PREMIER BANCORP INC /PA/
Form 10-Q
November 13, 2002

U. S. SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED: SEPTEMBER 30, 2002

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

FOR THE TRANSITION PERIOD FROM ________ TO ________

COMMISSION FILE NUMBER: 1-15513

PREMIER BANCORP, INC.
(Exact name of Registrant as specified in its charter)

PENNSYLVANIA	23-2921058
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

379 NORTH MAIN STREET, DOYLESTOWN, PA 18901
(Address of principal executive offices)

(215) 345-5100
(Registrant's telephone number)

N/A
(Former name, former address and former fiscal year, if changed since last report)

Check whether the Registrant (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act 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

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

Common stock: $0.33 par value; 3,342,415 shares issued and outstanding as of October 31, 2002.

PART I - FINANCIAL INFORMATION

ITEM 1 -- FINANCIAL STATEMENTS

PREMIER BANCORP, INC.
CONSOLIDATED BALANCE SHEETS

	SEPTE (U
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ASSETS:	
Cash and due from banks	$
Short-term investments	
Interest-bearing deposits	
Cash and cash equivalents	
Investment securities:	
Held to maturity (fair value $500 in 2002 and $500 in 2001)	
Available for sale (amortized cost $166,933 in 2002 and $102,399 in 2001)	
Loans receivable (net of allowance for loan losses of $4,133 in 2002 and $3,817 in 2001)	
Loans held for sale	
Other real estate owned	
Premises and equipment	
Accrued interest receivable	
Deferred income taxes	
Other assets	
Total assets	$
LIABILITIES, MINORITY INTEREST IN SUBSIDIARIES AND SHAREHOLDERS' EQUITY:	
Deposits	$
Borrowings	
Accrued interest payable	
Other liabilities	
Subordinated debt	
Total liabilities	
Corporation-obligated mandatorily redeemable capital securities of subsidiary trusts holding solely junior subordinated debentures of the corporation	
SHAREHOLDERS' EQUITY:	
Preferred stock- no par value; 20,000,000 shares authorized; Series A Preferred issued and outstanding 552,000 at September 30, 2002 and none at December 31, 2001	
Common stock- $0.33 par value; 30,000,000 shares authorized; issued and outstanding 3,342,415 at September 30, 2002 and 3,242,215 at December 31, 2001	
Additional paid-in capital	
Retained earnings	
Treasury stock at cost; 109,858 shares at September 30, 2002 and none at December 31, 2001	
Accumulated other comprehensive loss	
Total shareholders' equity	
Total liabilities, minority interest in subsidiaries and shareholders' equity	$

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

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PREMIER BANCORP, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS

	FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2002	2001	F E 2
	(UNAUDITED) (DOLLARS IN THOUSANDS, EXCE		
INTEREST INCOME:			
Loans	$ 6,633	$ 5,783	$
Short-term investments and interest-bearing deposits	194	106	
Investments:			
Taxable	1,439	1,497	
Tax-exempt	159	270	
Total interest income	8,425	7,656	
INTEREST EXPENSE:			
Deposits	3,179	3,586	
Borrowings	640	611	
Total interest expense	3,819	4,197	
Net interest income	4,606	3,459	
Provision for loan losses	245	179	
Net interest income after loan loss provision	4,361	3,280	
NON-INTEREST INCOME:			
Service charges and other deposit-related fees	104	84	
Gain, net, on sale of investment securities available for sale	85	3	
Gain (loss) on sale of other real estate owned	-	-	
Gain on sale of loans held for sale	14	7	
Other fees	54	44	
Total non-interest income	257	138	
NON-INTEREST EXPENSE:			
Salaries and employee benefits	1,358	1,099	
Occupancy	209	190	
Data processing	293	233	
Professional services	56	75	
Marketing	83	92	
Minority interest in expense of subsidiaries	230	219	
Other	546	454	
Total non-interest expense	2,775	2,362	
Income before income tax	1,843	1,056	
Income tax expense	581	266	
Net income	$ 1,262	$ 790	$

Less: Preferred stock dividends	$ (149)	$ -	$
Net income applicable to common shareholders	$ 1,113	$ 790	$
EARNINGS PER COMMON SHARE:			
Basic	$ 0.33	$ 0.24	$
Diluted	$ 0.32	$ 0.23	$
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING:			
Basic	3,401,023	3,224,960	
Diluted	3,524,628	3,478,243	

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

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PREMIER BANCORP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

OPERATING ACTIVITIES:	
Net income	$
Adjustments to reconcile net income to cash provided by operating activities:	
Depreciation expense	
Provision for loan losses	
Amortization of premiums and discounts on investment securities available for sale	
Gain on sales of investment securities available for sale	
(Gain) loss on sales of other real estate owned	
Gain on sales of loans held for sale	
Originations of loans held for sale	
Proceeds from sales of loans held for sale	
Increase in accrued interest receivable	
Increase in other assets	
Increase in deferred loan fees	
(Decrease) increase in accrued interest payable	
Increase (decrease) in other liabilities	
Net cash provided by operating activities	
INVESTING ACTIVITIES:	
Proceeds from sales of investment securities available for sale	
Repayment of investment securities available for sale	
Purchases of investment securities available for sale	
Repayment of investment securities held to maturity	
Net increase in loans receivable	
Proceeds from sales of other real estate owned	
Purchases of premises and equipment	

Net cash used in investing activities	
FINANCING ACTIVITIES:	
Net increase in deposits	
Net increase in borrowings less than 90 days	
Proceeds from borrowings greater than 90 days	
Proceeds from the issuance of trust preferred securities	
Net proceeds from preferred stock offering	
Payment of preferred stock dividends	
Purchases of treasury stock	
Proceeds from exercised common stock options	
Net cash provided by financing activities	
Increase in cash and cash equivalents	
Cash and cash equivalents:	
Beginning of period	
End of period	$
Supplemental disclosures:	
Cash payments for:	
Interest expense	$
Taxes	
Supplemental disclosure of noncash activities:	
Change in the estimated fair value of investment securities available for sale	$
Change in deferred tax asset related to investment securities available for sale	
Tax effect of exercised common stock options	
Transfer of loans to other real estate owned	

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

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PREMIER BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

1. ORGANIZATION

Premier Bancorp, Inc. (PBI) is a Pennsylvania business corporation and a registered financial holding company headquartered in Doylestown, Bucks County, Pennsylvania. PBI was incorporated on July 15, 1997 and reorganized on November 17, 1997 as the one-bank holding company of Premier Bank. PBI elected financial holding company status in December 2000. PBI's primary business is the operation of its wholly-owned subsidiary, Premier Bank, which is managed as a single business segment.

Premier Bank provides a full range of banking services to individual and corporate customers through its branch banking system located in Bucks, Montgomery and Northampton Counties in Pennsylvania. Premier Bank is a Pennsylvania chartered commercial bank and a member of the Federal Reserve Bank of Philadelphia. Premier Bank's deposits are insured to the legal limits by the Federal Deposit Insurance Corporation. Premier Bank competes with other financial institutions and other financial services companies with respect to customers and services offered.

Both PBI and Premier Bank are regulated and periodically examined by certain federal and state agencies.

2. BASIS OF FINANCIAL STATEMENT PRESENTATION

The accompanying unaudited consolidated financial statements of PBI have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. The consolidated financial statements include the accounts of Premier Bancorp, Inc. and its wholly-owned subsidiaries: Premier Bank, PBI Capital Trust, Premier Capital Trust II, Lenders Abstract, LLC and Premier Bank Insurance Services, LLC. In the opinion of management, the accompanying unaudited financial statements contain all material adjustments, including elimination of all significant intercompany accounts and transactions, necessary to present fairly PBI's financial position, results of operations and cash flows for the periods indicated, and have been prepared in a manner consistent with the audited financial statements as of December 31, 2001. These results of operations for the three and nine months ended September 30, 2002 and 2001 are not necessarily indicative of the results that may be expected for the full fiscal year. These financial statements should be read in conjunction with the audited financial statements and the footnotes for the fiscal year ended December 31, 2001 included in PBI's annual report on Form 10-KSB filed with the Securities and Exchange Commission.

3. USE OF ESTIMATES

In preparing the consolidated financial statements in accordance with accounting principles generally accepted in the United States as applied to the banking industry, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from such estimates. Material estimates that are particularly susceptible to significant change in the near term include the determination of the allowance for loan losses.

4. DERIVATIVE FINANCIAL INSTRUMENTS

PBI and its subsidiaries have limited involvement with derivative financial instruments and currently use them only in relation to Premier Bank's Index Powered SM Certificate of Deposit (IPCD) product. The IPCD, which was introduced in the first quarter of 2001, contains an embedded derivative feature that provides a potential return to the depositor based upon a formula that is dependent on the return of the Standard & Poor's 500 (R) Index. This innovative 5-year term deposit product allows the customer to receive a return that is based on an equity market index in place of a stated interest rate but, like other traditional certificates of deposit, is insured by the FDIC to the extent provided by law.

4. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

Premier Bank entered into derivative contracts with the Federal Home Loan Bank of Pittsburgh (FHLB) in order to offset the risks associated with the variable cost of the IPCD. Under the terms of these derivative contracts, Premier Bank will receive an amount equal to the amount to be paid to the IPCD depositor in exchange for a periodic payment stream expressed as a rate of interest.

The derivative contracts with the FHLB and the derivatives embedded in the IPCD are accounted for in accordance with Financial Accounting Standards Board Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities", as amended. Accordingly, PBI carries these derivatives at fair value in the Consolidated Balance Sheets and recognizes any changes in fair value in current period earnings. We obtain the fair value estimates for these derivatives from a third party financial institution.

The notional amount of derivative contracts was $16,518,000 and $10,905,000 at September 30, 2002 and December 31, 2001, respectively. The fair value of derivatives is included in "Other liabilities" and approximated $2,744,000 and $2,055,000 at September 30, 2002 and December 31, 2001, respectively. During the three and nine months ended September 30, 2002 approximately $84,000 and $179,000, respectively, was recorded in other expense for net changes in the fair value of derivatives compared to $61,000 and $83,000 in expense for the three and nine months ended September 30, 2001, respectively. The fair value adjustments are due to changes in prevailing interest rates and the resulting valuations of future payments due to the FHLB.

5. EARNINGS PER COMMON SHARE

Basic earnings per common share is calculated on the basis of the weighted average number of common shares outstanding. Diluted earnings per common share includes dilutive common stock equivalents as computed under the treasury stock method using average common stock prices for the respective period. Options to purchase 303,748 and 556,278 shares of common stock were outstanding at September 30, 2002 and 2001, respectively, and to the extent dilutive, were included in the computation of earnings per diluted common share. Options to purchase 51,998 shares of common stock were anti-dilutive and were excluded from the calculation of earnings per diluted common share for the first and second quarters of 2002. There were no anti-dilutive options for the third quarter ended September 30, 2002. Options to purchase 51,998 shares of common stock were anti-dilutive and excluded from the calculation of earnings per diluted common share for the first, second and third quarters of 2001.

Earnings per common share are reduced by the amount of preferred stock dividends declared, if any. There were $149,000 in preferred stock dividends declared and paid during the three and nine months ended September 30, 2002.

