FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **2002-05-14** | Period of Report: **2002-03-31**
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FILER

SUN BANCORP INC /NJ/
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2002

OR

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

For the transition period from ____________________ to __________________

Commission file number 0 - 20957

SUN BANCORP, INC.
(Exact name of registrant as specified in its charter)

New Jersey	52-1382541
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification)

226 Landis Avenue, Vineland, New Jersey 08360
(Address of principal executive offices) (Zip Code)

(856) 691 - 7700
(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes X No

APPLICABLE ONLY TO CORPORATE ISSUERS

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

$ 1.00 Par Value Common Stock	11,175,863	May 10, 2002
Class	Number of shares outstanding	Date

SUN BANCORP, INC.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
<TABLE>
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	March 31, 2002	December 31, 2001
	(Dollars in thousands)	

<S> <C> <C>

ASSETS		
Cash and due from banks	$ 58,456	$ 67,557
Federal funds sold	4,745	11,525
Cash and cash equivalents	63,201	79,082
Investment securities available for sale (amortized cost - $679,832; 2002 and $648,340; 2001)	673,874	647,558
Loans receivable (net of allowance for loan losses - $13,956; 2002 and $13,782; 2001)	1,136,789	1,089,155
Restricted equity investments	12,895	12,561
Bank properties and equipment, net	27,990	28,180
Real estate owned, net	1,393	898
Accrued interest receivable	12,639	11,089
Excess of cost over fair value of assets acquired, net	41,725	43,637
Deferred taxes	10,114	8,154
Other assets	12,907	9,111
TOTAL	$1,993,527	$1,929,425
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES		
Deposits	$1,543,076	$1,572,338
Advances from the Federal Home Loan Bank	146,832	74,008
Loans payable	26,160	1,160
Securities sold under agreements to repurchase	77,636	84,928
Other liabilities	14,118	9,704
Total liabilities	1,807,822	1,742,138
Guaranteed preferred beneficial interest in Company's subordinated debt	57,327	57,327
SHAREHOLDERS' EQUITY		
Preferred stock, none issued	-	-
Common stock, $1 par value, 25,000,000 shares authorized, Issued and outstanding: 10,644,358 in 2002 and 10,553,942 in 2001	10,664	10,554
Surplus	108,504	108,058
Retained earnings	13,457	11,864
Accumulated other comprehensive loss	(3,932)	(516)
Treasury stock at cost, 25,000 shares in 2002	(315)	-
Total shareholders' equity	128,378	129,960
TOTAL	$1,993,527	$1,929,425

</TABLE>

See notes to unaudited condensed consolidated financial statements

SUN BANCORP, INC.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF INCOME
<TABLE>
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	For the Three Months Ended March 31, 2002	2001
	(Dollars in thousands except per share amounts)	
<S>	<C>	<C>
INTEREST INCOME:		
Interest and fees on loans	$ 20,334	$ 22,732

Interest on taxable investment securities	6,593	10,978
Interest on non-taxable investment securities	505	491
Dividends on restricted equity investments	133	542
Interest on federal funds sold	53	225
Total interest income	27,618	34,968
INTEREST EXPENSE:		
Interest on deposits	9,358	13,988
Interest on short-term borrowed funds	1,885	5,123
Interest on guaranteed preferred beneficial interest in Company's subordinated debt	1,360	1,360
Total interest expense	12,603	20,471
Net interest income	15,015	14,497
PROVISION FOR LOAN LOSSES	1,000	1,296
Net interest income after provision for loan losses	14,015	13,201
OTHER INCOME:		
Service charges on deposit accounts	1,666	1,454
Other service charges	114	92
(Loss) gain on sale of bank properties and equipment	(14)	13
Gain on sale of investment securities available for sale	183	50
Other	852	625
Total other income	2,801	2,234
OTHER EXPENSES:		
Salaries and employee benefits	6,741	5,888
Occupancy expense	1,904	1,876
Equipment expense	1,086	1,234
Data processing expense	830	758
Amortization of excess of cost over fair value of assets acquired	1,912	1,969
Other	2,111	1,918
Total other expenses	14,584	13,643
INCOME BEFORE INCOME TAXES	2,232	1,792
INCOME TAXES	639	510
NET INCOME	$ 1,593	$ 1,282
Basic earnings per share	$ 0.15	$ 0.12
Diluted earnings per share	$ 0.15	$ 0.12
Weighted average shares, basic	10,599,862	10,284,653
Weighted average shares, diluted	10,915,456	10,520,288

</TABLE>

See notes to unaudited condensed consolidated financial statements

SUN BANCORP, INC.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
<TABLE>

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	For the Three Months Ended March 31, 2002	2001
	(In thousands)	
OPERATING ACTIVITIES:		
Net income	$ 1,593	$ 1,282
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	1,000	1,296
Provision for losses on real estate owned		44
Depreciation	569	598
Net amortization (accretion) of investments securities	468	(791)
Amortization of excess cost over fair value of assets acquired	1,912	1,969
Gain on sale of investment securities available for sale	(183)	(50)
Loss (gain) on sale of bank properties and equipment	14	(13)
Deferred income taxes	(200)	(524)
Change in assets and liabilities which (used) provided cash:		
Accrued interest receivable	(1,550)	2,295
Other assets	(3,796)	7,777
Other liabilities	4,414	1,540
Net cash provided by operating activities	4,241	15,423
INVESTING ACTIVITIES:		
Purchases of investment securities available for sale	(182,633)	(61,628)
Purchases of restricted equity securities	(334)	
Proceeds from maturities, prepayments or calls of investment securities available for sale	145,548	38,000
Proceeds from sale of investment securities available for sale	5,308	90,475
Net increase in loans	(49,164)	(22,412)
Purchase of bank properties and equipment	(393)	(974)
Proceeds from the sale of bank properties and equipment		26
Proceeds from sale of real estate owned	35	181
Net cash (used in) provided by investing activities	(81,633)	43,688
FINANCING ACTIVITIES:		
Net (decrease) increase in deposits	(29,262)	9,946
Net advances (repayments) under line of credit and repurchase agreements	65,532	(71,273)
Proceeds from other borrowings	25,000	
Proceeds from exercise of stock options	453	229
Treasury stock purchased	(315)	
Proceeds from issuance of common stock	103	-
Net cash provided by (used in) financing activities	61,511	(61,098)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(15,881)	(2,007)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	79,082	69,617
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 63,201	$67,610

