments	(6)	-
Balance at December 31, 2002	$ 43,825	$ 10,120

Estimated amortization expense for fiscal years ended March 31:

2003	$ -	$ 2,150
2004	-	1,933
2005	-	1,717
2006	-	1,500
2007	-	1,283

The components of identifiable intangible assets at December 31, 2002 are as follows (in thousands):

	GROSS CARRYING AMOUNT	ACCUMULATED AMORTIZATION	NET CARRYING AMOUNT
Core deposit intangible asset	$11,926	$1,806	$10,120
Non-compete intangible asset	520	217	303
	$12,446	$2,023	$10,423

(3) IMPACT OF RECENT ACCOUNTING STANDARDS

In August 2001, the Financial Accounting Standards Board ("FASB") issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-lived Assets." SFAS No. 144 addresses financial accounting and reporting for the impairment or disposal of long-lived assets. SFAS No. 144 requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to the future net cash flows that are expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized for the amount by which the carrying amount of the asset exceeds the fair value of the asset. SFAS No. 144 requires companies to separately report discontinued operations and extend that reporting to a component of an entity that either has been disposed of (by sale, abandonment or in a distribution to owners) or is classified as held for sale. Assets to be disposed of are reported at the lower of the carrying amount or fair value less cost to sell. The Company adopted SFAS No. 144 on April 1, 2002 with no material impact on its financial condition or results of operations.

In April 2002, the FASB issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections." SFAS No. 145 addresses financial accounting and reporting of gains and losses from extinguishment of debt. SFAS No. 145 requires gains and losses resulting

from the extinguishment of debt to be classified as extraordinary items only if they meet the criteria in Accounting Principles Board Opinion No. 30, "Reporting the Results of Operations - Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions." SFAS No. 145 rescinds SFAS No. 4, "Reporting Gains and Losses from Extinguishment of Debt," SFAS No. 64, "Extinguishments of Debt Made to Satisfy Sinking-Fund Requirements," and amends SFAS No. 13, "Accounting for Leases." SFAS No. 145 is effective for fiscal years beginning after May 15, 2002, with early application encouraged. The Company does not believe the adoption of SFAS No. 145 will have a material impact on the Company's

Consolidated Financial Statements.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." SFAS No. 146 addresses financial accounting and reporting for costs associated with exit or disposal activities. SFAS No. 146 supercedes Emerging Issues Task Force ("EITF") Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." SFAS No. 146 is effective for exit or disposal activities that are initiated after December 31, 2002, with early application encouraged. The Company does not believe the adoption of SFAS No. 146 will have a material impact on the Company's Consolidated Financial Statements.

In November 2002, the FASB issued Interpretation No. 45, "Guarantor's Accounting and Disclosure requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." Interpretation No. 45 expands on the accounting guidance of SFAS No. 5, "Accounting for Contingencies," SFAS No. 57, "Related Party Disclosures," and SFAS No. 107, "Disclosures about Fair Value of Financial Instruments," and incorporates without change the provisions of Interpretation No. 34, "Disclosure of Indirect Guarantees of Indebtedness of Others (an interpretation of FASB Statement No. 5)," which is being superseded. Interpretation No. 45 expands on existing disclosure requirements for most guarantees, including loan guarantees such as standby letters of credit. Interpretation No. 45 also clarifies that at the time a company issues a guarantee, the company must recognize an initial liability for the fair value, or market value, of the obligations it assumes under that guarantee and must disclose that information in its interim and annual financial statements. Interpretation No. 45's initial recognition and measurement provisions apply on a prospective basis to guarantees issued or modified after December 31, 2002, and the disclosure requirements are effective for financial statements of interim or annual periods ending after December 15, 2002. The Company does not believe the adoption of Interpretation No. 45 will have a material impact on the Company's Consolidated Financial Statements.

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure-an amendment of FASB Statement No. 123." SFAS No. 148 provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. SFAS No. 148 also amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. SFAS No. 148 does not permit the use of the original SFAS No. 123 prospective method of transition for changes to the fair value based method made in fiscal years beginning after December 15, 2003. The Company does not expect to change to the fair value based method of accounting for stock-based employee compensation, and does not believe the adoption of SFAS No. 148 will have a material impact on the Company's Consolidated Financial Statements.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

GENERAL

The Company's primary business is attracting retail deposits from the general public and investing those deposits and other borrowed funds in loans, mortgage-backed securities, U.S. Government securities and other securities. The Company originates commercial, consumer, and mortgage loans for investment, and mortgage loans for sale in the secondary market. The Company's primary sources of funds are deposits, principal and interest payments on loans and mortgage-backed securities, proceeds from the sale of loans and securities, FHLB advances, and other borrowings.

The Company's results of operations are primarily dependent on net interest income, which is the difference between the income earned on its loan, investment and mortgage-backed securities portfolios, and its cost of funds, consisting of the interest paid on deposits and borrowings. Results of operations are also affected by the Company's provision for loan losses and non-interest income including gains on sale of loans and investment securities, service charges on deposit accounts, loan servicing income, revenue from the Trust Company and Agency operations, earnings on bank-owned life insurance ("BOLI"), and other income. The Company's non-interest expense consists of compensation and employee benefits, office occupancy and equipment expense, data processing expense, advertising and business promotion, amortization of intangible assets, and other expenses. Results of operations of the Company are also significantly affected by general economic and competitive conditions, particularly changes in interest rates, government policies and the actions of regulatory authorities.

