

FORM 10-Q

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

Quarterly Report Under Section 13 or 15(d)
of the Securities Exchange Act of 1934

For Quarter Ended:

June 30, 2002

Commission File
Number

1-13936

BOSTONFED BANCORP INC.

(Exact name of registrant as specified in its charter)

Delaware

52-1940834

(State or other jurisdiction of
incorporation or organization)

(I.R.S. Employer
Identification No.)

17 New England Executive Park, Burlington, Massachusetts

01803

(Address of principal executive offices)

(Zip Code)

(781) 273-0300

(Registrant's telephone number, including area code)

Not Applicable

(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 ☒

No ☐

Number of shares of common stock, par value \$.01 per share,
outstanding as of July 31, 2002: 4,482,896.

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BOSTONFED BANCORP, INC. AND SUBSIDIARIES
Consolidated Balance Sheets
(In Thousands)

	June 30, 2002	December 31, 2001
	(Unaudited)	
Assets		
Cash and cash equivalents	\$ 54,103	\$ 95,957
Investment securities available for sale (amortized cost of \$79,421 at June 30, 2002 and \$62,868 at December 31, 2001)	79,792	63,258
Investment securities held to maturity (fair value of \$596 at June 30, 2002 and \$598 at December 31, 2001)	554	554
Mortgage-backed securities available for sale (amortized cost of \$135,370 at June 30, 2002 and \$95,139 at December 31, 2001)	136,166	94,922
Mortgage-backed securities held to maturity (fair value of \$33,934 at June 30, 2002 and \$41,547 at December 31, 2001)	32,823	40,822
Loans held for sale	14,392	24,612
Loans, net of allowance for loan losses of \$13,041 and \$12,328 at June 30, 2002 and December 31, 2001	1,102,096	1,055,798
Accrued interest receivable	7,249	6,317
Stock in FHLB of Boston and Federal Reserve Bank	24,208	24,208
Premises and equipment	10,605	10,295
Goodwill, net of amortization	17,776	17,776
Other assets	39,677	36,347
Total assets	\$1,519,441	\$1,470,866
Liabilities and Stockholders' Equity		
Liabilities:		
Deposit accounts	\$ 915,573	\$ 884,516
Federal Home Loan Bank advances and other Borrowed Money	461,877	449,000
Corporation-obligated mandatorily redeemable capital securities	32,000	32,000
Advance payments by borrowers for taxes and insurance	2,181	2,614
Other liabilities	10,247	9,348
Total liabilities	1,421,878	1,377,478
Commitments and contingencies		
Stockholders' equity;		
Preferred stock, \$.01 par value, 1,000,000 shares authorized; none issued	-- --	-- --
Common stock, \$.01 par value, 17,000,000 shares authorized; 6,589,617 shares issued (4,482,096 and 4,450,653 shares outstanding at June 30, 2002 and December 31, 2001, respectively)	66	66
Additional paid-in capital	68,773	68,259
Retained earnings	67,917	64,702
Accumulated other comprehensive income	712	105
Less: Treasury stock, at cost (2,166,694 shares and 2,138,964 shares at June 30, 2002 and December 31, 2001, respectively at cost)	(39,345)	(39,158)
Less: Unallocated ESOP shares	(529)	(529)
Less: Unearned Stock-Based Incentive Plan	(31)	(57)
Total stockholders' equity	97,563	93,388
Total liabilities and stockholders' equity	\$1,519,441	\$1,470,866

See accompanying condensed notes to consolidated financial statements.

BOSTONFED BANCORP, INC. AND SUBSIDIARIES
Consolidated Statements of Operations
(Dollars In Thousands, except per share amount)

	Three Months Ended		Six Months Ended	
	6/30/02	6/30/01	6/30/02	6/30/01
	(Unaudited)		(Unaudited)	
Interest income:				
Loans	\$ 18,673	\$ 20,570	\$ 37,188	\$ 41,460
Mortgage-backed securities	2,181	1,754	4,067	3,040
Investment securities	1,009	1,623	1,991	3,313
Total interest income	21,863	23,947	43,246	47,813
Interest expense:				
Deposit accounts	5,411	7,883	11,228	16,107
Borrowed funds	5,807	5,868	11,567	11,282
Corporation obligated mandatorily redeemable capital securities distributions	881	881	1,761	1,761
Total interest expense	12,099	14,632	24,556	29,150
Net interest income	9,764	9,315	18,690	18,663
Provision for loan losses	250	208	500	420
Net interest income after provision	9,514	9,107	18,190	18,243
Non-interest income:				
Deposit service fees	768	608	1,405	1,182
Loan processing and servicing fees	(198)	(16)	(509)	114
Gain on sale of loans	2,731	3,112	5,599	4,731
Income from bank owned life insurance	306	315	603	621
Gain on sale of investments	60	0	300	215
Other	429	480	826	836
Total non-interest income	4,096	4,499	8,224	7,699
Non-interest expense:				
Compensation and benefits	5,836	5,200	11,625	10,652
Occupancy and equipment	1,244	1,224	2,430	2,316
Data processing	465	402	920	841
Advertising expense	264	282	497	502
Federal deposit insurance premiums	46	41	86	85
Real estate operations	0	4	0	7
Amortization of goodwill	0	355	0	709
Legal Settlement	0	0	500	0
Other	1,832	2,112	3,360	3,734
Total non-interest expense	9,687	9,620	19,418	18,846
Income before income taxes	3,923	3,986	6,996	7,096
Income tax expense	1,340	1,477	2,391	2,577
Net income	\$ 2,583	\$ 2,509	\$ 4,605	\$ 4,519
Basic earnings per share	\$ 0.58	\$ 0.56	\$ 1.04	\$ 1.01
Diluted earnings per share	\$ 0.55	\$ 0.54	\$ 0.98	\$ 0.96
Basic weighted average shares outstanding	4,420,057	4,423,879	4,409,091	4,460,856
Common stock equivalents due to dilutive effect of stock options	306,631	251,724	279,609	240,923
Diluted total weighted average shares outstanding	4,726,688	4,675,603	4,688,700	4,701,779

See accompanying condensed notes to consolidated financial statements.

BOSTONFED BANCORP, INC. AND SUBSIDIARIES

Consolidated Statements of Changes in Stockholders' Equity
Six Months Ended June 30, 2002
(Dollars In Thousands, Except Per Share Amounts)
(Unaudited)

	Common stock	Additional paid-in capital	Retained earnings	Treasury Stock	Accumulated other Comprehensive income (loss)	Unallocated ESOP shares	Unearned Stock- Based Incentive Plan	Total stockholders' equity
Balance at December 31, 2001	\$66	68,259	64,702	(39,158)	105	(529)	(57)	93,388
Net income	--	--	2,022	--	--	--	--	2,022
Change in net unrealized gain/(loss) on investments available for sale net of tax benefit of \$284)	--	--	--	--	(445)	--	--	(445)
Total comprehensive income	--	--	--	--	--	--	--	1,577
Cash dividends declared and paid (\$0.15 per share)	--	--	(672)	--	--	--	--	(672)
Common Stock repurchased (25,750 shares at an average price of \$24.32 per share)	--	--	--	(626)	--	--	--	(626)
Stock options exercised	--	456	--	430	--	--	--	886
Allocation relating to earned portion of Stock-Based Incentive Plan	--	--	--	--	--	--	14	14
Appreciation in fair value of shares charged to expense for compensation plans	--	199	--	--	--	--	--	199
Balance at March 31, 2002	\$66	68,914	66,052	(39,354)	(340)	(529)	(43)	94,766
Net income	--	--	2,583	--	--	--	--	2,583
Change in net unrealized gain/(loss) on investments available for sale (net of tax of \$672)	--	--	--	--	1,052	--	--	1,052
Total comprehensive income	--	--	--	--	--	--	--	3,635
Cash dividends declared and paid (\$0.16 per share)	--	--	(718)	--	--	--	--	(718)
Common Stock repurchased (60,080 shares at an average price of \$28.63 per share)	--	--	--	(1,711)	--	--	--	(1,711)
Stock options exercised	--	(396)	--	1,720	--	--	--	1,324
Allocation relating to earned portion of Stock-Based Incentive Plan	--	--	--	--	--	--	12	12
Appreciation in fair value of shares charged to expense for compensation plans	--	255	--	--	--	--	--	255
Balance at June 30, 2002	\$66	68,773	67,917	(39,345)	712	(529)	(31)	97,563

See accompanying condensed notes to consolidated financial statements.

