SECURITIES AND EXCHANGE COMMISSION

FORM 10KSB

Annual and transition reports of small business issuers [Section 13 or 15(d), not S-B Item 405]

Filing Date: **1996-12-30** | Period of Report: **1996-09-30**
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FILER

FIRST KEYSTONE FINANCIAL INC

CIK:**856751**| IRS No.: **232576479** | State of Incorp.:**PA** | Fiscal Year End: **0930**
Type: **10KSB** | Act: **34** | File No.: **000-25328** | Film No.: **96688127**
SIC: **6035** Savings institution, federally chartered

Business Address
22 WEST STATE ST
MEDIA PA 19063
6105656210

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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-KSB

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

FOR THE YEAR ENDED SEPTEMBER 30, 1996

OR

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

Commission File Number: 0-25328

FIRST KEYSTONE FINANCIAL, INC.
(Exact name of registrant as specified in its charter)

Pennsylvania	23-0469351
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

22 WEST STATE STREET MEDIA, PENNSYLVANIA	19063
(Address of principal executive office)	(Zip Code)

Registrant's telephone number, including area code: (610) 565-6210

Securities registered pursuant to Section 12(b) of the Act:
NOT APPLICABLE

Securities registered pursuant to Section 12(g) of the Act:

COMMON STOCK (PAR VALUE $.01 PER SHARE)

Indicate by check mark whether the Registrant (1) has filed all reports required 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
---   ---

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-B is not contained herein, and will not 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-KSB or any amendment to this Form 10-KSB.

As of December 16, 1996, the aggregate value of the 1,083,038 shares of Common Stock of the Registrant issued and outstanding on such date, which excludes 209,462 shares held by all directors and officers of the Registrant as a group, was approximately $21.7 million. This figure is based on the last known trade price of $20.00 per share of the Registrant's Common stock on December 16, 1996.

Number of shares of Common Stock outstanding as of December 16, 1996: 1,292,500

DOCUMENTS INCORPORATED BY REFERENCE

List hereunder the following documents incorporated by reference and the Part of the Form 10-KSB into which the document is incorporated:

(1) Portions of the Annual Report to Stockholders for the fiscal year ended September 30, 1996 are incorporated into Parts II and III.

(2) Portions of the definitive proxy statement for the Annual Meeting of Stockholders are incorporated into Part III.

PART I.

Item 1. BUSINESS

GENERAL

First Keystone Financial, Inc. (the "Company") is a Pennsylvania corporation and sole shareholder of First Keystone Federal Savings Bank (the "Bank") which converted to the stock form of organization in January 1995. The only significant assets of the Company are the capital stock of the Bank, the

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Company's loans to its employee stock ownership plan, and the net conversion proceeds retained by the Company. The business of the Company primarily consists of the business of the Bank.

The Bank is a traditional, community oriented federal savings bank emphasizing customer service and convenience. The Bank's primary business is to attract deposits from the general public and investing those funds together with other available sources of funds, such as borrowings, to originate loans. A substantial portion of the Bank's deposits are comprised of core deposits which amounted to $90.5 million or 41.3% of the Bank's total deposits at September 30, 1996. The Bank's primary lending emphasis has been, and continues to be, loans secured by first and second liens on single-family (one-to-four units) residences located in Delaware and Chester Counties, Pennsylvania and to a lesser degree, Montgomery County, Pennsylvania and New Castle County, Delaware. The Bank also lends on single family residences secured by first mortgages for non-conforming jumbo loans and loans to credit impaired borrowers for sale in the secondary market. To a lesser extent, the Bank also originates consumer loans (consisting almost entirely of home equity loans and lines of credit), loans secured by commercial real estate and multi-family (over four units) residential properties, construction and land loans, commercial business and other mortgage loans. The Bank originates mortgage loans for resale into the secondary market while retaining for its portfolio adjustable-rate mortgage loans and fixed-rate loans that complement the Bank's asset/liability strategies. The Bank also sells, servicing released, originations of non-conforming loans. Although the Bank has not purchased either whole loans or loan participation interests in the past, depending on market conditions and portfolio needs, the Bank may consider purchasing loans and participation interests in the future. The Bank also originates, due to their shorter terms, adjustable or variable interest rates, higher yields and the Bank's analysis that the markets have become more stable, loans secured by commercial real estate properties as well as residential construction loans in the Bank's market area.