</TABLE>

See notes to unaudited condensed consolidated financial statements

SUN BANCORP, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(All dollar amounts presented in the tables, except per share amounts, are in thousands.)

(1) Summary of Significant Accounting Policies

Basis of Financial Statement Presentation

The unaudited condensed consolidated financial statements contained herein for Sun Bancorp, Inc. (the "Company") include the accounts of the Company and its wholly-owned subsidiaries, Sun Capital Trust ("Sun Trust I"), Sun Capital Trust II ("Sun Trust II"), Sun Capital Trust III ("SunTrust III"), Sun National Bank, Delaware ("Sun Delaware"), Sun National Bank ("Sun") and Sun's wholly-owned subsidiaries Med-Vine, Inc., 2020 Properties, L.L.C. and Sun Financial Services, L.L.C. All significant intercompany balances and transactions have been eliminated. The Company merged Sun Delaware into Sun in the fourth quarter 2001.

The accompanying unaudited condensed consolidated financial statements were prepared in accordance with instructions to Form 10-Q, and therefore, do not include information or footnotes necessary for a complete presentation of financial position, results of operations and cash flows in conformity with accounting principles generally accepted in the United States of America. However, all normal recurring adjustments that, in the opinion of management, are necessary for a fair presentation of the financial statements, have been included. These financial statements should be read in conjunction with the audited financial statements and the accompanying notes thereto included in the Company's Annual Report for the period ended December 31, 2001. The results for the three months ended March 31, 2002 are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2002 or any other period.

Stock dividend - On April 25, 2002, the Company's Board of Directors declared a 5% stock dividend to be paid on May 23, 2002 to shareholders of record on May 9, 2002.

Recent Accounting Principles - In June 2001, the Financial Accounting Standards Board ("FASB") issued two new pronouncements: Statement of Financial Accounting Standards ("SFAS") No. 141, Business Combinations, and SFAS No. 142, Goodwill and Other Intangible Assets. SFAS No. 142 is effective for fiscal years beginning after December 15, 2001. As adopted, SFAS No. 142 excluded from its scope the unidentifiable intangible assets recognized in bank and thrift acquisitions in accordance with SFAS 72, Accounting for Certain Acquisitions of Banking and Thrift Institutions. The FASB has decided to undertake a limited-scope project to reconsider part of the guidance in SFAS No. 72, including treatment of identified core deposit intangibles and unidentifiable intangible assets. In the first quarter 2002, the FASB has preliminarily decided to amend SFAS No. 72 to remove stockholder-owned financial institutions from the scope of paragraphs 5-7 and remove stockholder-owned financial institutions from the scope of FASB Interpretation No. 9, Applying APB Opinions No. 16 and 17 When a Savings and Loan Association or a Similar Institution Is Acquired in a Business Combination Accounted for by the Purchase Method. In addition, the FASB decided, for the transition provision related to SFAS No. 72, that if the transaction was a business combination and the core deposit intangible was separately recognized, then Companies would cease amortization of all unidentifiable intangible assets. However, if the transaction was not a business combination or if it is not possible to determine, after the fact, whether the transaction was a business combination, then Companies would continue amortization of all unidentifiable intangible assets. The FASB has also decided that the final Statement would be effective upon issuance with retroactive restatement for the nonamortization of the unidentified intangible asset to the beginning of the fiscal year in which SFAS No. 142 was applied in its entirety. A final statement is expected to be issued in the fourth quarter 2002. The adoption of SFAS Nos. 141 and 142 had no impact on the financial position, results of operations, or cash flows of the Company.

(2) Loans

The components of loans as of March 31, 2002 and December 31, 2001 were as follows:
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	March 31, 2002	December 31, 2001
Commercial and industrial	$ 964,475	$ 911,145
Home equity	25,759	23,854
Second mortgages	50,689	49,047
Residential real estate	52,719	55,282
Installment	57,103	63,609
Total gross loans	1,150,745	1,102,937
Allowance for loan losses	(13,956)	(13,782)
Net Loans	$1,136,789	$1,089,155
Non-accrual loans	$ 10,036	$ 9,123

</TABLE>
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(3) Allowance for Loan Losses

Changes in the allowance for loan losses were as follows:

	For the three month period ended March 31, 2002	For the year ended December 31, 2001
Balance, beginning of period	$13,782	$10,636
Charge-offs	(864)	(5,416)
Recoveries	38	467
Net charge-offs	(826)	(4,949)
Provision for loan losses	1,000	8,095
Balance, end of period	$13,956	$13,782

</TABLE>

The provision for loan losses charged to expense is based upon past loan loss experience and an evaluation of estimated losses in the current loan portfolio, including the evaluation of impaired loans under Statements of Financial Accounting Standards ("SFAS") Nos. 114 and 118 issued by the Financial Accounting Standards Board. A loan is considered to be impaired when, based upon current information and events, it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan.