BOSTONFED BANCORP, INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows
(In Thousands)

	For the Six Months Ended June 30,	
	2002	2001
	(Unaudited)	
Net cash flows from operating activities:		
Net income	\$ 4,605	\$ 4,519
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation, amortization and accretion, net	932	1,259
Earned SIP shares	26	54
Appreciation in fair value of shares charged to expense for compensation plans	454	327
Income from bank owned life insurance	(603)	(621)
Provision for loan losses	500	420
Loans originated for sale	(286,972)	(246,923)
Proceeds from sale of loans	302,791	233,306
Gain on sale of loans	(5,599)	(4,731)
Gain on sale of investment securities	(300)	(215)
Gain on sale of premises	—	(217)
Increase in accrued interest receivable	(932)	(22)
Increase in prepaid expenses and other assets, net	(2,727)	(1,056)
Increase (decrease) in accrued expenses and other liabilities, net	511	(803)
Net cash provided by (used in) operating activities	12,686	(14,703)
Cash flows from investing activities:		
Proceeds from sale of investment securities available for sale	1,036	3,113
Proceeds from maturities of investment securities held to maturity	—	1,500
Proceeds from maturities of investment securities available for sale	2,003	24,400
Purchase of investment securities available for sale	(20,223)	(25,981)
Purchase of mortgage-backed securities available for sale	(76,898)	(77,453)
Purchase of FHLB and Federal Reserve Stock	—	(1,707)
Principal payments on mortgage-backed securities available for sale	36,569	4,883
Principal payments on mortgage-backed securities held to maturity	7,990	6,099
Principal payments on investment securities available for sale	894	339
Increase in loans, net	(46,798)	(28,344)
Purchases of premises and equipment	(1,097)	(931)
Proceeds from sale of real estate owned	—	147
Proceeds from sale of premises	—	790
Additional investment in real estate owned	—	(2)
Net cash used in investing activities	(96,524)	(93,147)

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BOSTONFED BANCORP, INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows
(In Thousands)

		For the Six Months Ended June 30,	
		2002	2001
		(Unaudited)	
Cash flows from financing activities:			
Increase in deposit accounts		31,057	16,149
Repayments of Federal Home Loan Bank advances		(205,552)	(259,977)
Proceeds from Federal Home Loan Bank advances		218,429	343,048
Cash dividends paid		(1,390)	(1,288)
Common stock repurchased		(2,337)	(4,188)
Options exercised, net of taxes		2,210	364
Decrease in advance payments by borrowers for taxes and insurance		(433)	(274)
Net cash provided by financing activities		41,984	93,834
Decrease in cash and cash equivalents		(41,854)	(14,016)
Cash and cash equivalents at beginning of period		95,957	50,675
Cash and cash equivalents at end of period		\$ 54,103	\$ 36,659
Supplemental disclosure of cash flow information:			
Payments during the period for:			
Interest		\$ 24,735	\$ 28,987
Taxes		\$ 2,332	\$ 2,376

See accompanying condensed notes to consolidated financial statements.

BOSTONFED BANCORP INC. AND SUBSIDIARIES
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

NOTE 1: BASIS OF PRESENTATION

The unaudited consolidated financial statements as of June 30, 2002 and for the three- and six-month periods ended June 30, 2002 and 2001 of BostonFed Bancorp, Inc., (“BostonFed” or the “Company”) and its wholly-owned subsidiaries, Boston Federal Savings Bank (“BFS”), Broadway National Bank (“BNB”), BF Funding Corp., BFD Preferred Capital Trust I and BFD Preferred Capital Trust II presented herein, should be read in conjunction with the audited consolidated financial statements of the Company as of and for the year ended December 31, 2001.

The 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. In the opinion of management, all necessary adjustments, consisting only of normal recurring accruals necessary for a fair presentation, have been included. The results of operations for the three- and six-month periods ended June 30, 2002 and 2001 are not necessarily indicative of the results that may be expected for the entire fiscal year.

In June 2001, the FASB issued SFAS No. 142, Goodwill and Other Intangible Assets (SFAS No. 142). SFAS No. 142 requires that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead tested for impairment at least annually in accordance with the provisions of SFAS No. 142. The Company adopted the provisions of SFAS No. 142 effective January 1, 2002. In connection with SFAS No. 142’s transitional goodwill impairment evaluation, the Statement required the Company to perform an assessment of whether there was an indication that goodwill was impaired as of the date of adoption. As of January 1, 2002, the Company performed the required transition impairment test of goodwill and determined that no impairment adjustment was required as of the date of adoption. Goodwill of a reporting unit shall be tested for impairment at least on an annual basis and between annual tests if considered necessary. The impairment evaluation requires the Company to identify its reporting units and determine the carrying value of each reporting unit by assigning the assets and liabilities, including the existing goodwill and intangible assets. To the extent the carrying amount of a reporting unit exceeds the fair value of the reporting unit, an indication exists that the reporting unit goodwill may be impaired and the Company must perform the second step of the impairment test. In the second step, the Company must compare the implied fair value of the reporting unit goodwill with the carrying amount of the reporting unit goodwill. The implied fair value of goodwill is determined by allocating the fair value of the reporting unit to all of the assets (recognized and unrecognized) and liabilities of the reporting unit in a manner similar to a purchase price allocation, in accordance with SFAS No. 141, Business Combinations. The residual fair value after this allocation is the implied fair value of the reporting unit goodwill. The difference between the implied fair value and the carrying value of the goodwill is the amount of the impairment. At June 30, 2002, the Company had \$17.8 million of goodwill on its balance sheet and recorded no amortization of goodwill during the quarter. The adoption of this Statement increased basic and diluted earnings per share by approximately \$.05 and \$.10 for the three- and six-months ended June 30, 2002, respectively.

The Company also maintains an additional intangible asset, Originated Mortgage Servicing Rights (“OMSR”), which represent the present value of future loan servicing fees, net of expected costs to service, based on certain assumptions. During the quarter ended June 30, 2002, the Company added \$1.5 million, with an expected weighted average life of 5.77 years, to the OMSR. The balance of OMSR at June 30, 2002 was \$8.0 million with an expected weighted average life of 5.07 years.

NOTE 2: COMMITMENTS, CONTINGENCIES AND CONTRACTS

At June 30, 2002, the Company had commitments of \$119.1 million to originate mortgage loans and \$3.0 million to purchase loans from correspondent lenders. Of these \$122.1 million commitments, \$106 million were adjustable rate mortgage loans with interest rates ranging from 4.63% to 9.00% and \$16.1 million were fixed rate mortgage loans with interest rates ranging from 5.75% to 9.00%. The Company also had commitments to sell \$40.9 million of mortgage loans.

At June 30, 2002, the Company was servicing first mortgage loans of approximately \$1.03 billion, which are either partially or wholly-owned by others.

