PREMIER BANCORP INC /PA/
Form 10-K
March 24, 2003

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

[X] ANNUAL REPORT UNDER SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2002

OR

[ ] TRANSITION REPORT UNDER 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.
(Name of Registrant as Specified in Its Charter)

PENNSYLVANIA (State or Other Jurisdiction of incorporation or organization)	23-2921058 (I.R.S. Employer Identification No.)
379 NORTH MAIN STREET, DOYLESTOWN, PENNSYLVANIA (Address of Principal Executive Offices)	18901 (Zip Code)

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE: (215) 345-5100

SECURITIES REGISTERED UNDER SECTION 12(b) OF THE EXCHANGE ACT:

TITLE OF EACH CLASS	NAME OF EACH EXCHANGE ON WHICH REGISTERED

Common Stock, $0.33 par value	American Stock Exchange
Series A Preferred Stock, no par value	American Stock Exchange

SECURITIES REGISTERED UNDER SECTION 12(g) OF THE EXCHANGE ACT:
NONE

(Title of Class)

Check whether the registrant: (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 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 [ ]

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-K contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K   No [ ]

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). Yes [ ]   No [X]

As of March 21, 2003, 3,417,515 shares of common stock of the registrant were outstanding. The aggregate market value of the voting and non-voting common stock of the registrant, held by non-affiliates was approximately $24,294,000 at June 28, 2002.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's proxy statement for the registrant's 2003 annual meeting of shareholders which is part of the proxy statement/prospectus on Form S-4 filed by Fulton Financial Corporation are incorporated by reference into Part III of this report.

PREMIER BANCORP, INC.

FORM 10-K

INDEX

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PART I

ITEM 1 -- BUSINESS

PREMIER BANCORP, INC.

Premier Bancorp, Inc. (PBI) is a registered financial holding company. We were incorporated in the Commonwealth of Pennsylvania in July 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 principal subsidiary, Premier Bank, which we manage as a single business segment and which is a state chartered Federal Reserve member commercial bank whose deposits are insured by the Federal Deposit Insurance Corporation's Bank Insurance Fund to the fullest extent provided by law. Premier Bank was organized in 1990 and began operations on April 24, 1992.

Our consolidated financial condition and results of operations consist almost entirely of those of Premier Bank. At December 31, 2002, we had total consolidated assets of $609,972,000, total deposits of $456,486,000 and total shareholders' equity of $38,436,000.

Other wholly owned subsidiaries include PBI Capital Trust, Premier Capital Trust II, Lenders Abstract, LLC and Premier Bank Insurance Services, LLC. PBI Capital Trust and Premier Capital Trust II are Delaware statutory business trusts established for the sole purpose of issuing $10,000,000 and $15,000,000, respectively, in trust preferred securities. PBI Capital Trust and Premier Capital Trust II were established in 1998 and 2002, respectively. Lenders Abstract, LLC is a Pennsylvania limited liability company organized in December 2000 to sell title insurance policies. Premier Bank Insurance Services, LLC is a Pennsylvania limited liability company organized in March 2002 principally to sell long-term health care insurance policies.

As of December 31, 2002, PBI did not own or lease any property and had no employees.

On January 16, 2003, PBI announced that it had entered into a definitive agreement to be acquired by Fulton Financial Corporation based in Lancaster, Pennsylvania. Under the terms of the agreement, Fulton Financial will acquire all of PBI's issued and outstanding shares of common stock. Each share of PBI common stock outstanding will be exchanged for 1.34 shares of Fulton Financial common stock, subject to adjustment. All outstanding shares of PBI preferred stock are expected to be redeemed as of or before the closing date of the transaction. This acquisition, which is subject to the approval of bank regulators and PBI shareholders, is expected to close by the third quarter of 2003.

PREMIER BANK

Premier Bank is a Pennsylvania chartered financial services provider whose business primarily consists of originating loans to small to mid-sized businesses and attracting retail deposits from the general public. 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. The bank's revenues are primarily derived from net interest income. Over our eleven-year history, we have grown significantly through internal growth.

Our deposit products include checking, savings, and money market accounts, as well as certificates of deposit. We offer numerous credit products, but specialize in lending to small to mid-sized businesses and professionals. We offer a full array of lending products including loans secured by real estate and other assets, working capital lines and other commercial loans. We make a wide range of consumer loan products available such as residential mortgage loans, home equity loans and lines of credit, personal lines of credit and other consumer loans. We sell our residential mortgage loans immediately in the secondary market. We also offer other services such as internet banking, telephone banking, cash management services, automated teller services and safe deposit boxes. Further, through our subsidiary, Lenders Abstract, LLC, we sell title insurance. We also offer long-term health care insurance products through our subsidiary, Premier Bank Insurance Services, LLC.

Premier Bank conducts business from seven full-service Pennsylvania banking offices in Doylestown, Easton, Southampton, Floral Vale, Bethlehem, Montgomeryville, and Bensalem. In addition, the bank operates a limited service branch in the Heritage Towers Retirement Community in Doylestown. We plan to open our eighth full-service Pennsylvania banking office in Abington, Montgomery County during the second quarter of 2003.

At December 31, 2002, Premier Bank had 78 full-time and 36 part-time employees.

MARKET AREA

Our primary market area is Doylestown, Pennsylvania and the surrounding Bucks County and Greater Lehigh and Delaware Valley communities. These markets are, in our opinion, among the best in Pennsylvania. The bank has four Bucks County based offices and one office in Montgomery County. We also service parts of the Lehigh Valley from our Bethlehem and Easton, Northampton County, Pennsylvania offices. Though the vast majority of our deposit and lending business comes from these specific areas, we will from time to time do business in a wider geographic region including all of Eastern Pennsylvania and portions of New Jersey, including the New Jersey coastline.

LENDING ACTIVITIES

Premier Bank offers a variety of loan products to its customers, including loans secured by real estate, commercial and consumer loans. Our lending objectives are as follows:

- to establish a diversified commercial loan portfolio;

- to properly price loans to include the cost of funds, administrative costs, bad debts, local economic conditions, competition, customer relationships, the term of the loan, credit risk, collateral quality and a reasonable profit margin.

We manage credit risk through portfolio diversification, underwriting policies and procedures, and loan monitoring practices. Premier Bank generally secures its loans with real estate, with such collateral values dependent and subject to change based on real estate market conditions within the bank's market area. Premier Bank also has a significant number of borrowers engaged in medical, dental, legal and real estate professions, as well as restaurant and hotel businesses.

Gross loans totaled $361,495,000 at December 31, 2002 compared to $316,066,000 at December 31, 2001. The $45,429,000 or 14% increase is primarily due to the continued success of our lending staff in servicing the small to mid-sized business community. Gross loans represented approximately 59% and 70% of total assets at year-end 2002 and 2001, respectively. At December 31, 2002, $315,921,000 or 87% of loans were secured by real estate compared to $269,736,000 or 85% at December 31, 2001.

Loans secured by commercial properties include owner occupied commercial properties and investment income producing properties. Commercial mortgages totaled $253,357,000 and $208,412,000 at December 31, 2002 and 2001, respectively.

Loans secured by residential properties include both first and second mortgages on single family homes. Many of these loans were made to small business owners and professionals. Loans secured by residential property totaled $32,446,000 and $30,188,000 at December 31, 2002 and 2001, respectively.

Loans secured by apartments and other multi-family residential properties totaled $19,350,000 at December 31, 2002 and $15,011,000 at December 31, 2001.

Construction loans are secured by real estate primarily for the building of residential properties. Construction loans totaled $10,574,000 and $15,911,000 at December 31, 2002 and 2001, respectively.

Other loans not secured by real estate include commercial and consumer loans. Commercial loans are generally made to finance the acquisition of machinery and equipment and to provide working capital for local commercial, retail and professional companies. These loans are usually secured by business assets,

excluding real property, and guaranteed by the owners. Commercial loans totaled $44,387,000 and $45,238,000 at December 31, 2002 and 2001, respectively.

Consumer loans consist generally of automobile loans and personal loans. At December 31, 2002 and 2001, these loans totaled $1,187,000 and $1,092,000, respectively.

INVESTMENT ACTIVITIES

At December 31, 2002 and 2001, PBI's investment portfolio totaled $203,141,000 and $98,351,000, respectively. Investments consisted primarily of mortgage-backed securities, corporate bonds and municipal securities. At December 31, 2002, our corporate bond portfolio included intermediate term debt issued by investment grade companies, single issuer trust preferred capital securities issued by other banking companies and pooled debt securities secured by the trust preferred capital securities of various banking companies. At December 31, 2001, our corporate bond portfolio consisted primarily of single issuer trust preferred capital securities issued by other banking companies. Equity securities included stock in the Federal Home Loan Bank of Pittsburgh, the Federal Reserve Bank of Philadelphia and the Atlantic Central Bankers Bank, Premier Bank's principal correspondent bank. Investment securities available for sale are recorded at market value with the unrealized holding gain or loss, net of tax, included in shareholders' equity. Investment securities held to maturity are recorded at amortized cost.

The carrying value of the held to maturity portfolio was $500,000 at both December 31, 2002 and 2001, respectively. At December 31, 2002 and 2001, the carrying value of the available for sale portfolio was $202,641,000 and $97,851,000, respectively.

During 2002, we utilized excess liquidity to grow and restructure our investment portfolio. Our investment portfolio, exclusive of the SFAS 115 valuation allowance, grew $100,206,000 or 97% in 2002. Mortgage-backed securities and corporate bonds, exclusive of the SFAS 115 valuation allowance, grew $67,241,000 and $35,601,000, respectively, during 2002. The net unrealized gain on available for sale securities was $36,000 at December 31, 2002 compared to a net unrealized loss of $4,548,000 at December 31, 2001. The appreciation of the fair value of our AFS investments is due to lower interest rates and the restructuring of our portfolio.

Gross unrealized losses at December 31, 2002 and 2001 were concentrated in single issuer trust preferred securities. Unrealized losses on these securities were $1,802,000 and $3,848,000 at December 31, 2002 and 2001, respectively. In addition to changes in interest rates, valuations of single issuer trust preferred securities have been influenced by perceived credit risk in response to certain world events. Management believes that the credit quality of these securities is sound and that the unrealized loss is temporary.

Management views the investment portfolio as a source of earnings and liquidity. Decisions on maturity and type of investment are dictated by investment and balance sheet management policies as approved annually by the Board of Directors. The Chief Financial Officer makes the decision regarding the specific selection of investments for the portfolio. The Asset Liability Committee sets investment guidelines and strategy based on PBI's financial goals and interest rate sensitivity.

SOURCES OF FUNDS

Premier Bank primarily uses deposits and borrowings to finance lending and investment activities. Borrowing sources include advances from the Federal Home Loan Bank of Pittsburgh, reverse repurchase agreements with investment banks and overnight borrowings from Premier Bank's depositors and correspondent bank. All borrowings, except for the line of credit with Premier Bank's correspondent bank, require collateral in the form of loans or securities. Borrowings are, therefore, limited by collateral levels and the available lines of credit extended by the bank's creditors. As a result, deposits remain key to the future funding and growth of the business. Competition for deposits may require banks to increase deposit prices or expand their branch office networks (increasing costs) to adequately grow deposits in the future.

COMPETITION

Premier Bank actively competes with other financial services companies for deposit and loan business. Competitors include other commercial banks, savings banks, savings and loan associations, insurance companies, securities brokerage firms, credit unions, finance companies, mutual funds, and money market funds. Financial institutions compete primarily on the quality of services rendered, interest rates on loans and deposits, service charges, the convenience of banking facilities, location and hours of operation and, in the case of loans to larger commercial borrowers, relative lending limits.

Many competitors are significantly larger than Premier Bank and have significantly greater financial resources, personnel and locations from which to conduct business. In addition, the bank is subject to banking regulations while certain competitors may not be. Consequently, competition exists from both regulated and non-regulated entities. For more information, see the "Supervision and Regulation" section below.

The growth of mutual funds over the past decade has made it increasingly difficult for financial institutions to attract deposits. Much of the cash flow into mutual funds is from tax deferred investment vehicles such as 401(k) plans. In addition, insurance companies recently have become more significant competitors for deposits through their thrift subsidiaries.

SUPERVISION AND REGULATION

GENERAL

Bank holding companies and banks are extensively regulated under both federal and state laws. The regulation and supervision of PBI and Premier Bank are designed primarily for the protection of depositors, the FDIC and the monetary system, and not PBI or its shareholders. Enforcement actions may include the imposition of a conservator or receiver, cease-and-desist orders and written agreements, the termination of insurance on deposits, the imposition of civil money penalties and removal and prohibition orders. If any enforcement action is taken by a banking regulator, the value of an equity investment in PBI could be substantially reduced or eliminated.

HOLDING COMPANY REGULATION

As a registered financial holding company under the Bank Holding Company Act of 1956 and a Pennsylvania business corporation, PBI is regulated by the Federal Reserve Board and the provisions of Section 115 of the Pennsylvania Banking Code of 1965.

The Bank Holding Company Act requires PBI to file an annual report with the Federal Reserve Board regarding the financial holding company and its subsidiary bank. The Federal Reserve Board also makes examinations of the financial holding company and its subsidiary bank. The Federal Reserve Board possesses cease-and-desist powers over bank holding companies and their subsidiaries where their actions would constitute an unsafe or unsound practice or violation of law.

The Bank Holding Company Act restricts a bank holding company's ability to acquire control of additional banks. In addition, the Act restricts the activities in which bank holding companies may engage directly or through non-bank subsidiaries.

The Gramm-Leach-Bliley Financial Services Modernization Act of 1999 amended the Bank Holding Company Act of 1956 to create a new category of holding company -- the "financial holding company." To be designated as a financial holding company, a bank holding company must file an application with the

Federal Reserve Board. The holding company must be well capitalized and well managed, as determined by Federal Reserve Board regulations. When a bank holding company becomes a financial holding company, the holding company or its affiliates may engage in any financial activities that are "financial in nature or incidental to such activities." Furthermore, the Federal Reserve may approve a proposed activity if it is "complementary" to financial activities and does not threaten the safety and

soundness of banking. The Act provides an initial list of activities that constitute activities that are financial in nature, including:

- lending and deposit activities;
- insurance activities, including underwriting, agency and brokerage;
- providing financial investment advisory services;
- underwriting in, and acting as a broker or dealer in, securities;
- merchant banking;
- insurance company portfolio investment;
- support services;
- making equity and debt investments in corporations or projects designed primarily to promote community welfare, and providing advisory services to these programs;
- subject to certain limitations, providing others financially oriented data processing or bookkeeping services;
- issuing and selling money orders, travelers' checks and United States savings bonds;
- providing consumer financial counseling that involves counseling, educational courses and distribution of instructional materials to individuals on consumer-oriented financial management matters, including debt consolidation, mortgage applications, bankruptcy, budget management, real estate tax shelters, tax planning, retirement and estate planning, insurance and general investment management, so long as this activity does not include the sale of specific products or investments; and
- providing tax planning and preparation advice.

In addition to permitting financial services providers to enter into new lines of business, the law allows companies the freedom to streamline existing operations and to potentially reduce costs. The Act may increase both opportunity as well as competition. Many community banks are less able to devote the capital and management resources needed to facilitate broad expansion of financial services including insurance and brokerage services.

In the fourth quarter of 2000, PBI became a registered financial holding company. Under this designation, PBI operates a title insurance agency through its subsidiary, Lenders Abstract, LLC and an insurance agency specializing in long-term health care insurance through its subsidiary, Premier Bank Insurance Services, LLC. PBI's ability to retain its ownership of these subsidiaries and its authority to expand into other activities permissible for financial holding companies but not permissible for bank holding companies that are not financial holding companies, is contingent on maintaining PBI as a well capitalized and well managed company in the view of the applicable regulatory authorities.

SARBANES-OXLEY ACT OF 2002

On July 30, 2002, President Bush signed into law the Sarbanes-Oxley Act of 2002. The stated goals of the Act are to increase corporate responsibility, to provide for enhanced penalties for accounting and auditing improprieties at publicly traded companies and to protect investors by improving the accuracy and reliability of corporate disclosures pursuant to the securities laws.

The Act is the most far-reaching U.S. securities legislation enacted in decades. The Act generally applies to all companies, both U.S. and non-U.S., that file or are required to file periodic reports with the Securities and Exchange Commission under the Securities Exchange Act of 1934. Due to the SEC's extensive role in implementing rules relating to many of the Act's new requirements, the final scope of these requirements remains to be determined.

The Act includes very specific additional disclosure requirements and new corporate governance rules, requires the SEC and securities exchanges to adopt extensive additional disclosure, corporate governance and other related rules and mandates further studies of certain issues by the SEC. The Act represents significant federal involvement in matters traditionally left to state regulatory systems, such as the regulation of the accounting profession, and to state corporate law, such as the relationship between a board of directors and management and between a board of directors and its committees.

The Act addresses, among other matters:

- audit committees for all reporting companies;

- certification of financial statements by the chief executive officer and the chief financial officer;

- the forfeiture of bonuses or other incentive-based compensation and profits from the sale of an issuer's securities by directors and senior officers in the twelve month period following initial publication of any financial statements that later require restatement;

- a prohibition on insider trading during pension plan black out periods;

- disclosure of off-balance sheet transactions;

- a prohibition on personal loans to directors and officers; expedited filing requirements for Forms 4's;

- disclosure of a code of ethics and filing a Form 8-K for a change or waiver of such code;

- "real time" filing of periodic reports;

- the formation of a public accounting oversight board;

- auditor independence; and

- various increased criminal penalties for violations of securities laws.

The Act contains provisions that were effective upon enactment on July 30, 2002 and provisions that will be phased in for up to one year after enactment.

The SEC was delegated the task of enacting rules to implement various provisions with respect to, among other matters, disclosure in periodic filings pursuant to the Exchange Act.

BANK REGULATION

Premier Bank is subject to supervision, regulation and examination by the Pennsylvania Department of Banking, the FDIC and the Federal Reserve Board. In addition, the bank is subject to a variety of local, state and federal laws.

Banking regulations include, but are not limited to, permissible types and amounts of loans, investments and other activities, capital adequacy, branching, interest rates on loans and the safety and soundness of banking practices.

CAPITAL REQUIREMENTS

Under risk-based capital requirements for bank holding companies, PBI is required to maintain a minimum ratio of total capital to risk-weighted assets (including certain off-balance-sheet activities, such as standby letters of credit) of eight percent. At least half of the total capital ("tier 1 capital" together with "tier 2 capital") is to be composed of common equity, retained earnings and qualifying perpetual preferred stock, less goodwill. The remainder may consist of subordinated debt, non-qualifying preferred stock and a limited amount of the loan loss allowance ("tier 2 capital").

In addition, the Federal Reserve Board has established minimum leverage ratio requirements for bank holding companies. These requirements provide for a minimum leverage ratio of tier 1 capital to adjusted average quarterly assets ("leverage ratio") equal to three percent for bank holding companies that meet certain specified criteria, including having the highest regulatory rating. All other bank holding companies

will generally be required to maintain a leverage ratio of at least four to five percent. The requirements also provide that bank holding companies experiencing internal growth or making acquisitions will be expected to maintain strong capital positions substantially above the minimum supervisory levels without significant reliance on intangible assets. Furthermore, the requirements indicate that the Federal Reserve Board will continue to consider a "tangible tier 1 leverage ratio" (deducting all intangibles) in evaluating proposals for expansion or new activity. The Federal Reserve Board has not advised PBI of any specific minimum tier 1 leverage ratio applicable to it.

Premier Bank is subject to similar capital requirements adopted by the Federal Reserve Board for state member banks. The Federal Reserve Board has not advised the bank of any specific minimum leverage ratios applicable to it.

The capital ratios of PBI and Premier Bank are described below in the "Management's Discussion and Analysis" section.

Banking regulators continue to indicate their desire to further develop capital requirements applicable to banking organizations. Changes to capital requirements could materially affect the profitability of PBI or the market value of PBI stock.

PROMPT CORRECTIVE ACTION

In addition to the required minimum capital levels described above, federal law establishes a system of "prompt corrective actions" which Federal banking agencies are required to take, and certain actions which they have discretion to take, based upon the capital category into which a federally regulated depository institution falls. Regulations set forth detailed procedures and criteria for implementing prompt corrective action in the case of any institution which is not adequately capitalized. Under the rules, an institution will be deemed to be "adequately capitalized" or better if it exceeds the minimum Federal regulatory capital requirements. However, it will be deemed "undercapitalized" if it fails to meet the minimum capital requirements, "significantly undercapitalized" if it has a total risk-based capital ratio that is less than 6.0 percent, a Tier 1 risk-based capital ratio that is less than 3.0 percent, or a leverage ratio that is less than 3.0 percent, and "critically undercapitalized" if the institution has a ratio of tangible equity to total assets that is equal to or less than 2.0 percent.