An insignificant delay or insignificant shortfall in amount of payments does not necessarily result in a loan being identified as impaired. For this purpose, delays less than 90 days are considered to be insignificant.

Impairment losses are included in the provision for loan losses. Large groups of smaller balance, homogeneous loans are collectively evaluated for impairment, except for those loans restructured under a troubled debt restructuring. Loans collectively evaluated for impairment include consumer loans and residential real estate loans, and are not included in the data that follow:

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	March 31, 2002	December 31, 2001
Impaired loans with related reserve for loan losses calculated under SFAS No. 114	$1,538	$1,643
Impaired loans with no related reserve for loan losses calculated under SFAS No. 114	$7,602	$6,101
Total impaired loans	$9,140	$7,744

	For the three months ended March 31, 2002	For the year ended December 31, 2001
Average impaired loans	$8,416	$6,787
Interest income recognized on impaired loans	$13	$558
Cash basis interest income recognized on impaired loans	$36	$651

(4) Deposits

Deposits consist of the following major classifications:

	March 31, 2002	December 31, 2001
Demand deposits - interest bearing	$ 506,913	$ 523,737
Demand deposits - non-interest bearing	281,955	280,196
Savings deposits	307,460	275,146
Time certificates under $100,000	329,690	363,199
Time certificates $100,000 or more	117,058	130,060
Total	$1,543,076	$1,572,338

(5) Advances from the Federal Home Loan Bank

Federal Home Loan Bank ("FHLB") advances are collateralized under a blanket collateral lien agreement. Advances were as follows:

	March 31, 2002	December 31, 2001
Convertible rate advances	$ 45,000	$ 45,000
Term amortizing advances	101,832	29,008
Total	$ 146,832	$ 74,008

Term amortizing advances were as follows:

		March 31, 2002	December 31, 2001
Original principal	$1,800		
Interest rate	5.404%		
Monthly payment	$12		
Maturity date	October 8, 2008		
Balance		$1,617	$1,632
Original principal	$2,600		

Interest rate	5.867%		
Monthly payment	$18		
Maturity date	November 26, 2018		
Balance		2,355	2,376
Original principal	$25,000		
Interest rate	3.890%		
Monthly payment	$459		
Maturity date	November 15, 2006		
Balance		23,862	25,000
Original principal	$25,000		
Interest rate	4.200%		
Monthly payment	$463		
Maturity date	January 10, 2007		
Balance		24,625	-
Original principal	$25,000		
Interest rate	4.200%		
Monthly payment	$463		
Maturity date	January 30, 2007		
Balance		24,625	-
Original principal	$25,000		
Interest rate	4.740%		
Monthly payment	$350		
Maturity date	January 30, 2009		
Balance		24,748	-
Total		$101,832	$29,008

</TABLE>

(6) Loans Payable

As more fully described in Note 9, on March 29, 2002, the Company borrowed a combined $25.0 million as short-term financing in connection with the call of the Company's outstanding $28.0 million of 9.85% Sun Trust I Preferred Securities. Of the total, $20.0 million was borrowed to provide liquidity until the Company completed the issuance of $20.0 million Pooled Floating Rate Capital Securities on April 10, 2002. The Company borrowed $10.0 million from a company affiliated with the Chairman of the Board of Directors of the Company, $10.0 million from an unrelated third-party bank and an additional $5.0 million from the same unrelated bank. The terms and interest rate (9.85%) were the same for both $10.0 million loans. The Company paid off both $10.0 million loans, including accrued interest on April 10, 2002. The $5.0 million uncollateralized demand borrowing is at an interest rate of 6.00% with interest only monthly payments.

(7) Other Comprehensive Income

The Company classifies items of other comprehensive income by their nature and displays the accumulated balance of other comprehensive income separately from retained earnings and surplus in the equity section of a statement of financial position. Amounts categorized as other comprehensive income represent net unrealized gains or losses on investment securities available for sale, net of income taxes. Total comprehensive (loss) income for the three-month periods ended March 31, 2002 and 2001 was ($1,823,000) and $8,136,000, respectively.

(8) Earnings Per Share

Basic earnings per share is computed by dividing income available to shareholders (net income), by the weighted average number of shares of common stock net of treasury shares outstanding during the period. Diluted earnings per share is calculated by dividing net income by the weighted average number of shares of common stock net of treasury shares outstanding increased by the number of common shares that are assumed to have been purchased with the proceeds from the exercise of the options (treasury stock method) along with the assumed tax benefit from the exercise of non-qualified options. These purchases were assumed to have been made at the average market price of the common stock, which is based on the daily closing price. Retroactive recognition has been given to market values, common stock outstanding and potential common shares for periods prior to the date of the Company's stock dividends.