The Commonwealth of Massachusetts' Department of Revenue ("DOR") sent Notices of Intent to Assess ("notices") additional taxes and interest to each of the Company's two Banks for the tax years ended December 31, 1999 and 2000. The notices stipulate that the additional taxes in the amounts of \$1.5 million and interest of \$242,000, relate to the denied claim of dividends received deduction pertaining to the Banks' Real Estate Investment Trusts ("REITS"). The REITS paid an annual dividend to the Banks. The Company understands that many other banks operating in the Commonwealth of Massachusetts with similar REIT subsidiaries have also received similar notices from the DOR. Pursuant to the Commonwealth of Massachusetts Tax Code, as it relates to the dividends received deduction, the Banks excluded 95% of the dividends that they received from the REITS when the tax returns were prepared. The DOR has challenged this deduction, arguing that such distributions are not considered dividends for purposes of the Internal Revenue Code and, as such, cannot be deducted for state tax purposes. The Banks believe that their tax treatment of the dividends is valid under Massachusetts's law. The Banks intend to file a dispute of the DOR findings and appeal the DOR's proposed assessments. Accordingly, the Banks intend to continue their current accounting practice of estimating their tax provision under the assumption that their dividend deductions for prior periods are valid, and they anticipate claiming the dividends received deduction when they file their December 31, 2001 excise tax return. Adhering to the DOR's contention, the Company could potentially be assessed an additional \$2.2 million of state taxes through June 30, 2002, not including interest or federal tax benefits.

NOTE 3: LEGAL SETTLEMENT

During the quarter ended March 31, 2002, the Company settled a lawsuit, which had been filed against its subsidiary, Broadway National Bank. The Company incurred a cost of \$500,000 during the first quarter to settle the lawsuit, resulting in a reduction in earnings per share of approximately \$.07 during the first quarter. Excluding the impact of this settlement, diluted earnings per share for the six-months ended June 30, 2002 would have been \$1.05 per share.

NOTE 4: BUSINESS SEGMENTS

The Company's wholly-owned bank subsidiaries, BFS and BNB (collectively "the Banks"), have been identified as reportable operating segments in accordance with the provisions of SFAS No. 131, "Disclosures About Segments of an Enterprise and Related Information." BF Funding Corp., BFD Preferred Capital Trust I and BFD Preferred Capital Trust II, wholly-owned subsidiaries of the Company, and various subsidiaries of the Banks did not meet the quantitative thresholds for determining reportable segments. The Banks provide general banking services to their customers, including deposit accounts, residential, commercial, consumer and business loans. Each Bank also invests in mortgage-backed securities and other financial instruments. In addition to its own operations, the Company provides managerial expertise and other professional services to its various subsidiaries. The results of the Company, BF Funding Corp., BFD Preferred Capital Trust I and BFD Preferred Capital Trust II comprise the "other" category.

The Company evaluates performance and allocates resources based on the Banks' net income, net interest margin, return on average assets and return on average equity. The Banks follow generally accepted accounting principles as described in the summary of significant accounting policies. The Company and Banks have inter-company expense and tax allocation agreements. These inter-company expenditures are allocated at cost. Asset sales between the Banks were accounted for at current market prices at the time of sale and approximated cost.

Each Bank is managed separately. BNB is managed by a President and CEO, who reports directly to the Company's CEO and BNB's Board of Directors. BFS is managed by a CEO, who is also the Company's CEO, and reports directly to BFS' and the Company's Board of Directors.

The following table sets forth certain information about and the reconciliation of reported net income for each of the reportable segments.

	(Dollars In Thousands)					
	BFS	BNB	TOTAL REPORTABLE SEGMENTS	OTHER	ELIMINATIONS	CONSOLIDATED TOTALS
At or for the three-months ended June 30, 2002:						
Interest income	\$ 19,780	2,000	21,780	1,068	(985)	21,863
Interest expense	10,843	452	11,295	1,789	(985)	12,099
Provision for loan losses	225	25	250			250
Non-interest income	3,632	403	4,035	61		4,096
Non-interest expense	8,152	1,248	9,400	287		9,687
Income tax expense	1,429	226	1,655	(315)		1,340
Net income	2,763	452	3,215	(632)		2,583
Total assets	1,343,089	173,795	1,516,884	165,893	(163,336)	1,519,441
Net interest margin	2.98%	4.28%	n.m.	n.m.	n.m.	2.88%
Return on average assets	.85%	1.07%	n.m.	n.m.	n.m.	.70%
Return on average equity	10.91%	14.01%	n.m.	n.m.	n.m.	10.50%
At or for the three-months ended June 30, 2001:						
Interest income	\$ 21,449	2,417	23,866	1,218	(1,137)	23,947
Interest expense	13,293	688	13,981	1,788	(1,137)	14,632
Provision for loan losses	170	38	208			208
Non-interest income	4,156	297	4,453	1	45	4,499
Non-interest expense	8,056	1,189	9,245	330	45	9,620
Income tax expense	1,489	284	1,773	(296)		1,477
Net income	2,597	515	3,112	(603)		2,509
Total assets	1,262,138	156,491	1,418,629	158,909	(151,771)	1,425,767
Net interest margin	2.86%	5.04%	n.m.	n.m.	n.m.	2.90%
Return on average assets	.85%	1.32%	n.m.	n.m.	n.m.	.72%
Return on average equity	11.47%	16.19%	n.m.	n.m.	n.m.	10.88%

n.m. = not meaningful

	(Dollars In Thousands)					
	BFS	BNB	TOTAL REPORTABLE SEGMENTS	OTHER	ELIMINATIONS	CONSOLIDATED TOTALS
At or for the six-months ended June 30, 2002:						
Interest income	\$ 39,082	4,001	43,083	2,150	(1,987)	43,246
Interest expense	22,015	951	22,966	3,577	(1,987)	24,556
Provision for loan losses	450	50	500			500
Non-interest income	7,174	749	7,923	301		8,224
Non-interest expense	15,957	2,970	18,927	491		19,418
Income tax expense	2,674	255	2,929	(538)		2,391
Net income	5,160	524	5,684	(1,079)		4,605
Total assets	1,343,089	173,795	1,516,884	165,893	(163,336)	1,519,441
Net interest margin	2.86%	4.25%	n.m.	n.m.	n.m.	2.77%
Return on average assets	.80%	.63%	n.m.	n.m.	n.m.	.63%
Return on average equity	10.30%	8.17%	n.m.	n.m.	n.m.	9.45%
At or for the six-months ended June 30, 2001:						
Interest income	\$ 42,938	4,779	47,717	2,457	(2,361)	47,813
Interest expense	26,589	1,345	27,934	3,577	(2,361)	29,150
Provision for loan losses	345	75	420			420
Non-interest income	6,911	573	7,484	215		7,699
Non-interest expense	15,982	2,355	18,337	509		18,846
Income tax expense	2,494	549	3,043	(466)		2,577

Net income	4,439	1,028	5,467	(948)		4,519
Total assets	1,262,138	156,491	1,418,629	158,909	(151,771)	1,425,767
Net interest margin	2.92%	5.15%	n.m.	n.m.	n.m.	2.97%
Return on average assets	.74%	1.34%	n.m.	n.m.	n.m.	.67%
Return on average equity	9.92%	16.07%	n.m.	n.m.	n.m.	9.79%

n.m. = not meaningful

BOSTONFED BANCORP, INC. AND SUBSIDIARIES
Average Balances and Yields / Costs
(Unaudited)

For the quarter ended June 30:

	2002			2001		
	Average Balance	Interest	Average Yield/ Cost	Average Balance	Interest	Average Yield/ Cost
	(Dollars in thousands)					
Assets:						
Interest-earning assets:						
Investment securities (1)	\$ 120,350	\$ 1,009	3.35%	\$ 100,737	\$ 1,623	6.44%
Loan, net and loans held for sale (2)	1,084,355	18,673	6.89%	1,075,850	20,570	7.65%
Mortgage-backed securities (3)	149,677	2,181	5.83%	108,016	1,754	6.50%
Total interest-earning assets	1,354,382	21,863	6.46%	1,284,603	23,947	7.46%
Non-interest-earning assets	111,277			102,283		
Total assets	\$1,465,659			\$1,386,886		
Liabilities and Stockholders' Equity:						
Interest-bearing Liabilities:						
Money market deposit accounts	\$ 61,390	253	1.65%	\$ 54,159	372	2.75%
Savings accounts	192,173	696	1.45%	171,712	1,005	2.34%
NOW accounts	140,769	115	0.33%	128,441	199	0.62%
Certificate accounts	392,385	4,347	4.43%	412,011	6,307	6.12%
Total	786,717	5,411	2.75%	766,323	7,883	4.11%
Borrowed Funds (4)	445,590	5,807	5.21%	403,950	5,868	5.81%
Corporation-obligated mandatorily redeemable capital securities	32,000	881	11.00%	32,000	881	11.00%
Total interest-bearing liabilities	1,264,307	12,099	3.83%	1,202,273	14,632	4.87%
Non-interest-bearing liabilities	102,933			92,401		
Total liabilities	1,367,240			1,294,674		
Stockholders' equity	98,419			92,212		
Total liabilities and stockholders' equity	\$1,465,659			\$1,386,886		
Net interest rate spread (5)		\$ 9,764	2.63%		\$ 9,315	2.59%
Net interest margin (6)			2.88%			2.90%
Ratio of interest-earning assets to interest-bearing liabilities	107.12%			106.85%		

- (1) Includes investment securities available for sale and held to maturity, short-term investments, stock in FHLB-Boston and daily federal funds sold.
- (2) Amount is net of deferred loan origination costs, construction loans in process, net unearned discount on loans purchased and allowance for loan losses and includes non-performing loans.
- (3) Includes mortgage-backed securities available for sale and held to maturity.
- (4) Interest paid on borrowed funds for the periods presented includes interest expense on FNMA deposits held in escrow accounts with the Company related to the Company's FNMA servicing, which, if such interest expense was excluded, would result in an average cost of borrowed funds of 5.18% and 5.80% for the three months ended June 30, 2002 and June 30, 2001, respectively.

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

BOSTONFED BANCORP, INC. AND SUBSIDIARIES
Average Balances and Yields / Costs
(Unaudited)

For the six months ended June 30:

	2002			2001		
	Average Balance	Interest	Average Yield/ Cost	Average Balance	Interest	Average Yield/ Cost
	(Dollars in thousands)					
Assets:						
Interest-earning assets:						
Investment securities (1)	\$ 120,909	\$ 1,991	3.29%	\$ 100,114	\$ 3,313	6.62%
Loan, net and loans held for sale (2)	1,085,765	37,188	6.85%	1,063,634	41,460	7.80%
Mortgage-backed securities (3)	140,827	4,067	5.78%	93,254	3,040	6.52%
Total interest-earning assets	1,347,501	43,246	6.42%	1,257,002	47,813	7.61%
Non-interest-earning assets	111,470			100,102		
Total assets	\$1,458,971			\$1,357,104		
Liabilities and Stockholders' Equity:						
Interest-bearing Liabilities:						
Money market deposit accounts	\$ 60,233	494	1.64%	\$ 54,554	760	2.79%
Savings accounts	187,940	1,365	1.45%	170,321	2,278	2.67%
NOW accounts	137,735	224	0.33%	126,302	434	0.69%
Certificate accounts	392,041	9,145	4.67%	414,035	12,635	6.10%
Total	777,949	11,228	2.89%	765,211	16,107	4.21%
Borrowed Funds (4)	442,564	11,567	5.23%	380,067	11,282	5.94%
Corporation-obligated mandatorily redeemable capital securities	32,000	1,761	11.00%	32,000	1,761	11.00%
Total interest-bearing liabilities	1,252,513	24,556	3.92%	1,177,278	29,150	4.95%
Non-interest-bearing liabilities	109,033			87,501		
Total liabilities	1,361,546			1,264,779		
Stockholders' equity	97,425			92,325		
Total liabilities and stockholders' equity	\$1,458,971			\$1,357,104		
Net interest rate spread (5)		\$18,690	2.50%		\$18,663	2.66%
Net interest margin (6)			2.77%			2.97%
Ratio of interest-earning assets to interest-bearing liabilities	107.58%			106.77%		

(1) Includes investment securities available for sale and held to maturity, short-term investments, stock in FHLB-Boston and daily federal funds sold.

(2) Amount is net of deferred loan origination costs, construction loans in process, net unearned discount on loans purchased and allowance for loan losses and includes non-performing loans.

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

(4) Interest paid on borrowed funds for the periods presented includes interest expense on FNMA deposits held in escrow accounts with the Company related to the Company's FNMA servicing, which, if such interest expense was excluded, would result in an average cost of borrowed funds of 5.19% and 5.92% for the six months ended June 30, 2002 and June 30, 2001, respectively.

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

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

A. General

In addition to historical information, this 10-Q includes certain forward-looking statements based on current management expectations. Generally, verbs in the future tense and the words, "believe", "expect", "anticipate", "intends", "opinion", "potential", and similar expressions identify forward-looking statements. Examples of this forward-looking information can be found in, but are not limited to, the expected effects of accounting pronouncements, the allowance for losses discussion, subsequent events and any quantitative and qualitative disclosure about market risk. The Company's actual results could differ materially from those management expectations. Factors that could cause future results to vary from current management expectations include, but are not limited to, general economic conditions, legislative and regulatory changes, monetary and fiscal policies of the federal government, changes in tax policies, rates and regulations of federal, state and local tax authorities, changes in interest rates, deposit flows, the cost of funds, demand for loan products, demand for financial services, competition, changes in the quality or composition of the Company's loan and investment portfolios, changes in accounting principles, policies or guidelines, and other economic, competitive, governmental and technological factors and the effects of war or terrorist activities affecting the Company's operations, markets, products, services and prices. These risks and uncertainties should be considered in evaluating forward-looking statements and undue reliance should not be placed on such statements. Further information concerning 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.

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.

The Company, headquartered in Burlington, Massachusetts, was organized in 1995 under Delaware law as the holding company for BFS, in connection with the conversion of BFS from a mutual to a stock form of ownership. The Company later acquired BNB, a nationally-chartered commercial bank, as its wholly-owned subsidiary in February 1997. In December 1999, the Company acquired Diversified Ventures, Inc., d/b/a Forward Financial Company ("Forward Financial") and Ellsmere Insurance Agency, Inc. ("Ellsmere"). Forward Financial operates as a subsidiary of BFS and Ellsmere has limited operations as a subsidiary of BNB.

The Company's business has been conducted primarily through its wholly-owned subsidiaries of BFS and BNB (collectively, the "Banks"). BFS operates its administrative/bank branch office located in Burlington, Massachusetts and its eight other bank branch offices located in Arlington, Bedford, Billerica, Boston, Lexington, Peabody, Wellesley and Woburn, all of which are located in the greater Boston metropolitan area. BFS' subsidiary, Forward Financial, maintains its headquarters in Northborough, Massachusetts and operates in approximately one-half the states of the nation. BNB operates two banking offices in Chelsea and Revere, both of which are also in the greater Boston metropolitan area. Through its subsidiaries, the Company attracts retail deposits from the general public and invests those deposits and other borrowed funds in loans, mortgage-backed securities, U.S. Government and federal agency securities and other securities. The Company originates mortgage loans for its investment portfolio and for sale and generally retains the servicing rights of loans it sells. Additionally, the Company originates chattel mortgage loans, substantially all of which are sold in the secondary market, servicing released. Loan sales are made from loans held in the Company's portfolio designated as being held for sale or originated for sale during the period. The Company's revenues are derived principally from interest on its loans, and to a lesser extent, interest and dividends on its investment and mortgage-backed securities, gains on sale of loans and service fees. The Company's primary sources of funds are deposits, principal and interest payments on loans and mortgage-backed securities, interest, maturities or sales of investments, Federal Home Loan Bank of Boston ("FHLB") advances and proceeds from the sale of loans.