The prompt corrective action rules require an undercapitalized institution to file a written capital restoration plan, along with a performance guaranty by its holding company or a third party. In addition, an undercapitalized institution becomes subject to certain automatic restrictions including a prohibition on payment of dividends, a limitation on asset growth and expansion, in certain cases, a limitation on the payment of bonuses or raises to senior executive officers, and a prohibition on the payment of certain "management fees" to any "controlling person". Institutions that are classified as undercapitalized are also subject to certain additional supervisory actions, including increased reporting burdens and regulatory monitoring, a limitation on the institution's ability to make acquisitions, open new branch offices, or engage in new lines of business, obligations to raise additional capital, restrictions on transactions with affiliates, and restrictions on interest rates paid by the institution on deposits. In certain cases, bank regulatory agencies may require replacement of senior executive officers or directors, or sale of the institution to a willing purchaser. If an institution is deemed to be "critically undercapitalized" and continues in that category for four quarters, the statute requires, with certain narrowly limited exceptions, that the institution be placed in receivership.

DEPOSIT INSURANCE

Deposits of the bank are insured by the FDIC through the Bank Insurance Fund ("BIF"). Deposits of certain savings associations are insured by the FDIC through the Savings Association Insurance Fund ("SAIF"). The insurance assessments paid by an institution are based on the probability that the fund will incur a loss with respect to the institution. The FDIC has adopted deposit insurance regulations under which insured institutions are assigned to one of the following three capital groups based on their capital levels: "well-capitalized," "adequately capitalized" and "undercapitalized." Banks in each of these three

groups are further classified into three subgroups based upon the level of supervisory concern with respect to each bank. The resulting matrix creates nine assessment risk classifications to which are assigned deposit insurance premiums ranging from 0.00% for the best capitalized, healthiest institutions, to 0.27% for undercapitalized institutions with substantial supervisory concerns.

The FDIC sets deposit insurance assessment rates on a semiannual basis and will increase deposit insurance assessments whenever the ratio of reserves to insured deposits in a fund is less than 1.25. Under the current assessment matrix Premier Bank does not pay any assessments for deposit insurance.

Premier Bank is also subject to quarterly assessments relating to interest payments on Financing Corporation (FICO) bonds issued in connection with the resolution of the thrift industry crisis. The FICO assessment rate is adjusted quarterly to reflect changes in the assessment bases of the BIF and SAIF. The

FICO assessments on BIF-insured deposits are set at an annual rate of 1.72% of assessable deposits.

ENVIRONMENTAL LAWS

Management does not anticipate that compliance with environmental laws and regulations will have any material effect on PBI's capital, expenditures, earnings, or competitive position. However, environmentally related hazards have become a source of high risk and potentially unlimited liability for financial institutions.

In 1995, the Pennsylvania General Assembly enacted the Economic Development Agency, Fiduciary and Lender Environmental Liability Protection Act which, among other things, provides protection to lenders from environmental liability and remediation costs under the environmental laws for releases and contamination caused by others. A lender who engages in activities involved in the routine practices of commercial lending, including, but not limited to, the providing of financial services, holding of security interests, workout practices, foreclosure or the recovery of funds from the sale of property shall not be liable under the environmental acts or common law equivalents to the Pennsylvania Department of Environmental Resources or to any other person by virtue of the fact that the lender engages in such commercial lending practice. A lender, however, will be liable if it, its employees or agents, directly cause an immediate release or directly exacerbate a release of regulated substance on or from the property, or known and willfully compelled the borrower to commit an action which caused such release or violate an environmental act. The Economic Development Agency, Fiduciary and Lender Environmental Liability Protection Act, however, does not limit federal liability which still exists under certain circumstances.

FEDERAL RESERVE BOARD RESERVE REQUIREMENTS

Regulation D of the Federal Reserve Board requires all depository institutions to maintain reserves on transaction accounts. These reserves may be in the form of cash or non-interest-bearing deposits with the Federal Reserve Bank of Philadelphia. Under Regulation D, Premier Bank's reserve requirement was $14,183,000 and $3,002,000 at December 31, 2002 and 2001, respectively.

REGULATION W

Transactions between a bank and its "affiliates" are quantitatively and qualitatively restricted under the Federal Reserve Act. The Federal Deposit Insurance Act applies Sections 23A and 23B to insured nonmember banks in the same manner and to the same extent as if they were members of the Federal Reserve System. The Federal Reserve Board has also recently issued Regulation W, which codifies prior regulations under Sections 23A and 23B of the Federal Reserve Act and interpretative guidance with respect to affiliate transactions. Regulation W incorporates the exemption from the affiliate transaction rules but expands the exemption to cover the purchase of any type of loan or extension of credit from an affiliate. Affiliates of a bank include, among other entities, the bank's holding company and companies that are under common control with the bank. PBI is considered to be an affiliate of Premier Bank. In general,

subject to certain specified exemptions, a bank or its subsidiaries are limited in their ability to engage in "covered transactions" with affiliates:

- to an amount equal to 10% of the bank's capital and surplus, in the case of covered transactions with any one affiliate; and

- to an amount equal to 20% of the bank's capital and surplus, in the case of covered transactions with all affiliates.

In addition, a bank and its subsidiaries may engage in covered transactions and other specified transactions only on terms and under circumstances that are substantially the same, or at least as favorable to the bank or its subsidiary, as those prevailing at the time for comparable transactions with nonaffiliated companies. A "covered transaction" includes:

- a loan or extension of credit to an affiliate;

- a purchase of, or an investment in, securities issued by an affiliate;

- a purchase of assets from an affiliate, with some exceptions;

- the acceptance of securities issued by an affiliate as collateral for a loan or extension of credit to any party; and

- the issuance of a guarantee, acceptance or letter of credit on behalf of an affiliate.

In addition, under Regulation W:

- a bank and its subsidiaries may not purchase a low-quality asset from an affiliate;

- covered transactions and other specified transactions between a bank or its subsidiaries and an affiliate must be on terms and conditions that are consistent with safe and sound banking practices; and

- with some exceptions, each loan or extension of credit by a bank to an affiliate must be secured by collateral with a market value ranging from 100% to 130%, depending on the type of collateral, of the amount of the loan or extension of credit.

Regulation W generally excludes all non-bank and non-savings association subsidiaries of banks from treatment as affiliates, except to the extent that the Federal Reserve Board decides to treat these subsidiaries as affiliates.

Concurrently with the adoption of Regulation W, the Federal Reserve Board has proposed a regulation which would further limit the amount of loans that could be purchased by a bank from an affiliate to not more than 100% of the bank's capital and surplus.

RECENT DEVELOPMENTS

As described above, the Gramm-Leach-Bliley Act, adopted November 12, 1999, enacted significant changes to the bank holding company laws, providing significantly expanded opportunities for combinations of banking, insurance and securities activities. The law also establishes significant new consumer privacy protections, which went into effect in July, 2001, including stringent restrictions on the disclosure of non-public consumer financial information to third parties. The Gramm-Leach-Bliley Act is sweeping legislation that PBI believes will affect the financial services industry for years to come. Implementing regulations with respect to many areas are still being developed, and it remains too early to determine the effect the law will have on PBI or its business, operations and financial performance.

In the wake of the tragic events, of September 11th, on October 26, 2001, the President signed the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism (USA PATRIOT) Act of 2001. Under the USA PATRIOT Act, financial institutions are subject to prohibitions against specified financial transactions and account relationships as well as enhanced due diligence and "know your customer" standards in their dealings with foreign financial institutions and

foreign customers. For example, the enhanced due diligence policies, procedures, and controls generally require financial institutions to take reasonable steps:

- to conduct enhanced scrutiny of account relationships to guard against money laundering and report any suspicious transaction;

- to ascertain the identity of the nominal and beneficial owners of, and the source of funds deposited into, each account as needed to guard against money laundering and report any suspicious transactions;

- to ascertain for any foreign bank, the shares of which are not publicly traded, the identity of the owners of the foreign bank, and the nature and extent of the ownership interest of each such owner; and

- to ascertain whether any foreign bank provides correspondent accounts to other foreign banks and, if so, the identity of those foreign banks and related due diligence information.

Under the USA PATRIOT Act, financial institutions had until April 25, 2002 to establish anti-money laundering programs. The USA PATRIOT Act sets forth minimum standards for these programs, including:

- the development of internal policies, procedures, end controls;

- the designation of a compliance officer;

- an ongoing employee training program; and

- an independent audit function, to test, the programs.

The Secretary of the Treasury has prescribed regulations that consider the extent to which these new requirements are commensurate with the size, location, and activities of financial institutions subject to the Act.

In addition, the USA PATRIOT Act authorized the Secretary of the Treasury to adopt rules increasing the cooperation and information sharing between financial institutions, regulators, and law enforcement authorities regarding individuals, entities and organizations engaged in, or reasonably suspected based on credible evidence of engaging in, terrorist acts or money laundering activities. Any financial institutions complying with these rules will not be deemed to have violated the privacy provisions of the Gramm-Leach-Bliley Act, as discussed above.

Premier Bank does not have any significant international banking relationships and does not anticipate that the USA PATRIOT Act will have a material effect on its business or operations.

INTERNATIONAL MONEY LAUNDERING ABATEMENT AND FINANCIAL ANTI-TERRORISM ACT OF 2001 (IMLAFATA)

As part of the USA PATRIOT Act, Congress adopted the International Money Laundering Abatement and Financial Anti-Terrorism Act of 2001. IMLAFATA amended the Bank Secrecy Act and adopted certain additional measures that increase the obligation of financial institutions, including Premier Bank, to identify their customers, watch for and report upon suspicious transactions, respond to requests for information by federal banking regulatory authorities and law enforcement agencies, and share information with other financial institutions. The Secretary of the Treasury has adopted several regulations to implement these provisions. Premier Bank is also barred from dealing with foreign "shell" banks. In addition, IMLAFATA expands the circumstances under which funds in a bank account may be forfeited. IMLAFATA also amended the BHC Act and the Bank Merger Act to require the federal banking regulatory authorities to consider the effectiveness of a financial institution's anti-money laundering activities when reviewing an application to expand operations. Premier Bank has in place a Bank Secrecy Act compliance program.

10

EFFECTS OF GOVERNMENT POLICY AND POTENTIAL CHANGES IN REGULATION

Changes in regulations applicable to PBI or Premier Bank, or shifts in monetary or other government policies, could have a material affect on their business. PBI's and the bank's business is also affected by the state of the financial services industry in general. As a result of legal and industry changes, management believes that the industry will continue to experience an increased rate of change as the financial services industry strives for greater product offerings, market share and economies of scale.

AVAILABLE INFORMATION

Our common and Series A preferred stock are registered under Section 12(b) of the Securities Exchange Act of 1934 and are traded on the American Stock Exchange under the trading symbols "PPA" and "PPA.Pr.A", respectively. We are subject to the informational requirements of the Exchange Act and, accordingly, file reports, proxy statements and other information with the Securities and Exchange Commission. The reports, proxy statements and other information filed with the SEC are available for inspection and copying at the SEC's Public Reference Room at Judiciary Plaza, 450 Fifth Street, N.W., Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. We are an electronic filer with the SEC. The SEC maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC. The SEC's Internet site address is: http://www.sec.gov. Our Internet site is: http://www.premierbankonline.com.

You may also inspect materials and other information concerning us at the offices of the American Stock Exchange, Inc. at 86 Trinity Place, New York, New York 10006. The American Stock Exchange's Internet site address is: http://www.amex.com.

You may obtain copies of Premier Bancorp, Inc.'s annual reports on Form 10-K, quarterly reports on Form 10-Q, and current reports on Form 8-K as filed with the SEC upon request and at no charge by writing to John C. Soffronoff, President and Chief Executive Officer, Premier Bancorp, Inc., 379 North Main Street, Doylestown, Pennsylvania 18091 or from Premier Bank's website within two business days of filing the report electronically with the SEC.

ITEM 2 -- PROPERTIES

Our main office is located at 379 North Main Street, Doylestown, Pennsylvania. Premier Bank currently conducts business from the main office and six other full service Pennsylvania retail offices located in Southampton, Bensalem and Lower Makefield Township, Bucks County; Bethlehem and Easton, Northampton County; and Montgomeryville, Montgomery County. We also have a limited service branch in the Heritage Towers Retirement Community in Doylestown. We plan to open our eighth full-service Pennsylvania banking office in Abington, Montgomery County during the second quarter of 2003. In January

2003 we signed a 10-year lease on the Abington branch.

The following table details the ownership of our properties at December 31, 2002.

1) Doylestown, PA	Main office and branch -- owned
2) Bensalem, PA	Branch -- leased requiring rental payments of $96,000 per year
3) Bethlehem, PA	Branch -- owned
4) Easton, PA	Branch -- owned
5) Lower Makefield Twp., PA	Branch -- owned
6) Montgomeryville, PA	Branch -- land leased requiring rental payments of $85,000 per year
7) Southampton, PA	Branch and operations center -- leased requiring rental payments of $40,000 per year for the branch and $2,000 per month for operations center. Operations center lease expires in February 2004.

Lenders Abstract, LLC operates from the Lower Makefield Township branch. Premier Bank Insurance Services, LLC operates from the Montgomeryville branch.

ITEM 3 -- LEGAL PROCEEDINGS

At December 31, 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 governmental authorities against PBI, its subsidiaries, or its property.

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

None.

PART II

ITEM 5 -- MARKET FOR COMMON STOCK AND RELATED SHAREHOLDER MATTERS

PBI's common stock was listed and began trading on the American Stock Exchange (AMEX) on December 30, 1999 under the trading symbol "PPA." At December 31, 2002, 30,000,000 shares of common stock were authorized and 3,342,215 shares were outstanding. We had 553 shareholders of record as of March 10, 2003. No other class of common stock is authorized or outstanding.

Shares of our common stock traded on AMEX in the range of $8.75 to $14.50 per share during 2002 and $6.25 to $10.21 per share during 2001. PBI's ability to pay dividends to shareholders is dependent upon its ability to obtain dividends from the bank. The bank's ability to pay dividends is subject to certain regulatory restrictions that are described in greater detail at Note 25 to the 2002 Consolidated Financial Statements.

On February 13, 2003 we declared a cash dividend of $0.05 per share payable on April 15, 2003 to common shareholders of record on March 21, 2003. This is the first cash dividend declared on our common stock.

	2002		2001	
	HIGH	LOW	HIGH	LOW
First Quarter	$ 9.74	$ 8.75	$ 7.00	$6.25
Second Quarter	12.25	9.15	8.80	7.15
Third Quarter	13.44	11.00	9.90	8.50
Fourth Quarter	14.50	12.30	10.21	9.35

The following table summarizes our equity compensation plan information as of December 31, 2002.

PLAN CATEGORY	NUMBER OF SHARES TO BE ISSUED UPON EXERCISE OF OUTSTANDING OPTIONS, WARRANTS AND RIGHTS	WEIGHTED-AVERAGE EXERCISE PRICE OF OUTSTANDING OPTIONS, WARRANTS AND RIGHTS	NUMBER OF SHARES AVAILABLE FOR FUTURE ISSUANCE UNDER EQUITY COMPENSATION PLANS
Equity compensation plans approved by PBI shareholders	303,748	$5.98	8,326

PBI has no equity compensation plans at December 31, 2002 which were not approved by its shareholders.

ITEM 6 -- SELECTED FINANCIAL DATA

	FOR THE YEAR ENDED DECEMBER 31,				
	2002	2001	2000	1999	199
	(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)				
SELECTED OPERATING DATA					
Interest income	$ 32,794	$ 29,651	$ 26,693	$ 21,929	$ 16
Interest expense	15,265	16,625	15,294	11,420	8
Net interest income	17,529	13,026	11,399	10,509	7
Provision for loan losses	870	818	528	719	
Non-interest income	937	594	319	124	
Non-interest expense	10,953	9,405	8,454	6,744	4
Income before income taxes	6,643	3,397	2,736	3,170	2
Income tax expense	1,929	863	675	765	
Net income	$ 4,714	$ 2,534	$ 2,061	$ 2,405	$ 1
Less: Preferred stock dividends	$ (468)	$ --	$ --	$ --	$
Net income applicable to common shareholders	$ 4,246	$ 2,534	$ 2,061	$ 2,405	$ 1

Earnings per common share -- basic...	$ 1.26	$ 0.79	$ 0.67	$ 0.80	$
Earnings per common share -- diluted..................	1.22	0.74	0.60	0.70	
Average common shares outstanding....	3,365,467	3,212,537	3,097,450	3,016,893	2,762
Average diluted common shares outstanding........................	3,493,716	3,442,369	3,422,832	3,423,430	3,148

	AT DECEMBER 31,				
	2002	2001	2000	1999	199
SELECTED BALANCE SHEET DATA			(IN THOUSANDS)		
Loans, net..........................	$ 355,598	$ 310,876	$ 235,552	$ 196,121	$ 138
Investment securities held to maturity..........................	500	500	6,026	6,881	5
Investment securities available for sale..............................	202,641	97,851	94,573	97,076	93
Other interest-earning assets........	15,016	15,221	56	3,845	
Total assets.........................	609,972	450,569	355,201	318,660	249
Deposits.............................	456,486	358,282	303,293	237,481	191
Borrowings...........................	80,067	49,605	14,404	52,537	29
Subordinated debt....................	1,500	3,500	1,500	1,500	1
Capital securities...................	25,000	10,000	10,000	10,000	10
Shareholders' equity.................	38,436	19,609	16,455	12,647	11

13

	AT OR FOR THE YEAR ENDED DECEMBER 31,				
SELECTED RATIOS AND OTHER DATA	2002	2001	2000	1999	199
Net interest margin(1)...............	3.58%	3.50%	3.57%	3.90%	
Return on average assets(2)..........	0.81%	0.63%	0.61%	0.83%	
Return on average common equity(3)...	18.74%	13.66%	15.26%	17.59%	1
Average shareholders' equity to average assets.....................	5.58%	4.65%	3.98%	4.70%	
Book value per common share(4).......	$ 7.81	$ 6.05	$ 5.30	$ 4.11	$
Number of full service banking offices...........................	7	7	7	5	

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(1) Calculated as net interest income on a tax equivalent basis divided by average interest-earning assets

(2) Calculated as net income applicable to common shareholders divided by average assets

(3) Calculated as net income applicable to common shareholders divided by average total equity less preferred stock

(4) Calculated as shareholders' equity less preferred stock divided by the number of common shares outstanding

ITEM 7 -- MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

GENERAL

Our revenues are derived principally from interest income on our loan and securities portfolios. Our primary sources of funds are deposits, repayments of loans and investment securities, and borrowed funds. Currently, we have seven full service Pennsylvania banking offices: Doylestown, Easton, Southampton, Bethlehem, Yardley-Floral Vale, Bensalem and Montgomeryville. We also operate a limited service branch in the Heritage Towers Retirement Community in Doylestown. We face 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 investment securities, and the interest expense paid on interest-bearing liabilities, such as deposits and borrowed money. We generate non-interest income such as service charges, gains from sales of residential mortgages, fees from sales of title insurance and other fees. Our non-interest expense primarily consists of employee compensation and benefits, occupancy expenses, marketing, data processing costs and other operating expenses. We are subject to losses from our loan and investment portfolios if borrowers/issuers fail to meet their obligations or if the market value of our 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.

On January 16, 2003, PBI announced that it had entered into a definitive agreement to be acquired by Fulton Financial Corporation based in Lancaster, Pennsylvania. Under the terms of the agreement, Fulton Financial will acquire all of PBI's issued and outstanding shares of common stock. Each share of PBI common stock outstanding will be exchanged for 1.34 shares of Fulton Financial common stock, subject to adjustment. All outstanding shares of PBI preferred stock are expected to be redeemed as of or before the closing date of the transaction. This acquisition, which is subject to the approval of bank regulators and PBI shareholders, is expected to close by the third quarter of 2003.

The following discussion focuses on the major components of our operations and presents an overview of the significant changes in the results of operations and financial condition for the last three fiscal years. This discussion section should be read in conjunction with the Consolidated Financial Statements and accompanying Notes. Current performance may not be indicative of future performance.

Management has made forward-looking statements in this Annual Report on Form 10-K. 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 Annual Report, management is making forward-looking statements.

Shareholders should note that many factors, some of which are discussed elsewhere in this Annual Report, could affect the future financial results of Premier Bancorp, Inc. 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 Annual Report. 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 our banking 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; 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 reflects 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 we file from time to time with the Securities and Exchange Commission, including quarterly reports on Form 10-Q and any current reports on Form 8-K.

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 our 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 discussion entitled "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 to our Consolidated

Financial Statements included herein.

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 to the Consolidated Financial Statements included herein.

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 the discussion entitled "Investment securities."

The Notes to our Consolidated Financial Statements set forth herein 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 $4,246,000 or $1.22 earnings per common share on a diluted basis for the year ended December 31, 2002. This represents an increase of $1,712,000 or 68% from the net income of $2,534,000 or $.74 earnings per common share on a diluted basis reported in 2001. Net interest income was $4,503,000 or 35% higher in 2002 compared to 2001 due primarily to a $115,581,000 increase in average interest-earning assets and a 150 basis point decrease in the rate on average interest-bearing liabilities. Loans accounted for $76,289,000 of the growth in average interest-earning assets. The rate on average interest-bearing deposits decreased 163 basis points from 5.00% in 2001 to 3.37% in 2002 primarily due to the repricing of certificates of deposit in the lower rate environment and the shift in deposit mix toward interest-bearing checking accounts. Other income was $343,000 or 58% higher in 2002 due primarily to a $66,000 increase in service charges and other deposit related fees, a $90,000 increase in gains on sales of investment securities available for sale, and a $79,000 increase in gains on sales of residential mortgages held for sale. In addition, we recorded a $33,000 gain on the sale of other real estate owned in 2002 compared to a loss of $17,000 in 2001. Overhead expenses were $1,548,000 or 16% higher in 2002 compared to 2001. This increase is consistent with the overall growth of the company. Salaries and employee benefits increased $945,000 in 2002 as the number of full-time equivalent employees increased from 81 at December 31, 2001 to 94 at December 31, 2002.