This report contains certain 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. The Company intends such forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995, and is including this statement for purposes of these safe harbor provisions. Forward-looking statements, which are based on certain assumptions and describe future plans, strategies and expectations of the Company, are generally identified by use of the words "believe," "expect," "intend," "anticipate," "estimate," "project," or similar expressions. The Company's ability to predict results or the actual effect of future plans or strategies is inherently uncertain. Factors which could have a material adverse effect on the operations of the Company and the subsidiaries include, but are not limited to, changes in: interest rates, general economic conditions, legislative/regulatory changes, monetary and fiscal policies of the U.S. Government, including policies of the U.S. Treasury and the Federal Reserve Board, the quality or composition of the loan or investment portfolios, demand for loan products, deposit flows, competition, demand for financial services in the Company's market area and accounting principles and guidelines. These risks and uncertainties should be considered in evaluating forward-looking statements and undue reliance should not be placed on such statements. Further information on the Company and its business, including additional factors that could materially affect the Company's financial results, is included in the Company's filings with the Securities and Exchange Commission.

Subject to applicable laws and regulations, the Company does not undertake - and specifically disclaims any obligation - to publicly release the result of any revisions which may be made to any forward-looking statements to reflect events or circumstances after the date of such statements or to reflect the occurrence of anticipated or unanticipated events.

CRITICAL ACCOUNTING POLICIES

Certain aspects of the Company's accounting policies are based on management's estimation techniques, valuation assumptions and other subjective assessments. Management has identified five policies that, due to such estimates, assumptions and judgments inherent in those policies, are critical to an understanding of our financial statements. These policies involve management's methodology for the determination of the Company's allowance for loan losses, purchase accounting, valuation of goodwill and other intangible assets, the valuation of derivatives and the valuation of mortgage servicing rights. These policies and the estimates, assumptions and judgments are described in greater detail in subsequent sections of Management's Discussion and Analysis and in the Condensed Notes to Consolidated Financial Statements included herein. Management believes that the estimates, assumptions and judgments used in the preparation of the Company's Consolidated Financial Statements were appropriate given the factual circumstances at the time. However, given the sensitivity of the Company's Consolidated Financial Statements to these critical accounting policies, the use of different estimates, assumptions and judgments could have resulted in material variances from the reported results of operations or financial condition.

RESULTS OF OPERATIONS

OVERVIEW

Net income increased $2.9 million, or 73.2%, to $6.9 million for the third quarter of fiscal year 2003 from $4.0 million for the third quarter of fiscal year 2002. Diluted earnings per share ("EPS") increased 20.6% to $0.82 for the third quarter of fiscal year 2003 from $0.68 for the third quarter of fiscal year 2002. Income before income tax expense increased $4.9 million, or 75.8%, to $11.3 million for the third quarter of fiscal year 2003, as a result of increases in net interest income after provision for loan losses of $6.3 million and non-interest income of $6.4 million, partially offset by an increase in non-interest expense of $7.9 million.

For the first nine months of fiscal year 2003, net income was $17.0 million, an increase of $7.1 million, or 72.4%, from $9.9 million for the first nine months of fiscal year 2002. Before the cumulative effect of the prior year change in accounting for derivative instruments of $461,000 upon adoption of SFAS No. 133, net income was $10.3 million for the first nine months of fiscal year 2002. Diluted EPS increased 21.9% to $2.06 for the first nine months of fiscal year 2003 from $1.69 for the first nine months of fiscal year 2002. Before the cumulative effect of the prior year change in accounting for derivative instruments of $0.08 per share, diluted EPS was $1.77 for the first nine months of fiscal year 2002. Income before income tax expense increased $11.7 million, or 73.6%, to $27.7 million for the first nine months of fiscal year 2003, as a result of increases in net interest income after provision for loan losses of $17.0 million and non-interest income of $17.0 million, partially offset by an increase in non-interest expense of $22.3 million.

Return on average stockholders' equity increased to 14.78% for the third quarter of fiscal year 2003 and 13.01% for the first nine months of fiscal year 2003, compared to 12.99% and 10.95% for the respective periods of fiscal year 2002. Return on average assets increased to 1.08% for the third quarter of fiscal year 2003 and 0.93% for the first nine months of fiscal year 2003, compared to 0.93% and 0.77% for the respective periods of fiscal year 2002.

The third quarter and first nine months of the fiscal year 2002 did not include results from People's, as well as People's Savings Bank of Brockton and its mortgage banking subsidiary, PMC, all of which were acquired on February 28, 2002. In May 2002, the Company completed the systems conversion and consolidation of three banking offices.

NET INTEREST INCOME

Net interest income before provision for loan losses increased $6.2 million, or 64.7%, to $15.7 million for the third quarter of fiscal year 2003 from $9.5 million for the third quarter of fiscal year 2002. The net interest rate spread and net interest margin were 2.42% and 2.68%, respectively, for the third quarter of fiscal year 2003, compared to 2.03% and 2.36%, respectively, for the third quarter of fiscal year 2002.