The Company's results of operations are primarily dependent on net interest income, which is the difference between the income earned on its loan and investment portfolios and its cost of funds, consisting of the interest paid on deposits, borrowings and corporation obligated mandatorily redeemable capital securities distributions. ("trust preferred securities") expense. Results of operations are also affected by the Company's provision for loan losses, investment activities, gains or losses on sale of loans, fees and amortization or adjustments to originated mortgage servicing rights. The Company's non-interest expense principally consists of compensation and benefits, occupancy and equipment expense, advertising, data processing expense, 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 actions of regulatory authorities.

Each of the Banks is considered a business segment and accordingly, the Company has complied with the segment reporting requirement in Note 3 of this document and in discussion herein as appropriate. As a result of the acquisition of BNB, the Company became a bank holding company subject to regulation by the Federal Reserve Bank ("FRB"). BFS is regulated by the Office of Thrift Supervision ("OTS") and BNB is regulated by the Office of the Comptroller of the Currency ("OCC").

B. FINANCIAL CONDITION

Total assets at June 30, 2002 were \$1.519 billion, compared to \$1.471 billion at December 31, 2001, an increase of \$48.6 million. Increased balances in investment securities available for sale, mortgage-backed securities available for sale and loans, net, more than offset decreases in cash and cash equivalents, mortgage-backed securities held to maturity and loans held for sale. Cash and cash equivalents declined to \$54.1 million at June 30, 2002, from a balance of \$96.0 million at December 31, 2001 as some of the liquidity was used to fund purchases of investment securities available for sale, which increased by \$16.5 million to a balance of \$79.8 million at June 30, 2002. A portion of the cash and cash equivalents was also used to fund increases in mortgage-backed securities available for sale, which increased to a balance of \$136.2 million at June 30, 2002, compared to \$94.9 million at December 31, 2001. The increase in investment securities available for sale was primarily due to net purchases of \$9.2 million in corporate bonds and a \$5.3 million increase in a mutual fund, which invests in short duration securities. Mortgage-backed securities available for sale increased primarily due to the Company's purchase of collateralized mortgage obligations ("CMOs"). Loans, net increased by \$46.3 million, to a balance of \$1.102 billion at June 30, 2002, compared to a balance of \$1.056 billion at December 31, 2001 as the Company retained a greater portion of the loans originated during the current quarter.

The Company's loan portfolio was comprised of the following at:

	6/30/02	12/31/01
	(Unaudited)	
Mortgage Loans:		
Residential 1-4 family	\$ 748,187	\$ 763,599
Multi-family	21,552	25,904
Construction and Land	125,858	99,337
Commercial Real Estate	115,862	107,767
	<u>1,011,459</u>	<u>996,607</u>
Consumer and other loans:		
Home equity and improvement	85,028	66,539
Secured by deposits	515	678
Consumer	1,944	3,439
Business	39,713	28,103
	<u>127,200</u>	<u>98,759</u>
Total loans, gross	<u>1,138,659</u>	<u>1,095,366</u>
Allowance for loan losses	(13,041)	(12,328)
Construction loans in process	(27,038)	(30,264)
Net unearned discount on loans purchased	42	48
Deferred loan origination costs	3,474	2,976
Loans, net	<u>1,102,096</u>	<u>1,055,798</u>

As noted in the above table, the allowance for loan losses amounted to \$13.0 million at June 30, 2002. Management believes the allowance is adequate to absorb probable loan losses. The allowance for loan losses increased from \$12.3 million at December 31, 2001 to \$13.0 million at June 30, 2002 due to the year-to-date provision, net of charge-offs/recoveries. The Company believes that the allowance for loan losses is at a reasonable level based on its current evaluation. The Company maintains an allowance for losses that are inherent in the Company's loan portfolio. The allowance for loan losses is established through a provision for loan losses charged to operations. Loan losses are charged against the allowance when management determines that the collectibility of the loan principal is unlikely. Recoveries on loans previously charged off are credited to the allowance. The following is a summary of activity in the allowance for loan losses during the six-months ended June 30, 2002:

Balance at December 31, 2001	\$12,328
Loss provision	500
Recoveries	235
Charge-offs	(22)
Balance at June 30, 2002	\$13,041

Management's methodology to estimate loss exposure inherent in the portfolio includes an analysis of individual loans deemed to be impaired, reserve allocations for various loan types based on payment status or loss experience and an unallocated allowance that is

maintained based on management's assessment of many factors including trends in loan delinquencies and charge-offs, current economic conditions and their effect on borrowers' ability to pay, underwriting standards by loan type, mix and balance of the portfolio, and the performance of individual loans in relation to contract terms. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the Company's allowance based on their judgments about information available to them at the time of their examination.

While management uses available information to recognize losses on loans, future additions to the allowance may be necessary based on changes in economic conditions. Accordingly, the ultimate collectibility of a substantial portion of the Company's loan portfolio is affected by changes in market conditions.

As part of the Company's determination of the adequacy of the allowance for loan losses, the Company monitors its loan portfolio through its Asset Classification Committee. The Committee classifies loans depending on risk of loss characteristics. The most severe classification before a charge-off is required is "sub-standard." At June 30, 2002, the Company classified \$8.9 million of loans (\$8.1 million at BFS and \$832,000 at BNB) as sub-standard compared to \$2.7 million (\$1.8 million of BFS and \$911,000 of BNB) at December 31, 2001. The vast majority of the increase in sub-standard loans was due to the transfer of three loans, which in the aggregate amounted to \$4.0 million in one borrower relationship, from special mention to sub-standard. Non-performing assets at June 30, 2002, which include the three loans from the one borrower relationship classified as sub-standard above, amounted to \$5.7 million or .38% of total assets, compared to \$1.2 million, or .08% of total assets, at December 31, 2001. The Asset Classification Committee, which meets quarterly, determines the adequacy of the allowance for loan losses through ongoing analysis of historical loss experience, the composition of the loan portfolios, delinquency levels, underlying collateral values, cash flow values and state of the real estate economy. Utilizing these procedures, management believes that the allowance for loan losses at June 30, 2002 was sufficient to provide for anticipated losses inherent in the loan portfolio.

The Company's allowance for loan losses at June 30, 2002 was \$13.0 million, which represented 228% of non-performing loans or 1.15% of total loans, compared to \$12.3 million at December 31, 2001, or 1,065% of non-performing loans and 1.13% of total loans. Management believes this coverage ratio is prudent due to the balance increase in the combined total of construction and land, commercial real estate, multi-family, home equity and improvement, consumer and business loans. These combined total balances increased from approximately \$331.1 million at December 31, 2001 to approximately \$390.1 million at June 30, 2002.

The amount of interest income on non-performing loans that would have been recorded had these loans been current in accordance with their original terms, was \$282,000 and \$45,000 for the six-month periods ended June 30, 2002 and 2001, respectively. The amount of interest income that was recorded on these loans was \$386,000 and \$22,000 for the six-month periods ended June 30, 2002 and 2001, respectively.

At June 30, 2002, there were 4 loans characterized as impaired. During the six-months ended June 30, 2002, the average recorded value of impaired loans was \$1.86 million, \$365,000 interest income was recognized and \$221,000 of interest income would have been recognized under the loans' original terms during the six-months ended June 30, 2002.

At June 30, 2002 and at December 31, 2001, the Company had \$0 and \$31,000 in other repossessed assets, respectively.

Deposit accounts increased by \$31.1 million, from \$884.5 million at December 31, 2001 to \$915.6 million at June 30, 2002 as deposit flows improved during the second quarter and more than offset the first quarter's decline. Of the \$31.1 million increase in deposits, \$21.4 million was in wholesale-brokered deposits.