PREMIER BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

5. EARNINGS PER COMMON SHARE (CONTINUED)

The following is a reconciliation of the numerators and denominators of the basic and diluted earnings per common share calculations.

FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2002	NET INCOME APPLICABLE TO COMMON SHAREHOLDERS	COMMON SHARES

	(DOLLARS IN THOUSANDS, EXCEPT S	
Basic earnings per common share	$1,113	3,401,023
Effect of dilutive common stock options	-	123,605
Diluted earnings per common share	$1,113	3,524,628

FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2001	NET INCOME APPLICABLE TO COMMON SHAREHOLDERS	COMMON SHARES
	(DOLLARS IN THOUSANDS, EXCEPT S	
Basic earnings per common share	$ 790	3,224,960
Effect of dilutive common stock options	-	253,283
Diluted earnings per common share	$ 790	3,478,243

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2002	NET INCOME APPLICABLE TO COMMON SHAREHOLDERS	COMMON SHARES
	(DOLLARS IN THOUSANDS, EXCEPT S	
Basic earnings per common share	$3,058	3,373,236
Effect of dilutive common stock options	-	126,841
Diluted earnings per common share	$3,058	3,500,077

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2001	NET INCOME APPLICABLE TO COMMON SHAREHOLDERS	COMMON SHARES
	(DOLLARS IN THOUSANDS, EXCEPT S	
Basic earnings per common share	$1,819	3,207,402
Effect of dilutive common stock options	-	223,225
Diluted earnings per common share	$1,819	3,430,627

PREMIER BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

6. COMPREHENSIVE INCOME

The following table displays net income and the components of other comprehensive income to arrive at total comprehensive income. The only component of other comprehensive income is the change in the estimated fair value of investment securities available for sale.

	FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2002	SEPTEMBER 30, 2001	SEPT
	(Dollars in thousands)		
Net income	$1,262	$ 790	
Other comprehensive income, net of tax:			
Unrealized gains on investment securities available for sale:			
Unrealized holding gains during the period	626	980	
Reclassification adjustment for gains included in net income	(56)	(2)	
Other comprehensive income, net of tax	570	978	
Comprehensive income	$1,832	$1,768	

7. PREFERRED STOCK

On June 19, 2002, PBI completed its public offering of 552,000 shares of Series A 9.25% Non-Cumulative Perpetual Preferred Stock at $25.00 per share. PBI's Series A Preferred Stock trades on the AMEX under the symbol PPA.Pr.A. Dividends on the Series A Preferred Stock, if declared by the board of directors, are payable quarterly.

On July 11, 2002, PBI's board of directors approved a cash dividend of $0.2698 per share to preferred shareholders of record on July 16, 2002. This dividend, totaling $149,000, was paid on July 31, 2002 and represented payment for the period from June 19, 2002 to July 30, 2002.

On October 7, 2002, PBI's board of directors approved a cash dividend of $0.578125 per share or $319,000 to preferred shareholders of record on October 16, 2002. This dividend was paid on October 31, 2002 and represented payment for the quarter August 1, 2002 through October 31, 2002.

8. COMMON STOCK BUY-BACK PROGRAM

On July 11, 2002, PBI's board of directors approved a plan to purchase up to 4.9% of its outstanding common stock in the open market or in privately negotiated transactions.

On October 22, 2002, PBI's board of directors announced the termination of its stock repurchase program after the repurchase of 109,858 shares at an average price of $12.00 per share during the third quarter of 2002. These stock repurchases are presented as "Treasury stock" in the Consolidated Balance Sheets.

PREMIER BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

9. CAPITAL SECURITIES

Capital securities totaled $25,000,000 at September 30, 2002 and were comprised of two issues. Proceeds from the capital securities provide PBI with additional Tier 1 and Tier 2 capital as determined by regulatory capital guidelines.

On September 26, 2002, PBI's subsidiary, Premier Capital Trust II, issued $15,000,000 of variable rate corporate securities due November 30, 2032. The trust is a Delaware statutory business trust. PBI is the sole owner of the trust. The trust used the proceeds from the capital securities to acquire $15,000,000 in variable rate junior subordinated deferrable interest debentures issued by PBI. The interest rate on both the capital securities and junior subordinated debentures is based on the 90-day LIBOR index plus 345 basis points. At September 30, 2002 the interest rate was 5.25%. The junior subordinated debentures are the sole assets of the trust and payments under the junior subordinated debentures are the sole revenue of the trust.

In August 1998, PBI Capital Trust issued $10,000,000 in 8.57% capital securities due August 15, 2028.

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

The following is management's discussion and analysis of the significant changes in the results of operations for the three and nine months ended September 30, 2002 as compared to the same periods in 2001 and changes in the balance sheet from December 31, 2001 to September 30, 2002. Current performance may not be indicative of future performance. This discussion should be read in conjunction with PBI's 2001 Annual Report on Form 10-KSB.

Management has made forward-looking statements in this Quarterly Report on Form 10-Q. These forward-looking statements may be subject to risks and uncertainties. Forward-looking statements include the information concerning possible or assumed future results of operations of Premier Bancorp, Inc. and its subsidiaries, Premier Bank, PBI Capital Trust, Premier Capital Trust II, Lenders Abstract, LLC and Premier Bank Insurance Services, LLC. When words such as "believes", "expects", "anticipates" or similar expressions occur in this Form 10-Q, management is making forward-looking statements.

Shareholders should note that many factors, some of which are discussed elsewhere in this Form 10-Q, could affect the future financial results of PBI and its subsidiaries, both individually and collectively, and could cause those results to differ materially from those expressed in the forward-looking statements contained in this Form 10-Q. These factors include but are not limited to the following:

- operating, legal and regulatory risks, such as continued levels of loan quality and origination volumes, continued relationships with major customers, and technological changes;

- economic, political and competitive forces affecting Premier Bank's business, such as changes in economic conditions, especially in the bank's market area, interest rate fluctuations, competitive product and pricing pressures within the bank's market, personal and corporate bankruptcies, monetary policy and inflation;

- our ability to grow internally or through acquisitions; and

- the risk that management's analyses of these risks and forces could be incorrect and/or that the strategies developed to address them could be unsuccessful.

Management cautions readers not to place undue reliance on these forward-looking statements that reflect its analysis only as of this date. Management is not obliged to publicly revise or update these forward-looking statements to reflect events or circumstances that arise after this date. Readers should carefully review the risk factors described in other documents that we file from time to time with the Securities and Exchange Commission, including Annual Reports on Form 10-K and any current reports on Form 8-K.

GENERAL

Premier Bancorp, Inc. (PBI) is a Pennsylvania business corporation and a registered financial holding company headquartered in Doylestown, Bucks County, Pennsylvania. We were incorporated on July 15, 1997 and reorganized on November 17, 1997 as the one-bank holding company of Premier Bank. Our primary business is the operation of our wholly-owned subsidiary, Premier Bank, which we manage as a single business segment.

Premier Bank was organized in 1990 as a Pennsylvania chartered banking institution and began operations on April 24, 1992. The bank is a financial services provider whose business primarily consists of attracting retail deposits from the general public and originating loans to small to mid-sized businesses and their owners. The bank also invests in securities such as mortgage-backed securities, obligations of U.S. government agencies and government sponsored entities, corporate bonds and municipal bonds.

Premier Bank's revenues are derived principally from interest on its loan and securities portfolios. The bank's primary sources of funds are deposits, repayments of loans and investment securities, and borrowed funds. Premier Bank has seven full-service Pennsylvania banking offices: Doylestown, Easton, Southampton, Bethlehem, Floral Vale, Bensalem and Montgomeryville. The bank also operates a limited service branch in the Heritage Towers Retirement Community in Doylestown. Premier Bank faces significant competition from other financial services companies, many of which are larger organizations with more resources and locations.

Our consolidated results of operations are dependent primarily on net interest income, which is the difference between the interest income earned on interest-earning assets, such as loans and securities, and the interest expense paid on interest-bearing liabilities, such as deposits and borrowed money. We also generate non-interest income such as service charges on deposit products, fees from sales of title insurance and other fees. Our non-interest

expenses primarily consist of employee compensation and benefits, occupancy expenses, marketing, data processing costs and other operating expenses. The bank is subject to losses from its loan and investment portfolios if borrowers/issuers fail to meet their obligations or if the market value of its investment securities declines. Our results of operations are also significantly affected by general economic and competitive conditions, particularly changes in market interest rates, government policies and actions of regulatory agencies.

MANAGEMENT'S STRATEGY

Premier Bank's lending activities are specialized in small to mid-sized businesses and professionals. The bank seeks to fund these activities by developing a stable core deposit base catering primarily to retail and small to mid-sized business depositors. Premier Bank has a strong commitment to highly personalized customer service. To support its growth, without compromising personalized service, Premier Bank has made significant investments in experienced personnel and has incurred significant costs related to branch office expansion. Since Premier Bank's 1992 inception, it has grown to seven full-service Pennsylvania banking offices and has significantly added to its commercial lending staff.

PBI buys and sells investment securities from time to time depending on market conditions, business trends, liquidity and capital levels. Investment purchases provide a way to add assets quickly and generate additional earnings. While our ultimate goal is loan growth, the development of a quality loan portfolio requires significant time. During the third quarter of 2002, we increased the investment portfolio by $67,324,000 due to excess liquidity from deposit growth, new borrowings and proceeds from our trust preferred securities issuance.

In addition to the ongoing expansion of the bank's traditional business, management continuously reviews and considers new products and services to offer customers. These new products and services are largely intended to generate and increase fee income. In December 2000, we organized Lenders Abstract, LLC to generate fee income from the sales of title insurance policies. Substantially all of Lenders Abstract, LLC's business to date has been derived from Premier Bank's customers. During the three and nine months ended September 30, 2002, Lenders Abstract, LLC generated fee income of $29,000 and $115,000, respectively.

In March 2002, we organized Premier Bank Insurance Services, LLC to further diversify our products and services. This subsidiary primarily sells long-term health care insurance policies on an agency basis. Premier Bank Insurance Services, LLC commenced operations in June 2002.

Recent changes to federal banking laws allow financial institutions to engage in a broader range of activities than previously permitted. These legislative changes may serve to increase both opportunity as well as competition.

CRITICAL ACCOUNTING POLICIES

The following discussion and analysis of our financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires management to make estimates and judgments that affect the reported amounts of assets and liabilities, revenues and expenses, and related disclosures of contingent assets and liabilities at the date of the financial statements. Actual results may differ from these estimates under different assumptions and conditions.

In management's opinion, the most critical accounting policies impacting PBI's consolidated financial statements are:

Evaluation of the allowance for loan losses

The loan loss allowance policy involves significant judgments and assumptions by management that may have a material impact on the carrying value of net loans and, potentially, on the net income recognized from period to period. For a description of our accounting policies and estimation methodology related to the allowance for loan losses, see "Allowance for loan losses," below.

Accrual and recognition of interest on loans

These policies involve significant judgments and assumptions by management, which may have a material impact on the interest income recognized from period to period. For a description of our accounting policies in connection with accrual and recognition of interest on loans, see Note 1 (Summary of Significant Accounting Policies) to PBI's audited consolidated financial statements for the fiscal year ended December 31, 2001 (the "Annual Financial Statements") included in Form 10-KSB for the year ended December 31, 2001.