	For the Three Months Ended March 31, 2002	2001
Net income	$ 1,593	$ 1,282
Dilutive stock options outstanding	1,534,685	1,031,213
Average exercise price per share	$ 9.02	$ 5.23
Average market price - diluted basis	$ 12.53	$ 8.14
Average common shares outstanding	10,599,862	10,284,653
Increase in shares due to exercise of options - diluted basis	315,594	235,635
Adjusted shares outstanding - diluted	10,915,456	10,520,288
Net income per share - basic	$ 0.15	$ 0.12
Net income per share - diluted	$ 0.15	$ 0.12

(9) Guaranteed Preferred Beneficial Interest in Company's Subordinated Debt

Guaranteed preferred beneficial interest in Company's subordinated debt consists of the following:

	March 31, 2002	December 31, 2001
Sun Trust I	$28,040	$28,040
Sun Trust II	29,287	29,287
	$57,327	$57,327

During the first quarter 2002, the Company notified the holders of the outstanding $28.0 million of 9.85% Sun Trust I Preferred Securities of its intention to call these securities contemporaneously with the redemption of the Sun Trust I 9.85% Junior Subordinated Debentures on April 1, 2002. During the second quarter, the Company wrote down the unamortized debt issuance costs of the called securities in the amount of $800,000, net of the tax effect of $400,000 (approximately $0.07 per diluted share). The Company funded this call with short-term borrowings of $25.0 million and a $3.0 million dividend from Sun. On April 10, 2002, the Company issued $20.0 million Pooled Floating Rate Capital Securities ("Sun Trust III Capital Securities"). The interest rate resets every six months to LIBOR plus 3.70%, with an initial rate of 6.02%, and will not exceed 11.00% through five years from its issuance. The proceeds were used to pay down $20.0 million of short-term borrowings. The Company will recognize a pretax interest expense saving from these transactions of $900,000 (approximately $0.05 per diluted share) for the nine-month period ending December 31, 2002.

The sole asset of Sun Trust II is $29.9 million original principal amount of 8.875% Junior Subordinated Debentures issued by the Company that mature on December 31, 2028. At March 31, 2002 and December 31, 2001, the Company had repurchased 61,300 shares. The Company has the right to optionally redeem Sun trust II Debentures prior to the maturity date of December 31, 2028, on or after December 31, 2003, at 100% of the stated liquidation amount, plus accrued and unpaid distributions, if any, to the redemption date.

(10) Stock Repurchase Plan

In February 2002, the Board of Directors of the Company authorized the initiation of a stock repurchase plan covering up to approximately 3%, or 320,000 shares of the Company's outstanding common stock. At March 31, 2002, the Company repurchased 25,000 shares for $315,000.

THE COMPANY MAY FROM TIME TO TIME MAKE WRITTEN OR ORAL "FORWARD-LOOKING STATEMENTS," INCLUDING STATEMENTS CONTAINED IN THE COMPANY'S FILINGS WITH THE SECURITIES AND EXCHANGE COMMISSION (INCLUDING THIS QUARTERLY REPORT ON FORM 10-Q AND THE EXHIBITS THERETO), IN ITS REPORTS TO SHAREHOLDERS AND IN OTHER COMMUNICATIONS BY THE COMPANY, WHICH ARE MADE IN GOOD FAITH BY THE COMPANY PURSUANT TO THE "SAFE HARBOR" PROVISIONS OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995.

THESE FORWARD-LOOKING STATEMENTS INVOLVE RISKS AND UNCERTAINTIES, SUCH AS STATEMENTS OF THE COMPANY'S PLANS, OBJECTIVES, EXPECTATIONS, ESTIMATES AND INTENTIONS, THAT ARE SUBJECT TO CHANGE BASED ON VARIOUS IMPORTANT FACTORS (SOME OF WHICH ARE BEYOND THE COMPANY'S CONTROL). THE FOLLOWING FACTORS, AMONG OTHERS, COULD CAUSE THE COMPANY'S FINANCIAL PERFORMANCE TO DIFFER MATERIALLY FROM THE PLANS, OBJECTIVES, EXPECTATIONS, ESTIMATES AND INTENTIONS EXPRESSED IN SUCH FORWARD-LOOKING STATEMENTS: THE STRENGTH OF THE UNITED STATES ECONOMY IN GENERAL AND THE STRENGTH OF THE LOCAL ECONOMIES IN WHICH THE COMPANY CONDUCTS OPERATIONS; THE EFFECTS OF, AND CHANGES IN, TRADE, MONETARY AND FISCAL POLICIES AND LAWS, INCLUDING INTEREST RATE POLICIES OF THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM, INFLATION, INTEREST RATE, MARKET AND MONETARY FLUCTUATIONS; THE TIMELY DEVELOPMENT OF AND ACCEPTANCE OF NEW PRODUCTS AND SERVICES OF THE COMPANY AND THE PERCEIVED OVERALL VALUE OF THESE PRODUCTS AND SERVICES BY USERS, INCLUDING THE FEATURES, PRICING AND QUALITY COMPARED TO COMPETITORS' PRODUCTS AND SERVICES; THE IMPACT OF CHANGES IN FINANCIAL SERVICES' LAWS AND REGULATIONS (INCLUDING LAWS CONCERNING TAXES, BANKING, SECURITIES AND INSURANCE); TECHNOLOGICAL CHANGES; ACQUISITIONS; CHANGES IN CONSUMER SPENDING AND SAVING HABITS; AND THE SUCCESS OF THE COMPANY AT MANAGING THE RISKS INVOLVED IN THE FOREGOING.

THE COMPANY CAUTIONS THAT THE FOREGOING LIST OF IMPORTANT FACTORS IS NOT EXCLUSIVE. THE COMPANY DOES NOT UNDERTAKE TO UPDATE ANY FORWARD-LOOKING STATEMENT, WHETHER WRITTEN OR ORAL, THAT MAY BE MADE FROM TIME TO TIME BY OR ON BEHALF OF THE COMPANY.

Item 2:

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Financial Condition

Total assets at March 31, 2002 increased by $64.1 million or 3.3% to $1.99 billion as compared to $1.93 billion at December 31, 2001. The increase was primarily due to an increase in loans receivable of $47.6 million and in investment securities of $26.3 million, partially offset by a decrease in cash and cash equivalents of $15.9 million. The overall increase in total assets reflects the Company's strategy on growth of its core businesses, with emphasis on commercial lending and retail banking, while sustaining adequate liquidity, managing interest rate risk and maintaining strong capital.