We reported net income of $2,534,000 or $.74 earnings per common share on a diluted basis for the year ended December 31, 2001. This represents an increase of $473,000 or 23% from net income of $2,061,000 or $.60 earnings per common share on a diluted basis reported in 2000. Interest income grew $2,958,000 or 11% in 2001 compared to 2000 primarily due to loan growth. Loans grew $76,621,000 or 32% in 2001. However, growth in net interest income was slowed by eleven decreases in the prime lending rate and the Federal Reserve's targeted federal funds rate totaling 4.75% during 2001. These rate cuts lowered the rates on new loans and existing adjustable/variable rate loans. Other income was $275,000 or 86% higher in 2001 due primarily to $137,000 in fees generated from our title insurance business and a $50,000 non-recurring fee related to one loan pay-off. Overhead expenses were $1,134,000 or 14% higher in 2001 compared to 2000, exclusive of $183,000 in one-time charges in 2000 related to two discontinued Internet projects and a relocated branch site. Overhead expenses were higher in 2001 due primarily to the recognition of a full year of operating expenses associated with the opening of two new branches in October 2000 and the overall growth of the company.

Our net income for 2000 was $344,000 or 14% lower than the net income of $2,405,000 or $.72 earnings per common share on a diluted basis reported in 1999. Earnings were lower in 2000 due primarily

to an increase in overhead expenses related to branch expansion. In addition, our net interest margin compressed in 2000 due to the combination of generally higher interest rates and increased competition for loans and deposits.

Return on average assets and return on average common shareholders' equity were .81% and 18.74%, respectively, in 2002 compared to .63% and 13.66%, respectively, in 2001 and .61% and 15.26%, respectively, in 2000. Return on average common shareholders' equity, exclusive of the unrealized gain (loss) on investment securities available for sale, was 17.35%, 11.94% and 11.12% for 2002, 2001 and 2000, respectively.

The following tables and discussions related to net interest income, interest income and interest expense were prepared on a tax-equivalent basis.

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 .50% in 2002 and 4.75% in 2001. As a result, the current interest rate environment is at a historically low level. The bank's interest-earning assets and interest-bearing liabilities continue to originate and reprice in this lower rate environment. The yields on our average interest-earning assets were 6.61%, 7.79% and 8.15% for the year ended December 31, 2002, 2001, and 2000, respectively. The rates on our average interest-bearing liabilities were 3.45%, 4.95%, and 5.33% for the year ended December 31, 2002, 2001, and 2000, respectively.

Net interest income on a tax-equivalent basis increased $4,424,000 or 33% for 2002 compared to 2001. This increase was primarily a function of asset growth and a lower rate on average interest-bearing liabilities. These positive factors were partially offset by a lower yield on average interest-earning assets and a lower ratio of average interest-earning assets to average interest-bearing liabilities. Average interest-earning assets grew $115,581,000 or 30% in 2002 while the yield on average interest-earning assets declined 118 basis points. Average loans grew $76,289,000 in 2002 with a decrease in the average yield on such loans of 94 basis points. Average investments grew $19,523,000 in 2002 with a decrease in the average yield on such investments of 117 basis points. The average rate on interest-bearing liabilities improved due mostly to the repricing of certificates of deposits in the lower rate environment, the change in deposit mix and new long-term borrowings at lower rates. The offering rates on our deposit products have been lowered in response to the interest rate environment. Despite this lower interest rate environment we had considerable success in raising non-maturity deposits that are generally less costly than time deposits. The average balance of non-maturity deposits grew $98,791,000 during 2002 and was concentrated in interest checking accounts. The net interest margin increased 8 basis points from 3.50% in 2001 to 3.58% in 2002. The ratio of average interest-earning assets to average interest-bearing liabilities decreased from 115.44% in 2001 to 113.74% in 2002. The net interest rate spread improved 32 basis points from 2.84% in 2001 to 3.16% in 2002.

Net interest income on a tax-equivalent basis increased $1,684,000 or 14% for 2001 compared to 2000. This increase was primarily a function of asset growth and a lower rate on average interest-bearing liabilities. These positive factors were partially offset by a lower yield on average interest-earning assets and a lower ratio of average interest-earning assets to average interest-bearing liabilities. Average interest-earning assets grew $54,394,000 or 16% in 2001 while the yield on average interest-earning assets declined 36 basis points. Average loans grew $53,776,000 in 2001 with a decrease in the average yield on such loans of 45 basis points. The average rate on interest-bearing liabilities decreased 38 basis points. The average rate on interest-bearing liabilities improved in part due to the maturity of higher rate certificates of deposit,

17

which were retained or replaced at a lower rate. The offering rates on most deposit products were lowered in response to the reductions in the federal funds and prime lending rate. Short-term borrowings and subordinated debt also repriced lower in 2001. The ratio of average interest-earning assets to average interest-bearing liabilities decreased from 116.12% in 2000 to 115.44% in 2001. The net interest margin decreased 7 basis points from 3.57% in 2000 to 3.50% in 2001. The net interest rate spread improved 2 basis points from 2.82% in 2000 to 2.84% in 2001.

During 2002, we accelerated the deferred fee recognition on certain renegotiated loans in accordance with FASB Statement No. 91. Net interest income for 2002 included $172,000 of such fees. Excluding these fees the yield on average loans, the yield on average interest-earning assets, and the net interest margin would have been 7.34%, 6.57% and 3.54%, respectively.

18

The following table presents certain key average balance sheet amounts and the corresponding earnings/expenses and rates.

AVERAGE BALANCES, RATES AND INTEREST INCOME AND EXPENSE SUMMARY

	FOR THE YEAR ENDED DECEMBER 31	
	2002	2001

	AVERAGE BALANCE	INTEREST	AVERAGE RATE	AVERAGE BALANCE	INTEREST	AVERAGE RATE
				(DOLLARS IN THOUSANDS)		
ASSETS:						
Short-term investments	$ 16,873	$ 291	1.72%	$ 10,535	$ 368	3.49%
Interest-bearing deposits	14,572	217	1.49%	1,141	35	3.07%
Investment securities available for sale(1)						
Taxable	109,543	5,959	5.44%	82,713	5,550	6.71%
Tax-exempt(2)	15,411	1,167	7.57%	19,295	1,474	7.64%
Investment securities held to maturity	500	29	5.80%	3,923	257	6.55%
Total investment securities	125,454	7,155	5.70%	105,931	7,281	6.87%
Loans, net of unearned income(3)(4)	346,489	25,605	7.39%	270,200	22,520	8.33%
Total interest-earning assets	503,388	33,268	6.61%	387,807	30,204	7.79%
Cash and due from banks	17,310			7,516		
Allowance for loan losses	(4,179)			(3,342)		
Other assets(5)	10,514			9,794		
Total assets	$527,033			$401,775		
LIABILITIES, MINORITY INTEREST IN SUBSIDIARIES AND SHAREHOLDERS' EQUITY:						
Interest checking	$121,001	3,179	2.63%	$ 31,180	809	2.59%
Money market deposit accounts	16,984	383	2.26%	18,313	624	3.41%
Savings accounts	50,117	1,104	2.20%	43,936	1,294	2.95%
Time deposits	191,503	8,132	4.25%	202,819	12,093	5.96%
Total interest-bearing deposits	379,605	12,798	3.37%	296,248	14,820	5.00%
Short-term borrowings	19,553	134	0.69%	18,894	549	2.91%
Long-term borrowings	40,356	2,161	5.35%	19,288	1,144	5.93%
Total borrowings	59,909	2,295	3.83%	38,182	1,693	4.43%
Subordinated debt	3,051	172	5.64%	1,505	112	7.44%
Total interest-bearing liabilities	442,565	15,265	3.45%	335,935	16,625	4.95%
Non-interest-bearing deposits	30,679			26,561		
Other liabilities	8,690			8,057		
Capital securities	13,986			10,000		
Shareholders' equity(6)	31,113			21,222		
Total liabilities, minority interest in subsidiaries and shareholders' equity	$527,033			$401,775		
Net interest income/rate spread		$18,003	3.16%		$13,579	2.84%
Net interest margin(7)			3.58%			3.50%
Average interest-earning assets as a percentage of average						

interest-bearing liabilities.....	113.74%	115.44%

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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 $5,332,000, $458,000, and $106,000 on average in 2002, 2001 and 2000, respectively.

(4) Includes tax-exempt loans of $2,882,000, $1,733,000, and $1,077,000 on average in 2002, 2001 and 2000, 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.

19

The following table sets forth certain information regarding changes in net interest income attributable to changes in the volumes of interest-earning assets and interest-bearing liabilities and changes in rates for the periods indicated. For each category of interest-earning assets and interest-bearing liabilities, information is provided on changes attributable to:

- changes in volume (change in volume multiplied by prior year rate);

- changes in rates (change in rate multiplied by prior year volume); and

- total change.

Changes due to the combination of rate and volume changes (changes in volume multiplied by changes in rate) were allocated proportionately between changes in rate and changes in volume.

Interest income foregone on non-accrual loans is presented as a change in rate.

RATE VOLUME ANALYSIS OF CHANGES IN NET INTEREST INCOME

	FOR THE YEAR ENDED DECEMBER 31,					
	2002 VS. 2001			2001 VS. 2000		
	VOLUME	RATE	TOTAL	VOLUME	RATE	TOTAL
	(IN THOUSANDS)					

INTEREST INCOME:						
Short-term investments..............	$ 161	$ (238)	$ (77)	$ 162	$ (254)	$ (92)
Interest-bearing deposits...........	209	(27)	182	23	(27)	(4)
Investment securities available for sale............................	1,426	(1,324)	102	(28)	(212)	(240)
Investment securities held to maturity.........................	(202)	(26)	(228)	(184)	9	(175)
Loans..............................	5,896	(2,811)	3,085	4,534	(1,008)	3,526
Total interest income................	7,490	(4,426)	3,064	4,507	(1,492)	3,015
INTEREST EXPENSE:						
Interest checking..................	2,360	10	2,370	236	13	249
Money market accounts..............	(43)	(198)	(241)	432	(137)	295
Savings accounts...................	166	(356)	(190)	(127)	(245)	(372)
Time deposits......................	(643)	(3,318)	(3,961)	1,894	(100)	1,794
Short-term borrowings..............	19	(434)	(415)	(869)	(893)	(1,762)
Long-term borrowings...............	1,138	(121)	1,017	1,144	--	1,144
Subordinated debt..................	92	(32)	60	--	(17)	(17)
Total interest expense...............	3,089	(4,449)	(1,360)	2,710	(1,379)	1,331
Net interest income..................	$4,401	$ 23	$ 4,424	$1,797	$ (113)	$ 1,684

INTEREST INCOME

Total interest income on a tax equivalent basis increased $3,064,000 or 10% for 2002 to $33,268,000 compared to $30,204,000 for 2001. Higher average loan and AFS investment balances added $5,896,000 and $1,426,000, respectively, to interest income. Lower yields on loans and AFS investments reduced interest income by $2,811,000 and $1,324,000, respectively. The yield on average interest-earning assets decreased 118 basis points as the decline in overall interest rates continued through 2002. The lower yield on average interest-earning assets reduced interest income by $4,426,000 in 2002.

Total interest income on a tax-equivalent basis increased $3,015,000 or 11% for 2001 to $30,204,000 compared to $27,189,000 for 2000. Higher average loan balances added $4,534,000 to interest income while lower average investment balances reduced interest income by $212,000 in 2001. The yield on

average interest-earning assets decreased 36 basis points to 7.79% as overall interest rates moved lower in 2001. The lower yield on average interest-earning assets reduced interest income by $1,492,000 in 2001.

INTEREST EXPENSE

Total interest expense decreased $1,360,000 or 8% for 2002 to $15,265,000 compared to $16,625,000 for 2001. Lower rates on deposits and borrowings reduced interest expense by $3,862,000, and $555,000, respectively. The rate on average interest-bearing liabilities decreased 150 basis points during 2002 as we lowered the offering rates on our deposit products and short-term borrowings, shifted our deposit mix toward less costly interest checking accounts, and added long-term borrowings in the lower rate environment. Higher average interest checking account balances and long-term borrowings added $2,360,000 and $1,138,000 to interest expense in 2002. Average time deposits decreased in 2002 reducing interest expense by $643,000.

Total interest expense increased $1,331,000 or 9% for 2001 to $16,625,000 compared to $15,294,000 for 2000. Higher average deposit balances and higher average borrowings added $2,435,000 and $275,000, respectively, to total interest expense. The rate on average interest-bearing liabilities decreased 38 basis points to 4.95% as overall interest rates moved lower in 2001. The lower rate on average interest-bearing liabilities reduced interest expense by $1,379,000 in 2001.

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 and 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 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 and after three-year time intervals. We have a cumulative negative gap in the over one year to three year time interval.

Our gap analysis at December 31, 2002 is as follows.

INTEREST RATE SENSITIVITY

	WITHIN 3 MONTHS	4 TO 6 MONTHS	7 MONTHS TO 1 YEAR	1 TO 3 YEARS	3 TO 5 YEARS	AFTER 5 YEARS
			(DOLLARS IN THOUSANDS)			
DECEMBER 31, 2002						
Assets:						
Short-term investments.....	$ 10,530	$ --	$ --	$ --	$ --	$ --
Interest-bearing						

deposits.................	4,486	--	--	--	--	--
Investment securities......	50,187	5,613	8,830	53,027	32,758	52,726
Loans, net of deferred fees.....................	58,183	14,882	24,949	101,698	153,223	6,892
Total interest rate-sensitive assets.....................	$123,386	$ 20,495	$ 33,779	$154,725	$185,981	$ 59,618
Total cumulative assets......	$123,386	$143,881	$177,660	$332,385	$518,366	$577,984
Liabilities:						
Interest checking, money market and savings accounts.................	$ 7,034	$ 7,035	$ 14,069	$135,999	$ 46,897	$ 23,450
Time deposits..............	27,795	31,535	27,963	64,360	37,462	--
Short-term borrowings......	20,067	--	--	--	--	--
Long-term borrowings.......	--	--	--	--	--	60,000
Subordinated debt..........	1,500	--	--	--	--	--
Total interest rate-sensitive liabilities................	$ 56,396	$ 38,570	$ 42,032	$200,359	$ 84,359	$ 83,450
Total cumulative liabilities................	$ 56,396	$ 94,966	$136,998	$337,357	$421,716	$505,166
Gap during period............	$ 66,990	$(18,075)	$ (8,253)	$(45,634)	$101,622	$(23,832)
Cumulative gap..............	$ 66,990	$ 48,915	$ 40,662	$ (4,972)	$ 96,650	$ 72,818
Cumulative gap as a percentage of:						
Interest-earning assets......	11.59%	8.46%	7.04%	(0.86)%	16.72%	12.60%
Total assets.................	10.98%	8.02%	6.67%	(0.82)%	15.84%	11.94%

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 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 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 lessens the effects of rate changes in simulation models in the short-term.

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

22

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.

The table below summarizes estimated changes in net interest income over a twelve-month period beginning January 1, 2003, 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................	$19,266	$ 45	0.23%
+100 Basis Points................	19,370	149	0.78%
Flat Rate........................	19,221	--	--
-100 Basis Points................	18,753	(468)	(2.43)%
-200 Basis Points................	18,479	(742)	(3.86)%

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 earned in the past 12 months or last fiscal year. This is principally the result of an increase in earning assets over the past year, which created a larger starting point for the 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.

NON-INTEREST INCOME COMPARISON

	FOR THE YEAR ENDED DECEMBER 31,		
	2002	2001	2000
	(IN THOUSANDS)		
Service charges and other deposit related fees..............	$396	$330	$286
Gain, net, on sale of investment securities available for sale..	103	13	3
Gain (loss) on sale of other real estate owned..............	33	(17)	--
Gain on sale of loans held for sale.........................	131	52	29
Fees from sales of title insurance policies.................	150	137	1
Other fees..	124	79	--
Total non-interest income.................................	$937	$594	$319

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

Non-interest income increased $343,000 for 2002 to $937,000 compared to $594,000 for 2001. Gains on sales of investment securities available for sale and loans held for sale were higher by $90,000 and $79,000, respectively. Gains on sales of loans held for sale were higher in 2002 due to an increase in residential mortgage originations and sales as a result of lower interest rates and the hiring of a seasoned mortgage lender in the third quarter of 2002. Service charges and other deposit related fees were $66,000 higher in 2002 due primarily to an increase in the number of deposit accounts and transactions. During 2002 we recorded a gain of $33,000 on the sale of other real estate owned compared to a $17,000 loss in 2001. Other income for 2002 included a $46,000 gain on the sale of a small business administration loan.

23

Non-interest income increased $275,000 for 2001 to $594,000 compared to $319,000 for 2000. This increase is primarily due to $137,000 in fees from sales of title insurance policies and $50,000 in fees related to one loan pay-off. In addition, fees from ATM/debit card transactions increased $50,000 due to an increase in the number of cardholders and ATM locations. Gains on sales of loans held for sale were $23,000 higher in 2001 due to an increase in residential mortgage loan originations and sales as a result of lower interest rates.

NON-INTEREST EXPENSE COMPARISON

	FOR THE YEAR ENDED DECEMBER 31,		
	2002	2001	2000
	(IN THOUSANDS)		
Salaries and employee benefits	$ 5,282	$4,337	$3,873
Occupancy costs	819	767	641
Data processing	1,156	973	841
Professional services	311	323	377
Marketing	286	424	484
Minority interest in expense of subsidiaries	1,082	873	873
Other	2,017	1,708	1,365
Total non-interest expense	$10,953	$9,405	$8,454

Non-interest expense increased $1,548,000 or 16% for 2002 to $10,953,000 compared to $9,405,000 for 2001. Overhead expense increased principally due to increased staffing and other costs related to the continued growth of the company. Salaries and employee benefits were $945,000 or 22% higher due primarily to an increase in the number of employees and salary adjustments. The number of full-time equivalent employees grew from 81 at December 31, 2001 to 94 at December 31, 2002. Marketing expense was $138,000 lower because deposit growth exceeded expectations in 2002. The $209,000 increase in the minority interest in expense of subsidiaries related to the issuance of $15,000,000 in trust preferred securities in September 2002. Other expense consisted primarily of furniture and equipment expense, shareholder-related expenses, loan expenses, Pennsylvania shares tax expense, employee travel and entertainment, stationary/supplies, postage, and board of directors' fees. The $309,000 or 18% increase in other expense is principally attributed to the growth of the company and increases in loan collection costs, shareholder-related expenses and

Pennsylvania shares tax expense. Other expense included $224,000 in fair market value adjustments on derivatives related to our IPCD product. This adjustment, which was $66,000 higher than the amount recorded in 2001, was due to the continued decline in interest rates in 2002. These adjustments will reverse in future periods as IPCD's approach maturity or if interest rates increase.

Non-interest expense increased $951,000 or 11% for 2001 to $9,405,000 compared to $8,454,000 for 2000. Overhead expense in 2000 included one-time charges of $115,000 related to two discontinued Internet initiatives and $68,000 for a relocated branch site. Excluding these one-time charges, overhead increased $1,134,000 or 14% for 2001 principally due to the continued growth of the company, which included the opening of two new branches in October 2000. Salaries and employee benefits grew $464,000 or 12% for 2001 compared to 2000 due to an increase in the number of employees and salary adjustments. The number of full-time equivalent employees increased from 76 at December 31, 2000 to 81 at December 31, 2001. Occupancy costs grew $126,000 for 2001 primarily due to the additional rent, maintenance and utility costs for new branches. Data processing costs increased $132,000 principally due to the growth of the company and variable costs associated with item processing and account volumes. Professional services and marketing were lower in 2001 due in part to the one-time charges in 2000. Other expense in 2000 included $68,000 for the write-off of land improvements related to a relocated branch. Exclusive of this one-time charge, other expense increased $411,000 or 32% in 2001 due principally to the growth of the company and increases in loan collection costs, other real estate owned expenses, and

Pennsylvania shares tax. Other expense in 2001 included $158,000 in fair market value adjustments on derivatives related to our IPCD product. This adjustment was due to falling interest rates in 2001 and will reverse in future periods as IPCD's approach maturity or if interest rates increase in the future.

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 for known and inherent losses in our 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, and composition of loan types within the portfolio. Net charge-offs were $458,000, $33,000 and $7,000 in 2002, 2001 and 2000, respectively. Our loan portfolio is relatively immature given our recent growth rates. Therefore, charge-off and non-performing trends may not be indicative of future performance.

The provision for loan losses increased from $818,000 in 2001 to $870,000 in 2002. This increase was primarily due to an increase in non-performing loans and higher net charge-offs. Non-performing loans totaled $4,849,000 at December 31, 2002 compared to $2,687,000 at December 31, 2001. The allowance for loan losses was $4,229,000 or 1.17% of total loans at December 31, 2002 compared to $3,817,000 or 1.21% at December 31, 2001.