For the first nine months of fiscal year 2003, net interest income before provision for loan losses increased $16.5 million, or 59.4%, to $44.4 million from $27.9 million for the first nine months of fiscal year 2002. The net interest rate spread and net interest margin were 2.44% and 2.67%, respectively, for the first nine months of fiscal year 2003, compared to 1.96% and 2.30%, respectively, for the first nine months of fiscal year 2002.

The increases in net interest income and the average balances of interest-earning assets and interest-bearing liabilities during the third quarter and year to date periods of fiscal year 2003, compared to the same periods of fiscal year 2002, were due primarily to improved balance sheet composition and growth resulting from the People's acquisition, as well as the pre-payment of certain FHLB advances and other borrowings during March 2002. In addition, a low market interest rate environment and related consumer preferences resulted in the Company's

11

continued high origination volume of fixed-rate mortgages that are generally sold in the secondary market and increases in mortgage loans held for sale. However, the low market interest rate environment also led to increased prepayment speeds on portfolio mortgage loans due primarily to refinancing activity.

The following tables set forth certain information relating to the Company for the periods indicated. Net interest income is a function of both the relative amounts of interest-earning assets and interest-bearing liabilities, and the interest rates earned or paid on them. Income from BOLI is excluded from interest income, and the BOLI cash value balances are excluded from interest-earning assets. The average yields and costs are derived by dividing income or expense by the average balance of interest-earning assets or interest-bearing liabilities, respectively, for the periods shown. Average balances are derived from the best available daily or monthly data, which management believes approximates the average balances computed on a daily basis. The yields and the costs include fees, premiums and discounts which are considered adjustments to yields.

	FOR THE THREE MONTHS ENDED			
	2002			
	AVERAGE BALANCE	INTEREST	AVERAGE YIELD/ COST	
	(DOLLARS IN THOUSAN			
Assets:				
Interest-earning assets:				
Loans receivable, net and mortgage loans held for sale (1)	$ 1,462,294	$22,477	6.15%	$
Investment securities (2)	99,632	1,208	4.81	
Mortgage-backed securities (3)	758,711	8,677	4.57	
Total interest-earning assets	2,320,637	32,362	5.58	
Noninterest-earning assets	214,077			

Total assets	$ 2,534,714			$
Liabilities and Stockholders' Equity:				
Interest-bearing liabilities:				
Deposits (4)	$ 1,130,902	6,397	2.24	$
FHLB advances and other borrowings	959,654	10,275	4.25	
Total interest-bearing liabilities	2,090,556	16,672	3.16	
Noninterest-bearing liabilities (5)	258,293			
Total liabilities	2,348,849			
Stockholders' equity	185,865			
Total liabilities and stockholders' equity	$ 2,534,714			$
Net interest rate spread (6)		$15,690	2.42%	
Net interest margin (7)			2.68%	
Ratio of interest-earning assets to interest bearing liabilities	111.01%			

12

	FOR THE NINE MONTHS ENDED D			
	2002			
	AVERAGE BALANCE	INTEREST	AVERAGE YIELD/ COST	
	(DOLLARS IN THOUSAN			
Assets:				
Interest-earning assets:				
Loans receivable, net and mortgage loans held for sale (1)	$ 1,326,233	$64,920	6.53%	$
Investment securities (2)	126,135	4,476	4.71	
Mortgage-backed securities (3)	753,920	27,617	4.88	
Total interest-earning assets	2,206,288	97,013	5.86	
Noninterest-earning assets	220,253			
Total assets	$ 2,426,541			$
Liabilities and Stockholders' Equity:				
Interest-bearing liabilities:				
Deposits (4)	$ 1,149,734	21,253	2.45	$
FHLB advances and other borrowings	889,959	31,339	4.67	
Total interest-bearing liabilities	2,039,693	52,592	3.42	
Noninterest-bearing liabilities (5)	213,376			

Total liabilities	2,253,069		
Stockholders' equity	173,472		
Total liabilities and stockholders' equity	$ 2,426,541		
Net interest rate spread (6)		$44,421	2.44%
Net interest margin (7)			2.67%
Ratio of interest-earning assets to interest bearing liabilities	108.17%		

(1) Amount is net of deferred loan origination costs, undisbursed proceeds of construction mortgages in process, allowance for loan losses and includes non-performing loans.

(2) Includes short-term investments, investment securities available for sale and FHLB stock.

(3) Consists of mortgage-backed securities available for sale and held to maturity.

(4) Includes the net effect of interest rate swaps.

(5) Consists primarily of business checking accounts.

(6) 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.

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

PROVISION FOR LOAN LOSSES

The Company's provision for loan losses was $150,000 for the third quarter of fiscal year 2003 compared to $300,000 for the third quarter of fiscal year 2002, and $400,000 for the first nine months of fiscal year 2003 compared to $900,000 for the first nine months of fiscal year 2002. The decreases in loss provisions were based on management's assessment of the loan loss allowance level as influenced by several key factors, including stable trends in loan delinquencies and charge-offs, changes in portfolio composition and current economic conditions. For additional information on the amount of the allowance and the process for evaluating its adequacy, see "Financial Condition - Asset Quality."