Cash and cash equivalents decreased $15.9 million, from $79.1 million at December 31, 2001 to $63.2 million at March 31, 2002. At December 31, 2001, a portion of the Company's cash and cash equivalents represented temporary liquidity from the sales, calls and maturities of investment securities during the end of the fourth quarter 2001.

Investment securities available for sale increased $26.3 million or 4.1%, from $647.6 million at December 31, 2001 to $673.9 million at March 31,

2002. The increase in investment securities during the first quarter 2002 was consistent with the Company's asset and liability management goals which are designed to provide a portfolio of high quality investments which optimizes interest income within acceptable limits of safety and liquidity. The increase was primarily the result of $182.6 million of security purchases partially offset by $145.5 million of proceeds from maturities, prepayments or calls of investment securities.

Net loans receivable at March 31, 2002 was $1.14 billion, an increase of $47.6 million from $1.10 billion at December 31, 2001. The increase was primarily from increased originations of commercial and industrial loans. The ratio of non-performing assets to total loans and real estate owned at March 31, 2002 was 1.12% compared to 1.02% at December 31, 2001. The ratio of allowance for loan losses to total non-performing loans was 121.55% at March 31, 2002 compared to 134.84% at December 31, 2001. The increase in these ratios was the result of an increase in non-performing assets to $11.5 million at March 31, 2002 from $10.2 million at December 31, 2001. The ratio of allowance for loan losses to total loans was 1.21% at March 31, 2002 compared to 1.25% at December 31, 2001.

Excess of cost over fair value of assets acquired decreased $1.9 million from $43.6 million at December 31, 2001 to $41.7 million at March 31, 2002. The decrease was a result of scheduled amortization.

Total deposits were $1.54 billion at March 31, 2002, reflecting a $29.3 million decrease over December 31, 2001. The Company's core deposits, (demand and savings deposits) increased $17.3 million while the non-core deposits (time deposits) declined $46.5 million. The Company's deposit strategy stresses the importance of building a relationship with each and every customer. To help facilitate these relationships, the Company has implemented a relationship pricing strategy that has helped to dramatically increase core deposit growth. This relationship strategy has enabled the Company to favorably increase the deposit mix with a higher concentration of core deposits.

Advances from the Federal Home Loan Bank increased $72.8 million to $146.8 million at March 31, 2002 from $74.0 million at December 31, 2001. These advances are in line with the Company's ALCO interest rate sensitivity policies, by matching longer-term assets with longer-term liabilities.

Other borrowings at March 31, 2002 were $26.2 million, an increase of $25.0 million from $1.2 million at December 31, 2001. The increase was in short-term borrowing of $25.0 million, which the Company used to fund, in part, the call of its Sun Trust I Preferred Securities on April 1, 2002. On April 10, 2002, the Company paid off $20.0 million of its short-term borrowings with the issuance of $20.0 million Pooled Floating Rate Capital Securities. The Company will recognize a pretax interest expense saving from these transactions of $900,000 (approximately $0.05 per diluted share) for the nine-months period ending December 31, 2002.

Securities sold under agreement to repurchase decreased $7.3 million from $84.9 million at December 31, 2001 to $77.6 million at March 31, 2002, reflecting the seasonality of these borrowings.

Total shareholders' equity decreased by $1.6 million, from $130.0 million at December 31, 2001, to $128.4 million at March 31, 2002. The decrease was primarily the result of a $3.4 million decrease in accumulated other comprehensive loss, partially offset by first quarter earnings amounting to $1.6 million.

In February 2002, the Board of Directors of the Company authorized the initiation of a stock repurchase plan covering up to approximately 3%, or 320,000 shares of the Company's outstanding common stock. At March 31, 2002, the Company repurchased 25,000 shares for $315,000.

Liquidity and Capital Resources

Liquidity management is a daily and long-term business function. The Company's liquidity, represented in part by cash and cash equivalents, is a product of its operating, investing and financing activities. Proceeds from repayment and maturities of loans, sales and maturities of investment securities, net income and increases in deposits and borrowings are the primary sources of liquidity of the Company.

The Company anticipates that cash and cash equivalents on hand, the cash flow from assets as well as other sources of funds will provide adequate liquidity for the Company's future operating, investing and financing needs. In addition to cash and cash equivalents of $63.2 million at March 31, 2002, the Company has additional secured borrowing capacity with the FHLB and other sources. Management will continue to monitor the Company's liquidity in order to maintain it at a level that is adequate but not excessive.

Net cash used in investing activities for the quarter ended March 31, 2002, was $81.6 million compared to net cash provided by investing activities for the quarter ended March 31, 2001 of $43.7 million, a difference of $125.3 million. Net cash provided by financing activities for the quarter ended March 31, 2002, was $61.5 million compared to net cash used in financing activities for the quarter ended March 31, 2001 of $61.1 million, a difference of $122.6 million. The activity during the first quarter 2001 reflects the Company's continued focus on overall balance sheet and capital management. Continuing its strategy implemented during the later part of 2000, the Company concentrated on growth of its core businesses, with emphasis on commercial lending and retail banking, while also deleveraging the balance sheet through a reduction in investments of $66.8 million and borrowings of $71.2 million. By year-end 2001, the Company had substantially executed its de-leveraging strategy. During the first quarter 2002, consistent with the Company's overall balance sheet and funding management, the Company increased FHLB advances by $65.5 million in order to match longer-term assets with longer-term liabilities. These advances are in line with the Company's ALCO interest rate sensitivity and liquidity policies. On March 29, 2002, the Company borrowed $25.0 million primarily to provide liquidity from April 1, 2002, when the Company called its outstanding $28.0 million of 9.85% Sun Trust I Preferred Securities ("Sun Trust I Securities") until April 10, 2002 when Company issued $20.0 million Pooled Floating Rate Capital Securities ("Sun Trust III Capital Securities").