The Bank's originations of consumer loans has continued to increase as a direct result of the Bank's emphasis on developing home equity type loan products. Consumer loans, which consist primarily of home equity loans and home equity lines of credit, amounted to $24.0 million or 13.5% of the total loan portfolio at September 30, 1996 as compared to $21.1 million or 12.6% at September 30, 1995.

In addition to its deposit gathering and lending activities, the Bank invests in mortgage-backed and mortgage-related securities, substantially all of which are issued or guaranteed by U.S. Government agencies and government sponsored enterprises, as well as U.S. Treasury and federal government agency obligations and other investment securities. At September 30, 1996, the Bank's mortgage-related securities (including mortgage-related securities available for sale) amounted to $83.4 million, or 28.4% of the Company's total assets, and investment securities amounted to $16.5 million, or 5.6% of total assets.

MARKET AREA

The Bank's primary market area consists of Delaware County and to a lesser extent the contiguous counties of Chester and Montgomery Counties, Pennsylvania and New Castle County, Delaware. Delaware County is part of the Philadelphia Metropolitan Statistical Area ("MSA") which includes, besides Delaware County, Bucks, Chester, Montgomery and Philadelphia Counties (as well as three counties in New Jersey). The Philadelphia area economy is typical of many large northeast and midwest cities where the traditional manufacturing based economy has declined to a certain degree and has been replaced with service sector growth. As a result of such growth, the Philadelphia MSA's economic diversity has broadened and employment in the area is derived from a number of different employment sectors. In particular, Delaware County has experienced the development of companies providing products and services for the health care market such as Crozer/Keystone Health System, Wyeth-Ayerst Labs, Inc. and Mercy Health Corp.

Philadelphia's central location in the northeast corridor, its well educated and skilled population base, infrastructure and other factors has made the Bank's market area attractive to many large corporate employers. Such employers include Boeing, UNISYS, CIGNA, Bell Atlantic, ALCO, Sun Company and many others. There are also a number of Fortune 500 companies headquartered in the region surrounding the Philadelphia MSA including E.I. DuPont, Bethlehem Steel, Union Pacific, Hercules and others.

Delaware County has experienced somewhat slower population growth than the Philadelphia MSA, although the growth rates in the outlying areas of Delaware County have been growing at a rate above that of the Philadelphia MSA. The annual population growth rate in Delaware County has averaged approximately .2% since 1990 and is not expected to increase materially during the rest of the decade. By comparison, median household income in Delaware County is above that for the Philadelphia MSA (approximately $40,000 as compared to approximately $32,600 in the 1990 census). Likewise, median home values in Delaware County

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were approximately $113,200 as compared to approximately $100,800 for the Philadelphia MSA. Unemployment rates in the Delaware County have been below those experienced by the Philadelphia MSA but higher than some of the other counties comprising the MSA. The average annual unemployment rate for 1996 in Delaware County was 4.6% as compared to 5.2% for the Philadelphia MSA.

