SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **2002-05-14** | Period of Report: **2002-03-31**
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FIRST SENTINEL BANCORP INC	Mailing Address	Business Address
CIK:**1051092**| IRS No.: **223566151** | State of Incorp.:**DE** | Fiscal Year End: **1231** Type: **10-Q** | Act: **34** | File No.: **000-23809** | Film No.: **02645116** SIC: **6036** Savings institutions, not federally chartered	*1000 WOODBRIDGE CENTER DRIVE WOODBRIDGE NJ 07095*	*1000 WOODBRIDGE CENTER DRIVE WOODBRIDGE NJ 07095 7327268700*

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 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.............................. MARCH 31, 2002

OR

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

For the transition period from ---------- to ----------

Commission File No.: 000-23809

FIRST SENTINEL BANCORP, INC.
(exact name of registrant as specified in its charter)

DELAWARE	22-3566151
(State or other jurisdiction of incorporation or organization)	(IRS Employer I.D. No.)

1000 WOODBRIDGE CENTER DRIVE, WOODBRIDGE, NJ 07095
(Address of principal executive offices)

Registrant's telephone number, including area code: (732) 726-9700

NOT APPLICABLE
Former Name, Address, and 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___.

APPLICABLE ONLY TO CORPORATE ISSUERS

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

CLASS	OUTSTANDING AT MAY 1, 2002
Common Stock	30,240,209 shares

FIRST SENTINEL BANCORP, INC.

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FIRST SENTINEL BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
(Dollars in thousands, except share data) (Unaudited)

	March 31, 2002	December 31, 2001
ASSETS		
Cash and due from banks	$ 36,748	$ 33,875
Federal funds sold	3,025	20,000
Total cash and cash equivalents	39,773	53,875
Federal Home Loan Bank of New York (FHLB-NY) stock, at cost	20,890	20,541
Investment securities available for sale	123,850	107,988
Mortgage-backed securities available for sale	692,570	642,716
Loans held for sale, net	964	5,467
Loans receivable, net	1,250,241	1,237,312
Interest and dividends receivable	12,105	12,039
Premises and equipment, net	15,907	16,014
Core deposit intangibles	5,199	5,411
Other assets	32,762	37,556
Total assets	$2,194,261	$2,138,919
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Deposits	$1,351,494	$1,315,264
Borrowed funds	570,778	545,814
Advances by borrowers for taxes and insurance	10,252	9,735
Other liabilities	11,925	12,979
Total liabilities	1,944,449	1,883,792
Company-obligated mandatorily redeemable preferred capital securities of a subsidiary trust holding solely junior subordinated debentures of the Company	25,000	25,000
STOCKHOLDERS' EQUITY		
Preferred stock; authorized 10,000,000 shares; none issued and outstanding	--	--
Common stock, $.01 par value, 85,000,000 shares authorized; 43,106,742 and 30,240,209 shares issued and outstanding at 3/31/02 and 43,106,742 and 30,940,117 shares issued and outstanding at 12/31/01	430	430
Paid-in capital	202,176	201,858
Retained earnings	152,419	148,463
Accumulated other comprehensive income	1,516	2,178
Treasury stock (12,779,889 and 12,088,836 shares at 3/31/02 and 12/31/01, respectively)	(119,947)	(110,571)
Common stock acquired by the Employee Stock Ownership Plan (ESOP)	(10,092)	(10,321)
Common stock acquired by the Recognition and Retention Plan (RRP)	(1,690)	(1,910)
Total stockholders' equity	224,812	230,127
Total liabilities and stockholders' equity	$2,194,261	$2,138,919

See accompanying notes to the unaudited consolidated financial statements.

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FIRST SENTINEL BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME
(Dollars in thousands, except share data) (Unaudited)