Management has developed a capital plan for the Company and the Bank that should allow the Company and the Bank to grow capital internally at levels sufficient for achieving its growth projections and operating and financial risks. It is the Company's intention to maintain "well-capitalized" risk-based capital levels. The Company has also considered a plan for contingency capital needs, and when appropriate, the Company's Board of Directors may consider various capital raising alternatives.

As part of its capital plan, the Company issued trust preferred securities that qualify as Tier 1 or core capital of the Company, subject to a 25% capital limitation under risk-based capital guidelines developed by the Federal Reserve. The portion that exceeds the 25% capital limitation qualifies as Tier 2, or supplementary capital of the Company. During the first quarter 2002, the Company notified the holders of the outstanding $28.0 million of 9.85% Sun Trust I Securities of its intention to call these securities contemporaneously with the redemption of the Sun Trust I 9.85% Junior Subordinated Debentures on April 1, 2002. The Company funded this call with short-term borrowings of $25.0 million and a $3.0 million dividend from Sun. On April 10, 2002, the Company issued $20.0 million Sun Trust III Capital Securities. The proceeds were used to pay down $20.0 million of short-term borrowings.

Comparison of Operating Results for the Three Months Ended March 31, 2002 and 2001

Net income increased by $311,000, or 24.3% for the three months ended March 31, 2002 to $1.6 million from $1.3 million for the three months ended March 31, 2001. As more fully described below, the increase in net income was due to an increase of $518,000 in net interest income, a decrease of $296,000 in the provision for loan losses and an increase of $567,000 in non-interest income, partially offset by an increase in non-interest expenses of $941,000.

Net Interest Income. The increase in net interest income (on a tax-equivalent basis) from March 31, 2002 compared to March 31, 2001 was due to a $7.9 million decrease in interest expense partially offset by a $7.4 million decrease in interest income (on a tax-equivalent basis).

The following table sets forth a summary of average balances with corresponding interest income (on a tax-equivalent basis) and interest expense as well as average yield and cost information for the periods presented. Average balances are derived from daily balances.

<TABLE>
<CAPTION>

	At or for the three months ended March 31, 2002			At or for the three months ended March 31, 2001		
	Average Balance	Interest	Average Yield/Cost	Average Balance	Interest	Average Yield/Cost
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Interest-earning assets:						
Loans receivable (1), (2)	$1,123,734	$20,334	7.24%	$ 1,054,631	$22,732	8.62%
Investment securities (3)	682,788	7,482	4.38	743,118	12,260	6.60
Federal funds sold	12,534	53	1.68	16,473	225	5.46
	1,819,056	27,869	6.13	1,814,222	35,217	7.76
Non-interest-earning assets	146,111			145,237		
	$1,965,167			$1,959,459		
Interest-bearing liabilities:						
Interest-bearing deposit accounts						
Deposits:						
Core deposits	822,637	4,295	2.09%	535,426	4,384	3.27%
Time deposits	463,114	5,063	4.37	633,131	9,605	6.07
Total interest-bearing deposits	1,285,751	9,358	2.91	1,168,556	13,988	4.79
Borrowings:						
Repurchase agreements with						4.81
customers	78,905	184	0.94	73,934	890	4.81
Repurchase agreements with FHLB	0	0	0.00	234,179	3,384	5.78
FHLB term advances	133,461	1,674	5.02	49,121	809	6.59
Other borrowed money	2,704	27	4.00	3,271	40	4.94
Total borrowed money	215,070	1,885	3.51	360,505		
					5,123	5.68
Guaranteed preferred beneficial interest	57,327	1,360	9.49	57,327	1,360	9.49
Total Interest-bearing liabilities:	1,558,148	12,603	3.24	1,586,388	20,471	5.16
Non-interest-bearing liabilities	275,227			252,218		
	1,833,375			1,838,606		
Shareholders' equity	131,792			120,853		
	$1,965,167			$1,959,459		
Net interest income		$15,266			$14,746	
Interest rate spread (4)			2.89%			2.60%
Net yield on interest earning assets (5)			3.36%			3.25%
Ratio of average interest-earning assets to average interest-bearing liabilities			116.74%			114.36%

</TABLE>

Footnotes described on following page

(1) Average balances include non-accrual loans
(2) Loan fees are included in interest income and the amount is not material for this analysis
(3) Interest earned on non-taxable investment securities is shown on a tax equivalent basis assuming a 34% marginal federal tax rate for all periods
(4) Interest rate spread represents the difference between the average yield on interest-earning assets and the average cost of interest-bearing liabilities
(5) Net yield on interest earning assets represents net interest income as a percentage of average interest-earning assets

The table below sets forth certain information regarding changes in interest income and interest expense of the Company for the periods indicated. For each category of interest-earning assets and interest-bearing liabilities, information is provided on changes attributable to (i) changes in volume (changes in average volume multiplied by old rate) and (ii) changes in rate (changes in rate multiplied by old average volume). The combined effect of changes in both volume and rate has been allocated to volume or rate changes in proportion to the absolute dollar amounts of the change in each.