Realization of deferred income tax items

Estimates of deferred tax assets and deferred tax liabilities make up the asset category titled, "Deferred income taxes." These estimates involve significant judgments and assumptions by management, which may have a material impact on the carrying value of deferred tax assets for financial reporting purposes. For a more detailed description of these items and estimates, see Note 13 (Income Taxes) to the Annual Financial Statements included in Form 10-KSB for the year ended December 31, 2001.

Unrealized gains and losses on debt securities available for sale

We receive estimated fair values of debt securities from an independent valuation service and brokers. In developing these fair values, the valuation service and brokers use estimates of cash flows based on historical performance of similar instruments in similar rate environments. Based on experience, management is aware that estimated fair values of debt securities vary among brokers and other valuation services. Debt securities available for sale are mostly comprised of mortgage-backed securities and corporate bonds. For more detail on the estimated fair value of debt securities, see "Investment securities," below.

The Notes to our consolidated financial statements set forth herein and in the Annual Financial Statements identify other significant accounting policies used in the development and presentation of our financial statements. This discussion and analysis, the significant accounting policies and other financial statement disclosures identify and address key variables and other qualitative and quantitative factors that are necessary for an understanding and evaluation of our results of operations.

RESULTS OF OPERATIONS

We reported net income applicable to common shareholders of $1,113,000 or $.32 earnings per common share on a diluted basis for the three months ended September 30, 2002. This represents an increase of $323,000 or 41% from the net income applicable to common shareholders of $790,000 or $.23 earnings per common share on a diluted basis reported for the same period in 2001. Net interest income was $1,147,000 higher in 2002 compared to 2001 due to a $119,381,000 or 30% increase in average interest-earning assets. Loans accounted for $77,776,000 of the growth in average interest-earning assets. During the third quarter of 2002 we recorded $172,000 in deferred fee income related to renegotiated loans which was partially offset by $84,000 in interest income reversals on non-accrual loans. Excluding these items, the net interest margin compressed by 6 basis points from 3.58% during the three months ended September 30, 2001 to 3.52% during the same period in 2002. The net interest spread, excluding deferred fee income on renegotiated loans and interest income reversals on non-accrual loans, increased by 16 basis points from 2.96% for the three months ended September 30, 2001 to 3.12% for the three months ended September 30, 2002. Non-interest income was $257,000 for the three months ended September 30, 2002 compared to $138,000 for the same period in 2001. Non-interest income was $119,000 or 86% higher in 2002 due primarily to gains on the sales of investment securities available for sale. Non-interest expenses were $2,775,000 for the three months ended September 30, 2002 compared to $2,362,000 for the same period in 2001. Non-interest expenses were $413,000 or 17% higher in 2002 due in part to the overall growth of the company.

We reported net income applicable to common shareholders of $3,058,000 or $.87 earnings per common share on a diluted basis for the nine months ended September 30, 2002. This represents an increase of $1,239,000 or 68% from the net income applicable to common shareholders of $1,819,000 or $.53 earnings per common share on a diluted basis reported for the same period in 2001. Net interest income was $3,092,000 higher in 2002 compared to 2001 due to a $105,270,000 or 28% increase in average interest-earning assets, a wider net interest rate spread and a

wider net interest margin. Loans accounted for $82,354,000 of the growth in average interest-earning assets. During the nine months ended September 30, 2002 we recorded $172,000 in deferred fee income related to renegotiated loans which was partially offset by $105,000 in interest income reversals on non-accrual loans. Excluding these items, our net interest rate spread increased 33 basis points from 2.83% for the nine months ended September 30, 2001 to 3.16% for the same period in 2002. Our net interest margin, excluding deferred fee income on renegotiated loans and interest income reversals on non-accrual loans, increased 7 basis points from 3.52% for the nine months ended September 30, 2001 to 3.59% for the same period in 2002. Non-interest income was $703,000 for the nine months ended September 30, 2002 compared to $424,000 the same period in 2001. Non-interest income was $279,000 or 66% higher in 2002 due primarily to an increase in service charges and other deposit related fees and gains from the sales of an SBA loan, other real estate owned and investment securities available for sale. Non-interest expenses were $7,954,000 for the nine months ended September 30, 2002 compared to $6,964,000 for the same period in 2001. Non-interest expenses were $990,000 or 14% higher in 2002 due in part to the overall growth of the company.

Return on average assets and return on average equity on an annualized basis are presented in the following table for the three and nine months ended September 30, 2002 and 2001.

	FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2002	FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2001	FOR THE N ENDED SE 2002
Return on Average Assets (1)	0.81%	0.76%	0.82%
Return of Average Common Equity (2)	18.61%	16.50%	18.49%
Return of Average Common Equity, excluding SFAS 115 valuation allowance (3)	17.64%	14.56%	16.88%

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(1) Calculated as net income after preferred stock dividends divided by average assets.

(2) Calculated as net income after preferred stock dividends divided by average total equity less prefered stock.

(3) Calculated as net income after preferred stock dividends divided by average total equity less preferred stock plus unrealized loss on AFS securities.

Net interest income

Net interest income is the most significant component of our operating income. Net interest income depends upon the levels of interest-earning assets and interest-bearing liabilities and the difference or "spread" between the respective yields earned and rates paid. The interest rate spread is influenced by the overall interest rate environment, the composition and characteristics of interest-earning assets and interest-bearing liabilities, and by competition. The interest rate spread is also influenced by differences in the maturity and repricing of assets versus the liabilities that fund them.

Responding to generally weak economic conditions, the Federal Reserve cut the targeted federal funds rate by an unprecendented 4.75% to a rate of 1.75% in 2001. As a result, the current interest rate environment is at one of its all time historic low levels. The bank's interest-earning assets and interest-bearing liabilities continue to originate and reprice in this lower rate environment. The yields on average loans for the three and nine months ended September 30, 2002 were 7.42% and 7.47%, respectively, compared to 8.28% and 8.54%, respectively, for the three and nine months ended September 30, 2001. Similarly, the yields on average investments for the three and nine months ended September 30, 2002 were 5.74% and 6.15%, respectively, compared to 6.83% and 6.93%, respectively, for the three and nine months ended September 30, 2001 due in part to the repricing of variable rate securities and the restructuring of the portfolio at current rates. The rate on average interest-bearing liabilities declined from 4.78% for the three months ended September 30, 2001 to 3.32% for same period in 2002 and from 5.16% for the nine months ended September 30, 2001 to 3.61% for the same period in 2002 due in part to lower rates. In the current environment we had considerable success in raising non-maturity deposits that are generally less costly than time deposits.

For the three and nine months ended September 30, 2002, net interest income, on a tax-equivalent basis, was $1,093,000 and $3,065,000 higher, respectively, than the same periods in 2001. The increase in net interest income in 2002 was primarily a function of interest-earning asset growth and a lower yield on average interest-bearing liabilities. In addition, net interest income for the three and nine months ended September 30, 2002 was positively impacted by the net of deferred fees on renegotiated loans and interest income reversals on non-accrual loans. These items added $88,000 and $67,000 to interest income on loans for the three and nine months ended September 30, 2002, respectively. These favorable items were offset in part by a lower rate on average interest-earning assets and a lower ratio of average interest-earning assets to average interest-bearing liabilities.

Average interest-earning assets grew $119,381,000 or 30% from $400,285,000 for the three months ended September 30, 2001 to $519,666,000 for the three months ended September 30, 2002. Average loan balances, average interest-bearing deposits, average short-term investments, and average investment balances increased $77,776,000, $24,630,000, $11,627,000 and $5,348,000, respectively. The ratio of average interest-earning assets to average interest-bearing liabilities decreased from 115.03% for the three months ended September 30, 2001 to 113.75% for the three months ended September 30, 2002. The yield on average interest-earning assets and the rate on average interest-bearing liabilities decreased 123 basis points and 146 basis points, respectively, due to the decline in overall interest rates in 2001. Excluding deferred fee income on renegotiated loans and interest income reversals on non-accrual loans, the yield on interest earning assets decreased 130 basis points. The decrease in rate on average interest-bearing liabilities is mostly due to the repricing of certificates of deposit in the lower interest rate environment, the change in deposit mix and new long-term borrowings at lower rates. Short-term borrowings and subordinated debt also repriced lower in 2002.

The net interest margin on a tax equivalent basis was virtually unchanged at 3.59% for the three months ended September 30, 2002 compared to 3.58% for the same period in 2001. Excluding deferred fee income on renegotiated loans and interest income reversals on non-accrual loans, the net interest margin compressed by 6 basis points to 3.52% for the three months ended September 30, 2002. The net interest rate spread increased 23 basis points from 2.96% for the three months ended September 30, 2001 to 3.19% for the same period in 2002. Excluding deferred fee income on renegotiated loans and interest income reversals on non-accrual loans, the net interest rate spread improved 16 basis points to 3.12% during the three months ended September 30, 2002.

Average interest-earning assets grew $105,270,000 or 28% from $375,095,000 for the nine months ended September 30, 2001 to $480,365,000 for the nine months ended September 30, 2002. Average loan balances, average interest-bearing deposits and average short-term investments increased $82,354,000, $14,281,000 and $9,069,000, respectively. The ratio of average interest-earning assets to average interest-bearing liabilities decreased from 115.59% for the nine months ended September 30, 2001 to 113.38% for the nine months ended September 30, 2002. The yield on average interest-earning assets and the rate on average interest-bearing liabilities decreased 120 basis points and 155 basis points, respectively, due to the decline in overall interest rates in 2001. Excluding deferred fee income on renegotiated loans and interest income reversals on non-accrual loans, the yield on interest earning assets decreased 122 basis points. The decrease in rate on average interest-bearing liabilities is mostly due to the repricing of certificates of deposit in the lower interest rate environment, the change in deposit mix and new long-term borrowings at lower rates. Short-term borrowings and subordinated debt also repriced lower in 2002.

The net interest margin on a tax equivalent basis increased 9 basis points from 3.52% for the nine months ended September 30, 2001 to 3.61% for the same period in 2002. Excluding deferred fee income on renegotiated loans and interest income reversals on non-accrual loans, the net interest margin increased by 7 basis points to 3.59% for the nine months ended September 30, 2002. The net interest rate spread increased 35 basis points from 2.83% for the nine months ended September 30, 2001 to 3.18% for the same period in 2002. Excluding deferred fee income on renegotiated loans and interest income reversals on non-accrual loans, the net interest rate spread improved 33 basis points to 3.16% during the nine months ended September 30, 2002.

The following tables set forth, for the periods indicated, certain average balance sheet amounts and their corresponding earnings/expenses and rates (which have been annualized).