The provision for loan losses increased from $528,000 for 2000 to $818,000 for 2001. This increase was primarily due to greater loan growth in 2001 compared to 2000. Total gross loans grew $76,621,000 or 32% in 2001 compared to $40,221,000 or 20% in 2000. The allowance for loan losses was $3,817,000 or 1.21% of total loans at December 31, 2001 compared to $3,032,000 or 1.27% at December 31, 2000.

INCOME TAXES

We recorded a $1,929,000 tax provision representing an effective tax rate of 29.0% for the year ended December 31, 2002 compared to an $863,000 tax provision and a 25.4% effective tax rate for 2001. The effective tax rate was higher in 2002 principally due to a lower ratio of tax-exempt interest to total pre-tax income.

We recorded an $863,000 tax provision representing an effective tax rate of 25.4% for the year ended December 31, 2001 compared to a $675,000 tax provision and a 24.7% effective tax rate for 2000. The effective tax rate was higher in 2001 principally due to a lower ratio of tax-exempt interest to total pre-tax income.

PREFERRED STOCK DIVIDENDS

We issued 552,000 shares of Series A 9.25% Non-Cumulative Perpetual Preferred Stock in June 2002. Dividends are payable quarterly, but only if declared by our board of directors. On July 31, 2002 and October 31, 2002 we paid dividends on our preferred stock in the amount of $149,000 and $319,000, respectively.

All outstanding shares of our preferred stock are expected to be redeemed in connection with our pending acquisition by Fulton Financial Corporation. This acquisition is expected to close by the third quarter of 2003.

FINANCIAL CONDITION

Consolidated assets grew $159,403,000 or 35% during 2002 to $609,972,000. Cash and cash equivalents and investments, exclusive of the SFAS 115 valuation allowance, grew $8,439,000 and $100,206,000, respectively, during 2002. Total gross loans grew $45,429,000 in 2002. During 2002 we raised $27,345,000 in new capital through the issuance of preferred stock and capital securities. This new capital, together with a $98,204,000 increase in deposits, mostly interest checking accounts, and a $30,000,000 increase in long-term FHLB advances, funded our asset growth. Shareholders' equity

increased $18,827,000 from $19,609,000 at December 31, 2001 to $38,436,000 at December 31, 2002. This increase was attributable to $4,246,000 in earnings after preferred stock dividends, a $3,025,000 improvement in the estimated fair value of investment securities available for sale, net of tax, $529,000 from the exercise of common stock options and $12,345,000 in net proceeds from the issuance of preferred stock. Shareholders' equity was reduced by $1,318,000 due to the repurchase of common stock.

Consolidated assets grew $95,368,000 or 27% during the year ended December 31, 2001 to $450,569,000. Total loans grew $76,621,000 or 32% while total investments, exclusive of the SFAS 115 valuation allowance, decreased $2,675,000 or 3% during 2001. We funded our asset growth in 2001 with a $54,989,000 or 18% increase in deposits and a $35,201,000 or 244% increase in borrowings. Shareholders' equity grew $3,154,000 or 19% to $19,609,000 at December 31, 2001. This increase was attributable to $2,534,000 in earnings, $338,000 in common stock option exercises and a $282,000 increase in the estimated fair value of investment securities available for sale, net of tax.

INVESTMENT SECURITIES

Investment policies and applicable legal restrictions dictate permissible investment categories, credit quality, maturity intervals and investment concentrations. Management is responsible for making specific investment purchases within these standards. The carrying value of investment securities at

December 31, 2002 totaled $203,141,000 or 33% of total assets. At December 31, 2002 approximately 55% of the investment portfolio was comprised of mortgage-backed securities which amortize and provide monthly cash flow to reinvest. Corporate bonds and municipal bonds comprised 35% and 6% of the investment portfolio, respectively. At December 31, 2002, approximately 66% of the investment portfolio was fixed rate compared to 82% at December 31, 2001.

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. The bank generally earns a positive interest spread by assuming interest rate risk and using deposits and borrowings to purchase securities with longer maturities.

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 of its securities as AFS. 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. AFS securities are marked to market in the Consolidated Balance Sheets with an adjustment to equity, net of tax, and presented in the caption "Accumulated other comprehensive income (loss)."

During 2002, we utilized excess liquidity to grow and restructure our investment portfolio. Our investment portfolio, exclusive of the SFAS 115 valuation allowance, grew $100,206,000 or 97% in 2002. The yield on our investment portfolio declined in 2002 as a result of significant investing in a low interest rate environment.

Mortgage backed securities, exclusive of the SFAS 115 valuation allowance, grew $67,241,000 in 2002. We purchased and sold approximately $94,694,000 and $36,119,000, respectively, of mortgage-backed securities in 2002. We also purchased $5,000,000 of a mutual fund that invests principally in adjustable rate mortgage-backed securities.

Corporate bonds, exclusive of the SFAS 115 valuation allowance, grew $35,601,000 in 2002. We purchased and sold approximately $56,460,000 and $20,731,000, respectively, of corporate bonds in 2002. We significantly reduced our holdings in single issuer fixed rate trust preferred securities issued by other banking companies. Prior to 2002, the corporate bond portfolio consisted primarily of single issuer trust preferred securities. We also grew and diversified our corporate bond portfolio in 2002 by purchasing pooled trust preferred securities issued by various financial companies and intermediate term corporate bonds issued by investment grade companies. The variable rate component of our corporate bond portfolio increased from $9,855,000 or 30% at December 31, 2001 to $35,764,000 or 51% at December 31, 2002.

At December 31, 2002 the AFS portfolio had an estimated market appreciation of $36,000 before tax and an equity adjustment of $24,000, net of tax. This represents a $3,025,000 improvement in the estimated fair value of AFS securities, net of tax, over the prior year end due to lower interest rates and the aforementioned restructuring of our portfolio. At December 31, 2001 the AFS portfolio had an estimated unrealized loss of $4,548,000, before tax, and an equity adjustment of $3,001,000, net of tax. This was a $282,000 or 9% improvement in the estimated fair value of AFS securities, net of tax, compared to December 31, 2000. At December 31, 2000 the AFS portfolio had an estimated unrealized loss of $4,975,000, before tax, and an equity adjustment of $3,283,000, net of tax.

At December 31, 2002, 2001, and 2000 gross unrealized losses on our single issuer trust preferred securities were $1,802,000, $3,848,000 and $3,808,000, respectively. Management evaluated the credit quality of single issuer trust preferred securities prior to purchasing them and monitors them on an ongoing basis. Management believes that the credit quality of these securities is sound and that the company will ultimately be repaid. Therefore, management views the unrealized loss in the market value of single issuer trust preferred securities temporary. If, at some future date, management believes that this loss is other than temporary or that the recovery of the unrealized loss on these securities is not probable, we will recognize the loss through earnings which will reduce regulatory capital.

The composition and maturity of our investment portfolio is as follows.

	DECEMBER 31, 2002			
	HELD TO MATURITY		AVAILABLE FOR SALE	
	AMORTIZED COST	ESTIMATED FAIR VALUE	AMORTIZED COST	ESTIMATED FAIR VALUE
	(IN THOUSANDS)			
Mortgage-backed securities	$ --	$ --	$110,527	$111,806
Municipal securities	--	--	11,214	11,368
Equity securities	--	--	3,969	3,969
Corporate bonds	--	--	71,785	70,388
Mutual funds	--	--	5,000	5,000
Other debt securities	500	500	110	110
Total	$500	$500	$202,605	$202,641

	DECEMBER 31, 2001			
	HELD TO MATURITY		AVAILABLE FOR SALE	
	AMORTIZED COST	ESTIMATED FAIR VALUE	AMORTIZED COST	ESTIMATED FAIR VALUE
	(IN THOUSANDS)			
Mortgage-backed securities	$ --	$ --	$ 43,286	$43,365
Municipal securities	--	--	20,796	20,031
Equity securities	--	--	2,023	2,023
Corporate bonds	--	--	36,184	32,322
Other debt securities	500	500	110	110
Total	$500	$500	$102,399	$97,851

INVESTMENT SECURITIES MATURITIES AND WEIGHTED AVERAGE YIELDS

	UNDER 1 YEAR	1-5 YEARS	5-10 YEARS	OVER 10 YEARS	TOTAL
	(DOLLARS IN THOUSANDS)				
DECEMBER 31, 2002					
INVESTMENT SECURITIES AVAILABLE FOR SALE:					
Mortgage-backed securities					
Amortized cost....................	$19,720	$42,845	$23,399	$24,563	$110,527
Weighted average yield............	4.57%	4.68%	4.72%	5.03%	4.75%
Municipal securities					
Amortized cost....................	--	--	--	11,214	11,214
Weighted average yield(1).........	--	--	--	7.40%	7.40%
Equity securities					
Amortized cost....................	--	--	--	3,969	3,969
Weighted average yield............	--	--	--	3.59%	3.59%
Corporate bonds					
Amortized cost....................	2,000	24,012	--	45,773	71,785
Weighted average yield............	6.05%	5.88%	--	4.59%	5.06%
Mutual funds					
Amortized cost....................	--	--	--	5,000	5,000
Weighted average yield............	--	--	--	2.52%	2.52%
Other debt securities					
Amortized cost....................	--	110	--	--	110
Weighted average yield............	--	7.09%	--	--	7.09%
TOTAL AMORTIZED COST................	$21,720	$66,967	$23,399	$90,519	$202,605
TOTAL FAIR VALUE....................	$22,441	$67,857	$23,546	$88,797	$202,641
WEIGHTED AVERAGE YIELD..............	4.71%	5.11%	4.72%	4.90%	4.93%
INVESTMENT SECURITIES HELD TO MATURITY:					
Other debt securities					
Amortized cost....................	$ --	$ --	$ 500	$ --	$ 500
Weighted average yield............	--	--	4.88%	--	4.88%
TOTAL AMORTIZED COST................	$ --	$ --	$ 500	$ --	$ 500
WEIGHTED AVERAGE YIELD..............	--	--	4.88%	--	4.88%

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(1) Tax exempt yields on municipal securities were adjusted to a tax equivalent basis using a 34% tax rate.

LOANS HELD FOR SALE

Residential mortgages held for sale are sold within 30 days of their settlement pursuant to pre-existing commitments. At December 31, 2002, loans held for sale totaled $1,928,000 compared to $127,000 at December 31, 2001 and $0 at December 31, 2000. The fluctuation in balances relates to the timing of the loan originations versus their sale. We sold $13,925,000, $8,575,000 and $4,727,000 of residential mortgages in 2002, 2001 and 2000, respectively. Residential mortgage originations and sales are significantly influenced by the interest rate environment.

LOANS

Gross loans increased $45,429,000 or 14% to $361,495,000 at December 31, 2002 and increased $76,621,000 or 32% to $316,066,000 at December 31, 2001 from $239,445,000 at December 31, 2000. The majority of the 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 subject to risks associated with the local economy. Loans secured by commercial properties increased $44,945,000 or 22% during 2002, $46,737,000 or 29% during 2001, and $33,790,000 or 26% during 2000.

Inherent within 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, we also originate variable rate loans.

Our lending activity is focused on small to mid-sized businesses and professionals within our market area.

LOAN PORTFOLIO

	DECEMBER 31,				
	2002	2001	2000	1999	1998
	(IN THOUSANDS)				
Real estate -- farmland.........	$ 194	$ 214	$ 230	$ --	$ --
Real estate -- construction.....	10,574	15,911	4,395	3,850	2,161
Real estate -- residential......	32,446	30,188	25,401	30,330	30,770
Real estate -- multi-family.....	19,350	15,011	13,667	9,738	5,135
Real estate -- commercial.......	253,357	208,412	161,675	127,885	86,008
Commercial......................	44,387	45,238	32,295	25,260	14,434
Consumer........................	1,187	1,092	1,782	2,161	1,840
Total...........................	$361,495	$316,066	$239,445	$199,224	$140,348

LOAN MATURITIES AND INTEREST SENSITIVITY

	UNDER 1 YEAR	1-5 YEARS	OVER 5 YEARS	TOTAL
	(IN THOUSANDS)			
DECEMBER 31, 2002				
Real estate -- farmland.....................	$ 21	$ 173	$ --	$ 194
Real estate -- construction.................	5,194	5,380	--	10,574
Real estate -- residential..................	15,231	16,771	444	32,446
Real estate -- multi-family.................	2,134	17,163	53	19,350

Real estate -- commercial	41,819	205,780	5,758	253,357
Commercial	23,636	16,644	4,107	44,387
Consumer	355	832	--	1,187
Total	$88,390	$262,743	$10,362	$361,495

The following shows, at December 31, 2002, the amount of loans due after one year that have fixed, adjustable or variable interest rates:

Loans with fixed or predetermined interest rates	$ 30,289,000
Loans with adjustable or variable interest rates	$242,816,000

29

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. Borrower risk ratings are determined by loan officers at the inception of each loan and are subject to on-going analysis and update by an independent loan reviewer. Homogeneous loans comprised primarily of home equity and non-real estate secured consumer loans, are analyzed in the aggregate.

Because the bank is only eleven 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 in 2000 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 2001 to reflect current economic conditions and trends in risk ratings over the past several years. As a result, there were no unallocated loan loss reserves at December 31, 2001 or at December 31, 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

	DECEMBER 31,							
	2002		2001		2000		1999	
	AMOUNT	% LOANS TO TOTAL LOANS	AMOUNT	% LOANS TO TOTAL LOANS	AMOUNT	% LOANS TO TOTAL LOANS	AMOUNT	% LOA TO TO LOAN
	(DOLLARS IN THOUSANDS)							
Balance at end of year applicable to:								
Real estate -- farmland..	$ 1	0.05%	$ 2	0.07%	$ 2	0.10%	$ --	
Real estate -- construction.......	89	2.92%	115	5.03%	30	1.83%	37	1.
Real estate -- residential........	335	8.98%	266	9.55%	236	10.61%	428	15.
Real estate -- multi-family............	169	5.35%	103	4.75%	76	5.71%	110	4.
Real estate -- commercial.........	2,580	70.09%	2,338	65.94%	1,419	67.52%	1,436	64.
Commercial...........	1,043	12.28%	982	14.31%	662	13.49%	481	12.
Consumer.............	12	0.33%	11	0.35%	14	0.74%	19	1.
Unallocated..........	--	--	--	--	593	--	--	
Total...............	$4,229	100.00%	$3,817	100.00%	$3,032	100.00%	$2,511	100.

Changes in the allowance for loan losses during the last five years are as follows.

ALLOWANCE FOR LOAN LOSSES

FOR THE YEAR ENDED DECEMBER 31,

	2002	2001	2000	1999	1998
	(DOLLARS IN THOUSANDS)				
Balance at beginning of year	$ 3,817	$ 3,032	$ 2,511	$ 1,805	$ 1,360
Charge-offs:					
Real estate-residential	--	--	6	--	60
Real estate-commercial	295	29	--	--	--
Commercial	163	4	1	2	--
Consumer	--	--	--	11	8
Total charge-offs	458	33	7	13	68
Recoveries:					
Consumer	--	--	--	--	8
Total recoveries	--	--	--	--	8
Net charge-offs	458	33	7	13	60
Provision for loan losses	870	818	528	719	505
Balance at end of year	$ 4,229	$ 3,817	$ 3,032	$ 2,511	$ 1,805
Total gross loans:					
Average	$348,169	$271,318	$217,128	$168,363	$122,526
End of year	361,495	316,066	239,445	199,224	140,348
Ratios:					
Net charge-offs to:					
Average loans	0.13%	0.01%	--	0.01%	0.05%
Loans at end of year	0.13%	0.01%	--	0.01%	0.04%
Allowance for loan losses	10.83%	0.86%	0.23%	0.52%	3.32%
Provision for loan losses	52.64%	4.03%	1.33%	1.81%	11.88%
Allowance for loan losses to:					
Total gross loans at year end	1.17%	1.21%	1.27%	1.26%	1.29%
Non-performing loans	87.21%	142.05%	N/M(1)	1307.81%	106.74%

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(1) N/M stands for "not meaningful." There were no non-performing loans at December 31, 2000.

NON-PERFORMING ASSETS

	DECEMBER 31,				
	2002	2001	2000	1999	1998
	(DOLLARS IN THOUSANDS)				
Loans past due 90 days or more and accruing:					

Real estate -- construction	$ --	$ --	$--	$ --	$ --
Real estate -- residential	--	--	--	55	605
Commercial	--	--	--	1	6
Consumer	--	--	--	--	--
Total loans past due 90 days or more and accruing	--	--	--	56	611
Loans accounted for on a non-accrual basis:					
Real estate -- construction	--	--	--	--	--
Real estate -- residential	73	--	--	136	25
Real estate -- multi-family	321	--	--	--	890
Real estate -- commercial	3,450	2,201	--	--	165
Commercial	1,005	486	--	--	--
Consumer	--	--	--	--	--
Total non-accrual loans	4,849	2,687	--	136	1,080
Other real estate owned	--	475	252	--	200
Total non-performing assets	$4,849	$3,162	$252	$192	$1,891
Ratio of non-performing loans to total loans	1.34%	0.85%	N/M(1)	0.10%	1.20%
Ratio of non-performing assets to total assets	0.79%	0.70%	0.07%	0.06%	0.76%

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(1) N/M stands for "not meaningful." There were no non-performing loans at December 31, 2000.

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 0.79% of total assets at December 31, 2002 compared to 0.70% at December 31, 2001 and 0.07% at December 31, 2000.

Non-accrual loans are those where the accrual of interest has stopped. Non-consumer loans are placed on non-accrual status immediately if management believes that collection is doubtful or when principal or interest is past due 90 days or more. Management does not automatically place consumer loans on non-accrual status when principal or interest payments are 90 days past due. Instead, most consumer loans are charged-off when deemed uncollectible or after reaching 120 days past due. Interest accrued, but not collected at the date a loan is placed on non-accrual status, is reversed and charged against interest income. We record subsequent cash receipts as either a reduction of the outstanding principal or as interest income, depending on management's assessment of the ultimate collectibility of principal and interest.

At December 31, 2002, 13 unrelated borrowers with an aggregate loan balance of $4,849,000 were classified as non-accrual. Non-accrual loans at December 31, 2002 were substantially comprised of two borrowers with outstanding balances of $2,360,000 and $1,526,000, respectively. The $2,360,000 credit is secured by commercial real estate, which is under agreement of sale and expected to close by the second quarter of 2003. The $1,526,000 credit is secured by real estate. The disposition of this collateral has been delayed due to the borrower's filing for bankruptcy.

At December 31, 2001, three unrelated borrowers with an aggregate loan balance of $2,687,000 were classified as non-accrual. Non-accrual loans at year-end 2001 were substantially comprised of one borrower with loan outstandings totaling $2,330,000. This borrower's enterprise failed and we placed the relationship on non-accrual in November 2001. In 2002 we charged off $450,000 of this relationship which remains on non-accrual as of December 31, 2002 with a balance of $1,526,000.

There were no non-accruing loans at December 31, 2000.

We recognized $123,000, $51,000, and $0 of interest income on non-accrual loans during the year ended December 31, 2002, 2001 and 2000, respectively. Total interest income that would have been recognized on non-accrual loans was $472,000, $94,000, and $0 for the year ended December 31, 2002, 2001 and 2000, respectively.

Potential problem loans are those loans that management believes require increased supervision and review and may, depending on the economic environment and other factors, become non-performing assets in future periods. Potential problem loans totaled $156,000, $2,356,000 and $3,666,000 at December 31, 2002, 2001 and 2000, respectively. Most of these loans are secured by real estate.

OTHER REAL ESTATE OWNED

We had no other real estate owned at December 31, 2002. Other real estate owned totaled $475,000 at December 31, 2001 and consisted of one commercial property. This property was transferred into other real estate owned in August 2001 and subsequently sold in May 2002 for a gain of $33,000. Other real estate owned at December 31, 2000 in the amount of $252,000 was sold in May 2001 for a loss of $17,000.

PREMISES AND EQUIPMENT

Premises and equipment decreased $166,000 during 2002 to $4,432,000 at December 31, 2002 and $255,000 during 2001 to $4,598,000 at December 31, 2001 as depreciation exceeded capital expenditures.

Premises and equipment increased $1,046,000 during 2000 to $4,853,000. This increase relates primarily to expenditures for two new branch offices including the construction of our Montgomeryville office, and purchases of additional furniture, fixtures and equipment. The Montgomeryville and Bensalem offices opened in October 2000.

DEFERRED TAXES

Deferred taxes decreased $1,365,000 in 2002 from $2,887,000 at December 31, 2001 to $1,522,000 at December 31, 2002. This decrease relates primarily to the change in the estimated fair value of investment securities AFS. The offsetting $193,000 increase relates primarily to the provision for loan losses.

Deferred taxes increased $184,000 during 2001 to $2,887,000. This increase relates primarily to the provision for loan losses, which was offset in part by a $145,000 decrease in deferred taxes related to the change in the estimated fair value of investment securities AFS. Deferred taxes decreased $639,000 during 2000 to $2,703,000 from $3,342,000 at December 31, 1999. This change was mostly due to the $827,000 decrease in the tax effect on unrealized losses in investment securities AFS. The offsetting $188,000 increase relates primarily to the provision for loan losses.