The following is a summary of deposit balances by type at:

	6/30/02	12/31/01
	(Unaudited)	
NOW	\$145,819	\$138,528
Regular & Statement Savings	196,706	180,966
Money Market	60,600	58,133
Demand Deposits & Official Checks	108,942	110,776
Total Non-certificate Accounts	512,067	488,403
Certificate Accounts:		
3 to 6 months	59,524	65,507
1 to 3 years	222,134	233,275
Greater than 3 years	75,210	53,701
IRA/KEOGH	46,638	43,630
Total Certificate Accounts	403,506	396,113
	915,573	884,516
Expected maturity of certificate accounts:		
Within one year	203,137	247,745
One to two years	105,716	79,236
Two to three years	60,836	38,611
Over three years	33,817	30,521
	403,506	396,113

Federal Home Loan Bank advances and other borrowings increased by \$12.9 million, to a balance of \$461.9 million at June 30, 2002 from a balance of \$449.0 million at December 31, 2002 in order to support asset growth.

C. LIQUIDITY AND CAPITAL RESOURCES

The primary source of cash flow for the Company is dividend payments from BFS and BNB, sales and maturities of investment securities and, to a lesser extent, earnings on deposits held by the Company. Dividend payments have primarily been used to fund stock repurchase programs, pay dividends to stockholders, interest on trust preferred securities and other operating expenses of the Company. The ability of BFS and BNB to pay dividends and other capital distributions to the Company is generally limited by OTS and OCC regulations, respectively. Additionally, the OTS and OCC may prohibit the payment of dividends that are otherwise permissible by regulation for safety and soundness reasons. As of June 30, 2002, BFS and BNB had \$21.9 million of dividends that could be paid to the Company without regulatory approval and the Company had \$6.3 million of securities available for sale and \$9.1 million cash or cash equivalents. Any dividend by BFS or BNB beyond its current year net income combined with retained net income of the preceding two years would require notification to or approval of the OTS or the OCC. To the extent BFS or BNB were to apply for a dividend distribution to the Company in excess of the regulatory permitted dividend amounts, no assurances can be made such application would be approved by the regulatory authorities. The Banks' primary sources of funds are deposits, (including brokered deposits), principal and interest payments on loans, sales of loans, sales or maturities of investments, mortgage-backed and related securities and borrowing from the FHLB. While maturities and scheduled amortization of loans are predictable sources of funds, deposit flows and mortgage prepayments are greatly influenced by general interest rates, economic conditions and competition. Management has maintained adequate liquidity so that it may invest any excess liquidity in higher yielding interest-earning assets or use such funds to repay higher cost FHLB advances. Neither the OTS nor the OCC provide specific guidance for liquidity ratios for BFS and BNB, respectively, but do require the Banks to maintain reasonable and prudent liquidity levels. Management believes such levels are being maintained.

The Company's and Bank's most liquid assets are cash, overnight federal funds sold, and loans and investments available for sale. The levels of these assets are dependent on the Company's operating, financing, lending and investing activities during any given period.

Liquid assets for the periods indicated, consisted of the following:

	June 30, 2002	December 31, 2001
	(In Thousands)	
Cash and cash equivalents	\$ 54,103	95,957
Investment Securities available for sale	79,792	63,258
Mortgage-backed securities available for sale	136,166	94,922
Loans held for sale	14,392	24,612
Total liquid assets	\$284,453	\$278,749

These amounts represent 18.7% and 19.0% of the Company's total assets at June 30, 2002 and December 31, 2001, respectively.

The Banks have other sources of liquidity if a need for additional funds arises, including FHLB advances, wholesale-brokered deposits and repurchase agreements (collateralized borrowings). At June 30, 2002, the Banks had \$461.9 million in advances outstanding from the FHLB and had, with existing collateral, an additional \$101.0 million in overall borrowing capacity from the FHLB. Borrowing capacity can also be further increased upon delivery of mortgage notes on non-owner occupied 1-4 family loans, multi-family and commercial loans. The Banks generally do not pay the highest deposit rates in their market and accordingly utilize alternative sources of funds such as FHLB advances and wholesale-brokered deposits to supplement cash flow needs.

At June 30, 2002, the Banks had commitments to originate loans and unused outstanding lines of credit totaling \$291.8 million. The Banks anticipate that they will have sufficient funds available to meet their current loan origination commitments. Certificate accounts which are scheduled to mature in less than one year from June 30, 2002, totaled \$203.1 million.

At June 30, 2002, the consolidated stockholders' equity to total assets ratio was 6.4%. As of June 30, 2002, the Company, BFS and BNB exceeded all of their regulatory capital requirements. The Company's consolidated total risk-based capital, tier 1 risk-based capital and tier 1 leverage capital ratios were 12.6%, 11.3% and 7.7%, respectively. BFS's tier 1 (core) capital, total risk-based, capital, tier 1 risk-based and tangible equity capital ratios were 6.4%, 10.8%, 9.6% and 6.4%, respectively. BNB's risk-based total capital, risk-based tier 1 capital and leverage capital ratios were 12.7%, 11.5% and 5.8%, respectively.

D. COMPARISON OF THREE- AND SIX-MONTHS ENDED JUNE 30, 2002 AND 2001

GENERAL

Earnings for the quarter ended June 30, 2002 were \$2.6 million, or \$.58 basic and \$.55 diluted on an earnings per share basis, compared to earnings of \$2.5 million, or \$.56 basic and \$.54 diluted earnings per share for the second quarter of 2001. The annualized return on average assets was .70% and the annualized return on average stockholders' equity was 10.50% during the quarter ended June 30, 2002, compared to .72% and 10.88%, respectively, for the prior year quarter. Earnings for the six-months ended June 30, 2002 were \$4.6 million, or \$1.04 basic and \$.98 diluted earnings per share, compared to \$4.5 million, or \$1.01 basic and \$.96 diluted earnings per share for the six-months ended June 30, 2001. The Company's annualized return on average assets was .63% and the annualized return on average stockholders' equity was 9.45% during the six-months ended June 30, 2002, compared to .67% and 9.79%, respectively, for the six-months ended June 30, 2001 (annualized). Comments regarding the components of net income are detailed in the following paragraphs.

Interest Income

Total interest income on interest-earning assets for the quarter ended June 30, 2002 declined by \$2.1 million, or 8.8%, to \$21.9 million, compared to the quarter ended June 30, 2001. The decrease in interest income was due to a 100 basis point decline in the average yield on interest earning assets, partially offset by the earnings on the \$69.8 million increase in interest-earning assets. The average yield on interest-earning assets declined to 6.46% for the three-months ended June 30, 2002 from 7.46% for the three-months ended June 30, 2001. Total interest income for the six-months ended June 30, 2002 was \$43.2 million, a decrease of \$4.6 million, or 9.6%, compared to the \$47.8 million interest earned for the six-months ended June 30, 2001. The decline in interest income in the current period was caused by the 119 basis point drop in the average yield, partially offset by the \$90.5 million increase in average interest earning assets. The reduced yields are due in part to the repricing of a portion of the Company's adjustable-rate portfolio, based on much lower indexes resulting from the Federal Reserve induced decline in market interest rates during 2001.

Interest income on loans, net, for the quarter ended June 30, 2002 declined by \$1.9 million, or 9.2%, to \$18.7 million compared to \$20.6 million for the comparable quarter in 2001. For the six-months ended June 30, 2002, interest income on loans, net, declined \$4.3 million, or 10.4%, to \$37.2 million, compared to \$41.5 million for the six-months ended June 30, 2001. The decrease in interest income from loans, net, for the current six-month period was due to the 95 basis point decline in the average yield, partially offset by a \$22.1 million increase in the average balance of loans, net. The average yield on loans, net for the six-months ended June 30, 2002 was 6.85%, compared to an average yield of 7.80% for the six-months ended June 30, 2001. Many loans continue to reprice lower as the major repricing indexes remain at historic lows.