	Three Months Ended March 31, 2002	2001
INTEREST INCOME:		
Loans	$ 21,395	$ 22,462
Investment and mortgage-backed securities available for sale	9,721	11,808
Total interest income	31,116	34,270
INTEREST EXPENSE:		
Deposits:		
NOW and money market demand	2,095	2,322
Savings	838	893
Certificates of deposit	6,074	9,165
Total interest expense - deposits	9,007	12,380
Borrowed funds	7,076	7,445
Total interest expense	16,083	19,825
Net interest income	15,033	14,445
Provision for loan losses	100	200
Net interest income after provision for loan losses	14,933	14,245
NON-INTEREST INCOME:		
Fees and service charges	1,240	637
Net gain on sales of loans and securities available for sale	116	259
Income on Bank Owned Life Insurance (BOLI)	415	--
Other income	179	107
Total non-interest income	1,950	1,003
NON-INTEREST EXPENSE:		
Compensation and benefits	3,964	3,868
Occupancy	558	579
Equipment	438	440
Advertising	175	297
Federal deposit insurance	59	60
Amortization of core deposit intangibles	212	212
Distributions on preferred capital securities	498	--
General and administrative	1,134	1,084
Total non-interest expense	7,038	6,540
Income before income tax expense	9,845	8,708
Income tax expense	3,244	2,792
Net income	$ 6,601	$ 5,916
Basic earnings per share	$ 0.22	$ 0.19
Weighted average shares outstanding - Basic	29,459,563	31,110,677
Diluted earnings per share	$ 0.22	$ 0.19
Weighted average shares outstanding - Diluted	30,198,768	31,741,706

See accompanying notes to the unaudited consolidated financial statements.

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FIRST SENTINEL BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(Dollars in thousands) (Unaudited)

<TABLE>
<CAPTION>

<S>	Common Stock <C>	Paid In Capital <C>	Retained Earnings <C>	Accumulated Other Compre-hensive (Loss) Gain <C>	Treasury Stock <C>	Common Stock Acquired by ESOP <C>	Common Stock Acquired By RRP <C>	Total Stock-holders' Equity <C>
Balance at December 31, 2000	$430	$ 201,264	$ 132,537	$ (8,534)	$ (89,508)	$ (11,238)	$ (2,788)	$ 222,163
Net income for the three months ended March 31, 2001	--	--	5,916	--	--	--	--	5,916
Cash dividends declared ($.075)	--	--	(2,458)	--	--	--	--	(2,458)
Net change in unrealized loss on securities available for sale	--	--	--	7,943	--	--	--	7,943
Purchases of treasury stock	--	--	--	--	(7,621)	--	--	(7,621)
Exercise of stock options	--	--	(198)	--	343	--	--	145
Tax benefit on stock options and RRP	--	80	--	--	--	--	--	80
Purchase and retirement of common stock	--	(56)	--	--	--	--	--	(56)
Amortization of RRP	--	--	--	--	--	--	220	220
ESOP expense	--	51	--	--	--	229	--	280
Balance at March 31, 2001	$430	$ 201,339	$ 135,797	$ (591)	$ (96,786)	$ (11,009)	$ (2,568)	$ 226,612
Balance at December 31, 2001	$430	$ 201,858	$ 148,463	$ 2,178	$(110,571)	$ (10,321)	$ (1,910)	$ 230,127
Net income for the three months ended March 31, 2002	--	--	6,601	--	--	--	--	6,601
Cash dividends declared ($.075)	--	--	(2,320)	--	--	--	--	(2,320)
Net change in unrealized gain on securities available for sale	--	--	--	(662)	--	--	--	(662)
Purchases of treasury stock	--	--	--	--	(9,868)	--	--	(9,868)
Exercise of stock options	--	--	(325)	--	492	--	--	167
Tax benefit on stock options and RRP	--	326	--	--	--	--	--	326
Purchase and retirement of common stock	--	(108)	--	--	--	--	--	(108)
Amortization of RRP	--	--	--	--	--	--	220	220
ESOP expense	--	100	--	--	--	229	--	329
Balance at March 31, 2002	$430	$ 202,176	$ 152,419	$ 1,516	$(119,947)	$ (10,092)	$ (1,690)	$ 224,812

</TABLE>

See accompanying notes to the unaudited consolidated financial statements.