ASSET AND LIABILITY MANAGEMENT

The principal objective of the Company's asset and liability management function is to evaluate the interest rate risk included in certain balance sheet accounts, determine the level of risk appropriate given the Company's business focus, operating environment, capital and liquidity requirements and performance objectives, establish prudent asset concentration guidelines and manage the risk consistent with Board approved guidelines. Through such management, the Company seeks to reduce both the vulnerability of its operations to changes in interest rates and to manage the ratio of interest-rate sensitive assets to interest-rate sensitive liabilities within specified maturities or repricing dates. The Company's actions in this regard are taken under the guidance of the Asset/Liability Committee ("ALCO"), which is chaired by the Chief Financial Officer and comprised of members of the Company's senior and middle management. The ALCO meets quarterly to review, among other things, the sensitivity of the Company's assets and liabilities to interest rate changes, the book and market values of assets and liabilities, unrealized gains and losses, purchase and sale activity and maturities of investments and borrowings. In connection therewith, the ALCO generally reviews the Company's liquidity, cash flow needs, maturities of investments, deposits and borrowings, current market conditions and interest rates. In addition, the pricing of the Company's residential loans and deposits is reviewed at least weekly while the pricing of loans originated for sale in the secondary market is reviewed daily. The ALCO reports to the Company's Board of Directors on a quarterly basis.

The Company's primary ALCO monitoring tool is asset/liability simulation models, which are prepared on a quarterly basis and are designed to capture the dynamics of balance sheet, rate and spread movements and to quantify variations in net interest income under different interest rate environments. The Company also utilizes market value analysis, which addresses the change in equity value arising from movements in interest rates. The market value of equity is estimated by valuing the Company's assets and liabilities. The extent to which assets have gained or lost value in relation to the gains or losses of liabilities determines the appreciation or depreciation in equity on a market value basis. Market value analysis is intended to evaluate the impact of immediate and sustained shifts of the current yield curve upon the market value of the current balance sheet.

A more conventional but limited ALCO monitoring tool involves an analysis of the extent to which assets and liabilities are "interest rate sensitive" and measures an institution's interest rate sensitivity "gap." An asset or liability is said to be interest rate sensitive within a specific time period if it will mature or reprice within that time period. The interest rate sensitivity "gap" is defined as the difference between interest-earning assets and interest-bearing liabilities maturing or repricing within a given time period. A gap is considered positive when the amount of interest rate sensitive assets exceeds the amount of interest rate sensitive liabilities. A gap is considered negative when the amount of interest rate sensitive liabilities exceeds interest rate sensitive assets. During a period of rising interest rates, a negative gap would tend to adversely affect net interest income, while a positive gap would tend to result in an increase in net interest income. During a period of falling interest rates, a negative gap would tend to result in an increase in net interest income, while a positive gap would tend to affect net interest income adversely. While a conventional gap measure may be useful, it is limited in its ability to predict trends in future earnings. It makes no presumptions about changes in prepayment tendencies, deposit or loan maturity preferences or repricing time lags that may occur in response to a change in the interest rate environment.

The following table summarizes the anticipated maturities or repricing of the Bank's interest-earning assets and interest-bearing liabilities as of September 30, 1996, based on the information and assumptions set forth in the notes.

<TABLE>
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	Within Six Months	Six to Twelve Months	More Than One Year to Three Years	More Than Three Years to Five Years

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(Dollars in thousands)

<S>	<C>	<C>	<C>	<C>
Interest-earning assets(1):				
Loans receivable(2):				
Mortgage loans:				
Residential	$ 28,589	$ 19,098	$ 29,759	$ 14,192
Commercial and multi-family	4,040	3,604	1,256	1,197
Construction and land	11,314			
Consumer and commercial business loans	6,326	2,177	7,091	5,272
Total loans receivable	50,269	24,879	38,106	20,661
Mortgage-related securities(3)	31,732	7,205	23,945	18,621
Assets held for sale	2,447			
Investment securities(4)	1,000	1,492	1,125	
Interest-earning deposits	9,824			
Total interest-earning assets	$ 95,272	$ 33,576	$ 63,176	$ 39,282
Interest-bearing liabilities:				
Deposits(5)	$ 66,688	$ 55,590	$ 71,528	$ 25,399
FHLB advances	30,900	10,000	5,000	350
Total interest-bearing liabilities	$ 97,588	$ 65,590	$ 76,528	$ 25,749
Excess (deficiency) of interest-earning assets over interest-bearing liabilities	$ (2,316)	$(32,014)	$(13,352)	$ 13,533
Cumulative excess (deficiency) of interest-earning assets over interest-bearing liabilities	$ (2,316)	$(34,330)	$(47,682)	$(34,149)
Cumulative excess (deficiency) of interest-earning assets over interest-bearing liabilities as a percentage of total assets	(.79)%	(11.67)%	(16.21)%	(11.61)%