Interest on mortgage-backed securities for the quarter ended June 30, 2002 increased to \$2.2 million, compared to \$1.8 million for the quarter ended June 30, 2001. The increase was due to growth of \$41.7 million in average balances, partially offset by declines of 67 basis points in average yields. The average balance of mortgage-backed securities increased from \$108.0 million for the quarter ended June 30, 2001 to an average of \$149.7 million during the current quarter. For the six-months ended June 30, 2002, the average balance of mortgage-backed securities was \$140.8 million, compared to an average balance of \$93.3 million for the six-months ended June 30, 2001. The increase in average balances was primarily attributable to the acquisition of collateralized mortgage obligations ("CMO's"). These investments were purchased as part of the Company's effort to leverage the trust-preferred securities, which are classified as capital for regulatory purposes. Average yields declined from 6.52% for the six-months ended June 30, 2001, to 5.78% for the current six-month period.

Income from investment securities was \$1.0 million for the three-months ended June 30, 2002, compared to \$1.6 million for the prior year quarter. The average balance of investment securities increased to 120.4 million for the three-months ended June 30, 2002, compared to \$100.7 million for the prior year quarter. The decline in income was caused by a reduction in the average yield, which declined from 6.44% for the three-months ended June 30, 2001 to 3.35% for the current quarter. The reduction in yields on investment securities is also reflective of the declines in market interest rates, especially the historically low rates being paid on federal funds and Federal Home Loan Bank overnight deposits. Although the average balance of investment securities increased by \$20.8 million for the six-months ended June 30, 2002, compared to the six-months ended June 30, 2001, interest income declined from \$3.3 million for the prior year period to \$2.0 million for the current year period. Because the Company's investment securities are generally of a shorter-term nature, the decline in market interest rates has had a significant impact on the overall yield of investment securities. The average yield of investment securities for the six-months ended June 30, 2002 was 3.29%, compared to 6.62% for the six-months ended June 30, 2001.

Interest Expense

Total interest expense on interest-bearing liabilities for the quarter ended June 30, 2002 declined by \$2.5 million, or 17.1%, to \$12.1 million compared to \$14.6 million for the quarter ended June 30, 2001. The decrease in interest expense for the quarter ended June 30, 2002 was primarily due to a 104 basis point reduction in the average cost of interest bearing liabilities, offset somewhat by the interest cost applicable to a \$62.0 million increase in the average balance of interest-bearing liabilities, which averaged \$1.264 billion during the current quarter, compared to an average balance of \$1.202 billion during the quarter ended June 30, 2001. The average cost of interest-bearing liabilities decreased to 3.83% during the quarter ended June 30, 2002, compared to 4.87% for last year's comparable quarter. For the six-months ended June 30, 2002, interest expense on interest-bearing liabilities totaled \$24.6 million, compared to \$29.2 million for the six-months ended June 30, 2001, a decrease of \$4.6 million, or 15.8%. The lower interest expense in the current period is due to the 103 basis point decline in the average cost of funds, which declined to 3.92% in the six-months ended June 30, 2002, compared to 4.95% in the prior year period. The Company's cost of interest bearing liabilities has declined slower than overall market interest rates as market conditions, the already low interest rates being paid on deposits and call features on a portion of the FHLB advances have precluded further substantial declines in the interest paid on these accounts.

Interest expense on deposit accounts was \$5.4 million for the quarter ended June 30, 2002, a decrease of \$2.5 million from the \$7.9 million for the quarter ended June 30, 2001. Interest expense on deposit accounts declined due to a 136 basis point decrease in the average cost of deposits. For the three-months ended June 30, 2002, the average cost of deposits was 2.75%, compared to 4.11% for the three-months ended June 30, 2001. Average balances of deposit accounts, at \$786.7 million, were \$20.4 million higher during the quarter ended June 30, 2002, compared to average balances of \$766.3 million for the prior year quarter. For the six-months ended June 30, 2002, interest expense on deposit accounts was \$11.2 million, compared to \$16.1 million for the prior year period, a decrease of \$4.9 million. The decrease is attributable to a 132 basis point decline in the average cost of deposit accounts in the six-months ended June 30, 2002, compared to the prior year period.

Interest expense on borrowed funds was \$5.8 million and \$11.6 million for the three- and six-months ended June 30, 2002, compared to \$5.9 million and \$11.3 million for the three- and six-months ended June 30, 2001. Borrowed funds increased to an average of \$445.6 million during the three-months ended June 30, 2002 from an average of \$404.0 million for the prior year quarter. The added expense of the higher average balance was essentially offset by a 60 basis point decline in the average cost, which declined to 5.21% in the current quarter from 5.81% in the prior year quarter. The average balance of borrowed funds was \$442.6 million in the six-months ended June 30, 2002, an increase of \$62.5 million compared to an average balance of \$380.1 million for the six-months ended June 30, 2001. The average cost of borrowed funds was 5.23% for the six-months ended June 30, 2002, a decline of 71 basis points compared to the 5.94% cost of borrowed funds for the six-months ended June 30, 2001.

Net Interest Income

Net interest income for the three-months ended June 30, 2002 and 2001 was \$9.8 million and \$9.3 million, respectively. The Company was able to expand its net interest income through leveraging, despite a two basis point decrease in the net interest margin. The net interest margin for the quarter ended June 30, 2002 was 2.88%, compared to 2.90% for the prior year's second quarter. Approximately 11 basis points of the 2.88% net interest margin in the current quarter was the result of collecting approximately \$350,000 of current and past-due interest for nine months on impaired loans of \$4.0 million with one borrower relationship. The net interest rate spread increased from 2.59% for the quarter ended June 30, 2001, to 2.63% for the current quarter. For the six-months ended June 30, 2002 and 2001, net interest income was \$18.7 million. The net interest margin in the current period averaged 2.77%, compared to 2.97% for the six-months ended June 30, 2001. The Company has experienced net interest margin pressure due to the effects of declining asset yields, which exceeded the Company's ability to reduce liability costs during the historic reductions in market interest rates. While market interest rates appear to have stabilized, the Company cannot predict when interest rates will rise to more normal levels and whether such increases will result in higher net interest margins.

Provision for Loan Losses

The Company's provision for loan losses was \$250,000 for the quarter ended June 30, 2002, compared to \$208,000 for the comparable quarter last year. For the six-months ended June 30, 2002 and 2001 the provision for loan losses amounted to \$500,000 and \$420,000, respectively. See section B Financial Condition for further discussion on the Company's methodology for providing for loan losses.

Non-Interest Income

Total non-interest income declined to \$4.1 million for the quarter ended June 30, 2002, compared to \$4.5 million for the quarter ended June 30, 2001 due primarily to lower gain on sale of loans. Gain on sale of loans amounted to \$2.7 million for the quarter ended June 30, 2002, compared to \$3.1 million for the quarter ended June 30, 2001. On a year-to-date basis, total non-interest income increased to \$8.2 million from \$7.7 million for the six-months ended June 30, 2001. The current year-to-date increase is primarily due to higher gain on sale of loans, which amounted to \$5.6 million for the six-months ended June 30, 2002, compared to \$4.7 million for the six-months ended June 30, 2001. The increased gain on sale of loans resulted from a continuation of high volumes of mortgage loan sales, made possible by the volume of lending activity in the current low interest rate environment. Included in the above gain on sale of loans were gains on sale of manufactured housing loans, which amounted to \$2.4 million for the six-months ended June 30, 2002, compared to \$2.9 million for the six-months ended June 30, 2001. Deposit service fees increased from \$608,000 in the quarter ended June 30, 2001, to \$768,000 in the current quarter. On a year-to-date basis, deposit service fees amounted to \$1.4 million, compared to \$1.2 million for the six-months ended June 30, 2001. The increase was primarily due to increases in fees and higher levels of deposit account services activity. Loan processing and servicing fees were a negative \$198,000 for the quarter ended June 30, 2002 compared to a negative \$16,000 for the quarter ended June 30, 2001. For the six-months ended June 30, 2002, loan processing and servicing fees were a negative \$509,000, compared to income of \$114,000 for the six-months ended June 30, 2001. The declines were due to larger adjustments for the impairment of originated mortgage servicing rights ("OMSR") in the current periods. The adjustments to the OMSR were necessary due to the higher than expected levels of prepayments during the current periods for loans previously sold, with servicing retained by the Company.