DEPOSITS

We are largely dependent upon our base of competitively priced core deposits to provide a stable source of funds. We have retained and grown our 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 $99,412,000 or 33% during 2002 to $403,692,000. This growth was primarily generated by the Golden Checking product, which is an interest-bearing checking account. Golden Checking accounts increased $80,552,000 in 2002 and our deposit mix, although still concentrated in time deposits, shifted significantly toward non-maturity interest checking products. Interest checking accounts at December 31, 2002 were $157,691,000 or 35% of total deposits compared to $58,826,000 or 16% of total deposits at December 31,

2001. Total time deposits at December 31, 2002 were $189,115,000 or 41% of total deposits compared to $208,057,000 or 58% of total deposits at December 31, 2001. Approximately $101,822,000 of time deposits will mature after one year.

Total deposits increased $98,204,000 or 27% during 2002 to $456,486,000. Total average deposits increased $87,475,000 or 27% from $322,809,000 for the year ended December 31, 2001 to $410,284,000 for the year ended December 31, 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 $4,118,000 or 16% for the year ended December 31, 2002 compared to the same period in 2001. The interest rates offered on most deposit products were lowered in 2001 and 2002 in response to overall market conditions. Management expects the certificate of deposit portfolio to continue to reprice lower in 2003 as higher rate accounts mature and reprice in the lower rate environment.

Total deposits increased $54,989,000 or 18% during 2001 to $358,282,000. Golden Checking accounts and time deposits increased $31,895,000 and $14,321,000, respectively. Much of the growth in time deposits was due to the new IPCD product described below. Total average deposits increased $51,737,000 or 19% in 2001 and $56,593,000 or 26% in 2000. The average balance of non-interest-bearing deposits increased $2,921,000 or 12% during 2001 to $26,561,000.

The growth of mutual funds over the past decade has made it increasingly difficult for financial institutions to attract deposits. Beginning in 2001, and continuing to date, the returns of the domestic equity markets have been 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. We expect to open our eighth Pennsylvania branch in Abington, Montgomery County during the second quarter of 2003. We introduced the Index Powered(SM) Certificate of Deposit (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 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. As of December 31, 2002, the bank generated $16,575,000 in IPCD deposits with an initial term of five years. Approximately $13,245,000 of IPCD balances at December 31, 2002 are 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. At December 31, 2002 we 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 Sheets at December 31, 2002 and December 31, 2001 was $14,160,000 and $8,976,000, respectively. See the section entitled "Derivative Financial Instruments."

AVERAGE DEPOSITS BY MAJOR CLASSIFICATION

	FOR THE YEAR ENDED DECEMBER 31,					
	2002		2001		2000	
	BALANCE	RATE	BALANCE	RATE	BALANCE	RATE
	(DOLLARS IN THOUSANDS)					
Non-interest-bearing deposits...	$ 30,679	--	$ 26,561	--	$ 23,640	--
Interest checking..............	121,001	2.63%	31,180	2.59%	22,079	2.54%
Money market deposit accounts...	16,984	2.26%	18,313	3.41%	6,512	5.05%
Savings accounts................	50,117	2.20%	43,936	2.95%	47,776	3.49%
Time deposits...................	191,503	4.25%	202,819	5.96%	171,065	6.02%
Total..........................	$410,284	3.12%	$322,809	4.59%	$271,072	4.74%

MATURITY OF TIME DEPOSITS OF $100,000 OR MORE

	DECEMBER 31, 2002
	(IN THOUSANDS)
Three months or less......................................	$ 9,287
Over three through six months.............................	7,471
Over six through twelve months............................	6,445
Over twelve months..	29,591
Total...	$52,794

SHORT-TERM BORROWINGS

Short-term borrowings, generally consisting of customer repurchase agreements and overnight federal funds purchased, can fluctuate daily depending on our liquidity needs and customer activity. Under customer repurchase agreements, deposit customers agree to lend excess demand deposit balances to us overnight at a rate below the federal funds rate. These overnight borrowings from customers are collateralized by certain investment securities. Overnight federal funds, which are purchased through a correspondent bank as needed, are unsecured.

At December 31, 2002 and December 31, 2001, short-term borrowings were comprised entirely of overnight borrowings from customers. At December 31, 2000 short-term borrowings included $785,000 in overnight federal funds purchased and $13,619,000 in overnight borrowings from customers.

	DECEMBER 31,		
	2002	2001	2000
	(DOLLARS IN THOUSANDS)		
Total balance at end of year	$20,067	$19,605	$14,404
Weighted average rate	0.25%	0.75%	5.59%
Maximum amount outstanding at month end during the year	$29,035	$25,692	$58,807
Average amount outstanding during the year	$19,553	$18,894	$38,193
Weighted average interest rate during the year	0.69%	2.91%	6.05%

OTHER LIABILITIES

Other liabilities increased $755,000 from $5,019,000 at December 31, 2001 to $5,774,000 at December 31, 2002. This increase relates principally to a $553,000 increase in the fair value of derivatives related to our IPCD product and a $179,000 increase in accrued compensation expenses. In addition accrued expenses and other operating accounts used in the normal course of business increased $808,000 in

36

the aggregate. These increases were partially offset by a $785,000 decrease in federal income taxes payable.

Other liabilities decreased $403,000 during 2001 to $5,019,000. The majority of this decrease relates to the settlement of a $2,000,000 investment purchase, which was accrued at December 31, 2000. In addition, accrued expenses and other operating accounts used in the normal course of business decreased $1,132,000 in the aggregate. These decreases were offset by the recording of $2,055,000 in derivatives related to our IPCD product and a $674,000 increase in federal income taxes payable due to higher taxable income in 2001.

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.

During 2002, we completed two capital raising initiatives, which together generated $27,345,000.

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. Quarterly dividends were paid on July 31, 2002, October 31, 2002, and January 31, 2003. All outstanding shares of our preferred stock are expected to be redeemed in connection with our acquisition by Fulton Financial Corporation. This acquisition is expected to close by the third quarter of 2003.

On September 26, 2002, we issued $15,000,000 of variable rate capital securities due November 7, 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 Note 21 to the Consolidated Financial Statements entitled "Capital Securities".

On December 31, 2001, Premier Bank issued $2,000,000 in subordinated debt, which qualified as Tier 2 capital. This debt was repaid in October 2002.

In order to retain our financial holding company designation, we must be "well capitalized". At December 31, 2002, management believes that PBI and Premier Bank are "well capitalized" and in compliance with all regulatory capital requirements.

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

37

CAPITAL COMPONENTS

	DECEMBER 31, 2002	DECEMBER 31, 2001
	(IN THOUSANDS)	
Tier 1		
Shareholders' equity	$ 38,436	$ 19,609
Allowable portion of minority interest in equity of subsidiaries	10,000	7,537
Net unrealized gains on investment securities available for sale	(24)	3,001
Total Tier 1 capital	$ 48,412	$ 30,147
Tier 2		
Allowable portion of minority interest in equity of subsidiaries	$ 15,000	$ 2,463
Allowable portion of the allowance for loan losses	4,229	3,817
Allowable portion of subordinated debt	1,500	3,500
Total Tier 2 capital	$ 20,729	$ 9,780
Total capital	$ 69,141	$ 39,927
Risk-weighted assets	$461,376	$375,981

The following table compares PBI's capital ratios to the "adequately capitalized" and "well capitalized" regulatory requirements.

CAPITAL RATIOS

	AT DECEMBER 31, 2002	AT DECEMBER 31, 2001	"ADEQUATELY CAPITALIZED" RATIOS	"WELL CAPITALIZED" RATIOS
Total risk-based capital/risk-weighted assets	14.99%	10.62%	8.00%	10.00%
Tier 1 capital/risk-weighted assets	10.49%	8.02%	4.00%	6.00%
Tier 1 capital/average assets (leverage ratio)	8.05%	6.83%	4.00%	5.00%

DIVIDEND POLICY AND RESTRICTIONS

Our future dividend policy is subject to the discretion of the board of directors and depends upon a number of factors, including future earnings, financial condition, cash needs, and general business conditions. Cash dividends are payable as and when declared by the board of directors out of funds legally available for that purpose. On July 31, 2002 and October 31, 2002 we paid dividends on our preferred stock in the amount of $149,000 and $319,000, respectively. On February 13, 2003 our board of directors declared the first cash dividend on our common stock payable on April 15, 2003 to common shareholders of record on March 21, 2003.

Our ability to pay cash dividends depends on our ability to obtain cash dividends from the bank. The bank's ability to pay cash dividends is subject to the regulatory restrictions set forth in the Pennsylvania Banking Code of 1965, the Federal Reserve Act and the Federal Deposit Insurance Act. Under the Pennsylvania Banking Code, the bank can declare and pay cash dividends only out of accumulated undivided profits, which were $19,972,000 at December 31, 2002. Cash dividends require Federal Reserve Board approval if the total of all cash dividends declared by the bank in any calendar year, including the proposed cash dividend, exceeds the total of the bank's net profits for that year plus its retained net profits from the preceding two years less any required transfers to surplus or to a fund for the retirement of preferred stock, if any. At December 31, 2002, the bank had retained net profits available for distribution without Federal Reserve Board approval of $12,730,000. The Federal Deposit Insurance Act restricts the payment of dividends by a bank that is not adequately capitalized and generally prohibits all payments of

dividends by any bank that is in default of any FDIC assessment. We are not presently and have not been in default of any FDIC assessments.

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 investment securities AFS 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. Competition for deposits may require banks to increase the rates payable on deposits or expand their branch office networks to adequately grow deposits in the future.

During the year ended December 31, 2002, cash and cash equivalents increased $8,439,000. Operating and financing activities provided cash and cash equivalents of $1,802,000 and $152,676,000, respectively, while investing activities used $146,039,000. The cash provided by financing activities was primarily from a $98,204,000 increase in deposits and a $30,000,000 increase in long-term borrowings. We also raised $15,000,000 from the issuance of trust preferred securities and $12,345,000 from our preferred stock offering. Other significant sources of cash included principal repayments on loans and mortgage-backed securities and sales and calls of investment securities. Together, this cash was used to finance investment and loan growth of $100,206,000 and $45,887,000, respectively.

During the year ended December 31, 2001, operating and financing activities provided cash and cash equivalents of $3,735,000 and $92,480,000, respectively, while investing activities used $74,637,000. The cash provided by financing activities resulted primarily from an increase in deposits and borrowings and the issuance of $2,000,000 in subordinated debt. Deposits and borrowings increased by $54,989,000 and $35,201,000, respectively. Other significant sources of cash included principal repayments on loans and mortgage-backed securities and sales and calls of investment securities. Together, this cash was used to finance loan growth of $77,129,000.

During the year ended December 31, 2000, operating and financing activities provided cash and cash equivalents of $8,164,000 and $27,755,000, respectively, while investing activities used $36,384,000. The cash provided by financing activities principally came from a $65,812,000 increase in deposits. Other significant sources of cash included principal repayments on loans and mortgage-backed securities and sales and calls of investment securities. Together, this cash was primarily used for loan originations and the repayment of borrowings. During 2000, loans grew $40,480,000 and borrowings decreased by $38,133,000.

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 overnight through a correspondent bank, which diversifies the holdings to an approved group of commercial banks throughout the country.

If we require funds beyond our ability to generate them internally, additional sources of funds are available through the use of a $6,000,000 unsecured federal funds line of credit with a correspondent bank and a $148,199,000 borrowing limit at the Federal Home Loan Bank of Pittsburgh (FHLB). We could also sell or reverse repurchase investment securities. At December 31, 2002, we had available borrowing capacity of $76,899,000 and $6,000,000 with the FHLB and our correspondent bank, respectively.

Regulation D of the Federal Reserve Regulations requires all depository institutions to maintain reserves on transaction accounts. Under Regulation D, the bank's reserve requirement was $14,183,000 as of December 31, 2002. In addition, we were required to maintain $346,000 in cash reserves at our correspondent bank as of December 31, 2002.

At December 31, 2002, $28,553,000 in investment securities were pledged as collateral for customer repurchase agreements compared to $20,866,000 at December 31, 2001.

DERIVATIVE FINANCIAL INSTRUMENTS

We have limited involvement with derivative financial instruments and currently use them only in relation to Premier'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 on a formula that is dependent on the return of the Standard & Poor's 500(R) Index. This innovative five 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. The terms of these derivatives entered into with the FHLB provide for receipt of 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, we carry these derivatives at fair value in the Consolidated Balance Sheets and recognize any changes in fair value in current period earnings.

The notional amount of derivative contracts was $16,575,000 and $10,905,000 at December 31, 2002 and December 31, 2001, respectively. The fair value of derivatives is included in "Other liabilities" and approximated $2,608,000 and $2,055,000 at December 31, 2002 and 2001, respectively. During 2002, approximately $224,000 was recorded in other expense for net changes in the fair market value of derivatives compared to $158,000 in expense for 2001. The fair value adjustments are due to changes in prevailing interest rates and the resulting valuation of future payments due to the FHLB. These valuation adjustments will cumulatively net to zero at the maturity of the contracts.

IMPACT OF INFLATION AND CHANGING PRICES

The financial statements and accompanying notes presented in this Form 10-K have been prepared in accordance with generally accepted accounting principles, which require the measurement of financial position and operating results in terms of historical dollars without considering the changes in the relative purchasing power of money over time due to inflation. The impact of inflation is reflected in the increased cost of our operations. Unlike industrial companies, nearly all of our assets and liabilities are monetary in nature. As a result, interest rates have a greater impact on our performance than do the effects of general levels of inflation. Interest rates do not necessarily move in the same direction or to the same extent as the price of goods and services.

SUBSEQUENT EVENT

On January 16, 2003, PBI announced that it had entered into a definitive agreement to be acquired by Fulton Financial Corporation based in Lancaster, Pennsylvania. Under the terms of the agreement, Fulton Financial will acquire all of PBI's issued and outstanding shares of common stock. Each share of PBI common stock outstanding will be exchanged for 1.34 shares of Fulton Financial common stock, subject to adjustment. All outstanding shares of PBI preferred stock are expected to be redeemed as of or before the closing date of the transaction. This acquisition, which is subject to the approval of bank regulators and PBI shareholders, is expected to close by the third quarter of 2003.

RECENT ACCOUNTING PRONOUNCEMENTS

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 was no 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 was no 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.

STOCK-BASED COMPENSATION

In December 2002, the FASB issued Statement No. 148, "Accounting for Stock-Based Compensation -- Transition and Disclosure -- an amendment of FASB Statement No. 123." This statement amends FASB Statement No. 123, Accounting for Stock-Based Compensation, to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. The Statement also amends the disclosure requirements of Statement 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. This statement

41

is effective for fiscal years ending after December 15, 2002, except for financial reports containing condensed financial statements for interim periods for which disclosure is effective for periods beginning after December 15, 2002. This Statement announces that "in the near future, the Board plans to consider whether it should propose changes to the U.S. standards on accounting for stock-based compensation". We have not changed to the fair value method of accounting for stock-based employee compensation. We continue to apply the provisions on APB Opinion No. 30, as permitted by Statement No. 123, and provide pro-forma net income and pro-forma earnings per share disclosures for stock option grants made in 1995 and subsequent years as if the fair value method had been applied.

ITEM 7A -- QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

The discussion concerning the effects of interest rate changes on our estimated net interest income for the year ending December 31, 2003, set forth under "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Item 7 herein is incorporated by reference.

ITEM 8 -- FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

(a) The following audited consolidated financial statements and related documents are set forth in this Annual Report on Form 10-K on the following pages:

(b) A summary of quarterly results for the years 2002, 2001 and 2000 is as follows.

SUMMARY OF QUARTERLY FINANCIAL DATA

	QUARTER ENDED 2002			
	DECEMBER 31	SEPTEMBER 30	JUNE 30	MARCH
	(IN THOUSANDS, EXCEPT PER SHARE DATA)			
Interest income	$8,769	$8,425	$8,036	$7,56
Interest expense	3,819	3,819	3,781	3,84
Net interest income	4,950	4,606	4,255	3,71
Provision for loan losses	100	245	240	28
Non-interest income	215	257	329	13
Non-interest expense	2,980	2,775	2,714	2,48
Income before income tax	2,085	1,843	1,630	1,08
Income tax expense	578	581	487	28
Net income	$1,507	$1,262	$1,143	$ 80
Less: Preferred stock dividend	$ (319)	$ (149)	$ --	$ -
Net income applicable to common shareholders	$1,188	$1,113	$1,143	$ 80
Basic earnings per common share	$ 0.36	$ 0.33	$ 0.33	$ 0.2
Diluted earnings per common share	0.34	0.32	0.32	0.2

	QUARTER ENDED 2001			
	DECEMBER 31	SEPTEMBER 30	JUNE 30	MARCH
	(IN THOUSANDS, EXCEPT PER SHARE DATA)			
Interest income	$7,646	$7,656	$7,335	$7,01
Interest expense	4,107	4,197	4,213	4,10
Net interest income	3,539	3,459	3,122	2,90
Provision for loan losses	300	179	239	10
Non-interest income	170	138	180	10
Non-interest expense	2,441	2,362	2,309	2,29
Income before income tax	968	1,056	754	61
Income tax expense	253	266	189	15
Net income	$ 715	$ 790	$ 565	$ 46
Less: Preferred stock dividend	$ --	$ --	$ --	$ -

Net income applicable to common shareholders......	$ 715	$ 790	$ 565	$ 46
Basic earnings per common share..................	$ 0.22	$ 0.24	$ 0.18	$ 0.1
Diluted earnings per common share................	0.21	0.23	0.16	0.1

	QUARTER ENDED 2000			
	DECEMBER 31	SEPTEMBER 30	JUNE 30	MARCH
	(IN THOUSANDS, EXCEPT PER SHARE DATA)			
Interest income..................................	$7,081	$6,790	$6,525	$6,29
Interest expense.................................	4,210	3,950	3,654	3,48
Net interest income..............................	2,871	2,840	2,871	2,81
Provision for loan losses........................	128	125	125	15
Non-interest income..............................	96	89	76	5
Non-interest expense.............................	2,185	2,049	2,006	2,21
Income before income tax.........................	654	755	816	51
Income tax expense...............................	169	186	212	10
Net income.......................................	$ 485	$ 569	$ 604	$ 40
Less: Preferred stock dividend...................	$ --	$ --	$ --	$ -
Net income applicable to common shareholders......	$ 485	$ 569	$ 604	$ 40
Basic earnings per common share..................	$ 0.16	$ 0.18	$ 0.19	$ 0.1
Diluted earnings per common share................	0.14	0.17	0.18	0.1

43

INDEPENDENT AUDITORS' REPORT

The Board of Directors
Premier Bancorp, Inc.:

We have audited the accompanying consolidated balance sheets of Premier Bancorp, Inc. and subsidiaries as of December 31, 2002 and 2001, and the related consolidated statements of operations, shareholders' equity and comprehensive income, and cash flows for each of the years in the three year period ended December 31, 2002. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Premier Bancorp, Inc. and subsidiaries as of December 31, 2002 and 2001, and the results of their operations and their cash flows for each of the years in the three year period ended December 31, 2002 in conformity with accounting principles generally accepted in the United States of America.

/s/ KPMG LLP

KPMG LLP

February 11, 2003
Philadelphia, Pennsylvania

PREMIER BANCORP, INC.