13

NON-INTEREST INCOME

Non-interest income increased $6.4 million, or 139%, to $11.1 million for the third quarter of fiscal year 2003 from $4.6 million for the third quarter of fiscal year 2002, including increases of $5.7 million in gain on sale of mortgage loans, $1.1 million in gain on sale of investment securities available for sale and $723,000 in service charges on deposit accounts, partially offset by a decrease of $1.2 million in loan servicing income.

For the first nine months of fiscal year 2003, non-interest income increased $17.0 million, or 154%, to $28.1 million from $11.1 million for the first nine months of fiscal year 2002, including increases of $15.8 million in gain on sale of mortgage loans, $1.6 million in gain on sale of investment securities available for sale and $1.1 million in service charges on deposit accounts, partially offset by a decrease of $2.4 million in loan servicing income.

The increases in gain on sale of mortgage loans for the third quarter and the year to date were due primarily to a higher volume of loans originated for sale, which included loans sold by PMC during fiscal year 2003. Changes in fair value of derivative instruments utilized in secondary market hedging activities resulted in reductions to gain on sale of mortgage loans of $582,000 and $420,000 for the third quarter and first nine months of fiscal year 2003, respectively, compared to additions of $858,000 and $882,000 for the third quarter and first nine months of fiscal year 2002, respectively. The combined fair value of derivative instruments utilized in secondary market hedging activities was a loss of $196,000 at December 31, 2002, compared to a gain of $224,000 at March 31, 2002. Management of the Company believes that the adoption of SFAS No. 133 has introduced greater volatility to quarterly earnings due to valuation changes and accelerated recognition of gains or losses in the Company's mortgage banking activities. However, such effects are expected to offset over time as market conditions change.

The increases in gain on sale of investment securities available for sale for the third quarter and the year to date were due to the sale of mortgage-backed securities and other investment securities during fiscal year 2003, including certain investments acquired as part of the People's acquisition. The increases in service charges on deposit accounts were due primarily to growth resulting from the People's acquisition and subsequent increases in deposit accounts. Changes in the fair value of interest rate swaps resulted in additions to other non-interest income of $440,000 for the first nine months of fiscal year 2003, compared to $9,000 for the first nine months of fiscal year 2002. There were no interest rate swap agreements at December 31, 2002, following the expiration of an agreement on September 24, 2002.

The decreases in loan servicing income were due primarily to additions to the valuation allowance for mortgage servicing rights of $1.2 million and $2.6 million for the third quarter and first nine months of fiscal year 2003, respectively, compared to $240,000 recorded in the second quarter of fiscal year 2002. No adjustments were made to the valuation allowance in the third quarter of fiscal year 2002. The valuation allowance adjustments were based on estimated impairment due to a combination of faster than previously expected actual payoff experience and faster prepayment forecasts for the applicable periods. Amortization of mortgage servicing rights, plus the addition to the valuation allowance, totaled $4.9 million and $2.3 million for the first nine months of fiscal year 2003 and 2002, respectively.

NON-INTEREST EXPENSE

Non-interest expense increased $7.9 million, or 106%, to $15.4 million for the third quarter of fiscal year 2003 from $7.5 million for the third quarter of fiscal year 2002, including increases of $4.8 million in compensation and benefits, $1.0 million in office occupancy and equipment expenses, $227,000 in data processing costs, $212,000 in advertising and business promotion, $583,000 in amortization of intangible assets and $1.1 million in other non-interest expenses.

14

For the first nine months of fiscal year 2003, non-interest expense increased $22.3 million, or 101%, to $44.4 million from $22.1 million for the first nine months of fiscal year 2002, including increases of $12.7 million in compensation and benefits, $2.9 million in office occupancy and equipment expenses, $878,000 in data processing costs, $149,000 in advertising and business promotion, $1.8 million in amortization of intangible assets and $3.9 million in other non-interest expenses.

The increases in non-interest expenses were due to several factors, including growth resulting from the acquisition of People's and PMC and expenses associated with increased loan origination volumes, as well as costs related to banking office and back office consolidation during the first quarter of fiscal year 2003, and other non-recurring integration expenses. As of December 31, 2002, the Company's full-time equivalent employee positions totaled 670, compared to 648 at March 31, 2002 and 334 at December 31, 2001.

INCOME TAXES

Income tax expense increased $1.9 million, or 80.1%, to $4.3 million for the third quarter of fiscal year 2003 from $2.4 million for the third quarter of fiscal year 2002. For the first nine months of fiscal year 2003, income tax expense increased $5.1 million, or 90.1%, to $10.7 million from $5.6 million for the first nine months of fiscal year 2002. The Company's effective tax rate increased to 38.6% for the first nine months of fiscal year 2003 from 35.2% for the first nine months of fiscal year 2002, due primarily to the effects of an increase in the statutory federal income tax rate based on a higher taxable earnings threshold, increased state taxes and a consistent earnings rate from BOLI relative to the increase in pre-tax income.