FIRST SENTINEL BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in thousands) (Unaudited)

	Three Months Ended March 31, 2002	Three Months Ended March 31, 2001
Cash flows from operating activities:		
Net income	$ 6,601	$ 5,916
ADJUSTMENTS TO RECONCILE NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Depreciation of premises and equipment	351	341
Amortization of core deposit intangibles	212	212
ESOP expense	329	280
Amortization of RRP	220	220
Net amortization of premiums and accretion of discounts and deferred fees	1,310	385
Provision for loan losses	100	200
Loans originated for sale	(6,961)	(14,371)
Proceeds from sales of mortgage loans available for sale	11,492	14,208
Net gain on sales of loans and securities		

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available for sale	(116)	(259)
(Increase) decrease in interest and dividends receivable	(66)	1,403
Tax benefit on stock options and RRP	326	80
Decrease in other liabilities	(728)	(558)
Decrease (increase) in other assets	4,837	(712)
Net cash provided by operating activities	17,907	7,345
Cash flows from investing activities:		
Proceeds from sales/calls/maturities of investment securities available for sale	10,650	91,811
Purchases of investment securities available for sale	(26,948)	(25,992)
Purchase of FHLB-NY stock	(349)	(173)
Proceeds from sales of mortgage-backed securities available for sale	9,907	104,516
Principal payments on mortgage-backed securities	61,704	17,600
Purchases of mortgage-backed securities available for sale	(123,736)	(130,059)
Principal repayments on loans	191,180	72,252
Origination of loans	(190,170)	(70,410)
Purchases of mortgage loans	(13,585)	(136)
Proceeds from sale of real estate owned	--	434
Purchases of premises and equipment	(244)	(274)
Net cash (used in) provided by investing activities	(81,591)	59,569
Cash flows from financing activities:		
Purchase of treasury stock	(9,868)	(7,621)
Stock options exercised	167	145
Cash dividends paid	(2,320)	(2,458)
Net increase in deposits	36,230	24,671
Net increase in short-term borrowed funds	--	25,400
Proceeds from borrowed funds	40,000	125,000
Repayment of borrowed funds	(15,036)	(175,034)
Net increase in advances by borrowers for taxes and insurance	517	734
Purchase and retirement of common stock	(108)	(56)
Net cash provided by (used in) financing activities	49,582	(9,219)
Net (decrease) increase in cash and cash equivalents	(14,102)	57,695
Cash and cash equivalents at beginning of period	53,875	35,119
Cash and cash equivalents at end of period	$ 39,773	$ 92,814
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	$ 16,002	$ 20,053
Income taxes	--	251
Non cash investing and financing activities for the period:		
Transfer of loans to real estate owned	$ --	$ 177

See accompanying notes to the unaudited consolidated financial statements.

FIRST SENTINEL BANCORP, INC. AND SUBSIDIARIES

Notes to Unaudited Consolidated Financial Statements

(1) BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles ("GAAP") for interim financial information and in conformity with the instructions to Form 10-Q and Article 10 of Regulation S-X for First Sentinel Bancorp, Inc. ("First Sentinel" or the "Company") and its wholly-owned subsidiaries, First Savings Bank, ("First Savings" or the "Bank") Pulse Investment, Inc., Pulse Insurance Services, Inc. and Pulse Real Estate, Inc., and the Bank's wholly-owned subsidiaries, FSB Financial LLC, and 1000 Woodbridge Center Drive, Inc.

In the opinion of management, all adjustments (consisting of only normal recurring accruals) necessary to present fairly the financial condition, results of operations, and changes in cash flows have been made at and for the three

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months ended March 31, 2002 and 2001. The results of operations for the three months ended March 31, 2002, are not necessarily indicative of results that may be expected for the entire fiscal year ending December 31, 2002. These interim financial statements should be read in conjunction with the December 31, 2001 Annual Report to Stockholders.

(2) EARNINGS PER SHARE

Basic earnings per share is calculated by dividing net income by the daily average number of common shares outstanding during the period. Common stock equivalents are not included in the calculation.

Diluted earnings per share is computed similarly to that of basic earnings per share except that the denominator is increased to include the number of additional common shares that would have been outstanding if all potential dilutive common shares were issued utilizing the treasury stock method.

Calculation of Basic and Diluted Earnings Per Share

(dollars in thousands, except share data)

	Three Months Ended March 31, 2002	2001
Net income	$ 6,601	$ 5,916
Basic weighted-average common shares outstanding	29,459,563	31,110,677
Plus: Dilutive stock options and awards	739,205	631,029
Diluted weighted-average common shares outstanding	30,198,768	31,741,706
Net income per common share:		
Basic	$ 0.22	$ 0.19
Diluted	$ 0.22	$ 0.19

(3) DIVIDENDS

Based upon current operating results, the Company declared cash dividends of $0.075 per share on January 31, 2002, payable February 28, 2002, to stockholders of record on February 15, 2002.