</TABLE>

<TABLE>
<CAPTION>

	Over Five Years	Total
	<C>	<C>
Interest-earning assets(1):		
Loans receivable(2):		
Mortgage loans:		
Residential	$ 29,166	$120,804
Commercial and multi-family	977	11,074
Construction and land		11,314
Consumer and commercial business loans	2,256	23,122
Total loans receivable	32,399	166,314
Mortgage-related securities(3)	1,929	83,432
Assets held for sale		2,447
Investment securities(4)	15,151	18,768
Interest-earning deposits		9,824
Total interest-earning assets	$ 49,479	$280,785
Interest-bearing liabilities:		
Deposits(5)	$	$219,205
FHLB advances	490	46,740
Total interest-bearing liabilities	$ 490	$265,945
Excess (deficiency) of interest-earning assets over interest-bearing liabilities	$ 48,989	$ 14,840

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Cumulative excess (deficiency) of interest-earning assets over interest-bearing liabilities	$ 14,840
	========
Cumulative excess (deficiency) of interest-earning assets over interest-bearing liabilities as a percentage of total assets	5.04%
	========

</TABLE>

(footnotes on following page)

(1) Adjustable-rate loans are included in the period in which interest rates are next scheduled to adjust rather than in the period in which they are due, and fixed-rate loans are included in the periods in which they are scheduled to be repaid, based on scheduled amortization, in each case as adjusted to take into account estimated prepayments based on assumptions estimating the prepayments in the expected interest rate environment. Annual prepayment speeds for loans range from 5% to 15%. Annual prepayment speeds for mortgage-related securities and investment securities range from 9% to 15%.

(2) Balances have been reduced for non-accruing loans, which amounted to $5.4 million at September 30, 1996 and, with respect to construction loans, the amount of loans in process.

(3) Includes mortgage-related securities available for sale.

(4) Includes $2.3 million of stock in the FHLB of Pittsburgh.

(5) Management believes that the assumptions used by it to evaluate the vulnerability of the Bank's operations to changes in interest rates are conservative and consider them reasonable. However, the interest rate sensitivity of the Bank's assets and liabilities as portrayed in the table above could vary substantially if different assumptions were used or actual experience differs from the assumptions used in the table. Passbook and statement savings accounts are assumed to decay at a rate of 30.0%, 30.0%, and 40.0% in the first three years, respectively. MMDA and NOW accounts are assumed to decay at a rate of 75% and 25%, in one year or less and over one year, respectively. The percentages used in the first year are equally divided over the two six month periods. First Keystone's passbook, statement savings, MMDA and NOW accounts are generally subject to immediate withdrawal. However, management considers a portion of these deposits to be core deposits having significantly longer effective maturities based upon the Bank's retention of such deposits in changing interest rate environments.

Lending Activities

Loan Portfolio Composition. The following table sets forth the composition of the Bank's loan portfolio by type of loan at the dates indicated (excluding loans held for sale).