Non-Interest Expense

Total non-interest expense was \$9.7 million for the quarter ended June 30, 2002 compared \$9.6 million for the quarter ended June 30, 2001 as increases in compensation and benefits were offset by decreases in other expenses and the elimination of amortization of goodwill. On a year-to-date basis, total non-interest expense was \$19.4 million, compared to \$18.8 million for the six-months ended June 30, 2001. Compensation and benefits increased by \$973,000 for the six-months ended June 30, 2002 compared to the prior year period due primarily to increased sales incentives as a result of near record mortgage loan volume and normal annual increases in salaries. Other non-interest expense declined to \$3.4 million in the current six-month period, compared to \$3.7 million for the six-months ended June 30, 2001 as the prior year period included higher outside professional expenses. The current year-to-date period includes a \$500,000 legal settlement expense incurred as a result of the Company's subsidiary BNB, agreeing with a mediator's recommendation in settling a lawsuit. There was no goodwill amortization during the current quarter and year-to-date periods in accordance with Financial Accounting Standard No. 142. Amortization of goodwill amounted to \$355,000 and \$709,000 during the quarter and six-months ended June 30, 2001.

Income Tax Expense

Income tax expense for the six-months ended June 30, 2002 was \$2.4 million, for an effective tax rate of 34.2%. For the six-months ended June 30, 2001, income tax expense amounted to \$2.6 million, for an effective tax rate of 36.3%. The lower effective tax rate in the current period is due to a lower state tax provision.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

One of the principal market risks affecting the Company is interest rate risk. The 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 a management Asset/Liability Committee that is responsible for reviewing the Company's asset/ liability policies and interest rate risk position. The Committee 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.

In recent years, the Company has utilized the following strategies to manage interest rate risk: (1) emphasizing the origination and retention of adjustable-rate, one- to four-family mortgage loans; (2) generally selling in the secondary market substantially all fixed-rate mortgage loans originated with terms greater than 15 years while generally retaining the servicing rights thereof; (3) primarily investing in investment securities or mortgage- backed securities with adjustable interest rates; and (4) attempting to reduce the overall interest rate sensitivity of liabilities by emphasizing longer-term deposits and utilizing FHLB advances to replace rate sensitive retail deposits. A portion of the FHLB advances may be called depending on the level of interest rates relative to the interest rate being charged at the applicable call date. Accordingly, if interest rates rise sufficient to trigger the call feature, the Company's net interest margin may be negatively impacted if called advances are replaced by new, higher cost advances.

The matching of assets and liabilities may be analyzed by examining the extent to which such assets and liabilities are "interest rate sensitive" and by monitoring the Company's interest rate sensitivity "gap." An asset or liability is said to be interest rate sensitive within a specific time period if it will mature or reprice within that time period. The interest rate sensitivity gap is defined as the difference between the amount of interest-earning assets maturing or repricing within a specific time period and the amount of interest-bearing liabilities maturing or repricing within that time period. These differences are a primary component of the risk to net interest income. A gap is considered positive when the amount of interest rate sensitive assets exceeds the amount of interest rate sensitive liabilities. A gap is considered negative when the amount of interest rate sensitive liabilities exceeds the amount of interest rate sensitive assets. Accordingly, during a period of rising interest rates, an institution with a positive gap position would be in a better position to invest in higher yielding assets which, consequently, may result in the yield on its assets increasing at a pace more closely matching the increase in the cost of its interest-bearing liabilities than if it had a negative gap. During a period of falling interest rates, an institution with a positive gap would tend to have its assets repricing at a faster rate than one with a negative gap which, consequently, may tend to restrain the growth of its net interest income.

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

At June 30, 2002, the Company's one year gap was a positive 7.4% of total assets, compared to a positive 6.8% of total assets at December 31, 2001.

The Company's interest rate sensitivity is also monitored by management through the use of a model which internally generates estimates of the change in net portfolio value ("NPV") over a range of interest rate change 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 market value of assets in the same scenario.

As in the case with the gap analysis, certain shortcomings are inherent in the methodology used in the above interest rate risk measurements. Modeling changes in NPV require the making of certain assumptions which 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 used assumes that the composition of the Company's interest sensitive assets and liabilities existing at the beginning of a period remains constant over the period being measured and also assumes that a particular change in interest rates is reflected uniformly across the yield curve regardless of the duration to maturity or repricing of specific assets and liabilities. 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 and will differ from actual results. See the Company's Form 10-K for the year ended December 31, 2001 for a detail of the GAP and NPV tables. There have been no material changes in the net portfolio value since December 31, 2001.

PART II — OTHER INFORMATION

Item 1. Legal Proceedings

Except as described below, the Company is not involved in any pending legal proceedings other than routine legal proceedings occurring in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters is not expected to have a material adverse effect on the consolidated financial position, the annual results of operations, or liquidity of the Company.

An action is pending against Forward Financial, in the United States District Court for the Northern District of New York. It was filed by a bank, in New York state court, served on December 1, 2000, and removed to federal court. The bank alleges, among other things, that Forward Financial breached a written agreement between the parties. Forward Financial denies the allegations and has counterclaimed for monies due from the bank. Forward Financial has significant defenses, which it is pursuing vigorously. The litigation is presently in the discovery stage. Because of the numerous uncertainties that surround the litigation, management and legal counsel are unable to estimate the amount of loss, if any, that the Company may incur with respect to this litigation. Consequently, no loss provision has been recorded. The parties are now actively engaged in settlement negotiations.

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

(A) The Annual Meeting of Stockholders of the Corporation was held on April 30, 2002.

(B) Directors elected at Annual Meeting and Continuing in Office:

(1) Election of Directors to a three-year term

Nominee	Total Votes For	Total Votes Withheld
David P. Conley	3,569,314	42,061
Richard J. Fahey	3,567,606	43,769
Kija Kim	3,568,056	43,319

(2) Continuing Directors

	Year Term Expires
Patricia M. Flynn, Ph.D	2003
W. Russell Scott	2003
Catherine Friend White	2003
Gene J. DeFeudis	2004
David F. Holland	2004
Joanna T. Lau	2004

(C) Other matters submitted to a vote of the Stockholders of the corporation:

Selection of Independent Auditors

Votes For	Votes Against	Abstentions
3,577,975	32,269	1,131

Item 5. Other Information

None

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

- 3.1 Restated Certificate of Incorporation*
- 3.2 Amended and Restated Bylaws as of February 23, 2000**
- 4.0 Stock Certificate of BostonFed Bancorp, Inc.*
- 99.1 Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

In connection with the Quarterly Report of BostonFed Bancorp, Inc. (the "Company") on Form 10-Q for the period ending June 30, 2002 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I David F. Holland, Chief Executive Officer of the company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge and belief:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of and for the period covered by the Report.

S/ David F. Holland
Chief Executive Officer
August 14, 2002

99.2 Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

In connection with the Quarterly Report of BostonFed Bancorp, Inc. (the "Company") on Form 10-Q for the period ending June 30, 2002 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, John A. Simas, Chief Financial Officer of the company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge and belief:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of and for the period covered by the Report.

S/ John A. Simas
Chief Financial Officer
August 14, 2002

- Incorporated herein by reference into this document from Exhibits 3.1 and 4.0 to the Form S-1, Registration Statement, and any amendments thereto, originally filed on July 21, 1995, as amended and declared effective on September 11, 1995. Registration No. 333-94860

- Incorporated herein by reference into this document from Exhibit 3.2 to the Annual Report on Form 10-K filed on March 29, 2002.

(b) Reports on Form 8-k

None

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.

BOSTONFED BANCORP, INC.
(Registrant)

Date: August 14, 2002

By: /s/ David F. Holland

David F. Holland
President and
Chief Executive Officer

Date: August 14, 2002

By: /s/ John A. Simas

John A. Simas
Executive Vice President,
Chief Financial Officer
and Corporate Secretary