FINANCIAL CONDITION

OVERVIEW

Total assets increased $235.4 million, or 10.3%, to $2.530 billion at December 31, 2002 from $2.294 billion at March 31, 2002. This growth was due primarily to increases of $197.6 million in mortgage loans held for sale, $97.8 million in loans receivable, net, and $82.8 million in mortgage-backed securities available for sale, partially offset by decreases of $88.1 million in cash and cash equivalents and $45.8 million in investment securities available for sale. The net increase in mortgage-backed securities available for sale was due primarily to purchases of $348.1 million and sales of $46.4 million, partially offset by principal payments received of $231.0 million. The net decrease in investment securities available for sale was due primarily to sales of $49.8 million, including the sale of certain securities acquired as part of the People's acquisition. Corporate bond investments acquired from People's have been reduced from $16.1 million at the time of acquisition to $2.0 million at December 31, 2002. Trust preferred stock investments have been reduced from $40.3 million at the time of the People's acquisition to $22.2 million at December 31, 2002. During January 2003, an additional $3.5 million of trust preferred stock investments were sold.

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

	DECEMBER 31, 2002		MARCH 31, 2002	
	AMOUNT	PERCENT OF TOTAL	AMOUNT	PERCENT OF TOTAL
	(DOLLARS IN THOUSANDS)			

Mortgage Loans:				
Residential	$ 619,446	49.33%	$ 635,297	54.77%
Commercial real estate	139,015	11.07	115,243	9.93
Construction and land	46,980	3.74	63,810	5.50
Total mortgage loans	805,441	64.14	814,350	70.20
Commercial Loans	276,176	21.99	200,016	17.24
Consumer Loans:				
Home equity lines	125,663	10.01	83,013	7.16
Second mortgages	36,309	2.89	48,901	4.22
Other consumer loans	12,209	0.97	13,713	1.18
Total consumer loans	174,181	13.87	145,627	12.56
Total loans receivable	1,255,798	100.00%	1,159,993	100.00%
Less:				
Allowance for loan losses	(19,267)		(19,237)	
Undisbursed proceeds of construction mortgages in process	(19,451)		(21,818)	
Purchase premium on loans, net	5,235		5,869	
Deferred loan origination costs, net	1,269		943	
Loans receivable, net	$1,223,584		$1,125,750	

Mortgage loan originations totaled $2.249 billion for the first nine months of fiscal year 2003, including $2.014 billion originated for sale of which $1.582 billion were originated by PMC. During this time, $1.797 billion of mortgage loans were sold in the secondary market, including $1.402 billion sold servicing released by PMC.

16

Mortgage loans sold to others and serviced by the Bank on a fee basis under various agreements decreased $171.0 million, or 10.8%, to $1.417 billion at December 31, 2002 from $1.588 billion at March 31, 2002, due primarily to refinancing activity. Loans serviced for others are not included in the Consolidated Balance Sheets. Mortgage servicing rights decreased $1.7 million, or 25.5%, to $4.8 million at December 31, 2002, from $6.5 million at March 31, 2002, including adjustments for estimated impairment. The valuation allowance related to the impairment of mortgage servicing rights increased $2.6 million to $3.1 million at December 31, 2002, from $490,000 at March 31, 2002. Mortgage servicing rights were 0.34% of loans serviced for others at December 31, 2002, compared to 0.41% at March 31, 2002.

Balance sheet growth during the first nine months of fiscal year 2003 was primarily funded by increases in FHLB advances and other borrowings of $141.9 million, or 18.8%, to $896.7 million, and total deposits of $57.8 million, or 4.4%, to $1.375 billion, at December 31, 2002. The increase in deposits included increases in demand deposits of $99.1 million, or 22.9%, and savings deposits of $17.2 million, or 7.3%, partially offset by a decrease in time deposits of $58.5 million, or 9.0%. The percentage of deposits to total assets was 54.4% at December 31, 2002.

Total stockholders' equity increased $30.0 million, or 19.3%, to $185.3 million at December 31, 2002, from $155.3 million at March 31, 2002. The increase was due primarily to $17.0 million in net income, an $8.3 million increase in the fair market value of available for sale securities, net of tax, and a $5.0 million private placement of common stock issued from the Company's treasury stock, partially offset by $3.7 million in dividends paid to stockholders. Stockholders' equity to assets was 7.33% at December 31, 2002, compared to 6.77% at March 31, 2002. Book value per share increased 13.4% to $22.74 at December 31, 2002 from $20.06 at March 31, 2002. Tangible book value per share increased 25.1% to $16.09 at December 31, 2002 from $12.86 at March 31, 2002.

ASSET QUALITY

Non-Performing Assets. The following table sets forth information regarding non-accrual loans, real estate owned ("REO") and other repossessed assets. The Company ceases to accrue interest on loans 90 days or more past due and charges off all accrued interest. Foregone interest on non-accrual loans was $21,000 for the three months ended December 31, 2002 and $78,000 for the nine months ended December 31, 2002.