<TABLE>
<CAPTION>

	September 30,					
	1996		1995		1994	
	Amount	%	Amount	%	Amount	%
	(Dollars in thousands)					
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Real estate loans:						
Single-family	$122,270	68.68%	$115,225	69.01%	$105,728	69.77%
Multi-family and commercial	11,129	6.25	11,789	7.06	12,700	8.38

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Construction and land	17,682	9.93	16,343	9.79	13,805	9.11
Total real estate loans	151,081	84.86	143,357	85.86	132,233	87.26
Consumer:						
Home equity loans and lines of credit	20,444	11.48	18,229	10.92	15,603	10.30
Deposit	457	.26	350	.21	374	.25
Education	917	.52	1,010	.60	697	.46
Other	2,212	1.24	1,491	.89	332	.22
Total consumer loans	24,030	13.50	21,080	12.62	17,006	11.23
Commercial business loans (1)	2,923	1.64	2,533	1.52	2,288	1.51
Total loans receivable	178,034	100.00%	166,970	100.00%	151,527	100.00%
Less:						
Loans in process (construction and land)	6,368		6,070		6,698	
Deferred loan origination fees and discounts	1,512		1,411		1,063	
Allowance for loan losses	2,624		1,487		1,540	
	10,504		8,968		9,301	
Total loans receivable, net	$167,530		$158,002		$142,226	

</TABLE>

<TABLE>
<CAPTION>

	September 30,			
	1993		1992	
<S>	Amount <C>	% <C>	Amount <C>	% <C>
Real estate loans:				
Single-family	$107,999	74.72%	$116,380	74.39%
Multi-family and commercial	13,069	9.04	13,873	8.87
Construction and land	11,675	8.08	17,369	11.10
Total real estate loans	132,743	91.84	147,622	94.36
Consumer:				
Home equity loans and lines of credit	7,995	5.53	6,824	4.36
Deposit	477	.33	460	.29
Education	669	.46	650	.41
Other	39	.04	27	.02
Total consumer loans	9,180	6.36	7,961	5.08
Commercial business loans (1)	2,608	1.80	870	.56
Total loans receivable	144,531	100.00%	156,453	100.00%
Less:				
Loans in process (construction and land)	4,984		5,291	
Deferred loan origination fees and discounts	1,096		1,273	

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Allowance for loan losses	1,265	2,150
	7,345	8,714
Total loans receivable, net	$137,186	$147,739

</TABLE>

(1) Consists as of September 30, 1996 of $1.6 million and $2.2 million of consumer and commercial business loans, respectively purchased from the Bennett Funding Companies. See "-Asset Quality - Non-Performing Assets."

Contractual Principal Repayments. The following table sets forth the scheduled contractual maturities of the Bank's loans held to maturity at September 30, 1996. Demand loans, loans having no stated schedule of repayments and no stated maturity and overdraft loans are reported as due in one year or less. The amounts shown for each period do not take into account loan prepayments and normal amortization of the Bank's loan portfolio held to maturity.

<TABLE>
<CAPTION>

	Real Estate Loans			
	Single-family	Multi-family and Commercial	Construction and Land	Total
		(In Thousands)		
Amounts due in:				
One year or less	$ 5,618	$ 488	$11,942	$ 18,048
After one year through three years	12,429	1,111	4,922	18,462
After three years through five years	8,897	1,319	818	11,034
After five years through ten years	21,961	3,822		25,783
After ten years through twenty years	43,198	4,389		47,587
Over twenty years	30,167			30,167
Total(1)	$122,270	$11,129	$17,682	$151,081
Interest rate terms on amounts due after one year:				
Fixed				$ 70,113
Adjustable				62,920
Total(1)				$133,033

</TABLE>

<TABLE>
<CAPTION>

	Consumer and Commercial Business Loans	Total
Amounts due in:		
One year or less	$ 8,424	$ 26,472
After one year through three years	6,281	24,743
After three years through five years	5,088	16,122
After five years through ten years	4,936	30,719
After ten years through twenty years	2,224	49,811
Over twenty years		30,167
Total(1)	$ 26,953	$178,034
Interest rate terms on amounts due after one year:		
Fixed	$ 18,529	$ 88,642
Adjustable		62,920
Total(1)	$ 18,529	$151,562

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</TABLE>

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(1) Does not include adjustments relating to loans in process, allowances for loan losses and deferred fee income.