AVERAGE BALANCES, RATES AND INTEREST INCOME AND EXPENSE SUMMARY

FOR THE THREE MONTH

	2002 AVERAGE BALANCE	2002 INTEREST	2002 AVERAGE RATE
	(Dollars in t		
Assets:			
Short-term investments	$ 22,287	$ 92	1.64%
Interest-bearing deposits	25,931	102	1.56%
Investment securities available for sale			
Taxable (1)	102,944	1,432	5.52%
Tax-exempt (1) (2)	12,667	240	7.52%
Investment securities held to maturity	500	7	5.55%
Total investment securities	116,111	1,679	5.74%
Loans, net of unearned income (3) (4)	355,337	6,649	7.42%
Total interest-earning assets	519,666	8,522	6.51%
Cash and due from banks	19,115		
Allowance for loan losses	(4,377)		
Other assets (5)	9,566		
Total assets	$543,970		
Liabilities, minority interest in subsidiaries and shareholders' equity:			
Interest checking	$137,845	986	2.84%
Money market deposit accounts	16,918	97	2.27%
Savings accounts	50,510	286	2.25%
Time deposits	185,583	1,810	3.87%
Total interest-bearing deposits	390,856	3,179	3.23%
Short-term borrowings	21,418	41	0.76%
Long-term borrowings	41,087	550	5.31%
Subordinated debt	3,500	49	5.55%
Total borrowings	66,005	640	3.85%
Total interest-bearing liabilities	456,861	3,819	3.32%
Non interest-bearing deposits	31,118		
Other liabilities	7,797		
Capital securities	10,815		
Shareholders' equity (6)	37,379		
Total liabilities, minority interest in subsidiaries and shareholders' equity	$543,970		
Net interest income/rate spread		$4,703	3.19%
Net interest margin (7)			3.59%
Average interest-earning assets as a percentage of average interest-bearing liabilities	113.75%		

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(1) Excludes the SFAS 115 valuation allowance on investment securities available for sale.

(2) Interest income on tax-exempt investment securities was presented on a tax-equivalent basis. Tax-exempt yields were adjusted to a tax equivalent basis using a 34% rate.

(3) Includes non-accrual loans of $3,610,000 and $244,000 on average for the three months ended September 30, 2002 and 2001, respectively.

(4) Includes tax-exempt loans of $2,202,000 and $2,416,000 on average for the three months ended September 30, 2002 and 2001, respectively. Tax-exempt yields were adjusted to a tax-equivalent basis using a 34% rate.

(5) Excludes the deferred tax asset related to the SFAS 115 valuation allowance on investment securities available for sale.

(6) Excludes the SFAS 115 valuation allowance on investment securities available for sale, net of tax.

(7) Net interest margin is calculated as net interest income divided by average interest-earning assets.

AVERAGE BALANCES, RATES AND INTEREST INCOME AND EXPENSE SUMMARY

	FOR THE NINE MONTHS END			
	2002			
	AVERAGE BALANCE	INTEREST	AVERAGE RATE	A B
			(Dollars in tho	
Assets:				
Short-term investments	$17,316	$ 229	1.77%	$
Interest-bearing deposits	15,081	177	1.57%	
Investment securities available for sale				
Taxable (1)	88,181	3,873	5.87%	
Tax-exempt (1) (2)	16,824	956	7.60%	
Investment securities held to maturity	500	22	5.88%	
Total investment securities	105,505	4,851	6.15%	1
Loans, net of unearned income (3) (4)	342,463	19,142	7.47%	2
Total interest-earning assets	480,365	24,399	6.79%	3
Cash and due from banks	15,816			
Allowance for loan losses	(4,171)			
Other assets (5)	9,837			
Total assets	$501,847			$3
Liabilities, minority interest in subsidiaries and shareholders' equity:				
Interest checking	$110,297	2,334	2.83%	$

Money market deposit accounts	16,725	287	2.29%	
Savings accounts	48,268	807	2.24%	
Time deposits	192,241	6,330	4.40%	2
Total interest-bearing deposits	367,531	9,758	3.55%	2
Short-term borrowings	18,914	108	0.76%	
Long-term borrowings	33,736	1,433	5.68%	
Subordinated debt	3,500	147	5.62%	
Total borrowings	56,150	1,688	4.02%	
Total interest-bearing liabilities	423,681	11,446	3.61%	3
Non interest-bearing deposits	30,116			
Other liabilities	8,831			
Capital securities	10,275			
Shareholders' equity (6)	28,944			
Total liabilities, minority interest in subsidiaries and shareholders' equity	$501,847			$3
Net interest income/rate spread		$12,953	3.18%	
Net interest margin (7)			3.61%	
Average interest-earning assets as a percentage of average interest-bearing liabilities	113.38%			

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(1) Excludes the SFAS 115 valuation allowance on investment securities available for sale.

(2) Interest income on tax-exempt investment securities was presented on a tax-equivalent basis. Tax-exempt yields were adjusted to a tax equivalent basis using a 34% rate.

(3) Includes non-accrual loans of $2,876,000 and $132,000 on average for the nine months ended September 30, 2002 and 2001, respectively.

(4) Includes tax-exempt loans of $2,232,000 and $1,543,000 on average for the nine months ended September 30, 2002 and 2001, respectively. Tax-exempt yields were adjusted to a tax-equivalent basis using a 34% rate.

(5) Excludes the deferred tax asset related to the SFAS 115 valuation allowance on investment securities available for sale.

(6) Excludes the SFAS 115 valuation allowance on investment securities available for sale, net of tax.

(7) Net interest margin is calculated as net interest income divided by average interest-earning assets.

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Non-interest income

Non-interest income consists primarily of service charges and other deposit related fees, fees from sales of title insurance policies and gains (losses) on the sale of investment securities available for sale, loans held for sale and other real estate owned.

For the three months ended September 30, 2002, non-interest income was $257,000 or $119,000 higher than the $138,000 recorded during the same period in 2001. During 2002, we recorded $85,000 in gains on the sale of investment securities available for sale compared to $3,000 in 2001. Service charges and other deposit-related fees were $20,000 higher for the three months ended September 30, 2002 compared to the same period in 2001.

For the nine months ended September 30, 2002, non-interest income was $703,000 or $279,000 higher than the $424,000 recorded during the same period in 2001. In 2001, non-interest income included $50,000 in fees related to a loan pay-off. Excluding this non-recurring 2001 fee, non-interest income increased $329,000 or 88% in 2002. Of this increase, $53,000 pertained to service charges and activities related to deposit accounts which have grown considerably in the past year and $46,000 to the gain on the sale of a small business administration loan. Fees from sales of title insurance policies by Lenders Abstract, LLC were $18,000 higher in 2002 due to greater volume. During 2002 we recorded $124,000 in gains on the sale of investment securities available for sale compared to no gains during 2001. In addition, we recorded $33,000 in gains on the sale of other real estate owned in 2002 compared to $17,000 in losses in 2001.

Non-interest expense

For the three months ended September 30, 2002, non-interest expenses were $2,775,000 or $413,000 higher than the $2,362,000 recorded during the same period in 2001. For the nine months ended September 30, 2002, non-interest expenses were $7,954,000 or $990,000 higher than the $6,964,000 recorded during the same period in 2001. Non-interest expenses in 2002 increased principally due to the continued growth of the company.

Salaries and benefits were $259,000 or 24% higher in the third quarter of 2002 compared to the same period in 2001. This increase was principally due to an increase in the number of employees, salary adjustments and higher health insurance costs. The number of full-time equivalent employees grew from 78 at September 30, 2001 to 90 at September 30, 2002. Data processing expenses increased $60,000 primarily due to the growth of the company, variable costs associated with item processing and account volumes, and new services. Other expenses, which consist primarily of furniture and equipment expense, employee travel, meals and entertainment, stationery, supplies, postage and Board of Directors' fees, increased $92,000 or 20% compared to the third quarter of 2001. Of this increase, $23,000 pertained to the fair market adjustment of derivatives related to Premier Bank's IPCD. The remaining increase is primarily attributed to the growth of the company.

Salaries and benefits were $636,000 or 19% higher for the nine months ended September 30, 2002 compared to the same period in 2001. This increase was principally due to an increase in the number of employees, salary adjustments and higher health insurance costs. Data processing expenses increased $126,000 primarily due to the growth of the company, variable costs associated with item processing and account volumes, and new services. Marketing expenses were $80,000 lower in 2002 compared to the same period in 2001. Advertising expenses were reduced because deposit growth exceeded expectations. Other expenses increased $305,000 or 26% in 2002 compared to 2001. Of this increase, $96,000 pertained to the fair market adjustment of derivatives related to Premier Bank's IPCD. The remaining increase is primarily attributed to the growth of the company.

Provision for loan losses

The provision for loan losses represents the amount necessary to be charged to operations to bring the allowance for loan losses to a level that represents management's best estimate of known and inherent losses in the bank's loan portfolio. The amount of the allowance for loan losses is subject to ongoing analysis of the loan portfolio, which considers current economic conditions, actual loss experience, the current risk profile of the portfolio, delinquency statistics, and the composition of loan types within the portfolio. The bank's loan portfolio is relatively immature given its recent growth rates. Therefore, charge-off and non-performing trends may not be indicative of future performance.

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The provision for loan losses was $245,000 and $770,000 for the three and nine months ended September 30, 2002, respectively, compared to $179,000 and $518,000 for the same periods in 2001. The amount of the loan loss provision for the three and nine months ended September 30, 2002 was higher than the comparable periods in 2001 primarily due to an increase in non-performing loans and higher net charge offs. Non-performing loans totaled $5,123,000 at September 30, 2002 compared to $0 at September 30, 2001. Net charge-offs were $454,000 for the nine months ended September 30, 2002 compared to $33,000 for the same period in 2001.

The loan loss allowance as a percentage of total loans was 1.15% at September 30, 2002 and 1.21% at September 30, 2001.

Income tax expense

We recorded a $581,000 tax provision representing an effective tax rate of 31.5% for the three months ended September 30, 2002 compared to $266,000 or 25.2% for the same period in 2001. We recorded a $1,351,000 tax provision representing an effective tax rate of 29.6% for the nine months ended September 30, 2002 compared to $610,000 or 25.1% for the same period in 2001. The effective tax rates for the three and nine months ended September 30, 2002 were higher than the comparable periods in 2001 principally due to a lower ratio of tax-exempt interest to total pre-tax income. Our statutory federal tax rate is 34%.

FINANCIAL CONDITION

Consolidated assets grew $148,807,000 or 33% during the nine months ended September 30, 2002 to $599,376,000. During this period we raised $27,345,000 in new capital through the issuance of preferred stock and capital securities. This new capital, together with a $76,065,000 increase in deposits, mostly interest checking accounts, and a $30,000,000 increase in long-term FHLB advances, funded our asset growth. Investments, total gross loans and cash and cash equivalents grew $67,324,000, $43,578,000 and $37,663,000, respectively, during the nine months ended September 30, 2002.

Shareholders' equity increased $16,455,000 from $19,609,000 at December 31, 2001 to $36,064,000 at September 30, 2002. This increase was attributable to $12,345,000 in net proceeds from the sale of preferred stock, $3,058,000 in earnings after preferred stock dividends, a $1,841,000 improvement in the estimated fair value of investment securities available for sale, net of tax, and $529,000 from the exercise of common stock options. Shareholders' equity was reduced by $1,318,000 due to the repurchase of common stock.