CONSOLIDATED BALANCE SHEETS

	DECEMBER 31, 2002	DECEMBER 31, 2001
	(IN THOUSANDS)	
ASSETS:		
Cash and due from banks	$ 23,027	$ 14,383
Short-term investments	10,530	14,137
Interest-bearing deposits	4,486	1,084
Cash and cash equivalents	38,043	29,604
Investment securities:		
Held to maturity (fair value $500 in 2002 and $500 in 2001)	500	500
Available for sale (amortized cost $202,605 in 2002 and $102,399 in 2001)	202,641	97,851
Loans held for sale	1,928	127
Loans receivable (net of allowance for loan losses of $4,229 in 2002 and $3,817 in 2001)	355,598	310,876
Other real estate owned	--	475
Premises and equipment	4,432	4,598
Accrued interest receivable	3,528	2,939
Deferred taxes	1,522	2,887
Other assets	1,780	712
Total assets	$609,972	$450,569
LIABILITIES, MINORITY INTEREST IN SUBSIDIARIES AND SHAREHOLDERS' EQUITY:		
Deposits	$456,486	$358,282
Borrowings	80,067	49,605
Accrued interest payable	2,709	4,554
Other liabilities	5,774	5,019
Subordinated debt	1,500	3,500
Total liabilities	546,536	420,960
Corporation-obligated mandatorily redeemable capital securities of subsidiary trusts holding solely junior		

subordinated debentures of the corporation...............	25,000	10,000
Commitments and contingencies (Note 16)		
SHAREHOLDERS' EQUITY:		
Preferred stock- no par value; 20,000,000 shares authorized; Series A Preferred issued and outstanding 552,000 at December 31, 2002 and none at December 31, 2001...........	12,345	--
Common stock- $0.33 par value; 30,000,000 shares authorized; 3,452,273 shares issued and 3,342,415 shares outstanding at December 31, 2002; 3,242,215 shares issued and outstanding at December 31, 2001.........................	1,139	1,070
Additional paid-in capital................................	12,545	12,085
Retained earnings...	13,701	9,455
Treasury stock at cost; 109,858 shares at December 31, 2002 and none at December 31, 2001............................	(1,318)	--
Accumulated other comprehensive gain (loss), net...........	24	(3,001)
Total shareholders' equity................................	38,436	19,609
Total liabilities, minority interest in subsidiaries and shareholders' equity....................................	$609,972	$450,569

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

PREMIER BANCORP, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

	FOR THE YEAR ENDED DECEMBER 31,		
	2002	2001	20
	(DOLLARS IN THOUSANDS, EXCEPT PER SHAR		
INTEREST INCOME:			
Loans..	$ 25,528	$ 22,468	$ 1
Short-term investments and interest-bearing deposits...	508	403	
Investments:			
Taxable..	5,988	5,807	
Tax-exempt...	770	973	
Total interest income..................................	32,794	29,651	2
INTEREST EXPENSE:			
Deposits...	12,798	14,820	1
Borrowings...	2,467	1,805	
Total interest expense.................................	15,265	16,625	1
Net interest income....................................	17,529	13,026	1
Provision for loan losses..............................	870	818	
Net interest income after provision....................	16,659	12,208	1
NON-INTEREST INCOME:			
Service charges and other deposit-related fees.........	396	330	

Gain, net, on sale of investment securities available for sale	103	13	
Gain (loss) on sale of other real estate owned	33	(17)	
Gain on sale of loans held for sale	131	52	
Fees from sales of title insurance policies	150	137	
Other fees	124	79	
Total non-interest income	937	594	
NON-INTEREST EXPENSE:			
Salaries and employee benefits	5,282	4,337	
Occupancy	819	767	
Data processing	1,156	973	
Professional services	311	323	
Marketing	286	424	
Minority interest in expense of subsidiaries	1,082	873	
Other	2,017	1,708	
Total non-interest expense	10,953	9,405	
Income before income tax	6,643	3,397	
Income tax expense	1,929	863	
Net income	$ 4,714	$ 2,534	$
Less: Preferred stock dividends	$ (468)	$ --	$
Net income applicable to common shareholders	$ 4,246	$ 2,534	$
EARNINGS PER COMMON SHARE:			
Basic	$ 1.26	$ 0.79	$
Diluted	$ 1.22	$ 0.74	$
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING:			
Basic	3,365,467	3,212,537	3,09
Diluted	3,493,716	3,442,369	3,42

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

PREMIER BANCORP, INC.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY AND COMPREHENSIVE INCOME

FOR THE YEAR ENDED DECEMBER 31, 2002, 2001 A

	COMPREHENSIVE INCOME	PREFERRED STOCK	COMMON STOCK	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	TREASURY STOCK
				(IN THOUSANDS)		
BALANCE AT DECEMBER 31, 1999		$ --	$1,016	$11,662	$ 4,860	$ --
Comprehensive income						
Net income	$2,061	--	--	--	2,061	--

Other comprehensive income, net of tax						
Unrealized gain on investment securities available for sale...........	1,610	--	--	--	--	--
Less: reclassification adjustment for gains included in net income.............	(2)	--	--	--	--	--
	------					
Other comprehensive income...............	1,608	--	--	--	--	--
	------					
Comprehensive income......	$3,669	--	--	--	--	--
	======					
Common stock issued for options exercised.......		--	9	130	--	--
		-------	------	-------	-------	-------
BALANCE AT DECEMBER 31, 2000...................		$ --	$1,025	$11,792	$ 6,921	$ --
		=======	======	=======	=======	=======
Comprehensive income						
Net income.............	$2,534	--	--	--	2,534	--
Other comprehensive income, net of tax						
Unrealized gain on investment securities available for sale...........	291	--	--	--	--	--
Less: reclassification adjustment for gains included in net income.............	(9)	--	--	--	--	--
	------					
Other comprehensive income...............	282	--	--	--	--	--

Comprehensive income......	$2,816	--	--	--	--	--
	======					
Common stock issued for options exercised.......		--	45	293	--	--
		-------	------	-------	-------	-------
BALANCE AT DECEMBER 31, 2001...................		$ --	$1,070	$12,085	$ 9,455	$ --
		=======	======	=======	=======	=======
Comprehensive income						
Net income.............	$4,714	--	--	--	4,714	--
Preferred stock issued...............		12,345	--	--	--	--
Preferred stock dividends............		--	--	--	(468)	--
Repurchase of common stock................		--	--	--	--	(1,318)
Other comprehensive income, net of tax						
Unrealized gain on investment securities available for sale...........	3,093	--	--	--	--	--
Less: reclassification adjustment for gains						

included in net income..............	(68)	--	--	--	--	--
Other comprehensive income................	3,025	--				
Comprehensive income......	$7,739	--	--	--	--	--
Common stock issued for options exercised.......		--	69	460	--	--
BALANCE AT DECEMBER 31, 2002...................		$12,345	$1,139	$12,545	$13,701	$(1,318)

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

PREMIER BANCORP, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	FOR THE YEAR ENDED DECEMBER 31,		
	2002	2001	2000
	(IN THOUSANDS)		
OPERATING ACTIVITIES:			
Net income..	$ 4,714	$ 2,534	$ 2,061
Adjustments to reconcile net income to cash provided by operating activities:			
Depreciation expense..................................	480	515	459
Provision for loan losses.............................	870	818	528
Fair market value adjustments on IPCD derivatives.......	224	158	--
(Gains) losses on sale of other real estate owned.......	(33)	17	--
Write-off of capitalized costs.........................	--	--	68
(Accretion) amortization of premiums/discounts on investment securities held to maturity................	--	(2)	7
Amortization of premiums/discounts on investment securities available for sale.........................	243	173	120
Gain on sales of investment securities available for sale..	(103)	(13)	(3)
Gain on sales of loans held for sale...................	(131)	(52)	(29)
Originations of loans held for sale....................	(15,726)	(8,702)	(4,727)
Proceeds from sales of loans held for sale.............	14,056	8,627	4,756
Increase in accrued interest receivable................	(589)	(422)	(343)
Increase in deferred tax asset.........................	(194)	(329)	(188)
(Increase) decrease in other assets....................	(1,068)	(13)	69
Increase in deferred loan fees.........................	295	512	269
(Decrease) increase in accrued interest payable.........	(1,845)	427	1,763
Increase (decrease) in other liabilities...............	609	(513)	3,354
Net cash provided by operating activities..................	1,802	3,735	8,164
INVESTING ACTIVITIES:			

Proceeds from sales of investment securities available for sale	66,536	29,569	5,474
Repayment of investment securities available for sale	15,825	11,420	5,757
Purchases of investment securities available for sale	(182,707)	(44,000)	(6,410)
Repayment of investment securities held to maturity	--	5,528	848
Net increase in loans receivable	(45,887)	(77,129)	(40,480)
Proceeds from sales of other real estate owned	508	235	--
Purchases of premises and equipment	(314)	(260)	(1,573)
Net cash used in investing activities	(146,039)	(74,637)	(36,384)
FINANCING ACTIVITIES:			
Net increase in deposits	98,204	54,989	65,812
Net increase (decrease) in borrowings less than 90 days	462	5,201	(28,133)
Proceeds from borrowings greater than 90 days	30,000	30,000	--
Repayment of borrowings greater than 90 days	--	--	(10,000)
Proceeds from subordinated debt	--	2,000	--
Repayment of subordinated debt	(2,000)	--	--
Proceeds from issuance of trust preferred securities	15,000	--	--
Net proceeds from issuance of preferred stock	12,345	--	--
Payment of preferred stock dividends	(468)	--	--
Purchases of treasury stock	(1,318)	--	--
Proceeds from exercised common stock options	451	290	76
Net cash provided by financing activities	152,676	92,480	27,755
Increase (decrease) in cash and cash equivalents	8,439	21,578	(465)
CASH AND CASH EQUIVALENTS:			
Beginning of year	29,604	8,026	8,491
End of year	$ 38,043	$ 29,604	$ 8,026
SUPPLEMENTAL DISCLOSURES:			
Cash payments for:			
Interest expense	$ 17,110	$ 16,198	$ 13,531
Taxes	2,830	470	660
SUPPLEMENTAL DISCLOSURE OF NONCASH ACTIVITIES:			
Change in the estimated fair value of investment securities available for sale	$ 4,584	$ 427	$ 2,435
Change in deferred tax asset related to investment securities available for sale	(1,559)	(145)	(827)
Tax effect of exercised common stock options	78	48	63
Transfer of loans to other real estate owned	--	475	252

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

PREMIER BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BUSINESS

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'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 office network located in Bucks, Montgomery and Northampton Counties in Pennsylvania. Premier Bank is a Pennsylvania chartered commercial bank and member of the Federal Reserve Bank of Philadelphia and the Federal Deposit Insurance Corporation. Premier Bank competes with other financial institutions and other financial services companies with respect to services offered and customers.

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

BASIS OF FINANCIAL STATEMENT PRESENTATION

The consolidated financial statements include the accounts of PBI and its wholly owned subsidiaries: Premier Bank, PBI Capital Trust, Premier Capital Trust II, Lenders Abstract, LLC and Premier Bank Insurance Services, LLC. These statements were prepared in accordance with accounting principles generally accepted in the United States of America as applied to the banking industry. All significant intercompany accounts and transactions were eliminated in the consolidated financial statements. Certain previously reported amounts were reclassified to conform to current presentation standards.

USE OF ESTIMATES

In preparing the consolidated financial statements, 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.

INVESTMENT SECURITIES

Debt and equity securities are classified as either held to maturity (HTM), trading or as available for sale (AFS). Investments are classified as securities HTM if there is a positive intent and ability to hold to maturity. Securities HTM are reported at amortized cost. Investment securities that are not HTM or held for trading purposes are classified as securities AFS. Securities AFS are reported at fair value, with unrealized gains and losses, net of tax, excluded from earnings and reported as accumulated other comprehensive gain (loss), net, within shareholders' equity. PBI and its subsidiaries do not engage in any trading activities. The appropriate classification of securities is determined at the time of purchase.

Securities AFS include securities that are intended to be used as part of PBI's asset/liability management strategy and that may be sold in response to changes in market interest rates and related changes in the securities' prepayment risk or to meet liquidity needs. The majority of the investment portfolio is classified as available for sale.

Premiums and discounts on debt securities are recognized in interest income using a constant yield method. Gains and losses on sales of investment securities are computed on the specific identification basis and included in non-interest income based on trade date.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

Equity securities are limited to stocks owned in the Federal Reserve Bank, the Federal Home Loan Bank of Pittsburgh (FHLB) and the Atlantic Central Bankers Bank, a correspondent bank. These securities are reported at cost, which approximates liquidation value.

LOANS

Loans are stated at the principal amount outstanding, net of deferred loan fees and costs. Interest income is accrued on the principal amount outstanding. Loan origination fees and related direct costs are deferred and amortized to income over the term of the respective loan and loan commitment period as a yield adjustment.

Non-accrual loans are those on which the accrual of interest has stopped. Non-consumer loans are generally placed on non-accrual status if it is believed that collection is doubtful, or when principal or interest is past due 90 days or more. Interest accrued, but not collected at the date a loan is placed on non-accrual status, is reversed and charged against interest income. Subsequent cash receipts are recorded as either a reduction of outstanding principal or as interest income depending on management's assessment of the ultimate collectibility of principal and interest. Loans are returned to accrual status when the borrower's ability to make periodic principal and interest payments returns to normal (i.e., brought current with respect to principal and interest or restructured) and the paying capacity of the borrower and/or the underlying collateral is deemed sufficient to cover principal and interest. Consumer loans are not automatically placed on non-accrual status when principal or interest payments are 90 days past due. Instead, most consumer loans are charged-off when deemed uncollectible or after reaching 120 days past due.

Impaired loans are measured based on the present value of expected future discounted cash flows, the market price of the loan or the fair value of the underlying collateral if the loan is collateral dependent. Interest income is recognized on impaired loans in the same manner as for non-accrual loans discussed above.

LOANS HELD FOR SALE

Residential mortgages held for sale are carried at the lower of aggregate cost or market value. Gains and losses on residential mortgages held for sale are included in non-interest income. Servicing rights are released to purchasers when the loans are sold.

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. In addition, 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.

PREMISES AND EQUIPMENT

Premises and equipment are recorded at cost, less accumulated depreciation and amortization. Depreciation and amortization are calculated on a straight-line basis over the estimated useful lives of the assets as follows: buildings -- 15 to 40 years; leasehold improvements -- lesser of the useful life or lease term; equipment -- 5 to 10 years; and software -- 3 years. Expenditures for maintenance and repairs are charged to operations as incurred. Gains or losses on the sale of these assets are recorded when realized. Land is carried at cost.

OTHER REAL ESTATE OWNED

Other real estate owned consists of properties acquired through foreclosure proceedings or acceptance of a deed in lieu of foreclosure. Other real estate owned is reported at the lower of the carrying value of the loan or the fair value of the property, net of estimated selling costs. Costs relating to the development or improvement of properties are capitalized. Costs relating to the operation and maintenance of properties are expensed as incurred. Gains and losses are recorded through earnings when the property is sold.

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 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 five 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.

Premier Bank 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.

INCOME TAXES

PBI files a consolidated federal income tax return. The asset and liability method, under which deferred tax assets and liabilities are recognized for the future tax consequences attributable to the difference between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, is used to provide for income taxes. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income in the period that includes the enactment date.

EARNINGS PER COMMON SHARE

Basic earnings per common share is calculated using the weighted-average number of shares outstanding, after giving retroactive effect to the 5% common stock dividend declared on February 17, 2000 and paid on March 10, 2000. 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.

STOCK OPTIONS

PBI's stock based compensation plans are described in Note 15 to the Consolidated Financial Statements. PBI accounts for its stock option plans under the recognition and measurement principles of Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees" and related interpretations. No stock based employee compensation cost is reflected in net income, as all options granted under those plans had an exercise price equal to the market value of the underlying common stock on the date of grant. The following table illustrates the tax effect on net income and earnings per share if PBI had applied the fair value provisions of FASB Statement No. 123, "Accounting for Stock-Based Compensation," to stock-based employee compensation.

	FOR THE YEAR ENDED DECEMBER 31,		
	2002	2001	2000
	(IN THOUSANDS, EXCEPT PER SHARE DATA)		
Net income applicable to common shareholders			
As reported	$4,246	$2,534	$2,061
Pro forma	4,246	2,413	1,690
Basic earnings per common share			
As reported	$ 1.26	$ 0.79	$ 0.67
Pro forma	1.26	0.75	0.55
Diluted earnings per common share			
As reported	$ 1.22	$ 0.74	$ 0.60
Pro forma	1.22	0.70	0.49

STATEMENT OF CASH FLOWS

Cash and cash equivalents for purposes of this statement consist of cash and due from banks, short-term investments with an original term of 30 days or less, interest-bearing deposits, and overnight federal funds sold.

RECENT ACCOUNTING PRONOUNCEMENTS

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 was no 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 was no 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.

Stock-Based Compensation

In December 2002, the FASB issued Statement No. 148, "Accounting for Stock-Based Compensation -- Transition and Disclosure -- an amendment of FASB Statement No. 123." This statement amends FASB Statement No. 123, Accounting for Stock-Based Compensation, to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. The Statement also amends the disclosure requirements of Statement 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. This statement is effective for fiscal years ending after December 15, 2002, except for financial reports containing condensed financial statements for interim periods for which disclosure is effective for periods beginning after December 15, 2002.

This Statement announces that "in the near future, the Board plans to consider whether it should propose changes to the U.S. standards on accounting for stock-based compensation". We have not changed to the fair value method of accounting for stock-based employee compensation. We continue to apply the provisions on APB Opinion No. 30, as permitted by statement No. 123, and provide pro-forma net income and pro-forma earnings per share disclosures for stock option grants made in 1995 and subsequent years as if the fair value method had been applied.

NOTE 2 -- SUBSEQUENT EVENT

On January 16, 2003, PBI announced that it had entered into a definitive agreement to be acquired by Fulton Financial Corporation based in Lancaster, Pennsylvania. Under the terms of the agreement, Fulton Financial will acquire all of PBI's issued and outstanding shares of common stock. Each share of PBI common stock outstanding will be exchanged for 1.34 shares of Fulton Financial common stock, subject to adjustment. All outstanding shares of PBI preferred stock are expected to be redeemed as of or before the closing date of the transaction. This acquisition, which is subject to the approval of bank regulators and PBI shareholders, is expected to close by the third quarter of 2003.

NOTE 3 -- CASH AND DUE FROM BANKS

Premier Bank is required to maintain certain daily average reserve balances in accordance with Federal Reserve Board (FRB) requirements. The FRB reserve requirement was $14,183,000 and $3,002,000 at December 31, 2002 and 2001, respectively. In addition, Premier Bank was required to maintain $346,000 in cash reserves at its correspondent bank at both December 31, 2002 and 2001.

NOTE 4 -- INVESTMENT SECURITIES

The amortized cost and estimated fair value of investment securities at December 31, 2002 and 2001 were as follows.

	AMORTIZED COST	GROSS UNREALIZED GAIN	GROSS UNREALIZED (LOSS)	ESTIMATED FAIR VALUE
		(IN THOUSANDS)		
DECEMBER 31, 2002				
HELD TO MATURITY:				
Other debt securities	$ 500	$ --	$ --	$ 500
Total investment securities held to maturity	$ 500	$ --	$ --	$ 500
AVAILABLE FOR SALE:				
Mortgage-backed securities	$110,527	$1,372	$ (93)	$111,806
Municipal securities	11,214	154	--	11,368
Equity securities	3,969	--	--	3,969
Corporate bonds	71,785	718	(2,115)	70,388
Mutual funds	5,000	--	--	5,000
Other debt securities	110	--	--	110
Total investment securities available for sale	$202,605	$2,244	$(2,208)	$202,641
DECEMBER 31, 2001				
HELD TO MATURITY:				
Other debt securities	$ 500	$ --	$ --	$ 500
Total investment securities held to maturity	$ 500	$ --	$ --	$ 500
AVAILABLE FOR SALE:				
Mortgage-backed securities	$ 43,286	$ 220	$ (141)	$ 43,365
Municipal securities	20,796	3	(768)	20,031
Equity securities	2,023	--	--	2,023
Corporate bonds	36,184	--	(3,862)	32,322
Other debt securities	110	--	--	110
Total investment securities available for sale	$102,399	$ 223	$(4,771)	$ 97,851

Premier Bank pledged $28,553,000 and $20,866,000 in investment securities as collateral for customer repurchase agreements at December 31, 2002 and 2001, respectively.

The amortized cost and estimated fair value of investment securities AFS and HTM by contractual maturity at December 31, 2002 are shown in the following table.

	INVESTMENT SECURITIES HELD TO MATURITY		INVESTMENT SECURITIES AVAILABLE FOR SALE	
	AMORTIZED COST	ESTIMATED FAIR VALUE	AMORTIZED COST	ESTIMATED FAIR VALUE
	(IN THOUSANDS)			
Due in one year or less	$ --	$ --	$ 21,720	$ 22,441
Due after one year through five years	--	--	66,967	67,857
Due after five years through ten years	500	500	23,399	23,546
Due after 10 years	--	--	90,519	88,797
Total	$500	$500	$202,605	$202,641

Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without penalties.

Proceeds from sales of investment securities available for sale are as follows.

	2002	2001	2000
	(IN THOUSANDS)		
Proceeds	$66,536	$29,569	$5,474
Gross gains	659	62	7
Gross losses	556	49	4

NOTE 5 -- LOANS

Loan categories and their respective balances are as follows.

	DECEMBER 31,	
	2002	2001

	(IN THOUSANDS)	
Real estate -- farmland	$ 194	$ 214
Real estate -- construction	10,574	15,911
Real estate -- residential	32,446	30,188
Real estate -- multifamily	19,350	15,011
Real estate -- commercial	253,357	208,412
Commercial	44,387	45,238
Consumer	1,187	1,092
Total loans	361,495	316,066
Deferred loan fees	(1,668)	(1,373)
Allowance for loan losses	(4,229)	(3,817)
Total loans, net	$355,598	$310,876

Premier Bank generally lends in the Greater Delaware and Lehigh Valleys of Pennsylvania and New Jersey with a majority of its borrowers located in communities surrounding its branch offices. Most loans are collateralized in part by real estate. Accordingly, lending activities could be affected by changes in the general economy, the regional economy or real estate values.

Non-accrual and impaired loans are one and the same at both December 31, 2002 and 2001. Non-accrual/impaired loans were $4,849,000 and $2,687,000 at December 31, 2002 and 2001, respectively. The average recorded investment in non-accrual/impaired loans was $5,332,000 and $458,000 for the year ended December 31, 2002 and 2001, respectively.

Interest income recognized on non-accrual/impaired loans was $123,000 and $51,000 for the year ended December 31, 2002 and 2001, respectively. Foregone interest on non-accrual/impaired loans was $349,000 and $43,000 for the year ended December 31, 2002 and 2001, respectively.

Potential problem loans are those loans believed to require increased supervision and review and may, depending on the economic environment and other factors, become non-performing assets in future periods. Potential problem loans totaled $156,000 and $2,356,000 at December 31, 2002 and 2001, respectively. Most of these loans are secured by real estate.