	Quarter Ended March 31, 2002 vs. 2001 Increase (Decrease) Due to		
	Volume	Rate	Net
Interest income:			
Loans receivable	$ 1,417	$(3,815)	$(2,398)
Investment securities	(930)	(3,848)	(4,778)
Federal funds sold	(44)	(128)	(172)
Total interest-earning assets	$ 443	$(7,791)	$(7,348)
Interest expense:			
Deposit accounts:			
Core deposits	$ 2,348	$(2,436)	$ (89)
Time deposits	(2,223)	(2,319)	(4,542)
Total interest-bearing deposits	125	(4,755)	(4,630)
Borrowings:			
Repurchase agreements with customers	56	(761)	(705)
Repurchase agreements with FHLB	(3,384)	-	(3,384)
FHLB advances	1,098	(233)	865
Other borrowed money	(7)	(7)	(14)
Total borrowed money	(2,237)	(1,001)	(3,238)
Guaranteed preferred beneficial interest in Company's subordinated debt	-	-	-
Total interest-bearing liabilities	$ (2,112)	$(5,756)	$(7,868)
Net change in interest income	$ 2,555	$(2,035)	$ 520

Net interest income (on a tax-equivalent basis) increased $520,000 or 3.5% to $15.3 million for the quarter ended March 31, 2002 compared to $14.7 million for the same period in 2001. This increase is primarily due to the change in the volume of interest-earning assets and interest-bearing liabilities, as well as the number of market rate decreases between periods. From the volume component, net interest income (on a tax-equivalent basis) increased $2.5 million and was partially offset by the rate component that decreased net interest income by $2.0 million. The change in the average balances of the interest-earning assets and the interest-bearing liabilities reflects the Company's continued focus on overall balance sheet management by concentrating on the growth of its core businesses.

Interest income (on a tax-equivalent basis) decreased $7.3 million, or 20.9% to $27.9 million for the three months ended March 31, 2002 compared to $35.2 million for the same period in 2001. The decrease in interest income was due to the continued drop in interest rates, which lowered the yield on average interest-earning assets by 163 basis points. Interest income (on a tax-equivalent basis) on investment securities decreased $4.8 million caused by a decrease in yield of 222 basis points with a reduction in the average balance from $743.1 million at March 31, 2001 to $682.8 million at March 31, 2002. In addition, interest income on loans receivable decreased due to a decrease in yield of 138 basis points offset by an increase in average balance of loans receivable from $1.05 billion at March 31, 2001 to $1.12 billion at March 31, 2002.

Interest expense decreased $7.9 million or 38.4% to $12.6 million for the three months ended March 31, 2002 compared to $20.5 million for the same period in 2001. The decrease in interest expense was due primarily to the overall decrease in interest rates, the change in the mix of deposits between core and time deposits, and the decrease in volume of borrowed money. The change in interest rates decreased overall cost of funds by 192 basis points, or $5.8 million. The change in the mix of deposits is the result of the Company implementing a relationship pricing strategy that has enabled the Bank to favorably increase the deposit mix with a higher concentration of lower costing core deposits. The increase in the average balance of core deposits from $535.4 million at March 31, 2001 to $822.6 million at March 31, 2002, resulted in the increase in the volume component of interest expense of $2.3 million. The core deposit increase was partially offset with a decrease in the average balance of time deposits from $633.1 million at March 31, 2001 to $463.1 million at March 31, 2002, which resulted in the decrease in the volume component of interest expense of $2.2 million. An additional $2.2 million decrease in the volume component of interest expense was the result of the decrease in the aggregate volume of borrowed money. The volume component of interest expense decreased $3.4 million as the Company fully paid off repurchase agreements with the FHLB, which was partially offset by an increase in the volume component of interest expense of $1.1 million with increased FHLB advances. These advances are in line with the Company's ALCO interest rate sensitivity and liquidity management, by matching longer-term assets with longer-term liabilities.

The increase in net yield on interest-earning assets for the three months ended March 31, 2002, compared to the same period in 2001, was primarily due to the average cost of funds reduction being greater than the reduction in the Company's interest-earning assets.

Provision for Loan Losses. For the three months ended March 31, 2002, the provision for loan losses was $1.0 million, a decrease of $296,000, compared to $1.3 million for the same period in 2001. Commencing in the second quarter 2001, the Company focused on reinforcing its ongoing loan portfolio management, enhancing the credit review process to effectively address the current risk profile of the portfolio and a more aggressive approach to troubled credits. The result was that non-performing loans have been reduced from a high of $14.6 million during 2001 to $11.5 million at March 31, 2002. Management regularly performs an analysis to identify the inherent risk of loss in the Company's loan portfolio. This analysis includes evaluations of concentrations of credit, past loss experience, current economic conditions, amount and composition of the loan portfolio, estimated fair value of underlying collateral, loan commitments outstanding, delinquencies and other factors. The allowance for loan losses at March 31, 2002 was $14.0 million or 1.21% of loans. This compares to the allowance for loan losses of $13.8 million at March 31, 2001, or 1.25% of loans.

Other Income. Other income increased $567,000, or 25.4% for the three-month period ended March 31, 2002 compared to the three-month period ended March 31, 2001. The increase was primarily the result of an increase in the volume of service charges on deposit accounts. In addition, gain on the sale of investment securities was $183,000 for the three months ended March 31, 2002 compared to a gain of $50,000 in the same period of 2001.

Other Expenses. Other expenses increased $941,000, or 6.9% to $14.6 million for the three months ended March 31, 2002 as compared to $13.6 million for the same period in 2001. Of the increase, $853,000 was in salaries and employee benefits needed to support the Company's initiatives announced in 2001.