Investment securities

Investment policies dictate permissible investment categories, credit quality, maturity intervals and investment concentrations. Management is responsible for making the specific investment purchases within these standards. The carrying value of investment securities at September 30, 2002 totaled

$165,675,000 or 28% of total assets. At September 30, 2002 approximately 56% of the investment portfolio was comprised of mortgage-backed securities that amortize and provide monthly cash flow. Corporate bonds and municipal bonds comprised 31% and 7% of the investment portfolio, respectively. At September 30, 2002, approximately 61% of the investment portfolio was fixed rate.

Management buys and sells investment securities from time to time depending on market conditions, business trends, liquidity, and capital levels. Investment purchases provide a way to add assets quickly and generate additional earnings. During the third quarter of 2002, we purchased of $101,515,000 of AFS investments using the proceeds from our two recent capital initiatives and excess liquidity from deposit growth and new long-term borrowings. Investment purchases were concentrated in mortgage-backed securities and corporate bonds. During the third quarter of 2002 we also sold $19,929,000 in AFS securities at a net gain of $85,000. The majority of these gains were recognized from the sales of certain mortgage-backed securities in order to lower our prepayment exposure.

For the nine months ended September 30, 2002 investment purchases and sales totaled $127,485,000 and $54,104,000, respectively. Net gains on sales of AFS securities were $124,000 for the nine months ended September 30, 2002.

Management classifies investment securities at the time of purchase by one of three categories: trading, available for sale (AFS) or, held to maturity (HTM). To date, management has not purchased any securities for trading purposes. Management classifies most securities as AFS even though it has no immediate intent to sell them. The AFS designation affords management the flexibility to sell securities and adjust the balance sheet in response to capital levels, liquidity needs and/or changes in market conditions. Securities AFS are marked to market in the Consolidated Balance Sheets with an adjustment to equity, net of tax, that is presented in the caption "Accumulated other comprehensive income (loss)."

At September 30, 2002, the AFS portfolio had an estimated market depreciation of $1,758,000 before tax and an equity adjustment of $1,160,000, net of tax. This represents a $1,841,000 improvement in the estimated fair value of AFS securities, net of tax, over the prior year-end primarily due to the lower rate environment. The market depreciation is concentrated in a sector of the bank's corporate bond portfolio comprised of long-term trust preferred securities issued by other financial institutions. These trust preferred securities had an unrealized loss of $2,983,000 at September 30, 2002. The market continues to discount these corporate bonds due to perceived credit risk.

Management evaluated the credit quality of corporate bond issuers prior to purchasing these securities and monitors them on an ongoing basis. Management believes that the credit quality of the corporate bond portfolio is sound and that the company will ultimately be repaid. Therefore, management views the unrealized loss in the market value of the corporate bonds as temporary. If, at some future date, management believes that this loss is other than temporary or that the recovery of the unrealized loss on corporate bonds is not probable, we will recognize the loss through earnings, which would reduce regulatory capital.

INVESTMENT PORTFOLIO

SEPTEMBER 30, 2002

	HELD TO MATURITY		AVAILABLE FOR SA	
	AMORTIZED COST	ESTIMATED FAIR VALUE	AMORTIZED COST	ESTIM FAIR
	(In thousands)			
Mortgage-backed securities	$ -	$ -	$ 92,276	$ 93
Municipal securities	-	-	11,214	11
Equity securities	-	-	3,584	3
Mutual funds	-	-	5,000	5
Corporate bonds	-	-	54,749	51
Other debt securities	500	500	110	
Total	$500	$500	$166,933	$165

	DECEMBER 31, 2001			
	HELD TO MATURITY		AVAILABLE FOR SA	
	AMORTIZED COST	ESTIMATED FAIR VALUE	AMORTIZED COST	ESTIM FAIR
	(In thousands)			
Mortgage-backed securities	$ -	$ -	$ 43,286	$43
Municipal securities	-	-	20,796	20
Equity securities	-	-	2,023	2
Corporate bonds	-	-	36,184	32
Other debt securities	500	500	110	
Total	$500	$500	$102,399	$97

Loans

Gross loans increased $43,578,000 or 14% from $316,066,000 at December 31, 2001 to $359,644,000 at September 30, 2002.

We originate a wide variety of loans primarily to small to mid-sized businesses and professionals. Our policies as well as applicable laws and regulations require risk analysis and ongoing portfolio and credit management. The majority of our loan portfolio is collateralized, at least in part, by real estate in the greater Delaware and Lehigh Valleys of Pennsylvania and New Jersey. Real estate values are typically subject to risks associated with the general economy, among other matters.

Inherent in the lending function is the evaluation and acceptance of credit risk and interest rate risk. We manage credit risk through portfolio diversification, underwriting policies and procedures, and loan monitoring practices. We manage interest rate risk using various asset/liability modeling techniques and analyses. Most loans are adjustable rate that reset in intervals of five years or less. When possible, the bank also originates variable rate loans.

LOAN PORTFOLIO

	SEPTEMBER 30, 2002		DECEMBER 31, 2001	
	AMOUNT	% OF TOTAL	AMOUNT	% OF TOTAL
	(Dollars in thousands)			
Real estate-farmland	$ 200	0.06%	$ 214	0.07%
Real estate-construction	10,291	2.86%	15,911	5.03%
Real estate-residential	33,283	9.26%	30,188	9.55%
Real estate-multifamily	20,135	5.60%	15,011	4.75%
Real estate-commercial	246,944	68.66%	208,412	65.94%
Commercial	47,737	13.27%	45,238	14.31%
Consumer	1,054	0.29%	1,092	0.35%
Total loans	359,644	100.00%	316,066	100.00%
Less:				
Deferred loan fees	(1,572)		(1,373)	
Allowance for loan losses	(4,133)		(3,817)	
Total loans, net	$353,939		$310,876	

Allowance for loan losses

The allowance for loan losses reflects management's best estimate of losses, both known and inherent, in the existing loan portfolio. Management's judgment is based on the evaluation of individual loans, past experience, the assessment of current economic conditions, and other relevant factors. The provision for loan losses charged to operating expenses represents the amount necessary to maintain an appropriate allowance. Loan losses are charged directly against the allowance for loan losses when loans are deemed to be uncollectible. Recoveries on previously charged-off loans are added to the allowance when received.

Estimates are used to determine the allowance for loan losses. A variety of factors are considered in establishing these estimates including current economic conditions, diversification of the loan portfolio, delinquency statistics, borrowers' perceived financial and managerial strengths, the adequacy of underlying collateral, if collateral dependent, or present value of future cash flows, and other relevant factors. Each commercial loan is assigned a specific loan loss reserve using a scoring system. This scoring system takes into consideration collateral type and value, loan to value ratios, the borrower's risk rating, and other factors previously described. Independent loan reviewers determine borrower risk ratings at the inception of each loan and monitor/update these ratings on an ongoing basis. Homogeneous loans, comprised primarily of home equity and non-real estate secured consumer loans, are analyzed in the aggregate.

Because the bank is only ten years old with a limited history of loan losses, management also uses peer group analysis to gauge the overall reasonableness of loan loss reserves. While management calculates the allowance based on specific loans or loan categories, it considers the total allowance available for losses in the entire loan portfolio. Changes in economic conditions and the financial condition of borrowers can occur quickly, and as a result, impact management's estimates.

We maintained an unallocated loan loss reserve at September 30, 2001 based on a shift in risk ratings following the hiring of an independent loan reviewer in the second quarter of 1999. This unallocated reserve was based on the assumption that additional risk factors would be identified and further changes to risk ratings would be made as this independent review process was consistently applied to the entire commercial loan portfolio over an extended period of time. We adjusted our loan scoring system in the fourth quarter of 2001 to reflect current economic conditions and trends in risk ratings over the past several years. As a result, there are no unallocated loan loss reserves at December 31, 2001 or September 30, 2002.

Regulatory authorities, as an integral part of their examinations, periodically review the allowance for loan losses. They may require additions to the allowance based upon their judgment and information available to them at the time of examination.

Management considers the allowance for loan losses to be appropriate. To comply with industry reporting requirements, management allocated the allowance for loan losses by loan categories in the table below. Management does not intend to imply that actual future charge-offs will necessarily follow this allocation or that any portion of the allowance is restricted.

ALLOWANCE FOR LOAN LOSS ALLOCATION

	SEPTEMBER 30, 2002		DECEMBER 31, 2001		SEPTEMBER 30,	
	AMOUNT	% LOANS TO TOTAL LOANS	AMOUNT	% LOANS TO TOTAL LOANS	AMOUNT	% LOA TOTAL
			(Dollars in thousands)			
Balance at end of period applicable to:						
Real estate-farmland	$ 1	0.06%	$ 2	0.07%	$ 2	0.
Real estate-construction	99	2.86%	115	5.03%	65	3.
Real estate-residential	321	9.26%	266	9.55%	240	9.
Real estate-multi-family	169	5.60%	103	4.75%	71	4.
Real estate-commercial	2,492	68.66%	2,338	65.94%	1,795	68.
Commercial	1,041	13.27%	982	14.31%	730	13.
Consumer	10	0.29%	11	0.35%	12	0.
Unallocated	-	-	-	-	602	
Total	$4,133	100.00%	$3,817	100.00%	$3,517	100.

At September 30, 2002, the allowance for loan losses totaled $4,133,000 or 1.15% of total loans compared to 1.21% and 1.21% at December 31, 2001 and September 30, 2001, respectively. We charged $454,000 in loan losses against the allowance for loan losses during the nine months ended September 30, 2002. $450,000 of total 2002 loan losses related to one borrower.

The following table sets forth the activity in the allowance for loan losses and certain key ratios for the periods indicated. The bank's loan portfolio is relatively immature given its recent growth rates. Therefore, current charge-off and non-performing asset trends may not be indicative of future performance.

ALLOWANCE FOR LOAN LOSSES

	FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2002	FOR THE YEAR ENDED DECEMBER 31, 2001	FO MO SEPTE
		(Dollars in thousands)	
Balance at beginning of period	$ 3,817	$ 3,032	
Charge-offs			
Real estate-commercial	295	29	
Commercial	159	4	
Total charge-offs	454	33	
Recoveries	-	-	
Net charge-offs	454	33	
Provision for loan losses	770	818	
Balance at end of period	$ 4,133	$ 3,817	
Total gross loans:			
Average	$344,146	$271,318	
End of period	$359,644	$316,066	
Ratios:			
Net charge-offs to:			
Average loans	0.13%	0.01%	
Loans at end of period	0.13%	0.01%	
Allowance for loan losses	10.98%	0.86%	
Provision for loan losses	58.96%	4.03%	
Allowance for loan losses to:			
Total gross loans at end of period	1.15%	1.21%	
Non-performing loans	80.68%	142.05%	

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(1) N/M stands for "not meaningful". There were no non-performing loans at September 30, 2001.

Non-performing assets

Non-performing assets are defined as accruing loans past due 90 days or more, non-accruing loans, restructured loans and other real estate owned. Non-performing assets represented .85% and .70% of total assets at September 30, 2002 and December 31, 2001, respectively.