(4) COMMITMENTS AND CONTINGENCIES

At March 31, 2002, the Company had the following commitments: (i) to originate loans of $69.0 million; (ii) to purchase mortgage loans of $636,000; (iii) unused equity lines of credit of $61.0 million; (iv) unused commercial lines of credit of $8.7 million; (v) unused construction lines of credit of $63.6 million; and (vi) letters of credit outstanding totaling $2.1 million. Further, certificates of deposits, which are scheduled to mature and/or rollover in one year or less, totaled $493.6 million at March 31, 2002.

(5) ALLOWANCE FOR LOAN LOSSES

The following table presents the activity in the allowance for loan losses (in thousands):

	Three Months Ended March 31, 2002	2001
Balance at beginning of period	$ 12,932	$ 12,341
Provision charged to operations	100	200
Charge-offs, net of recoveries	1	(6)
Balance at end of period	$ 13,033	$ 12,535

(6) COMPREHENSIVE INCOME

Total comprehensive income, consisting of net income and the net change in unrealized gain/(loss) on securities available for sale, was $5.9 million and $13.9 million for the three months ended March 31, 2002 and 2001, respectively.

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(7) RECENT ACCOUNTING PRONOUNCEMENTS

On October 3, 2001, the Financial Accounting Standards Board ("FASB") issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets", which addresses financial accounting and reporting for the impairment or disposal of long-lived assets. While SFAS No. 144 supersedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of", it retains many of the fundamental provisions of that Statement. The Statement is effective for fiscal years beginning after December 15, 2001. The initial adoption of SFAS No. 144 did not have a significant impact on the Company's consolidated financial statements.

In August, 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations," which addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. SFAS No. 143 requires an enterprise to record the fair value of an asset retirement obligation as a liability in the period in which it incurs a legal obligation associated with the retirement of tangible long-lived assets. The Company is required to adopt the provisions of SFAS No. 143 for fiscal years beginning after June 15, 2002. The Company does not anticipate that SFAS No. 143 will significantly impact the Company's consolidated financial statements.

On July 20, 2001, the FASB issued SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS No. 142 requires that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead be tested for impairment at least annually in accordance with the provisions of SFAS No. 142. SFAS No. 142 also requires that intangible assets with definite useful lives be amortized over their respective estimated useful lives to their estimated residual values, and periodically reviewed for impairment.

The Company adopted the provisions of SFAS No. 142 on January 1, 2002. The Company currently has no recorded goodwill and the adoption of SFAS No. 142 did not significantly impact the Company's accounting for currently recorded intangible assets, primarily core deposit intangibles. At March 31, 2002, the Company had gross core deposit intangibles totaling $12.6 million with accumulated amortization of $7.4 million. Amortization of core deposit intangibles for the three months ended March 31, 2002 was

$212,000. Annual amortization for the year ended December 31, 2002, and for each of the subsequent five years is projected to approximate $847,000 per year.

FIRST SENTINEL BANCORP, INC.

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

GENERAL.

Statements contained in this report that are not historical fact are forward-looking statements, as that term is defined in the Private Securities Litigation Reform Act of 1995. Such statements may be characterized as management's intentions, hopes, beliefs, expectations or predictions of the future. It is important to note that such forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from those projected in such forward-looking statements. Factors that could cause future results to vary materially from current expectations include, but are not limited to, changes in interest rates, economic conditions, deposit and loan growth, real estate values, loan loss provisions, competition, customer retention, changes in the accounting principles, policies or guidelines and legislative and regulatory changes.

ASSETS. Total assets grew $55.3 million from December 31, 2001, to $2.2 billion at March 31, 2002. Changes in asset composition during the quarter consisted primarily of increases in mortgage-backed securities ("MBS"), investment securities and loans receivable, partially offset by reductions in cash and cash equivalents and other assets.

Loans receivable, net, increased $8.4 million from December 31, 2001, to $1.3 billion at March 31, 2002. Total loan originations for the three months ended March 31, 2002, were $197.1 million, compared to $84.8 million for the same period in 2001, and $148.7 million for the trailing quarter. Fixed-rate single-family first mortgage loan originations totaled $59.1 million or 30.0% of production, while adjustable-rate single-family first mortgage loans accounted for $67.7 million or 34.3% of total originations for the first three months of 2002. Also during the first quarter of 2002, commercial real estate, commercial

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and multi-family loan originations were $18.7 million, or 9.5% of total originations, while construction lending, primarily for single-family developments, totaled $22.5 million, or 11.4%. During the same period, consumer loan originations, including home equity loans and credit lines, were $29.1 million or 14.8% of total originations. In addition, the Company purchased $13.6 million of primarily adjustable-rate single-family first mortgage loans through correspondents during the three months ended March 31, 2002. Purchased loans are underwritten internally and are extended at higher rates than those currently offered by the Bank.