Scheduled contractual amortization of loans does not reflect the expected term of the Bank's loan portfolio. The average life of loans is substantially less than their contractual terms because of prepayments and due-on-sale clauses, which give the Bank the right to declare a conventional loan immediately due and payable in the event, among other things, that the borrower sells the real property subject to the mortgage and the loan is not repaid. The average life of mortgage loans tends to increase when current mortgage loan rates are higher than rates on existing mortgage loans and, conversely, decrease when rates on existing mortgage loans are lower than current mortgage loan rates (due to refinancings of adjustable-rate and fixed-rate loans at lower rates). Under the latter circumstances, the weighted average yield on loans decreases as higher yielding loans are repaid or refinanced at lower rates.

Loan Origination, Purchase and Sales Activity. The following table shows the loan origination, purchase and sale activity of the Bank during the periods indicated.

<TABLE>
<CAPTION>

	Year Ended September 30,		
	1996	1995	1994
		(In thousands)	
<S>	<C>	<C>	<C>
Gross loans at beginning of period(1)	$167,027	$151,695	$145,776
Loan originations for investment:			
Real estate:			
Residential	23,766	24,562	19,163
Commercial and multi-family	399		925
Construction	15,875	16,523	13,970
Total real estate loans originated for investment	40,040	41,085	34,058
Consumer	9,738	9,063	11,540
Commercial business	875	2,872	426
Total loans originated for investment	50,653	53,020	46,024
Loans originated for resale	30,239	5,501	27,996
Total originations	80,892	58,521	74,020
Deduct:			
Principal loan repayments and prepayments	(37,811)	(36,077)	(38,745)
Transferred to real estate owned	(1,768)	(507)	(283)
Loans sold in secondary market	(27,849)	(6,605)	(29,073)
Subtotal	(67,428)	(43,189)	(68,101)
Net increase in loans(1)	13,464	15,332	5,919
Gross loans at end of period(1)	$180,491	$167,027	$151,695

</TABLE>

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(1) Includes loans held for sale of $2.4 million, $57,000 and $168,000 at September 30, 1996, 1995 and 1994, respectively.

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The lending activities of the Bank are subject to written underwriting standards and loan origination procedures established by the Bank's Board of Directors and management. Applications for all types of loans are taken at all of the Bank's branch offices by the branch manager or other designated loan officers. Applications for single-family residential mortgage loans also are obtained through loan originators who are employees of the Bank. The Bank's loan originators will take loan applications outside of the Bank's offices at the customer's convenience and are compensated on a commission basis. The Mortgage Lending Department supervises the process of obtaining credit reports, appraisals and other documentation involved with a loan. The Bank generally requires that a property appraisal be obtained in connection with all new mortgage loans. Property appraisals generally are performed by an independent appraiser from a list approved by the Bank's Board of Directors. The Bank requires that title insurance (other than with respect to home equity loans) and hazard insurance be maintained on all security properties and that flood insurance be maintained if the property is within a designated flood plain.

Residential mortgage loan applications are primarily developed from referrals from real estate brokers and builders, existing customers and walk-in customers. Residential mortgage loans also are originated through correspondents. Commercial and multi-family real estate loan applications are obtained primarily from previous borrowers, direct solicitations by Bank personnel, as well as referrals. Consumer loans originated by the Bank are obtained primarily through existing and walk-in customers who have been made aware of the Bank's programs by advertising and other means.