	DECEMBER 31, 2002	MARCH 2002
	(DOLLARS IN THOUSANDS)	
Non-accrual loans:		
Mortgage loans:		
One-to-four family	$ 1,627	$ 1,8
Commercial real estate	102	7
Construction and land	-	8
Total mortgage loans	1,729	3,3
Commercial loans	1,395	1
Consumer loans:		
Home equity lines	-	
Second mortgages	75	
Other consumer loans	21	
Total consumer loans	96	1
Total non-accrual loans	3,220	3,7
Non-performing investment	-	3,2
REO, net (1)	177	2
Other repossessed assets	-	
Total non-performing assets	$ 3,397	$ 7,2
Allowance for loan losses as a percent of loans (2)	1.55%	1.
Allowance for loan losses as a percent of non-accrual loans (3)	598%	5
Non-accrual loans as a percent of loans (2)(3)	0.26%	0.
Non-performing assets as a percent of total assets	0.13%	0.

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

(2) Loans includes loans receivable, net, excluding allowance for loan losses.

(3) Non-performing loans consist of all loans 90 days or more past due and other loans which have been identified by the Company as presenting uncertainty with respect to the collectability of interest or principal.

The decrease in non-performing assets during the first nine months of fiscal year 2003 is primarily due to the sale of a non-performing investment acquired in the People's acquisition.

Allowance for Loan Losses. The allowance for loan losses is based on management's ongoing review and estimate of the credit losses inherent in the loan portfolio. Management's methodology to estimate loss exposure inherent in the portfolio includes analysis of individual loans deemed to be impaired, performance of individual loans in relation to contract terms, and allowance allocations for various loan types based on payment status or loss experience. An unallocated allowance is also maintained within an established range based on management's assessment of many factors including current market conditions, trends in loan delinquencies and charge-offs, the

volume and mix of new originations, and the current type, mix, changing risk profiles and balance of the portfolio. The Company also engages external loan review consultants on a semi-annual basis to review commercial loan classifications. In addition, the Office of Thrift Supervision ("OTS") and the Federal Deposit Insurance Corporation ("FDIC"), as an integral part of their examination process, periodically review the Company's allowance for loan losses. Such agencies may require the Company to make additional provisions for estimated loan losses based upon judgments different from those of management.

The allowance for loan losses totaled $19.3 million at December 31, 2002, an increase of $30,000, or less than 1%, as compared to $19.2 million at March 31, 2002. The following table sets forth activity in the Company's allowance for loan losses for the periods indicated:

	FOR THE THREE MONTHS ENDED DECEMBER 31,		FOR THE NINE MONTH ENDED DECEMBER 31	
	2002	2001	2002	20
	(DOLLARS IN THOUSANDS)			
Balance at beginning of period	$19,321	$13,725	$19,237	$13
Provision for loan losses	150	300	400	
Charge-offs:				
One-to-four family mortgage loans	(60)	-	(70)	
Commercial loans	(117)	-	(203)	
Consumer Loans:				
Home equity lines	(8)	(4)	(31)	
Other consumer	(30)	(63)	(81)	
Total	(215)	(67)	(385)	
Recoveries	11	91	15	
Balance at end of period	$19,267	$14,049	$19,267	$14
Ratio of net charge-offs (recoveries)				

during the period to average loans outstanding during the period	0.07%	(0.01%)	0.04%

Management was influenced by several key factors as a basis for the level of the Company's provisions for loan losses, which resulted in the balance of the allowance for loan losses remaining essentially flat during the first nine months of fiscal year 2003. Although the Company's non-performing loans and charge-offs have remained low, there has been a significant shift in the composition of the loan portfolio at December 31, 2002, as compared to December 31, 2001, including $308.9 million of loans receivable acquired and $5.2 million of allowance for loan losses assumed as part of the People's acquisition. The residential mortgage portfolio has decreased due primarily to a low fixed rate environment, which resulted in high refinancing activity, while the commercial and consumer loan portfolios have shown significant growth. Commercial and consumer loans bear a higher degree of risk than the one-to-four family mortgage loans that make up substantially all of the Company's residential portfolio. In addition, management believes that current economic conditions, including rising unemployment rates in its key market area of southeastern New England, could have an adverse affect on asset quality and result in higher non-performing loans and charge-offs.

The Company will continue to monitor and modify its allowances for loan losses as conditions dictate. While management believes the Company's allowance for loan losses was sufficient to absorb losses inherent in its loan portfolio at December 31, 2002, no assurances can be given that the Company's level of allowance for loan losses will be sufficient to cover future loan losses incurred by the Company or that future adjustments to the allowance for loan losses will not be necessary if economic and other conditions differ substantially from the economic and other conditions used by management to determine the current level of the allowance for loan losses.

19

MARKET RISK AND MANAGEMENT OF INTEREST-RATE RISK

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

The Company has primarily utilized the following strategies to manage interest rate risk: (1) emphasizing the origination and retention of adjustable-rate and shorter-term (generally 15 years or less) fixed-rate, one-to-four family mortgage loans; (2) selling in the secondary market longer-term, fixed-rate mortgage loans originated while generally retaining the servicing rights on such loans, with the exception of loans originated by PMC, which are sold servicing released; and (3) investing primarily in adjustable-rate mortgage-backed securities and short-term fixed-rate CMOs. In conjunction with its mortgage banking activities, the Company uses forward contracts in order to reduce exposure to interest-rate risk, except for PMC, where all loans are sold by obtaining commitments from investors on a loan by loan basis. The amount of forward coverage of the "pipeline" of mortgages is managed on a day-to-day basis, within Board approved policy guidelines, based on the Company's assessment of the general direction of interest rates and levels of mortgage origination activity. In addition, the Company has engaged in interest rate swap agreements, from time to time, to synthetically lengthen its liability maturities.