Repayment of principal on loans totaled $191.2 million for the three months ended March 31, 2002, compared to $72.3 million for the same period in 2001, and $111.2 million for the trailing quarter. Increased repayments were primarily attributable to increased refinance activity compared with the three months ended March 31, 2001. Such refinance activity began to diminish as the first quarter of 2002 concluded, and the Company expects further reductions in refinancing as the economy improves and interest rates rise. Included in repayments was the early pay-off of a $14.9 million commercial real estate loan. The Company recognized a significant prepayment fee on this loan, discussed under the Comparison of Operating Results - Non-interest Income. Loan sales for the first quarter of 2002 totaled $11.5 million, compared with $14.2 million for the same period in 2001. The Company generally sells fixed-rate, 30-year loan production as a means of managing interest rate risk. At March 31, 2002, $668.4 million, or approximately 54% of the Company's mortgage loans had adjustable interest rates. Approximately $200.0 million of these adjustable-rate loans are scheduled to reprice within the next twelve months.

Of the total loan portfolio at March 31, 2002, 1-4 family mortgage loans comprised 70.3%, home equity loans comprised 8.9%, and commercial real estate, multi-family and construction loans comprised 19.4%. These percentages were affected by the previously discussed prepayment of a $14.9 million commercial real estate loan. The Company intends to continue to prudently expand its non-residential mortgage lending activities while maintaining its underwriting standards and commitment to community-based lending.

While management intends to continue emphasizing the origination of loans, future levels of loan originations and repayments will be significantly influenced by external interest rates and other economic

factors outside of the control of the Company, as well as the Company's interest rate risk management practices.

MBS available for sale increased $49.9 million, or 7.8%, to $692.6 million at March 31, 2002, from $642.7 million at December 31, 2001. Purchases totaling $123.7 million exceeded sales and principal repayments of $9.9 million and $61.7 million, respectively, for the three month period ended March 31, 2002. Purchases during the quarter consisted primarily of MBS issued by U.S. government-sponsored agencies and included $25.0 million in purchases funded by borrowings. At March 31, 2002, approximately 62% of the Company's mortgage-backed securities had adjustable rates.

Investment securities available for sale increased $15.9 million, or 14.7%, to $123.9 million as of March 31, 2002, from $108.0 million at December 31, 2001. Purchases of $26.9 million exceeded sales, calls and maturities of $10.6 million for the three months ended March 31, 2002. Purchases during the quarter consisted primarily of debt securities issued by U.S. corporations and government-sponsored agencies.

Cash and cash equivalents decreased $14.1 million, or 26.2%, to $39.8 million at March 31, 2002, from $53.9 million at December 31, 2001, in order to fund the previously described growth in loans, MBS and investments.

Other assets decreased $4.8 million, or 12.8%, to $32.8 million as of March 31, 2002 from $37.6 million at December 31, 2001. The decrease was primarily attributable to current income tax provisions reducing income taxes receivable.

LIABILITIES. Deposits increased $36.2 million, or 2.8% from December 31, 2001, to $1.4 billion at March 31, 2002. Core deposits, consisting of checking, savings and money market accounts, grew by $52.6 million, or 8%, to $713.4 million and accounted for 52.8% of total deposits at March 31, 2002. This compares with a core/total deposits ratio of 50.3% at December 31, 2001, and 46.4% at March 31, 2001. Certificates of deposit decreased by $16.4 million, or 2.5%, compared with year-end 2001, with decreases occurring primarily in the one-year and shorter maturity categories. The Company intends to continue its efforts to build core relationships and shift the deposit mix out of certificates of deposit.

Borrowed funds increased $25.0 million, or 4.6%, to $570.8 million at March 31, 2002, from $545.8 million at December 31, 2001 in order to fund MBS purchases.