NON-PERFORMING ASSETS

	SEPTEMBER 30, 2002	DECEMBER 31, 2001
	(Dollars in thousands)	
Loans past due 90 days or more and accruing	$ -	$ -
Non-accrual loans	5,123	2,687
Other real estate owned	-	475
Total non-performing assets	$5,123	$3,162
Ratio of non-performing loans to total loans	1.42%	0.85%
Ratio of non-performing assets to total assets	0.85%	0.70%

During the third quarter of 2002 we placed a total of $2,710,000 in loans on non-accrual and reversed a total of $84,000 in interest income. The non-accrual/impaired loan balance was substantially comprised of two borrowers with loans totaling $2,510,000 and $1,535,000 at September 30, 2002. At December 31, 2001 the non-accrual loan balance was substantially comprised of one borrower with loans totaling $2,330,000. After a $450,000 charge-off in the third quarter of 2002 and $345,000 in payments, this borrower remains on non-accrual with a balance of $1,535,000 at September 30, 2002. During the third quarter of 2002 we placed a $2,510,000 relationship on non-accrual and reversed $61,000 in interest income related to it. This $2,510,000 relationship is collateralized by three pieces of real estate.

The average balance of non-accrual/impaired loans was $3,610,000 for the three months ended September 30, 2002. There was $1,000 and $0 interest income recognized on non-accrual/impaired loans during the three months ended September 30, 2002 and 2001, respectively. Total interest income that would have been recognized on non-accrual loans was $140,000 and $0 for the three months ended September 30, 2002 and 2001, respectively.

The average balance of non-accrual loans was $2,876,000 for the nine months ended September 30, 2002. There was $5,000 and $0 in interest income recognized on non-accrual/impaired loans during the nine months ended September 30, 2002 and 2001, respectively. Total interest income that would have been recognized on non-accrual loans was $255,000 and $0 for the nine months ended September 30, 2002 and 2001, respectively.

Other real estate owned at December 31, 2001 was sold at a gain of $33,000 in May 2002.

Loans held for sale

The balance of loans held for sale was $1,508,000 at September 30, 2002 compared to $127,000 at December 31, 2001. The increase in loans held for sale relates to the timing of residential mortgage loan originations versus their sale.

We sold $6,133,000 and $5,572,000 of residential mortgages during the nine months ended September 30, 2002 and 2001, respectively. Residential mortgage originations and sales are significantly influenced by the interest rate environment.

Deferred taxes

Deferred taxes decreased $949,000 from $2,887,000 at December 31, 2001 to $1,938,000 at September 30, 2002. This decrease relates to the change in the estimated fair value of investment securities available for sale.

Other assets

The $817,000 increase in other assets from $712,000 at December 31, 2001 to $1,529,000 at September 30, 2002 was primarily due to the deferral of $413,000 in costs related to our September issuance of $15,000,000 of trust preferred securities. These costs will be amortized over the life of the securities and reported as "Minority interest in expense of subsidiary." The remaining increase relates to increases in the principal due on delay-payment type mortgage-backed securities and in normal prepaid operating expenses.

Deposits

We are largely dependent upon our base of competitively priced core deposits to provide a stable source of funding. The bank has retained and grown its customer base since inception through a combination of price, quality service, customer confidence, convenience, a stable and experienced staff and through expansion of our network of offices. Core deposits, which exclude time deposits of $100,000 and greater, grew $75,413,000 or 25% during the nine months ended September 30, 2002 to $379,693,000. This growth was primarily generated by the Golden Checking product, which is an interest-bearing checking account. Through September 30, 2002, the bank maintained the rate payable on this account at an annual percentage yield of 3.05% despite the falling rate environment. As prevailing interest rates declined, Golden Checking accounts increased $73,732,000 during the nine months ended September 30, 2002 and the bank's deposit mix, although still concentrated in time deposits, shifted significantly toward non-maturity interest checking products. Interest checking accounts at September 30, 2002 were $145,373,000 or 33% of total deposits compared to $58,826,000 or 16% of total deposits at December 31, 2001. Total time deposits at September 30, 2002 were $187,911,000 or 43% of total deposits compared to $208,057,000 or 58% of total deposits at December 31, 2001. Approximately $94,492,000 of time deposits will mature after one year.

Total deposits increased $76,065,000 or 21% during the nine months ended September 30, 2002 to $434,347,000. Total average deposits increased $82,953,000 or 26% from $314,694,000 for the nine months ended September 30, 2001 to $397,647,000 for the nine months ended September 30, 2002. Non-interest-bearing deposits are an important source of funds for a bank because they lower overall deposit costs. The average balance of these accounts increased $4,599,000 or 18% during the nine months ended September 30, 2002 compared to the same period in 2001. The interest rates offered on most deposit products were lowered in 2001 and through the first half of 2002 in response to overall market conditions. Management expects the certificate of deposit portfolio to continue to reprice lower in 2002, as higher rate accounts mature and reprice in the lower rate environment.

The growth of mutual funds over the past decade has made it increasingly difficult for financial institutions to attract deposits. The continued flow of cash into mutual funds, much of which is made through tax deferred investment vehicles such as 401(k) plans, as well as a generally strong economy, have, until recently, fueled high returns for these investments, and in particular, certain equity funds. During 2001 and, continuing to date, the returns of the domestic equity markets were weak and volatile as the U.S. economy was generally sluggish. These conditions improved the environment for deposit acquisition for financial institutions as investors sought the relative safety of FDIC insured deposits, despite a low interest rate environment.

We plan to continue to grow deposits through promotions, business development programs, maturation of existing branches and branch expansion. In addition, Premier Bank introduced the IPCD product in the first quarter of 2001. The IPCD product contains an embedded derivative feature that provides a potential return to the depositor based on a formula that is dependent on the return of the Standard & Poor's 500(R) Index. This innovative deposit product allows a customer to receive a return that is based on an equity market index in place of a stated interest rate but, like other traditional certificates of deposit, is insured by the FDIC to the extent provided by law. As of September 30, 2002, the bank generated $16,518,000 in IPCD deposits with an initial term of five years. Approximately $13,145,000 of IPCD balances at September 30, 2002 was from institutional depositors. These depositors generally require us to obtain letters of credit guaranteeing the principal amounts of IPCD's in excess of FDIC insured levels. As of September 30, 2002, Premier Bank maintained $11,300,000 in letters of credit from the FHLB for this purpose. The amount of IPCD product, net of embedded derivatives, included in total deposits in the Consolidated Balance Sheet at September 30, 2002 was $13,966,000. See the section entitled "Derivative Financial Instruments."

DEPOSITS BY MAJOR CLASSIFICATION

	SEPTEMBER 30, 2002			DECEMBER 31, 2001		
	WEIGHTED AVERAGE INTEREST RATE	AMOUNT	% OF TOTAL	WEIGHTED AVERAGE INTEREST RATE	AMOUNT	% OF TOTAL
			(Dollars in thousands)			
Interest checking	2.57%	$145,373	33.47%	2.69%	$ 58,826	16.42%
Money market	2.27%	17,391	4.01%	2.32%	16,997	4.74%
Savings	2.24%	51,131	11.77%	2.25%	44,059	12.30%
Time	3.86%	187,911	43.26%	5.31%	208,057	58.07%
Total interest-bearing deposits	3.12%	401,806	92.51%	4.27%	327,939	91.53%
Non interest-bearing deposits		32,541	7.49%		30,343	8.47%
Total deposits		$434,347	100.00%		$358,282	100.00%

Borrowings

Borrowings totaled $89,035,000 at September 30, 2002 compared to $49,605,000 at December 31, 2001.

Included in borrowings are customer repurchase agreements of $29,035,000 and $19,605,000 at September 30, 2002 and December 31, 2001, respectively. The balance in customer repurchase agreements fluctuates daily because it is dependent on the level of available funds in depositor accounts. Customer repurchase agreements are collateralized by investment securities in an amount equal to or exceeding such borrowings. The bank controls these pledged securities.

Borrowings also included $60,000,000 and $30,000,000 in long-term advances from the FHLB at September 30, 2002 and December 31, 2001, respectively. New long-term borrowings for the third quarter of 2002 included two $15,000,000 fixed rate 10-year advances from the FHLB. These advances may convert to a variable rate if the LIBOR index hits 7% and 8%, respectively. The bank has the option to prepay these advances if they convert to a variable rate.

The weighted average interest rate on borrowings was 3.45% and 3.83% at September 30, 2002 and December 31, 2001, respectively.

Other liabilities

Other liabilities increased $3,495,000 from $5,019,000 at December 31, 2001 to $8,514,000 at September 30, 2002. This increase relates principally to $3,883,000 in accrued investment purchases, and a $689,000 increase in the balance of derivatives related to our IPCD product. These increases were partially offset by an $807,000 decrease in federal income taxes payable and a $270,000 decrease in normal operating accounts.

CAPITAL ADEQUACY

Capital is fundamental to support our continued growth. In addition, PBI and Premier Bank are subject to various regulatory capital requirements. Regulatory capital is defined in terms of Tier 1 capital (shareholders' equity plus the allowable portion of the minority interest in equity of subsidiaries, minus unrealized gains or plus unrealized losses on available for sale securities, and minus certain intangible assets), Tier 2 capital (which includes a portion of the allowance for loan losses, minority interest in equity of subsidiaries and subordinated debt), and total capital (Tier 1 plus Tier 2). Risk-based capital ratios are expressed as a percentage of risk-weighted assets. Risk-weighted assets are determined by assigning various weights to all assets and off-balance sheet financial instruments, such as letters of credit and loan commitments, based on associated risk. Regulators have also adopted minimum Tier 1 leverage ratio standards, which measure the ratio of Tier 1 capital to total average quarterly assets.

Since year-end 2001, we completed two capital raising initiatives, which together generated $27,345,000. With the addition of this new capital we believe that we are well positioned to sustain the growth of our core business and to take advantage of diversification and expansion opportunities as they surface.

On September 26, 2002, we issued $15,000,000 of variable rate capital securities due November 30, 2032 through our Delaware subsidiary, Premier Capital Trust II. Interest on the capital securities is based on the 90-day LIBOR index plus 345 basis points. Proceeds from the capital securities provide PBI with Tier 1 and Tier 2 capital as determined by regulatory capital guidelines. See Footnote #9 entitled "Capital Securities".

On June 19, 2002, we completed our public offering of 552,000 shares of Series A 9.25% Non-Cumulative Perpetual Preferred Stock at $25.00 per share. The net proceeds from this offering totaled $12,345,000. The Series A Preferred stock qualifies as Tier 1 capital. Annual dividends on the Series A Preferred stock are $2.3125 per share or $1,276,500. Dividends are payable quarterly, but only if declared by our board of directors.

On July 11, 2002 our board of directors approved a cash dividend of $0.2698 per share to preferred shareholders of record on July 16, 2002. This dividend, totaling $149,000, was paid on July 31, 2002 and represented payment for the period from June 19, 2002 to July 30, 2002, the amount of time the shares of Series A Preferred Stock were outstanding for the quarter.

On October 7, 2002, PBI's board of directors approved a cash dividend of $0.578125 per share or $319,000 to preferred shareholders of record on October 16, 2002. This dividend was paid on October 31, 2002 and represented payment for the quarter August 1, 2002 through October 31, 2002.