The Company's interest rate risk is monitored by management through the use of a model that generates estimates of the change in the Company's net interest income and net portfolio value ("NPV") over a range of interest rate scenarios. NPV is the present value of expected cash flows from assets, liabilities, and off-balance sheet contracts. The NPV ratio, under any interest rate scenario, is defined as the NPV in that scenario divided by the estimated market value of assets in the same scenario. The OTS produces a similar analysis for the Bank using its own model, based upon data submitted in the Bank's quarterly Thrift Financial Report, the results of which may vary from the Company's internal model primarily due to differences in assumptions utilized between the Company's internal model and the OTS model, including estimated loan prepayment rates, reinvestment rates and deposit renewal rates.

The following table sets forth the Company's estimated NPV and NPV ratios as of December 31, 2002 and March 31, 2002, as calculated by the Company.

	December 31, 2002			March 31, 2002		
Change in Interest Rates in Basis Points	Estimated Net Portfolio Value	NPV Ratio	NPV Sensitivity in Basis Points	Estimated Net Portfolio Value	NPV Ratio	NP Sensi in B Poi
	(Dollars in thousands)					
+ 300	$ 143,918	5.79%	58	$ 136,524	6.10%	(21
+ 200	153,797	6.12	90	161,250	7.09	(12
+ 100	153,940	6.06	84	181,372	7.85	(4
Unchanged	132,985	5.22	-	193,892	8.28	
- 100	103,391	4.05	(116)	186,886	7.93	(3

Certain shortcomings are inherent in the methodology used in the above interest rate risk measurements. Modeling changes in NPV require certain assumptions that may or may not reflect the manner in which actual yields and costs respond to changes in market interest rates. In this regard, the NPV model presented incorporates an assumption that the composition of the Company's interest sensitive assets and liabilities existing at the beginning of a period remains constant over the period being measured, and that a particular change in interest rates is reflected uniformly across the yield curve regardless of the term to maturity or repricing of specific assets and liabilities. Accordingly, although the NPV measurements and net interest income models provide an indication of the Company's interest rate risk exposure at a particular point in time, such measurements are not intended to, and do not, provide a precise forecast of the effect of changes in market interest rates on the Company's net interest income.

LIQUIDITY AND CAPITAL RESOURCES

The Bank's primary sources of funds are deposits, principal and interest payments on loans and mortgage-backed securities, proceeds from the sale of loans, FHLB advances, and other borrowings. In addition, the Company and the Bank acquired cash and cash equivalents as part of the People's acquisition. While maturities and scheduled amortization of loans are predictable sources of funds, deposit flows and mortgage prepayments are influenced by general interest rates, economic conditions and competition. The Bank used cash acquired in the People's acquisition to fund asset growth and repay certain FHLB advances and other borrowings. However, the Bank expects to use deposits, FHLB advances and other borrowings, and retained earnings to fund asset growth in the future, depending on market conditions, the pricing of deposit products, and the pricing of FHLB advances and other borrowings.

The Bank's most liquid assets are cash, short-term investments, mortgage loans held for sale, investment securities available for sale, and mortgage-backed securities available for sale. The levels of these assets are dependent on the Bank's operating, financing, lending and investing activities during any given period. At December 31, 2002, cash, short-term investments, mortgage loans held for sale, investment securities available for sale, and mortgage-backed securities available for sale totaled $1.082 billion, or 42.7% of total assets.

The Bank has other sources of liquidity if a need for additional funds arises, including a $25.0 million FHLB secured line of credit, FHLB advances, and other borrowings. At December 31, 2002, the Bank had $881.7 million in advances outstanding from the FHLB and other borrowings, and an additional borrowing capacity from the FHLB of $266.2 million including the $25.0 million line of credit. At December 31, 2002, the portfolio of putable FHLB advances and reverse repurchase agreements totaled $422.5 million, with an average interest cost of 4.52%, and an average life to maturity and estimated average life of 6.8 years. The estimated average life calculated by the Bank may or may not mirror the counter-party's actual decision to exercise its option to terminate the advances. The FHLB is required by regulation to offer replacement funding to the Bank if the FHLB terminates a putable advance prior to the maturity date of the advance, provided that the Bank is able to satisfy the FHLB's normal credit and collateral requirements. Such replacement funding would be for the remaining maturity of the putable advance, and at a market interest rate or a predetermined interest rate agreed upon between the Bank and the FHLB.

The Company had two subsidiary business trusts acquired as part of the People's acquisition, Capital Trust I and Capital Trust II, of which the Company owned all of the common securities. On July 1, 2002, the Company completed the redemption, at par, of the Capital Trust I 9.76% trust preferred securities totaling $13.8 million. At December 31, 2002, Capital Trust II had $10.0 million of 11.695% trust preferred securities outstanding, with an average interest cost of 10.29%, that mature in July 2030 unless the Company elects and obtains regulatory approval to accelerate the maturity date to as early as July 2010.