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CAPITAL. The Company's stockholders' equity decreased $5.3 million, or 2.3%, to $224.8 million at March 31, 2002, from $230.1 million at December 31, 2001. The change in equity was attributable to net income of $6.6 million for the three months ended March 31, 2002, the amortization of stock-based compensation and benefit plans and related tax benefits of $875,000, and proceeds from the exercise of stock options totaling $167,000, partially offset by the repurchase of $10.0 million of the Company's common stock, cash dividends of $2.3 million, and a decrease in the net unrealized gain on securities available for sale of $662,000.

The Federal Deposit Insurance Corporation requires that the Bank meet minimum leverage, Tier 1 and total risk-based capital requirements. At March 31, 2002, the Bank exceeded all regulatory capital requirements, as follows (dollars in thousands):

	Required		Actual		Excess of Actual Over Regulatory Requirements
	Amount	% of Assets	Amount	% of Assets	
Leverage Capital	$85,976	4.00%	$197,079	9.17%	$111,103
Risk-based Capital:					
Tier 1	43,179	4.00%	197,079	18.26%	153,900
Total	86,358	8.00%	210,112	19.46%	123,754

LIQUIDITY AND CAPITAL RESOURCES. The Company's primary sources of funds are deposits; proceeds from principal and interest payments on loans and mortgage-backed

securities; sales of loans, mortgage-backed securities and investments available for sale; maturities or calls of investment securities; and advances from the FHLB-NY and other borrowed funds. While maturities and scheduled amortization of loans and mortgage-backed securities are a predictable source of funds, deposit cash flows and mortgage prepayments are greatly influenced by interest rates, competition, and economic conditions.

The most significant sources of funds for the first three months of 2002 were principal repayments and prepayments of loans and mortgage-backed securities totaling $191.2 million and $61.7 million, respectively, new borrowings of $40.0 million, a net increase in deposits totaling $36.2 million, proceeds from sales of mortgage loans of $11.5 million, proceeds from sales, calls and maturities of investment securities of $10.7 million and proceeds from sales of MBS totaling $9.9 million. If necessary, the Company has additional borrowing capacity with the FHLB-NY, including an available overnight line of credit of up to $50.0 million. At March 31, 2002, the Company had unpledged investment securities and MBS available for sale with a market value of $379.4 million.

The primary investing activities of the Company for the first three months of 2002 were the origination of loans, including loans held for sale, totaling $197.1 million, purchases of mortgage-backed securities totaling $123.7 million and purchases of investment securities totaling $26.9 million. Other significant uses of funds during the three months ended March 31, 2002, were the repayment of borrowings of $15.0 million, purchases of $13.6 million of mortgage loans and the repurchase of $10.0 million of common stock.

COMPARISON OF OPERATING RESULTS FOR THE THREE MONTHS ENDED MARCH 31, 2002 AND 2001.

RESULTS OF OPERATIONS. For the quarter ended March 31, 2002, basic and diluted earnings per share were $0.22. This represented increases of 17.8% and 17.3%, respectively, over basic and diluted earnings per share of $0.19 for the quarter ended March 31, 2001. Net income for the three months ended March 31, 2002, totaled $6.6 million, an increase of $685,000, or 11.6%, compared with the first quarter of 2001. Annualized return on average equity increased 101 basis points to 11.43% for the first quarter of 2002, from 10.42% for the comparable 2001 period, as the Company continued to leverage its capital through internal loan growth, share repurchases and cash dividends. Annualized return on average assets was 1.22% for the March 2002 quarter, compared to 1.20% for the same period in 2001.

INTEREST INCOME. Interest income for the three months ended March 31, 2002, decreased by $3.2 million, or 9.2%, to $31.1 million, compared to $34.3 million for the same period in 2001.

Interest on loans decreased $1.1 million, or 4.8%, to $21.4 million for the three months ended March 31, 2002, compared to $22.5 million for the same period in 2001. The average balance of the loan portfolio increased $70.4 million, or 5.9%, to $1.3 billion for the first quarter of 2002, compared with the first three months of 2001, while the average yield on the portfolio decreased 75 basis points to 6.79%.

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Interest on MBS and investment securities, including Fed funds sold and FHLB-NY stock, declined $2.1 million for the quarter ended March 31, 2002, compared with the same period in 2001. The average balance of the investment and MBS portfolios totaled $833.1 million, with an annualized yield of 4.67% for the three months ended March 31, 2002, compared with an average balance of $737.8 million with an annualized yield of 6.40% for the three months ended March 31, 2001. The reduced yield was largely attributable to the Company's higher-than-normal liquidity position during the first quarter of 2002, as the level of prepayments on loans and MBS resulted in an increase in the average balance of Fed funds sold to $54.4 million with an average yield of 1.68%. Fed funds sold at the end of the quarter totaled $3.0 million as the Company deployed the excess liquidity.