On July 11, 2002, our board of directors approved a plan to purchase up to 4.9% of our outstanding common stock in the open market or in privately negotiated transactions. On October 22, 2002 our board of directors announced the termination of its stock repurchase program after the repurchase of 109,858 shares during the third quarter of 2002.

On October 11, 2002, PBI repaid $2,000,000 in variable rate subordinated debt which was included as Tier 2 capital at September 30, 2002.

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The tables below depict our capital components and ratios along with the "adequately" and "well" capitalized criteria as defined by FDIC regulations.

CAPITAL COMPONENTS

	SEPTEMBER 30, 2002	DE
	(Dollars in tho	
Tier 1		
Shareholders' equity	$ 36,064	
Allowable portion of minority interest in equity of subsidiaries	10,000	
Net unrealized losses on investment securities available for sale	1,160	
Total Tier 1 Capital	$ 47,224	
Tier 2		
Allowable portion of minority interest in equity of subsidiaries	$ 15,000	
Allowable portion of the allowance for loan losses	4,133	
Allowable portion of subordinated debt	3,500	
Total Tier 2 Capital	$ 22,633	
Total Capital	$ 69,857	
Risk-weighted assets	$448,219	

CAPITAL RATIOS

	SEPTEMBER 30, 2002	DECEMBER 31, 2001
Total risk-based capital/risk-weighted assets	15.59%	10.62%
Tier 1 capital/risk-weighted assets	10.54%	8.02%
Tier 1 capital/average assets (leverage ratio)	8.68%	6.83%

INTEREST RATE SENSITIVITY

We are subject to the interest rate risk inherent in our lending, investing and financing activities. Fluctuations in interest rates will impact both the interest income/expense and market value of all interest-earning assets and interest-bearing liabilities, other than those with a short term to maturity.

The primary objective in managing interest rate risk is to minimize the adverse impact of changes in interest rates on our net interest income while creating an asset/liability structure that maximizes earnings. The Asset Liability Management Committee actively monitors and manages our interest rate exposure using gap analysis and simulation models. Simulation models require significant assumptions about future business trends and interest rates.

Gap analysis measures the difference between volumes of interest rate-sensitive assets and liabilities and quantifies these repricing differences for various time intervals. Static gap analysis depicts interest sensitivity at a point in time. However, it alone does not accurately measure the magnitude of changes in net interest income because changes in interest rates do not always impact assets and liabilities at the same time or in the same magnitude. Furthermore, gap analysis does not consider future growth, changes in asset and liability composition or market conditions.

A positive gap results when the amount of interest rate-sensitive assets exceeds interest rate-sensitive liabilities repricing within the relevant time period and, generally means that the institution will benefit during periods of rising interest rates. A negative gap results when the amount of interest rate-sensitive liabilities exceeds interest rate-sensitive assets repricing within the relevant time period and, generally means that the institution will benefit during periods of falling interest rates. As depicted in the table below, we have a cumulative positive gap within the one-year time interval.

SEPTEMBER 30, 2002	WITHIN 3 MONTHS	4 TO 6 MONTHS	7 MONTHS TO 1 YEAR	1 TO 3 YEARS	3 TO 5 YEARS
			(DOLLARS IN THOUSANDS)		
ASSETS					
Short-term investments	$ 33,817	$ -	$ -	$ -	$ -
Interest-bearing deposits	9,337	-	-	-	-
Investment securities	65,436	2,337	3,398	15,783	7,958
Loans, net of deferred fees	61,698	12,890	26,647	104,290	143,964
Total interest rate-sensitive assets	$170,288	$ 15,227	$ 30,045	$120,073	$151,922
Total cumulative assets	$170,288	$185,515	$215,560	$335,633	$487,555

LIABILITIES					
Interest checking, money market and savings accounts	$ 8,556	$ 6,417	$ 12,834	$128,117	$ 42,779
Time deposits	30,786	22,819	39,816	62,533	31,957
Short-term borrowings	29,035	-	-	-	-
Long-term borrowings	-	-	-	-	-
Subordinated debt	2,000	1,500	-	-	-
Total interest rate-sensitive liabilities	$ 70,377	$ 30,736	$ 52,650	$190,650	$ 74,736
Total cumulative liabilities	$ 70,377	$101,113	$153,763	$344,413	$419,149
Gap during period	$ 99,911	$(15,509)	$(22,605)	$(70,577)	$ 77,186
Cumulative gap	$ 99,911	$ 84,402	$ 61,797	$ (8,780)	$ 68,406
Cumulative gap as a percentage of:					
Interest earning assets	17.62%	14.89%	10.90%	(1.55%)	12.07%
Total assets	16.67%	14.08%	10.31%	(1.46%)	11.41%

We use two different simulation models to measure and monitor interest rate risk. One model is a licensed software program that is run internally and incorporates all of management's assumptions including future growth. The other is a program developed by an outside consulting firm utilizing data we supply (the "consulting model"), and considers only the existing composition and characteristics of the balance sheet without giving effect to anticipated future growth and interest rate changes. Although management has and expects to continue to grow interest-sensitive assets and liabilities, its assumptions about future growth and interest rates are excluded from the consulting model. Management believes that this approach provides a more conservative measure of our interest rate risk because assumed growth at current market interest rates tends to lessen the effects of rate changes in simulation models in the short-term.

Actual results may differ from simulated results due to various factors including the time and magnitude of interest rate changes, changes in customer behavior, effects of competition, and other factors. These variables influence the interest-rate spread and product mix. The consulting model predicts a base net interest income amount that is larger than that actually earned in the past 12 months or last fiscal year. This is principally the result of an actual increase in earning assets over the past year, which created a larger starting point for the next 12-month projection. Past experience drives many of the assumptions used in the models. Actual results could vary substantially if our future performance differs from past experience.

The table below summarizes estimated changes in net interest income over a 12-month period beginning October 1, 2002, under alternate interest rate scenarios using the consulting model described above.

CHANGE IN INTEREST RATES	NET INTEREST INCOME	DOLLAR CHANGE	PERCENT CHANGE
	(DOLLARS IN THOUSANDS)		

+200 Basis Points	$18,858	$ (22)	-0.12%
+100 Basis Points	18,914	34	0.18%
Flat Rate	18,880	-	-
-100 Basis Points	18,657	(223)	-1.18%
-200 Basis Points	18,375	(505)	-2.67%

Simulation models require assumptions about certain categories of assets and liabilities. The models schedule existing assets and liabilities by their contractual maturity, estimated likely call date, or earliest repricing opportunity. Mortgage-backed securities and amortizing loans are scheduled based on their anticipated cash flow including estimated prepayments. For investment securities, we use a third party service to provide cash flow estimates in the various rate environments. Savings accounts, including passbook, statement savings, money market, and interest checking accounts, do not have a stated maturity or repricing term and can be withdrawn or repriced at any time. This may impact the margin if more expensive alternative sources of deposits are required to fund loans or deposit runoff. Management projects the repricing characteristics of these accounts based on historical performance and assumptions that it believes reflect their rate sensitivity. The consulting model reinvests all maturities, repayments and prepayments for each type of asset or liability into the same product for a new like term. As a result, the mix of interest-earning assets and interest bearing-liabilities is held constant.

LIQUIDITY

Liquidity represents an institution's ability to generate cash or otherwise obtain funds at reasonable rates to satisfy commitments to borrowers and demands of depositors. Our primary sources of funds are deposits, proceeds from principal and interest payments on loans and investments, sales of AFS securities and borrowings. While maturities and scheduled amortization of loans and investments are a predictable source of funds, deposit flows, loan prepayments and mortgage-backed securities prepayments are influenced by interest rates, economic conditions, and competition. Deposit growth within the banking industry has been generally slow due to strong competition from a variety of financial services companies. Competition for deposits may require banks to increase rates on deposits or expand their branch office networks to adequately grow deposits in the future.

For the nine months ended September 30, 2002, cash and cash equivalents increased $37,663,000. Operating and financing activities provided cash and cash equivalents of $4,121,000 and $141,824,000, respectively, while investing activities used $108,282,000. The cash provided by financing activities was primarily from a $76,065,000 increase in deposits and $30,000,000 in long-term borrowings. We also raised $15,000,000 from the issuance of trust securities and $12,345,000 from our preferred stock offering. Other significant sources of cash included principal repayments on loans and mortgage-backed securities, proceeds from the sales of investment securities and an increase in short-term borrowings. Together, this cash was used to finance investment purchases of $127,485,000 and loan growth of $44,032,000.

For the nine months ended September 30, 2001, investing activities used cash and cash equivalents of $55,672,000 while operating and financing activities provided $1,515,000 and $67,226,000, respectively. The cash provided by financing activities was primarily from increases of $35,033,000 and $31,952,000 in borrowings and deposits, respectively. Cash was also provided by sales of AFS securities and by payments/maturities of investment securities.

Together, this cash was primarily used for loan originations and purchases of mortgage-backed securities, municipal bonds and corporate bonds. During the nine months ended September 30, 2001, loans grew $51,289,000. Investments grew $4,304,000 during the nine months ended September 30, 2001, exclusive of the change in unrealized losses on securities available for sale.

We monitor our liquidity position on a daily basis. We use overnight federal funds and interest-bearing deposits in other banks to absorb daily excess liquidity. Conversely, overnight federal funds may be purchased to satisfy daily liquidity needs. Federal funds are sold or purchased through a correspondent bank, which diversifies the holdings to an approved group of commercial banks throughout the country. If the bank requires funds beyond its ability to generate them internally, additional sources of funds are available through use of a $6,000,000 unsecured federal funds line of credit with its correspondent bank, and its $84,675,000 borrowing limit at the FHLB. The bank could also sell or borrow against certain investment securities. At September 30, 2002, the bank had available borrowing capacity of $13,375,000 and $6,000,000 with the FHLB and a correspondent bank, respectively.

DERIVATIVE FINANCIAL INSTRUMENTS

We have limited involvement with derivative financial instruments and currently use them only in relation to Premier Bank's Index Powered SM Certificate of Deposit (IPCD) product. The IPCD, which was introduced in the first quarter 2001, contains an embedded derivative feature that provides a potential return to the depositor based on a formula that is dependent on the return of the Standard & Poor's 500(R) Index. This innovative 5-year term deposit product allows the customer to receive a return that is based on an equity market index in place of a stated interest rate but, like other traditional certificates of deposit, is insured in its principal amount by the FDIC to the extent provided by law.

We entered into derivative contracts with the FHLB in order to offset the risks associated with the variable cost of the IPCD. Under the terms of these derivative contracts, Premier Bank will receive an amount equal to the amount to be paid to the IPCD depositor, in exchange for a periodic payment stream expressed as a rate of interest.

The derivative contracts with the FHLB and the derivatives embedded in the IPCD are accounted for in accordance with Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities", as amended. Accordingly, PBI carries these derivatives at fair value in the Consolidated Balance Sheets and recognizes any changes in fair value in current period earnings.

