During 2002, the Company made a provision for loan losses of $6.2 million compared to $5.0 million and $3.9 million for 2001 and 2000, respectively. Net loan charge-offs for both 2002 and 2001 totaled $4.2 million. The increase in the provision for 2002 was the result of loan growth, the changing mix of loans in the total loan portfolio and other external factors such as the economy. A discussion of credit quality can be found in the section on "Loans and Asset Quality."

NONINTEREST INCOME - For 2002, the Company reported noninterest income of $17.9 million compared to $15.1 million for 2001. The primary reasons for the $2.7 million, or 18.0%, increase in noninterest income was a $1.9 million, or 24.0%, increase in service charges on deposit accounts, a $934,000, or 338.3%, increase in earnings and cash surrender value of bank owned life insurance, a $118,000, or 7.9%, increase in ATM fee income from improved usage, and a $105,000, or 34.9%, increase in gain on sale of assets. These increases were partially offset by a $153,000, or 6.8%, decrease in gains on the sale of mortgage loans in the secondary market and a $51,000, decrease in other net noninterest income. The additional gain on the sale of mortgage loans in 2001 was solely attributable to the sale of a select group of older mortgage loans originated through the construction process in previous years. Additionally, the year 2002 included a $42,000 loss on the sale of investment securities compared to a $119,000 gain in 2001.

Total noninterest income amounted to $15.1 million and $12.8 million for the years ended December 31, 2001 and 2000, respectively. The primary reasons for the $2.3 million, or 18.1%, increase in noninterest income in 2001 as compared to 2000 was a $1.8 million, or 451.6%, increase in gains on the sale of mortgage loans, a $182,000, or 13.9%, increase in ATM fee income, and a $179,000, or 6.5%, increase in other income. These increases were partially offset by a $1.7 million, or 85.3%, decrease in gain on sale of assets. Additionally, the year 2001 included a $119,000 gain on the sale of investment securities compared to a $1.8 million loss in 2000.

NONINTEREST EXPENSE – The Company has focused on both increasing revenues and controlling costs. Expense management is part of the Company's corporate culture. Discretionary expenses, staffing levels and compensation are regularly reviewed. Noninterest expense includes costs related to salary and employee benefits, occupancy and equipment, communication and delivery, marketing and business development, amortization of acquisition intangibles and other expenses. Noninterest expense amounted to $44.0 million, $41.7 million and $39.7 million for the three years ended December 31, 2002, 2001 and 2000, respectively. The principal reason for the $2.3 million, or 5.6%, increase in noninterest expense for 2002 compared to 2001 was an increase in salaries and employee benefits of $1.9 million, or 8.9%. This was due in part to improving the delivery system across the state, management's commitment to improve overall staffing and competitive compensation across the markets. In addition, the Company also experienced a rising cost associated with employee benefits due in part to the increased market value of the Company's common stock as it relates to the Company's ESOP. Other expense increases included $324,000 in the franchise and share tax assessments, $130,000 in marketing and business development expense, $200,000 in data processing expense, primarily as a result of improvements in technology, $686,000 in legal and professional expense, and $1.3 million in OREO related charges, primarily related to writedowns. Other net noninterest expenses increased by $635,000. Such increases were partially offset by a $66,000, or 8.8%, decrease in printing and supplies expense, and a pre-tax decrease of $2,751,000 from non-amortization of goodwill as a result of adopting FAS 142.

The main reason for the $2.0 million, or 5.1%, increase in noninterest expense for 2001 compared to 2000 was an increase in salaries and employee benefits of $2.7 million, or 14.5%. This was due in part to improving the delivery system across the state and management's commitment to make strategic hires as opportunities were presented. In 2001, the Company also experienced a rising cost associated with employee benefits due in part to the increased market value of the stock as it relates to the Company's ESOP. Additionally, the year 2001 included a full bonus payout as compared to the prior year in which senior management chose to forego bonuses. These increases were partially offset by a $150,000, or 2.7%, decrease in occupancy and equipment expense, a $116,000, or 3.6%, decrease in the amortization of acquisition intangibles, a $113,000, or 8.3%, decrease in data processing expense and a $291,000, or 2.7%, decrease in all other expenses.

INCOME TAXES - For the years ended December 31, 2002, 2001 and 2000 the Company incurred income tax expense of $8.8 million, $8.2 million and $7.5 million, respectively. The Company's effective tax rate amounted to 32.2%, 36.2% and 36.7% during 2002, 2001 and 2000, respectively. The difference between the effective tax rate and the statutory tax rate primarily related to variances in the items that are either nontaxable or non-deductible, primarily the effect of tax-exempt income, the non-deductibility of part of the amortization of