NOTE 6 -- ALLOWANCE FOR LOAN LOSSES

Activity in the allowance for loan losses is shown below.

	FOR THE YEAR ENDED DECEMBER 31,		
	2002	2001	2000
	(IN THOUSANDS)		
Balance at beginning of year	$3,817	$3,032	$2,511
Charge-offs	(458)	(33)	(7)

Provision for loan losses	870	818	528
Balance at end of year	$4,229	$3,817	$3,032

NOTE 7 -- PREMISES AND EQUIPMENT

Premises and equipment, stated at cost less accumulated depreciation and amortization, are summarized below.

	DECEMBER 31,	
	2002	2001
	(IN THOUSANDS)	
Building	$ 2,465	$ 2,464
Land	1,061	1,061
Leasehold improvements	414	382
Furniture, fixtures and equipment	2,363	2,087
Cost	6,303	5,994
Accumulated depreciation and amortization	(1,871)	(1,396)
Carrying value	$ 4,432	$ 4,598

Depreciation and amortization expenses on premises and equipment were $480,000 and $515,000 for the year ended December 31, 2002 and 2001, respectively.

At December 31, 2002 and 2001 both the Bensalem branch and the Southampton branch and operations center were leased. In addition, the land occupied by the Montgomeryville branch was also leased. The lease on the Southampton operations center expired in February 2003. The bank subsequently renewed the Southampton operations center lease for twelve months expiring February 2004. All other leases include options for renewal.

Required minimum annual rentals due on non-cancelable leases expiring after one year were approximately $2,861,000 in the aggregate at December 31, 2002. Future minimum payments under these leases are as follows

	FUTURE MINIMUM PAYMENTS
	(IN THOUSANDS)
2003	$ 220
2004	221

2005	225
2006	234
2007	234
2008 and thereafter	1,727
	$2,861

NOTE 8 -- DEPOSITS

Deposit categories and their respective balances and weighted average interest rates are as follows.

	DECEMBER 31,					
	2002			2001		
	WEIGHTED AVERAGE INTEREST RATE	AMOUNT	% OF TOTAL	WEIGHTED AVERAGE INTEREST RATE	AMOUNT	% OF TOTAL
	(DOLLARS IN THOUSANDS)					
Interest checking	1.68%	$157,691	34.54%	2.69%	$ 58,826	16.42%
Money market	1.97%	18,611	4.08%	2.32%	16,997	4.74%
Savings	1.84%	58,182	12.75%	2.25%	44,059	12.30%
Time	3.69%	189,115	41.43%	5.31%	208,057	58.07%
Total interest-bearing deposits	2.61%	423,599	92.80%	4.27%	327,939	91.53%
Non-interest-bearing deposits		32,887	7.20%		30,343	8.47%
Total deposits		$456,486	100.00%		$358,282	100.00%

Time deposits as of December 31, 2002 mature as follows.

	AMOUNTS $100,000 OR GREATER	AMOUNTS LESS THAN $100,000	TOTAL
	(IN THOUSANDS)		
2003	$23,203	$ 64,090	$ 87,293
2004	8,307	36,636	44,943
2005	3,908	15,509	19,417
2006	11,082	14,517	25,599
2007	6,294	5,569	11,863
2008 and thereafter	--	--	--
	$52,794	$136,321	$189,115

PREMIER BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

Interest expense on deposits is as follows.

	FOR THE YEAR ENDED DECEMBER 31,		
	2002	2001	2000
	(IN THOUSANDS)		
Interest checking	$ 3,179	$ 809	$ 560
Money market	383	624	329
Savings	1,104	1,294	1,666
Time	8,132	12,093	10,299
Total interest expense on deposits	$12,798	$14,820	$12,854

NOTE 9 -- BORROWINGS

At December 31, 2002 and 2001, short-term borrowings were comprised entirely of overnight borrowings from customers. At December 31, 2000, short-term borrowings included $785,000 in overnight federal funds purchased and $13,619,000 in overnight borrowings from customers.

At December 31, 2002, $30,000,000 of the total long-term FHLB borrowings is fixed rate and matures in 2008. The remaining $30,000,000 is convertible debt that may change from a fixed rate to a variable rate depending on the LIBOR index. This convertible debt matures in 2012. Long-term FHLB borrowings at December 31, 2001 are fixed rate and mature in 2008.

All borrowings from the FHLB are secured by a blanket lien against all of Premier Bank's assets. In addition, the FHLB's collateral policies require borrowers who exceed certain borrowing levels to deliver certain investment securities to them as collateral. Under this policy, Premier Bank was not required to deliver investment securities as collateral to the FHLB at December 31, 2002 or 2001. Customer repurchase agreements are collateralized by investment securities in an amount equal to or exceeding such borrowings. Premier Bank controls investment securities pledged as collateral for customer repurchase agreements.

At December 31, 2002 and 2001, Premier Bank had a $6,000,000 unsecured federal funds line of credit with its correspondent bank. Premier Bank's borrowing limit with the FHLB was $148,199,000 and $74,898,000 at December 31, 2002 and 2001, respectively. At December 31, 2002, Premier Bank had unused borrowing capacity of $6,000,000 and $76,899,000 with its correspondent bank and the FHLB, respectively. The bank's unused borrowing capacity with the FHLB reflects reductions for $60,000,000 in FHLB borrowings outstanding and $11,300,000 in letters of credit at December 31, 2002. The letters of credit issued by the FHLB guarantee the principal amounts of certain Index Powered(SM) Certificates of

PREMIER BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

Deposit in excess of FDIC insured levels. At December 31, 2001, Premier Bank had unused borrowing capacity of $6,000,000 and $37,798,000 with its correspondent bank and the FHLB, respectively.

	TOTAL BALANCE END OF YEAR	WEIGHTED AVERAGE RATE	MAXIMUM AMOUNT OUTSTANDING AT MONTH END DURING THE YEAR	AVERAGE AMOUNT OUTSTANDING DURING THE YEAR
			(DOLLARS IN THOUSANDS)	
DECEMBER 31, 2002				
Short-term borrowings	$20,067	0.25%	$29,035	$19,553
Long-term FHLB borrowings	60,000	4.75%	60,000	40,356
	$80,067	3.62%		$59,909
DECEMBER 31, 2001				
Short-term borrowings	$19,605	0.75%	$25,692	$18,894
Long-term FHLB borrowings	30,000	5.85%	30,000	19,288
	$49,605	3.83%		$38,182
DECEMBER 31, 2000				
Short-term borrowings	$14,404	5.59%	$58,807	$38,193

NOTE 10 -- SUBORDINATED DEBT

At December 31, 2002 and 2001, Premier Bank had subordinated debt of $1,500,000 and $3,500,000, respectively.

At December 31, 2002, subordinated debt consisted of one variable rate note issued on January 9, 1997. This note adjusts annually in January based on the 1 year Treasury index plus 240 basis points. Interest is payable monthly for the first 10 years. Principal and interest payments begin in year 11 with full amortization by maturity. This debt is unsecured and requires regulatory approval for prepayment.

At December 31, 2001, subordinated debt consisted of two notes. In addition to the aforementioned January 1997 issue in the amount of $1,500,000, the bank had an additional $2,000,000 in variable rate debt outstanding. This $2,000,000 note was issued on December 31, 2001 and repaid on October 11, 2002.

		AMOUNT AT DECEMBER 31,		INTEREST RATE AT DECEMBER 31,		
ISSUE DATE	MATURITY DATE	2002	2001	2002	2001	2000

1/9/1997.............	1/12/2012	$1,500,000	$1,500,000	4.64%	7.29%	8.49%
12/31/2001...........	12/31/2016	--	2,000,000	--	6.15%	--
Total..............................		$1,500,000	$3,500,000			

NOTE 11 -- DERIVATIVE 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 on a formula that is dependent on the return of the Standard & Poor's 500(R) Index. This innovative 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.

Premier Bank 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 notional amount of derivative contracts was $16,575,000 and $10,905,000 at December 31, 2002 and 2001, respectively. The fair value of derivatives is included in "Other liabilities" and approximated $2,608,000 and $2,055,000 at December 31, 2002 and 2001, respectively. PBI recorded $224,000 and $158,000 in other expense for net changes in the fair market value of derivatives for the year ended December 31, 2002 and 2001, respectively. The fair value adjustments are due to changes in prevailing interest rates and the resulting valuation of future payments due to the FHLB. These valuation adjustments will cumulatively net to zero at the maturity of the contracts.

NOTE 12 -- EARNINGS PER COMMON SHARE

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

FOR THE YEAR ENDED DECEMBER 31, 2002	NET INCOME APPLICABLE TO COMMON SHAREHOLDERS	WEIGHTED AVERAGE NUMBER OF COMMON SHARES	PER COMMON SHARE AMOUNT
	(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)		
Basic earnings per common share.......	$4,246	3,365,467	$ 1.26
Effect of dilutive common stock options............................	--	128,249	(0.04)
Earnings per diluted common share.....	$4,246	3,493,716	$ 1.22

FOR THE YEAR ENDED DECEMBER 31, 2001	NET INCOME APPLICABLE TO COMMON SHAREHOLDERS	WEIGHTED AVERAGE NUMBER OF COMMON SHARES	PER COMMON SHARE AMOUNT
	(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)		
Basic earnings per common share.......	$2,534	3,212,537	$ 0.79
Effect of dilutive common stock options............................	--	229,832	(0.05)
Earnings per diluted common share.....	$2,534	3,442,369	$ 0.74

FOR THE YEAR ENDED DECEMBER 31, 2000	NET INCOME APPLICABLE TO COMMON SHAREHOLDERS	WEIGHTED AVERAGE NUMBER OF COMMON SHARES	PER COMMON SHARE AMOUNT
	(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)		
Basic earnings per common share.......	$2,061	3,097,450	$ 0.67
Effect of dilutive common stock options............................	--	325,382	(0.07)
Earnings per diluted common share.....	$2,061	3,422,832	$ 0.60

Basic earnings per common share is calculated using the weighted average number of common shares outstanding after giving retroactive effect to the 5% common stock dividend declared on February 17, 2000. Options to purchase 303,748, 539,023, and 700,325 shares of common stock were outstanding at December 31, 2002, 2001, and 2000, respectively. Options, to the extent dilutive, were included in the computation of earnings per diluted common share for each respective period. Options to purchase 51,998 shares of common stock were anti-dilutive and excluded from the calculations of earnings per diluted common share for the first and second quarter of 2002. There were no anti-dilutive options for the third and fourth quarter of 2002. Options to purchase 51,998 and 48,581 shares of common stock were anti-dilutive for the entire year of 2001 and 2000, respectively.

NOTE 13 -- INCOME TAXES

The components of the provision for income taxes are as follows.

	FOR THE YEAR ENDED DECEMBER 31,		
	2002	2001	2000

	(IN THOUSANDS)		
Current tax expense	$2,123	$1,192	$ 863
Deferred income tax benefit	(194)	(329)	(188)
Income tax expense	$1,929	$ 863	$ 675

The tax effects of temporary differences that represent the significant portion of deferred tax assets and liabilities are as follows.

	FOR THE YEAR ENDED DECEMBER 31,	
	2002	2001
	(IN THOUSANDS)	
DEFERRED TAX ASSETS:		
Unrealized net loss on investment securities available for sale	$ --	$1,547
Allowance for loan loss	1,438	1,298
Non-accrued interest	124	27
Depreciation	--	13
Other	43	26
Total deferred tax assets	1,605	2,911
DEFERRED TAX LIABILITIES:		
Unrealized net gain on investment securities available for sale	(12)	--
Depreciation	(71)	--
Tax bad debt reserve	--	(24)
Total deferred tax liabilities	(83)	(24)
Net deferred tax assets	$1,522	$2,887

The realizability of deferred tax assets is dependent upon a variety of factors, including the generation of future taxable income, the existence of taxes paid and recoverable, the reversal of deferred tax liabilities and tax planning strategies. Based upon these and other factors, it is believed more likely than not that the benefits of these deferred tax assets will be realized.

A reconciliation of income tax expense in the accompanying statements of operations with the amount computed by applying the statutory federal income tax rate to earnings before income taxes is as follows.

	FOR THE YEAR ENDED DECEMBER 31,		
	2002	2001	2000
	(IN THOUSANDS)		

Tax expense at 34% rate	$2,259	$1,155	$ 930
Interest from tax exempt loans and investments	(346)	(305)	(268)
Other, net	16	13	13
Income tax expense	$1,929	$ 863	$ 675

NOTE 14 -- EMPLOYEE BENEFIT PLANS

Premier Bank maintains a defined contribution savings plan covering substantially all employees. The plan allows eligible employees to make contributions by salary reduction pursuant to the provisions of 401(k) of the Internal Revenue Code. Approximately $102,000, $88,000 and $81,000 in discretionary matching 401(k) contributions were expensed during the year ended December 31, 2002, 2001 and 2000, respectively.

NOTE 15 -- STOCK OPTION PLAN

The number of options and strike prices in the following discussion are provided after incorporating a retroactive adjustment due to the 5% common stock dividend declared on February 17, 2000 and paid on March 10, 2000. In connection with the bank's initial stock offering in 1992, 486,497 options to purchase common stock at a price of $2.89 per share were issued to certain incorporators, directors, officers and institutional investors. At December 31, 2002 there were no such options outstanding compared to 234,488 of such options outstanding at December 31, 2001.

In addition, a stock option program was adopted in 1995 whereby up to 315,000 options may be granted to employees or directors based on a discretionary incentive program. The exercise price of options granted under this program will be at the fair value of common stock as of the grant date. Options expire ten years from the date of grant. Options granted under this program, with the exception of 85,050 options granted in 1997, were vested immediately. The 85,050 options granted in 1997 were fully vested in 2001. A total of 306,674 options were granted under this program as of December 31, 2002 and 2001. There were 303,748 and 304,535 of such options outstanding at December 31, 2002 and 2001, respectively.

A summary of stock option activity for the year ended December 31, 2002, 2001 and 2000 is as follows. There were no stock options granted for the year ended December 31, 2002.

	FOR THE YEAR ENDED DECEMBER 31,				
	2002		2001		
	SHARES	WEIGHTED AVERAGE EXERCISE PRICE	SHARES	WEIGHTED AVERAGE EXERCISE PRICE	SHARES
Outstanding at beginning of					

year	539,023	$4.63	700,325	$4.22	688,326
Granted	--	--	2,600	6.25	38,333
Exercised	(235,275)	2.89	(163,902)	2.89	(26,334
Outstanding at end of year	303,748	$5.98	539,023	$4.63	700,325
Options exercisable at end of year	303,748		539,023		666,305

PREMIER BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

The following summarizes information about stock options at December 31, 2002 and 2001. All options outstanding at December 31, 2002 and 2001 were exercisable.

DECEMBER 31, 2002

OPTIONS OUTSTANDING			
RANGE OF EXERCISE PRICES	NUMBER OUTSTANDING	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE (IN YEARS)	WEIGHTED-AVERAGE EXERCISE PRICE
3.50	12,061	3.00	3.50
4.76	221,156	4.00	4.76
5.71	15,933	5.00	5.71
6.25	2,600	8.00	6.25
10.48	13,665	6.00	10.48
12.26	38,333	7.00	12.26
$3.50 to $12.26	303,748	4.52	$ 5.98

DECEMBER 31, 2001

OPTIONS OUTSTANDING			
RANGE OF EXERCISE PRICES	NUMBER OUTSTANDING	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE (IN YEARS)	WEIGHTED-AVERAGE EXERCISE PRICE
$2.89	234,488	0.33	$ 2.89
3.50	12,502	4.00	3.50
4.76	221,502	5.00	4.76
5.71	15,933	6.00	5.71
6.25	2,600	9.00	6.25
10.48	13,665	7.00	10.48
12.26	38,333	8.00	12.26

$2.89 to $12.26	539,023	3.26	$ 4.63

In December 2002, the FASB issued Statement No. 148, Accounting for Stock-Based Compensation -- Transition and Disclosure. This statement amends FASB Statement No. 123, Accounting for Stock-Based Compensation, to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, this Statement amends the disclosure requirements of Statement 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The requirements of Statement No. 148 are effective for fiscal years ending after December 15, 2002, except for financial reports containing condensed financial statements for interim periods. PBI continues to account for stock-based compensation under APB No. 25. The pro-forma disclosures required by APB No. 25 are provided in Note 1 to the Consolidated Financial Statements.

The fair value of each option granted using the Black Scholes option pricing model was $3.36 in 2001 and $7.50 in 2000. Significant assumptions used in the model for 2001 and 2000 grants include: a weighted average risk-free rate of return of 5.25% in both 2001 and 2000; volatility of 35% in both 2001 and 2000; ten year expected option life for both 2001 and 2000; and no dividends for 2001 and 2000. Had the grant date fair value provisions of Statement No. 123 been adopted, PBI would have recognized additional

compensation expense of $121,000 and $371,000 in 2001 and 2000, respectively. There were no options granted in 2002.

NOTE 16 -- COMMITMENTS AND CONTINGENCIES

Premier Bank is a party to financial instruments with off-balance sheet risk in the normal course of business. These financial instruments include commitments to extend credit and stand-by letters of credit to meet the financing needs of its customers. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated balance sheets. The contract or notional amounts of those instruments reflect Premier Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instrument.

Financial instruments whose contract amounts represent credit risk at December 31, 2002 and 2001 were as follows.

	CONTRACT OR NOTIONAL AMOUNT	
	DECEMBER 31,	
	2002	2001
	(IN THOUSANDS)	

Commitments to extend credit...............................	$45,068	$42,397
Stand-by letters of credit.................................	$ 2,631	$ 3,242

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Premier Bank evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the customer. Collateral held varies but may include inventory, property, plant and equipment and income producing commercial properties. The commitments at December 31, 2002 and 2001 were principally to originate commercial loans and other loans secured by real estate. At December 31, 2002, fixed and adjustable/variable rate commitments totaled $11,113,000 and $33,955,000, respectively. At December 31, 2001, fixed and adjustable/variable rate commitments totaled $7,857,000 and $34,540,000, respectively.

Premier Bank issues stand-by letters of credit to guarantee the performance of a customer to a third party. Most guarantees extend for one year or less. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers.

The amount of collateral received on loan commitments and on stand-by letters of credit is dependent upon the individual transaction and the creditworthiness of the customer.

CONCENTRATIONS OF CREDIT RISK

Premier Bank generally lends in the Greater Delaware and Lehigh Valleys of Pennsylvania and New Jersey with a majority of its borrowers located in communities surrounding its branches. The majority of the loan portfolio is secured by residential and commercial real estate. Accordingly, the primary concentration of credit risk is related to the real estate market in these areas. The ultimate collectibility of loans is susceptible to changes in local market conditions, and therefore, dependent upon the local economic environment. In addition, loan concentrations are also considered to exist when there are amounts loaned or committed to be loaned to a multiple number of borrowers engaged in similar activities which would cause their ability to meet contractual obligations to be similarly impacted by economic or other conditions. The loan portfolio contains many borrowers who are employed in the medical professions, restaurant and lodging industry and real estate business.

Premier Bank's investment portfolio has a concentration in trust preferred securities issued by other financial institutions, which are classified as corporate bonds. The amount of such trust preferred securities totaled $43,723,000 or 22% and $32,322,000 or 33% of the investment portfolio at December 31, 2002 and 2001, respectively.

LEGAL PROCEEDINGS

At December 31, 2002 and 2001, 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 governmental authorities against PBI, its subsidiaries or its property.

NOTE 17 -- RELATED PARTY TRANSACTIONS

As a matter of policy, Premier Bank does not extend credit to employees, officers or directors.

Premier Bank incurred $111,000 and $115,000 in expenses for management and financial consulting services rendered by the Chairman of the Board of Directors during the year ended December 31, 2001 and 2000, respectively. On January 1, 2002, the Chairman of the Board of Directors became an employee of the bank.

NOTE 18 -- DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

PBI is required to disclose the estimated fair values of financial instruments, whether or not recognized in the consolidated balance sheet. For PBI, as for most financial institutions, substantially all of its assets and liabilities are considered financial instruments.

Estimates of fair value are made at a specific point in time, based upon, where available, relevant market prices and information about the financial instrument. Such estimates do not include any premium or discount that could result from offering for sale at one time the entire holdings of a particular financial instrument. For a substantial portion of financial instruments, no quoted market exists. Therefore, estimates of fair value are necessarily based on a number of significant assumptions regarding the amount and timing of estimated future cash flows, which are discounted to reflect varying degrees of risk. Given the uncertainties surrounding these assumptions, the reported fair values may not represent actual values of financial instruments that could have been realized as of each date presented or that will be realized in the future. Use of different assumptions or methodologies is likely to result in significantly different fair value estimates.

The fair value of non-interest-bearing demand deposits, interest checking accounts, money market accounts and savings accounts is assumed equal to the carrying amount. This approach to estimating fair value excludes the significant benefit that results from the low-cost funding provided by such deposit liabilities, as compared to alternative sources of funding. As a consequence, the values below distort the actual fair value of a banking organization that is a going concern.

The estimated fair values and carrying amounts of financial assets and liabilities are summarized as follows.