The notional amount of derivative contracts was $16,518,000 and $10,905,000 at September 30, 2002 and December 31, 2001, respectively. The fair value of derivatives is included in "Other liabilities" and approximated $2,744,000 and $2,055,000 at September 30, 2002 and December 31, 2001, respectively. During the three and nine months ended September 30, 2002 approximately $84,000 and $179,000, respectively, was recorded in other expense for net changes in the fair value of derivatives compared to $61,000 and $83,000 in expense for the three and nine months ended September 30, 2001, respectively. The fair value adjustments are due to changes in prevailing interest rates and the resulting valuations of future payments due the FHLB.

RECENT ACCOUNTING PRONOUNCEMENTS

Goodwill and Other Intangible Assets

In June 2001, the FASB issued Statement No. 142, "Goodwill and Other Intangible Assets." The Statement addresses financial accounting and reporting for acquired goodwill and other intangible assets and supersedes APB Opinion No. 17, "Intangible Assets." It addresses how intangible assets that are acquired individually or with a group of other assets (but not those acquired in a business combination) should be accounted for in financial statements upon their acquisition. The Statement also addresses how goodwill and other intangible assets should be accounted for after they have been initially recognized in the financial statements.

The provisions of the Statement are required to be applied starting with fiscal years beginning after December 15, 2001, except that goodwill and intangible assets acquired after June 30, 2001, will be subject immediately to the nonamortization and amortization provisions of the Statement. Early application is permitted for entities with fiscal years beginning after March 15, 2001, provided that the first interim financial statements have not previously been issued. The Statement is required to be applied at the beginning of an entity's fiscal year and to be applied to all goodwill and other intangible assets recognized in its financial statements at that date. There was no impact on earnings, financial condition, or equity upon adoption of Statement No. 142 on January 1, 2002.

Asset Retirement Obligations

In June 2001, the FASB issued Statement No. 143, "Accounting for Asset Retirement Obligations." This Statement addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. It applies to legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development and (or) the normal operation of a long-lived asset, except for certain obligations of lessees. As used in this Statement, a legal obligation is an obligation that a party is required to settle as a result of an existing or enacted law, statute, ordinance, or written or oral contract or by legal construction of a contract under the doctrine of promissory estoppel. This Statement requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset.

This Statement amends FASB Statement No. 19, "Financial Accounting and Reporting by Oil and Gas Producing Companies," and it applies to all entities. It is effective for financial statements issued for fiscal years beginning after June 15, 2002. Earlier application is encouraged. There is no expected impact on earnings, financial condition, or equity upon adoption of Statement No. 143.

Impairment or Disposal of Long-Lived Assets

In August 2001, the FASB issued Statement No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." This Statement addresses financial accounting and reporting for the impairment or disposal of long-lived assets and supersedes Statement No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." However, the Statement retains the fundamental provisions of Statement No. 121 for (a) recognition and measurement of the impairment of long-lived assets to be held and used and (b) measurement of long-lived assets to be disposed of by sale.

This Statement supersedes the accounting and reporting provisions of APB Opinion No. 30, "Reporting the Results of Operations-Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions," for the disposal of a segment of a business. However, this Statement retains the requirement of Opinion No. 30 to report discontinued operations separately from continuing operations and extends that reporting to a component of an entity that either has been disposed of (by sale, by abandonment, or in distribution to owners) or is classified as held for sale. This Statement also amends ARB No. 51, "Consolidated Financial Statements," to eliminate the exception to consolidation for a temporarily controlled subsidiary.

The provisions of this Statement are effective for financial statements issued for fiscal years beginning after December 15, 2001 and interim periods within those fiscal years, with earlier application encouraged. The provisions of this Statement generally are to be applied prospectively. There was no impact on earnings, financial condition, or equity upon adoption of Statement No. 144 on January 1, 2002.

Rescission of FASB Statements No. 4, 44, and 64

In April 2002, the FASB issued SFAS No. 145 "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections." This Statement rescinds FASB Statement No. 4, "Reporting Gains and Losses from Extinguishment of Debt," and an amendment of that Statement, FASB Statement No. 64, "Extinguishments of Debt Made to Satisfy Sinking-Fund Requirements," along with rescinding FASB Statement No. 44, "Accounting for Intangible Assets of Motor Carriers" and amending FASB Statement No. 13, "Accounting for Leases." This Statement (1) eliminates an inconsistency between the required accounting for sale-leaseback transactions and the required accounting for certain lease modifications that have economic effects that are similar to sale-leaseback transactions, (2) eliminates the extraordinary item treatment of reporting gains and losses from extinguishment of debt, and (3) makes certain other technical corrections.

The provisions of this Statement related to the rescission of Statement 4 shall be applied in fiscal years beginning after May 15, 2002. The provisions of this Statement related to Statement 13 shall be effective for transactions occurring after May 15, 2002. All other provisions of this Statement shall be effective for financial statements issued on or after May 15, 2002. Early application of this Statement is encouraged. There is no expected impact on earnings, financial condition, or equity upon adoption of Statement No. 145.

Accounting for Costs Associated with Exit or Disposal Activities

In June 2002, the FASB issued SFAS No. 146 "Accounting for Costs Associated with Exit or Disposal Activities." This Statement addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force (EITF) Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)."

The provisions of this Statement are effective for exit or disposal activities that are initiated after December 31, 2002, with early application encouraged. There is no expected impact on earnings, financial condition, or equity upon adoption of Statement No. 146.

Acquisitions of Certain Financial Institutions

In October 2002, the FASB issued Statement No. 147, "Acquisitions of Certain Financial Institutions," which amends SFAS No. 72, "Accounting for Certain Acquisitions of Banking or Thrift Institutions," SFAS No.144, "Accounting for the Impairment or Disposal of Long-Lived Assets," and FASB Interpretation No. 9. Except for transactions between two or more mutual enterprises, this Statement removes acquisitions of financial institutions from the scope of both Statement No. 72 and Interpretation 9 and requires that those transactions be accounted for in accordance with FASB Statements No. 141, "Business Combinations," and No. 142, "Goodwill and Other Intangible Assets." Thus, the requirement in paragraph 5 of Statement No. 72 to recognize any excess of the fair value of liabilities assumed over the fair value of tangible and identifiable intangible assets acquired as an unidentifiable intangible asset no longer applies to acquisitions within the scope of this Statement. In addition, this Statement amends Statement No. 144 to include in its scope long-term customer-relationship intangible assets of financial institutions such as depositor- and borrower-relationship intangible assets and credit cardholder intangible assets. Consequently, those intangible assets are subject to the same undiscounted cash flow recoverability test and impairment loss recognition and measurement provisions that Statement No. 144 requires for other long-lived assets that are held and used.

With some exceptions, the requirements of Statement No. 147 are effective October 1, 2002. The adoption of this Statement did not have an impact on our earnings, financial condition, or equity.

ITEM 3 - QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information required herein is set forth in Item 2, above.

ITEM 4 - CONTROLS AND PROCEDURES

As required by Rule 13a-15 under the Exchange Act, within the 90 days prior to the filing date of this report, PBI carried out an evaluation of the effectiveness of the design and operation of its disclosure controls and procedures. This evaluation was carried out under the supervision and with the participation of PBI's management, including PBI's Chairman, Chief Executive Officer and President and PBI's Chief Financial Officer. Based upon that evaluation, PBI's Chairman, Chief Executive Officer and President and PBI's Senior Vice President and Chief Financial Officer concluded that PBI's disclosure controls and procedures are effective. There have been no significant changes in PBI's internal controls or in other factors, which could significantly affect internal controls subsequent to the date PBI carried out its evaluation.

Disclosure controls and procedures are designed to ensure that information required to be disclosed in PBI reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in PBI reports filed under the Exchange Act is accumulated and communicated to management, including PBI's Chairman, Chief Executive Officer and President and PBI's Senior Vice President and Chief Financial Officer as appropriate, to allow timely decisions regarding required disclosure.

PART II - OTHER INFORMATION

ITEM 1 - LEGAL PROCEEDINGS

At September 30, 2002, there were no known material legal proceedings pending against PBI, its subsidiaries or its property. In addition, no material proceedings are known to be contemplated by government authorities against PBI, its subsidiaries or its property.

ITEM 2 - CHANGES IN SECURITIES AND USE OF PROCEEDS

None.

ITEM 3 - DEFAULTS UPON SENIOR SECURITIES

None.

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

None.

ITEM 5 - OTHER INFORMATION

None.

ITEM 6 - EXHIBITS AND REPORTS ON FORM 8-K

(a) The following exhibits are incorporated by reference herein or attached to this Form 10-Q:

3(i)	Articles of Incorporation. (Incorporated by reference to Exhibit 4.1 to PBI's Registration Statement No. 333-87420 on Form S-2 filed with the SEC on May 2, 2002.)
3(ii)	By-Laws. (Incorporated by reference to Exhibit 3(ii) to PBI's Quarterly Report on Form 10-QSB filed with the SEC on November 14, 2000 and amended on December 19, 2000.)
10.1	Premier Bank's 1995 Incentive Stock Option Plan. (Incorporated by reference to Exhibit 99.6 to the Company's Registration Statement No. 333-34243 on Form S-4 filed with the SEC on August 22,1997 and amended on September 9, 1997.)
10.2	Change of Control Agreement between Premier Bancorp, Inc., Premier Bank and John C. Soffronoff. (Incorporated by reference to Exhibit 10.2 to our Quarterly Report on Form 10-QSB filed with the SEC on November 13, 1998.)
10.3	Change of Control Agreement between Premier Bancorp, Inc., Premier Bank and John J. Ginley. (Incorporated by reference to Exhibit 10.3 to our Quarterly Report on Form 10-QSB filed with the SEC on November 13, 1998.)
10.4	Change of Control Agreement between Premier Bancorp, Inc., Premier Bank and Bruce E. Sickel. (Incorporated by reference to Exhibit 10.4 to our Quarterly Report on Form 10-QSB filed with the SEC on November 13, 1998.)
11	Statement re: computation of per share earnings.
99.1	Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the

Sarbanes-Oxley Act of 2002, filed herewith.

99.2 Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, filed herewith.

(b) Reports on Form 8-K

SIGNATURES

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

	Premier Bancorp, Inc.
	Registrant
DATE	SIGNATURE
November 8, 2002	/s/ John C. Soffronoff John C. Soffronoff President, Chief Executive Officer (Principal Executive Officer)
November 8, 2002	/s/ Bruce E. Sickel Bruce E. Sickel Chief Financial Officer (Principal Financial Officer)

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER PURSUANT TO 18 U.S.C. SECTION 1350 AS ADDED BY SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, John C. Soffronoff, President and Chief Executive Officer, certify, that:

1. I have reviewed this quarterly report on Form 10-Q of Premier Bancorp, Inc.;

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

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all

material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

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

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

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

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

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

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

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

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

Date: November 8, 2002 By: /s/ John C. Soffronoff

John C. Soffronoff
President and Chief Executive Officer
(Principal Executive Officer)

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350
AS ADDED BY
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Bruce E. Sickel, Chief Financial Officer, certify, that:

1. I have reviewed this quarterly report on Form 10-Q of Premier Bancorp, Inc.;

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

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

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

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

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

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

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

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

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

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

Date: November 8, 2002 By: /s/ Bruce E. Sickel

Bruce E. Sickel
Chief Financial Officer

(Principal Financial Officer)

INDEX OF EXHIBITS

P

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* Incorporated by reference.