INTEREST EXPENSE. Interest expense decreased $3.7 million, or 18.9%, to $16.1 million for the three months ended March 31, 2002, compared to $19.8 million for the same period in 2001.

Interest expense on deposits decreased $3.4 million, or 27.3%, to $9.0 million for the three months ended March 31, 2002, compared to $12.4 million for the same period in 2001. Interest paid on certificates of

deposit decreased $3.1 million as the average cost of certificates for the three-month period ended March 31, 2002, fell 185 basis points to 3.75%, compared to 5.60% for the same period in 2001. The average balance of certificates of deposit decreased to $647.9 million for the three months ended March 31, 2002, from $655.0 million for the same period in 2001. The average interest cost on all deposits for the three months ended March 31, 2002 decreased 136 basis points to 2.70%, from 4.06% for the same period in 2001. Average non-interest bearing deposits grew $11.3 million, or 22.9%, to $60.5 million for the three months ended March 31, 2002, versus the comparable 2001 period.

Interest on borrowed funds for the three months ended March 31, 2002, decreased $369,000, or 5.0%, to $7.1 million, compared to $7.4 million for the same period in 2001. The average balance of borrowed funds for the three months ended March 31, 2002, increased to $556.6 million from $501.0 million for the same period in 2001. The average interest rate paid on borrowed funds declined to 5.09% for the three months ended March 31, 2002, compared with 5.94% for the same period in 2001.

NET INTEREST INCOME BEFORE PROVISION FOR LOAN LOSSES. Net interest income before provision for loan losses increased $588,000, or 4.1%, to $15.0 million for the three months ended March 31, 2002, compared to $14.4 million for the same period in 2001. The increase was due to the changes in interest income and interest expense described above.

The interest rate spread increased to 2.42% for the three months ended March 31, 2002, from 2.36% for the same period in 2001. The increase was due to a decrease in the average cost of interest-bearing liabilities to 3.52% for the quarter ended March 31, 2002, from 4.75% for the same period in 2001, partially offset by an decrease in the average yield on interest-earning assets to 5.94% from 7.11% for the same respective periods.

The net interest margin declined to 2.87% for the three months ended March 31, 2002, from 3.00% for the same period in 2001. The Company invested excess liquidity during the latter stages of the first quarter as market rates increased in anticipation of Federal Reserve action as the economy showed signs of improving. The Company projects improvement in the net interest margin reflecting the investment of this excess liquidity and should benefit from its asset sensitive interest rate risk position when interest rates rise.

PROVISION FOR LOAN LOSSES. The provision for loan losses for the three months ended March 31, 2002, decreased $100,000, or 50.0%, to $100,000, compared to $200,000 for the same period in 2001. Provisions for loan losses are made based on management's evaluation of risks inherent in the loan portfolio, giving consideration to on-going credit evaluations and changes in the balance and composition of the loan portfolio. Total loans receivable increased slightly to $1.3 billion at March 31, 2002 from December 31, 2001, while non-performing loans remained stable at $1.9 million at March 31, 2002, compared with $1.8 million at December 31, 2001 and $2.0 million at March 31, 2001. The allowance for loan losses as a percentage of total loans was 1.03% at March 31, 2002 and December 31, 2001. In management's opinion, the allowance for loan losses, totaling $13.0 million at March 31, 2002, adequately addresses the risks inherent in the portfolio. Management will continue to review the need for additions to its allowance for loan losses based upon its quarterly review of the loan portfolio, the level of delinquencies, and general market and economic conditions.

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The following table sets forth ratios regarding non-accrual loans, and loans which are 90 days or more delinquent, but on which the Company is accruing interest at the dates indicated. The Company discontinues accruing interest on delinquent loans when collection of interest is considered doubtful, generally when 90 days or more delinquent and when loan-to-value ratios exceed 55%, at which time all accrued but uncollected interest is reversed. Foreclosed real estate ("REO"), net, was $42,000 at March 31, 2002, and consisted of one residential property.