	DECEMBER 31, 2002		DECEMBER 31, 2001	
	ESTIMATED FAIR VALUE	CARRYING AMOUNT	ESTIMATED FAIR VALUE	CARRYING AMOUNT
	(IN THOUSANDS)			
FINANCIAL ASSETS:				
Cash and due from banks....................	$ 23,027	$ 23,027	$ 14,383	$ 14,383
Short-term investments.....................	10,530	10,530	14,137	14,137
Interest-bearing deposits..................	4,486	4,486	1,084	1,084
Investment securities:				
Held to maturity........................	500	500	500	500

Available for sale......................	202,641	202,641	97,851	97,851
Loans held for sale......................	1,928	1,928	127	127
Loans receivable, net.....................	380,542	355,598	335,966	310,876
Accrued interest receivable................	3,528	3,528	2,939	2,939
FINANCIAL LIABILITIES:				
Deposits with no stated maturities.........	$267,371	$267,371	$150,225	$150,225
Deposits with stated maturities............	194,202	189,115	210,554	208,057
Borrowings................................	86,347	80,067	50,120	49,605
Accrued interest payable..................	2,709	2,709	4,554	4,554
Subordinated debt.........................	1,500	1,500	3,505	3,500
Derivative instruments....................	2,608	2,608	2,055	2,055

The following methods and assumptions were used to estimate the fair value of each major classification of financial instruments at December 31, 2002 and 2001.

Cash and due from banks, short-term investments and interest-bearing deposits: Current carrying amounts approximate estimated fair values.

Investment securities: Current quoted market prices were used to estimate fair value.

Net loans and loans held for sale: Fair values were estimated using the present value of the estimated cash flows, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality.

Accrued interest receivable and accrued interest payable: Current carrying amounts approximate estimated fair values.

Deposit liabilities: The fair value of deposits with no stated maturity (i.e., demand deposits, interest checking accounts, money market accounts and savings accounts) are by definition, equal to the amount payable on demand at the reporting date (i.e., their carrying amounts). Deposits with a stated maturity (time deposits), excluding IPCD's, have been valued using the present value of cash flows discounted at rates approximating the current market for similar deposits. The fair value of IPCD's was reported at face value net of the estimated fair value of embedded derivatives. Premier Bank obtains estimated fair values of embedded derivatives from a third party financial institution.

Borrowings: Borrowings have been valued using the present value of cash flows discounted at rates approximating the current market for similar liabilities.

Subordinated debt: Fair values were estimated using the present value of the estimated cash flows using interest rates currently being offered for similar liabilities.

Derivative instruments: Derivative instruments are used only in relation to Premier Bank's Index Powered(SM) Certificate of Deposit product. These derivatives are carried at fair value in accordance with Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended. Premier Bank obtains estimated fair values from a third party financial institution.

Off-balance-sheet instruments: Off-balance-sheet instruments are primarily comprised of loan commitments that are generally priced at market at the time of funding. Fees on commitments to extend credit and stand-by letters of credit are deemed to be immaterial and these instruments are expected to be settled at face value or expire unused. It is impractical to assign any fair value to these instruments. At December 31, 2002 and 2001, loan commitments were $45,068,000 and $42,397,000, respectively. Stand-by letters of credit were $2,631,000 and $3,242,000 at December 31, 2002 and 2001, respectively.

NOTE 19 -- PARENT COMPANY FINANCIAL INFORMATION

CONDENSED BALANCE SHEETS

	DECEMBER 31, 2002	DECEMBER 31, 2001
	(IN THOUSANDS)	
ASSETS:		
Cash on deposit with subsidiary bank	$17,629	$ 91
Investment securities available for sale	2,060	--
Investment in subsidiaries	43,854	29,562
Deferred issuance costs on capital securities	818	424
Accrued interest receivable	46	10
Other	323	243
Total assets	$64,730	$30,330
LIABILITIES AND SHAREHOLDERS' EQUITY:		
Borrowings from subsidiaries	$25,774	$10,310
Accrued interest payable	472	334
Other	48	77
Total liabilities	26,294	10,721
SHAREHOLDERS' EQUITY:		
Preferred stock	12,345	--
Common stock	1,139	1,070
Additional paid-in capital	12,545	12,085
Retained earnings	13,701	9,455
Treasury stock	(1,318)	--
Accumulated other comprehensive gain (loss), net	24	(3,001)
Total shareholders' equity	38,436	19,609
Total liabilities and shareholders' equity	$64,730	$30,330

CONDENSED STATEMENTS OF OPERATIONS

	FOR THE YEAR ENDED DECEMBER 31,		
	2002	2001	2000
	(IN THOUSANDS)		
Interest income on investment securities available for sale	$ 25	$ 88	$ 145
Interest income on capital securities of subsidiaries	33	27	27
Equity in undistributed income of subsidiaries	5,663	3,556	3,072
Dividend income from subsidiary bank	442	--	--
Total income	6,163	3,671	3,244
Interest expense on borrowings from subsidiaries	1,115	884	884
Other expense	334	253	299
Total expense	1,449	1,137	1,183
Income before taxes	4,714	2,534	2,061
Income tax expense	--	--	--
Net income	$4,714	$2,534	$2,061
Less: Preferred stock dividends	$ (468)	$ --	$ --
Net income applicable to common shareholders	$4,246	$2,534	$2,061

CONDENSED STATEMENTS OF CASH FLOWS

	FOR THE YEAR ENDED DECEMBER 31,		
	2002	2001	2000
	(IN THOUSANDS)		
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$ 4,714	$ 2,534	$ 2,061
Deduct items not affecting cash flows:			
Equity in undistributed income of subsidiaries	(5,663)	(3,556)	(3,072)
Amortization of deferred issuance costs on capital securities	18	16	16
Amortization of premiums on investment securities available for sale	2	--	--
Increase in accrued interest receivable	(36)	(20)	(22)
(Increase) decrease in other assets	(414)	(5)	23
Increase in accrued interest payable	138	--	--

(Decrease) increase in other liabilities	(47)	(27)	36
Net cash used in operating activities	(1,288)	(1,058)	(958)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of investment securities available for sale	(2,009)	--	--
Capital investment in subsidiaries	(5,639)	(500)	--
Net cash used in investing activities	(7,648)	(500)	--
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net proceeds from issuance of preferred stock	12,345	--	--
Borrowings from subsidiaries	15,464	--	--
Proceeds from exercised common stock options	451	290	76
Purchases of treasury stock	(1,318)	--	--
Payment of preferred stock dividends	(468)	--	--
Net cash provided by financing activities	26,474	290	76
Net increase (decrease) in cash and cash equivalents	17,538	(1,268)	(882)
Cash and cash equivalents at beginning of year	91	1,359	2,241
Cash and cash equivalents at end of year	$17,629	$ 91	$ 1,359

NOTE 20 -- REGULATORY RESTRICTIONS

PBI and Premier Bank are subject to various regulatory capital requirements of federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that if undertaken, could have a direct material effect on PBI's and Premier Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, specific capital guidelines that involve quantitative measures of assets, liabilities, and certain off-balance sheet items as calculated under accounting practices, must be met. Capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

PBI and Premier Bank must maintain certain minimum capital amounts and ratios to be considered adequately capitalized as set forth in the table below. Management believes that PBI and Premier Bank

met all relevant capital adequacy requirements at December 31, 2002 and 2001. Management also believes that PBI and Premier Bank were "well capitalized" at December 31, 2002 and 2001 under the regulatory framework for prompt corrective action provisions of Section 38 of the Federal Deposit Insurance Act.

To be categorized as "well capitalized", PBI and Premier Bank must maintain the minimum ratios listed in the table below. Capital amounts and ratios are presented in the following table.

	ACTUAL		REQUIRED TO BE "ADEQUATELY CAPITALIZED"		REQUIRED TO BE "WELL CAPITALIZE	
	AMOUNT	RATIO	AMOUNT	RATIO	AMOUNT	RAT
	(DOLLARS IN THOUSANDS)					
DECEMBER 31, 2002						
Total capital to risk-weighted assets						
Premier Bancorp, Inc.	$69,141	14.99%	$36,910	8.00%	$46,138	10.
Premier Bank............................	48,819	10.65%	36,681	8.00%	45,851	10.
Tier 1 capital to risk-weighted assets						
Premier Bancorp, Inc.	48,412	10.49%	18,455	4.00%	27,683	6.
Premier Bank............................	43,090	9.40%	18,341	4.00%	27,511	6.
Tier 1 capital to average assets						
Premier Bancorp, Inc.	48,412	8.05%	24,071	4.00%	30,089	5.
Premier Bank............................	43,090	7.19%	23,970	4.00%	29,962	5.
DECEMBER 31, 2001						
Total capital to risk-weighted assets						
Premier Bancorp, Inc.	$39,927	10.62%	$30,078	8.00%	$37,598	10.
Premier Bank............................	39,569	10.54%	30,044	8.00%	37,555	10.
Tier 1 capital to risk-weighted assets						
Premier Bancorp, Inc.	30,147	8.02%	15,039	4.00%	22,559	6.
Premier Bank............................	32,252	8.59%	15,022	4.00%	22,533	6.
Tier 1 capital to average assets						
Premier Bancorp, Inc.	30,147	6.83%	17,668	4.00%	22,085	5.
Premier Bank............................	32,252	7.32%	17,630	4.00%	22,038	5.

NOTE 21 -- CAPITAL SECURITIES

PBI's capital securities totaled $25,000,000 and $10,000,000 at December 31, 2002 and 2001, respectively.

On September 26, 2002, PBI's subsidiary, Premier Capital Trust II, issued $15,000,000 of variable rate corporate securities due November 7, 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 December 31, 2002 the interest rate was 5.27%. 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.

On August 11, 1998, PBI's subsidiary, PBI Capital Trust, issued $10,000,000 of 8.57% capital securities due August 15, 2028.

Capital securities are reported in the Consolidated Balance Sheets under the caption "Corporation-obligated mandatorily redeemable capital securities of subsidiary trust holding solely junior subordinated debentures of the corporation." Interest payments on these securities are reported in the

Consolidated Statements of Operations under the caption "Minority interest in expense of subsidiary." Proceeds from the capital securities provide PBI with additional Tier 1 and Tier 2 capital as determined by regulatory guidelines.

NOTE 22 -- COMMON STOCK DIVIDEND

On February 17, 2000, PBI declared a 5% common stock dividend to shareholders of record as of February 29, 2000 and paid on March 10, 2000. The number of common shares and earnings per common share amounts were restated to reflect this event as of the earliest date presented herein.

On February 13, 2003, PBI's board of directors approved a cash dividend of $0.05 per share to common shareholders of record on March 21, 2003 and payable on April 15, 2003.

NOTE 23 -- 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.

NOTE 24 -- 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. Preferred stock dividends were paid on July 31, 2002 and October 31, 2002.

NOTE 25 -- DIVIDEND POLICY

PBI's ability to pay dividends is dependent upon its ability to obtain dividends from its subsidiaries, principally Premier Bank. PBI's future dividend policy is subject to the discretion of its Board of Directors and will depend upon a number of factors, including future earnings, financial conditions, cash needs and general business conditions. Holders of common stock will be entitled to receive dividends as and when declared by PBI's Board of Directors out of funds legally available for that purpose.

The bank's ability to pay dividends is subject to the regulatory restrictions set forth in the Pennsylvania Banking Code of 1965, the Federal Reserve Act and the Federal Deposit Insurance Act. Under the Pennsylvania Banking Code, the bank can declare and pay cash dividends only out of accumulated undivided profits, which were $19,972,000 at December 31, 2002. Cash dividends require Federal Reserve Board approval if the total of all cash dividends declared by the bank in any calendar year, including the proposed cash dividend, exceeds the total of the bank's net profits for that year plus its retained net profits from the preceding two years less any required transfers to surplus or to a fund for the retirement of preferred stock, if any. At December 31, 2002, Premier Bank had retained net profits available for distribution without Federal Reserve Board approval of $12,730,000. The Federal Deposit Insurance Act generally prohibits all payments of dividends by any bank that is in default of any FDIC assessment. At December 31, 2002, Premier Bank was not in default of any FDIC assessments.

PREMIER BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

PBI paid cash dividends on its preferred stock twice in 2002. On July 31, 2002, a cash dividend of $0.2698 per share or $149,000 was paid to preferred shareholders of record on July 16, 2002. This dividend represented payment for the period from June 19, 2002 to July 31, 2002. On October 31, 2002, a cash dividend of $0.578125 per share or $319,000 was paid to preferred shareholders of record on October 16, 2002. This dividend represented payment for the quarter August 1, 2002 through October 31, 2002.

On January 6, 2003, PBI's board of directors approved a cash dividend of $0.578125 per share or $319,000 to preferred shareholders of record on January 16, 2003. This dividend was paid on January 31, 2003 and represented payment for the quarter November 1, 2002 through January 31, 2003.

On February 13, 2003, PBI's board of directors approved a cash dividend of $0.05 per share to common shareholders of record on March 21, 2003 and payable on April 15, 2003.

NOTE 26 -- OTHER COMPREHENSIVE INCOME

Other comprehensive income components and their related tax benefit/expense are as follows.

FOR THE YEAR ENDED DECEMBER 31, 2002	BEFORE-TAX AMOUNT	TAX BENEFIT (EXPENSE)	NET-OF-TAX AMOUNT
		(IN THOUSANDS)	
Unrealized gains on investment securities available for sale Unrealized holding gains arising during the year	$4,687	$(1,594)	$3,093
Reclassification adjustment for gains included in net income	(103)	35	(68)
Other comprehensive income	$4,584	$(1,559)	$3,025

FOR THE YEAR ENDED DECEMBER 31, 2001	BEFORE-TAX AMOUNT	TAX BENEFIT (EXPENSE)	NET-OF-TAX AMOUNT
		(IN THOUSANDS)	
Unrealized gains on investment securities available for sale Unrealized holding gains arising during the year	$ 440	$ (149)	$ 291
Reclassification adjustment for gains included in net income	(13)	4	(9)
Other comprehensive income	$ 427	$ (145)	$ 282

FOR THE YEAR ENDED DECEMBER 31, 2000	BEFORE-TAX AMOUNT	TAX BENEFIT (EXPENSE)	NET-OF-TAX AMOUNT
		(IN THOUSANDS)	
Unrealized gains on investment securities available for sale Unrealized holding gains arising during the year	$2,438	$ (828)	$1,610
Reclassification adjustment for gains included in net income	(3)	1	(2)
Other comprehensive income	$2,435	$ (827)	$1,608

73

ITEM 9 -- CHANGES AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

PART III

ITEM 10 -- DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information required by this item, relating to directors, executive officers and control persons is set forth under the sections captioned "Directors and Executive Officers," "Information as to Nominees and Directors" and "Section 16(a) Beneficial Ownership Reporting Compliance" of the Registrant's proxy statement to be used in connection with the 2003 Annual Meeting of Shareholders which is part of the proxy statement/prospectus on Form S-4 filed by Fulton Financial Corporation, which sections are incorporated herein by reference.

ITEM 11 -- EXECUTIVE COMPENSATION

The information required by this item is incorporated by reference to the information appearing under the caption "Executive Compensation" in the Registrant's proxy statement to be used in connection with the 2003 Annual Meeting of Shareholders which is part of the proxy statement/prospectus on Form S-4 filed by Fulton Financial Corporation, which sections are incorporated herein by reference.

ITEM 12 -- SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED SHAREHOLDER MATTERS

The information required by this item is incorporated by reference to the information appearing under the caption "Beneficial Ownership by Directors, Nominees and Officers" in the Registrant's proxy statement to be used in connection with the 2003 Annual Meeting of Shareholders which is part of the proxy statement/prospectus on Form S-4 filed by Fulton Financial Corporation, which sections are incorporated herein by reference.

ITEM 13 -- CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by this item is incorporated by reference to the information appearing under the caption "Certain Relationships and Related Transactions" in the Registrant's proxy statement to be used in connection with the 2003 Annual Meeting of Shareholders which is part of the proxy statement/

prospectus on Form S-4 filed by Fulton Financial Corporation, which sections are incorporated herein by reference.

ITEM 14 -- CONTROLS AND PROCEDURES

Within 90 days prior to the date of this Form 10-K, PBI carried out an evaluation, under the supervision and with the participation of its management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Exchange Act Rule 13a-14. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, PBI's disclosure controls and procedures are effective in timely alerting them to material information relating to PBI's (including its consolidated subsidiaries) required to be included in our periodic SEC filings. There have been no significant changes in PBI's internal controls or, to its knowledge, in other factors that could significantly affect internal controls subsequent to the date PBI carried out its evaluation.

PART IV

ITEM 15 -- EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a) 1. The consolidated financial statements listed on the index set forth in Item 8 of this Annual Report on Form 10-K are filed as part of this Annual Report.

2. Financial Statement Schedules

All schedules are omitted because they are either not applicable, the data are not significant or the required information is shown in the financial statements or the notes thereto or elsewhere herein.

3. Exhibits

The following exhibits are incorporated by reference herein or attached to this Form 10-K:

EXHIBIT NO.	DESCRIPTION
2.1	Agreement and Plan of Merger. (Incorporated by reference to PBI's Form 8-K filed with the SEC on January 21, 2003.)
3(i)	Amended and Restated 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 PBI'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 PBI's 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 PBI's 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 PBI's Quarterly Report on Form 10-QSB filed with the SEC on November 13, 1998.)
11	Statement re: Computation of Earnings per share. (Included at Note 12 to the 2002 Consolidated Financial Statements.)
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21	Subsidiaries of the Registrant.
23	Consent of Independent Auditors.
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

None.

(c) See Item 15(a)3 above.

(d) Not applicable.

75

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report be signed on its behalf by the undersigned, thereunto duly authorized.

PREMIER BANCORP, INC.

SIGNATURE	TITLE	DATE
By: /s/ JOHN C. SOFFRONOFF John C. Soffronoff	President, Chief Executive Officer, (Principal Executive Officer), Director	March 13, 2003
By: /s/ BRUCE E. SICKEL Bruce E. Sickel	Chief Financial Officer, (Principal Financial Officer), Director	March 13, 2003
By: /s/ JOANNE M. CALIBEO Joanne M. Calibeo	Controller (Principal Accounting Officer)	March 13, 2003

Pursuant to the requirements of the Securities Exchange Act of 1934, this report is signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

	SIGNATURE	TITLE	DATE
By:	/s/ JOHN C. SOFFRONOFF John C. Soffronoff	President, Chief Executive Officer, (Principal Executive Officer), Director	March 13, 2003
By:	/s/ CLARK S. FRAME Clark S. Frame	Chairman of the Board, Director	March 13, 2003
By:	/s/ BRUCE E. SICKEL Bruce E. Sickel	Chief Financial Officer, (Principal Financial Officer), Director	March 13, 2003
By:	/s/ BARRY J. MILES Barry J. Miles	Director	March 13, 2003
By:	/s/ DANIEL E. COHEN Daniel E. Cohen	Director	March 13, 2003
By:	/s/ JOHN J. GINLEY John J. Ginley	Director	March 13, 2003
By:	/s/ DR. THOMAS E. MACKELL Dr. Thomas E. Mackell	Director	March 13, 2003
By:	/s/ DR. DANIEL A. NESI Dr. Daniel A. Nesi	Director	March 13, 2003
By:	/s/ NEIL W. NORTON Neil W. Norton	Director	March 13, 2003

SIGNATURE	TITLE	DATE

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By: /s/ THOMAS M. O'MARA Thomas M. O'Mara	Director	March 13, 2003
By: Michael J. Perrucci	Director	March , 2003
By: /s/ BRIAN R. RICH Brian R. Rich	Director	March 13, 2003
By: /s/ EZIO U. ROSSI Ezio U. Rossi	Director	March 13, 2003
By: /s/ RICHARD F. RYON Richard F. Ryon	Director	March 13, 2003
By: /s/ GERALD SCHATZ Gerald Schatz	Director	March 13, 2003
By: /s/ IRVING N. STEIN Irving N. Stein	Director	March 13, 2003
By: /s/ HELENBETH GAROFALO VILCEK HelenBeth Garofalo Vilcek	Director	March 13, 2003
By: /s/ JOHN A. ZEBROWSKI John A. Zebrowski	Director	March 13, 2003

77

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 annual report on Form 10-K of Premier Bancorp, Inc.;

2. Based on my knowledge, the annual 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 annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual 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 annual 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 annual 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 annual report (the "Evaluation Date"); and

(c) presented in this annual 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 annual 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.

By: /s/ JOHN C. SOFFRONOFF

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

Date: March 13, 2003

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 annual report on Form 10-K of Premier Bancorp, Inc.;

2. Based on my knowledge, the annual 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 annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual 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 annual 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 annual 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 annual report (the "Evaluation Date"); and

(c) presented in this annual 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 annual 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.

By: /s/ BRUCE E. SICKEL

Bruce E. Sickel
Chief Financial Officer
(Principal Financial Officer)

Date: March 13, 2003

INDEX TO EXHIBITS

EXHIBIT NO.	DESCRIPTION	PAGE
2.1	Agreement and Plan of Merger. (Incorporated by reference to PBI's Form 8-K filed with the SEC on January 21, 2003.)	*
3(i)	Amended and Restated 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 PBI'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 PBI's 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 PBI's Quarterly Report on Form 10-QSB filed with the SEC on November 13, 1998.)	*
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* Incorporated by reference.