Income Taxes. Applicable income taxes increased $129,000 for the three months ended March 31, 2002 as compared to the same period in 2001. The increase resulted from higher pre-tax earnings.

Item 3: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Asset and Liability Management

The Company's exposure to interest rate risk results from the difference in maturities and repricing characteristics of the interest-earning assets and interest-bearing liabilities and the volatility of interest rates. If the Company's assets have shorter maturity or repricing terms than its liabilities, the Company's earnings will tend to be negatively affected during periods of declining interest rates. Conversely, this mismatch would benefit the Company during periods of increasing interest rates. Management monitors the relationship between the interest rate sensitivity of the Company's assets and liabilities.

Gap Analysis

Banks have become increasingly concerned with the extent to which they are able to match maturities or repricing characteristics of interest-earning assets and interest-bearing liabilities. Such matching is facilitated by examining the extent to which such assets and liabilities are interest-rate sensitive and by monitoring a bank's interest rate sensitivity gap. An asset or liability is considered to be interest-rate sensitive if it will mature or reprice within a specific time period. The interest rate sensitivity gap is defined as the excess of interest-earning assets maturing or repricing within a specific time period over interest-bearing liabilities maturing or repricing within that time period. On a monthly basis, the Bank monitors its gap, primarily its six-month and one-year maturities, and works to maintain its gap within a range that does not exceed a negative 25% of total assets. Management and the Board of Directors monitor the Company's gap position quarterly.

The Asset/Liability Committee of the Bank's Board of Directors discuss, among other things, interest rate risk. The Bank also uses simulation models to measure the impact of potential changes of up to 300 basis points in interest rates on net interest income. Sudden changes to interest rates should not have a material impact to results of operations. Should the Bank experience a positive or negative mismatch in excess of the approved range, it has a number of remedial options. The Bank has the ability to reposition its investment portfolio to include securities with more advantageous repricing and/or maturity characteristics. It can attract variable- or fixed-rate loan products as appropriate. The Bank can also price deposit products to attract deposits with maturity characteristics that can lower their exposure to interest rate risk.

At March 31, 2002, the Company had a positive position with respect to its exposure to interest rate risk. Total interest-earning assets maturing or repricing within one year exceeded total interest-bearing liabilities maturing or repricing during the same time period by $41.6 million, representing a positive cumulative one-year gap ratio of 2.09%. As a result, the cost of interest-bearing liabilities of the Company should adjust to changes in interest rates at a slower rate than yield on interest-earning assets of the Company.

The following table summarizes the maturity and repricing characteristics of the Company's interest-earning assets and interest-bearing liabilities at March 31, 2002. All amounts are categorized by their actual maturity or repricing date with the exception of interest-bearing demand deposits and savings deposits. As a result of prior experience during periods of rate volatility and management's estimate of future rate sensitivities, the Company allocates the interest-bearing demand deposits and savings deposits into categories noted below. Management's allocation is based on the estimated duration of those deposits.

<TABLE>
<CAPTION>

	Maturity/Repricing Time Periods				
	0-3 Months	4-12 Months	1-5 Years	Over 5 Yrs.	Total
<S>	<C>	<C>	<C>	<C>	<C>
FHLB interest-bearing deposit	$ 2,626				$ 2,626
Loans receivable	363,493	$151,287	$567,860	$ 68,105	1,150,745
Investment securities	182,386	77,415	329,212	103,714	692,727
Federal funds sold	4,745	-	-		4,745
Total interest-earning assets	553,250	228,702	897,072	171,819	1,850,843
Interest-bearing demand deposits	165,344	47,161	268,518	25,890	506,913
Savings deposits	13,674	41,021	232,330	20,435	307,460
Time certificates	130,027	194,174	120,787	1,760	446,748
Federal Home Loan Bank Advances	4,259	12,863	93,876	35,834	146,832
Loan payable	26,160				26,160
Securities sold under agreements to repurchase	77,636				77,636
Guaranteed interest in Company's subordinated debt	28,040	-	-	29,287	57,327
Total interest-bearing liabilities	445,140	295,219	715,511	113,206	1,569,076
Periodic Gap	$108,110	$(66,517)	$181,561	$ 58,613	$ 281,767
Cumulative Gap	$108,110	$ 41,593	$223,154	$281,767	
Cumulative Gap Ratio	5.42%	2.09%	11.19%	14.13%	

</TABLE>

PART II - OTHER INFORMATION

Item 1 Legal Proceedings

The Company is not engaged in any legal proceedings of a material nature at March 31, 2002. From time to time, the Company is a party to legal proceedings in the ordinary course of business wherein it enforces its security interest in loans.

Item 2 Changes in Securities and Use of Proceeds

Not applicable

Item 3 Defaults upon Senior Securities

Not applicable

Item 4 Submission of Matters to a Vote of Security Holders

Not applicable

Item 5 Other Information

Not applicable

Item 6 Exhibits and Reports on Form 8-K

The following current reports on Form 8-K were filed during the quarter ended March 31, 2002:

The Company filed a Current Report on Form 8-K on February 26, 2002

The Company filed a Current Report on Form 8-K on January 25, 2002

SIGNATURES

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

Sun Bancorp, Inc.

(Registrant)

Date May 10, 2002 /s/ Thomas A. Bracken

Thomas A. Bracken
President and Chief Executive Officer

Date May 10, 2002 /s/ Dan. A. Chila

Dan A. Chila
Executive Vice President and
Chief Financial Officer