At December 31, 2002, the Bank had commitments to originate loans and unused outstanding lines of credit and undistributed balances of construction loans totaling $598.1 million. The Bank anticipates that it will have sufficient funds available to meet its current loan origination commitments. Certificate of deposit accounts scheduled to mature in less than one year from December 31, 2002 totaled $458.0 million. Based on its prior experience and other factors, the Bank currently expects that it will retain a majority of maturing certificate accounts.

The Company opened a new banking and insurance office in East Greenwich, Rhode Island in October 2002, bringing its total banking and insurance offices to 26. The Company continues to consider sites for new banking and insurance offices and loan origination centers in, or adjacent to, its market area. In addition, the Company may, from time to time, consider expanding its market share and/or market area through the acquisition of assets or other banking institutions and may consider acquisitions of other types of financial services companies. The establishment of additional banking and insurance offices, loan origination centers, trust service operations, mergers and acquisitions, and additional capital management strategies by the Company would result in additional capital expenditures and other associated costs which the Company has not yet estimated.

At December 31, 2002, the consolidated capital to total assets ratio of the Company was 7.33%. During fiscal year 2003, the Company paid cash dividends to stockholders of $0.14 per share during the first quarter and $0.15 per share during the second and third quarters, and announced the declaration of a cash dividend of $0.18 per share to stockholders for payment during the fourth quarter. The Company's primary source of funding for dividends, and payments for periodic stock repurchases, has been dividends from the Bank. The Bank's ability to pay dividends and other capital distributions to the Company is generally limited by OTS regulations.

At December 31, 2002, the Bank exceeded all of its regulatory capital requirements. The Bank's Tier 1 core capital of $137.1 million, or 5.59% of total adjusted assets, was above the required level of $98.1 million, or 4.0%; risk-based capital of $147.2 million, or 10.29% of risk-weighted assets, was above the required level of $114.4 million or 8.0%, and Tier 1 risk-based capital of $137.1 million, or 9.12% of risk-weighted assets, was above the required level of $57.2 million or 4.0%. The Bank also continued to exceed the regulatory capital requirements for designation as a "well capitalized" institution under the OTS prompt corrective action regulations of 5.0% for Tier 1 core capital, 10.0% for risk-based capital and 6% for Tier 1 risk-based capital. The Trust Company is subject to similar regulatory capital requirements, and exceeded all of its capital requirements at December 31, 2002.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

See the Section of Item 2 captioned, "Management's Discussion and Analysis of Financial Condition and Results of Operations - Financial Condition - Market Risk and Management of Interest-Rate Risk" for quantitative and qualitative information about market risk and its potential effect on the Company.

ITEM 4. CONTROLS AND PROCEDURES.

Under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, the Company evaluates the effectiveness of the design and operation of its disclosure controls and procedures. Based on an evaluation of such controls and procedures within 90 days of the filing date of this quarterly report, the Chief Executive Officer and Chief Financial Officer have concluded that these disclosure controls and procedures are effective. The Company made no significant changes in the Company's internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

The Company is not engaged in any legal proceedings of a material nature at the present time. From time to time, the Company is a party to routine legal proceedings within the normal course of business. Such routine legal proceedings in the aggregate are believed by management to be immaterial to the Company's financial condition or results of operations.

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS.

Not Applicable.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

Not Applicable.

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

Not Applicable.

ITEM 5. OTHER INFORMATION.

Not Applicable.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K.

a) Exhibits

3.1 Certificate of Incorporation of FIRSTFED AMERICA BANCORP, INC. (1)

3.2 Bylaws of FIRSTFED AMERICA BANCORP, INC., as amended (2)

4.0 Stock Certificate of FIRSTFED AMERICA BANCORP, INC. (1)

----

(1) Incorporated by reference into this document from the Exhibits to Form S-1, Registration Statement, and any amendments thereto, filed on September 27, 1996, Registration No. 333-12855.

(2) Incorporated by reference into this document from the Exhibits to the Annual Report on Form 10-K for the fiscal year ended March 31, 2002.

b) Reports on Form 8-k

None.

23

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.

FIRSTFED AMERICA BANCORP, INC.
Registrant

Date: February 14, 2003 /s/ Robert F. Stoico

Chairman of the Board, President and
Chief Executive Officer
(Principal Executive Officer)

Date: February 14, 2003 /s/ Edward A. Hjerpe, III

Executive Vice President, Chief Operating
Officer and Chief Financial Officer
(Principal Accounting and Financial Officer)

CERTIFICATION

I, Robert F. Stoico, certify that:

1. I have reviewed this quarterly report on Form 10-Q of FIRSTFED AMERICA BANCORP, INC.;

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

    a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this 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 officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

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

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

6. The registrant's other certifying officers and I have indicated in this 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.

Date: February 14, 2003

/s/ Robert F. Stoico

Chairman of the Board, President and
Chief Executive Officer

25

CERTIFICATION

I, Edward A. Hjerpe, III, certify that:

1. I have reviewed this quarterly report on Form 10-Q of FIRSTFED AMERICA BANCORP, INC.;

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

   a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this 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 officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

d) 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

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

6. The registrant's other certifying officers and I have indicated in this 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.

Date: February 14, 2003

/s/ Edward A. Hjerpe, III

Executive Vice President, Chief Operating Officer and Chief Financial Officer