(dollars in thousands)	Mar. 31, 2002	Dec. 31, 2001	Sept. 30, 2001	June 30, 2001	Mar. 31, 2001
Non-accrual mortgage loans	$1,681	$1,787	$1,904	$1,828	$1,922
Non-accrual other loans	--	--	--	--	--
Total non-accrual loans	1,681	1,787	1,904	1,828	1,922
Loans 90 days or more delinquent and still accruing	256	62	263	413	40
Total non-performing loans	1,937	1,849	2,167	2,241	1,962
Total foreclosed real estate, net of related allowance	42	42	79	531	445
Total non-performing assets	$1,979	$1,891	$2,246	$2,772	$2,407
Non-performing loans to loans receivable	0.15%	0.15%	0.18%	0.18%	0.16%
Non-performing assets to total assets	0.09%	0.09%	0.11%	0.14%	0.12%

NON-INTEREST INCOME. Non-interest income increased $947,000, or 94.4%, to $2.0 million for the three months ended March 31, 2002, compared to $1.0 million for the same period in 2001. The increase was primarily attributable to income totaling $415,000 on BOLI purchased in June 2001, and approximately $600,000 in a prepayment penalty received on the early termination of a $14.9 million commercial real estate loan. Partially offsetting these increases was a decrease in net gains on sales of loans and securities of $143,000. Net gains on sales of loans and securities were $116,000 for the three months ended March 31, 2002, compared with $259,000 for the same period in 2001. The sale of loans and securities and related gains or losses are dependent on market conditions, as well as the Company's liquidity and risk management requirements.

NON-INTEREST EXPENSE. Non-interest expense for the three months ended March 31, 2002, increased $498,000, or 7.6%, to $7.0 million, compared to $6.5 million for the same period in 2001. The increase was primarily attributable to the accrual of $498,000 in distributions on $25.0 million of preferred capital securities issued in November 2001. Minor increases to compensation and benefits expense and general and administrative expenses were offset by a reduction in advertising costs for the first quarter of 2002 compared with the first quarter of 2001. Advertising expense for the three months ended March 31, 2002 totaled $175,000 versus $297,000 for the comparable 2001 period. Certain non-recurring expenses related to the Company's 100th Anniversary Celebration were recognized in the first quarter of 2001. As a measure of the Company's non-interest expense control, the Company's annualized non-interest expense, excluding amortization of core deposit intangibles and distributions on preferred capital securities, divided by average assets was 1.17% for the three months ended March 31, 2002 compared with 1.29% for the same period in 2001. The Company's efficiency ratio, calculated as non-interest expense (excluding distributions on preferred capital securities) divided by the sum of net interest income and non-interest income, was 38.8% for the first quarter of 2002, compared with 43.1% for the same period in 2001.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK.

There have been no material changes to information required regarding quantitative and qualitative disclosures about market risk from the end of the preceding fiscal year to the date of the most recent interim financial statements (March 31, 2002).

PART II. OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS.

There are various claims and lawsuits in which the Registrant is periodically involved incidental to the Registrant's business. In the opinion of management, no material loss is expected from any of such pending claims and lawsuits.

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Item 2. CHANGES IN SECURITIES.

None.

Item 3. DEFAULTS UPON SENIOR SECURITIES.

Not applicable.

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

None.

Item 5. OTHER INFORMATION.

None.

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

a.) EXHIBITS

Exhibit Number	Description	Reference
3.1	Certificate of Incorporation of First Sentinel Bancorp, Inc.	*
3.2	Bylaws of First Sentinel Bancorp, Inc.	*
4	Stock certificate of First Sentinel Bancorp, Inc.	*
11	Statement re: Computation of per Share Earnings	page 7

b.) REPORTS ON FORM 8-K

None

* Incorporated herein by reference into this document from the Registration Statement on Form S-1 and exhibits thereto of First Sentinel Bancorp, Inc. (formerly First Source Bancorp, Inc.), and any amendments or supplements thereto filed with the SEC on December 19, 1997 and amended on February 9, 1998, SEC File No. 333-42757.

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.

FIRST SENTINEL BANCORP, INC.

Date: May 14, 2002

By: JOHN P. MULKERIN
John P. Mulkerin
President and Chief Executive Officer

Date: May 14, 2002

By: THOMAS M. LYONS
Thomas M. Lyons
Senior Vice President and
Chief Financial Officer

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