Applications for residential mortgage loans which are originated for resale in the secondary market or loans designated for portfolio retention that conform to the requirements for resale into the secondary market and do not exceed Federal National Mortgage Association ("FNMA")/Federal Home Loan Mortgage Corporation ("FHLMC") limits are approved by the Bank's Chief Lending Officer or in his absence, by the Senior Loan Underwriter or Loan Committee (a committee comprised of three directors and the Bank's Chief Lending Officer). All other first mortgage loans (commercial and multi-family residential real estate and construction loans) and residential mortgage loans in excess of FNMA/FHLMC maximum amounts, currently $203,150, but less than $500,000 must be approved by the Loan Committee. All first mortgage loans in excess of $500,000 must be approved by the Board or the Executive Committee thereof. All mortgage loans which do not require approval by the Bank's Board of Directors are submitted to the Board at its next meeting for review and ratification. Home equity loans and lines of credit up to $50,000 can be approved by the Chief Lending Officer, the Vice President of Construction Loans and the Senior Loan Underwriter. Loans in excess of such amount must be approved by the Loan Committee.

Applications for non-conforming residential real estate loans, submitted by correspondents and sold servicing released into the secondary market, are packaged and submitted for pre-approval to the buyer prior to closing. The Bank, from time to time, also originates non-conforming loans in accordance with the buyers' underwriting standards and sells them in bulk into the secondary market.

Single-Family Residential Loans. Substantially all of the Bank's single-family residential mortgage loans consist of conventional loans. Conventional loans are loans that are neither insured by the Federal Housing Administration or partially guaranteed by the Department of Veterans Affairs. The vast majority of the Bank's single-family residential mortgage loans are secured by properties located in Pennsylvania, primarily in the Delaware and Chester Counties, and are originated under terms and documentation which permit their sale to the FHLMC or FNMA. The Bank, consistent with its asset/liability management strategies, sells some of its newly originated longer term fixed-rate residential mortgage loans and to a limited degree, existing longer term fixed-rate residential mortgage loans while retaining adjustable-rate mortgage loans and shorter term fixed-rate residential mortgage loans. See "-Mortgage-Banking Activities."

The single-family residential mortgage loans offered by the Bank currently consist of fixed-rate loans, including bi-weekly and balloon loans, and adjustable-rate loans. Fixed-rate loans generally have maturities ranging from 15 to 30 years and are fully amortizing with monthly loan payments sufficient to repay the total amount of the loan with interest by the end of the loan term. The Bank's fixed-rate loans are originated under terms, conditions and documentation which permit them to be sold to U.S. Government-sponsored agencies, such as the FHLMC and the FNMA, and other investors in the secondary mortgage market. The Bank also offers bi-weekly loans under the terms of which the borrower makes payments every two weeks. Although such loans have a 30 year amortization schedule, due to the bi-weekly payment schedule, such loans repay substantially more rapidly than a standard monthly

amortizing 30-year fixed-rate loan. The Bank also offers five and seven year balloon loans which provide that the borrower can conditionally renew the loan

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at a to-be-determined rate for the remaining 25 or 23 years, respectively, of the amortization period. At September 30, 1996, $69.4 million, or 56.7%, of the Bank's single-family residential mortgage loans were fixed-rate loans, including $21.3 million of bi-weekly fixed-rate residential mortgage loans.

The adjustable-rate loans currently offered by the Bank have interest rates which adjust every one or three years in accordance with a designated index, such as U.S. Treasury obligations, adjusted to a constant maturity ("CMT"), plus a stipulated margin. The Bank's adjustable-rate single-family residential real estate loans generally have a cap of 2% on any increase or decrease in the interest rate at any adjustment date, and a cap of 6% over the life of the loan. In order to increase acceptance of adjustable-rate loans, the Bank recently has been originating loans which are fixed for a period of ten years and then convert to a one-year adjustable-rate loan. The Bank's adjustable-rate loans require that any payment adjustment resulting from a change in the interest rate of an adjustable-rate loan be sufficient to result in full amortization of the loan by the end of the loan term and, thus, do not permit any of the increased payment to be added to the principal amount of the loan, or so-called negative amortization. Although the Bank does offer adjustable-rate loans with initial rates below the fully indexed rate, such loans are underwritten using methods approved by FHLMC and FNMA which allow borrowers to be qualified at 2% above the discounted loan rate. At September 30, 1996, $52.9 million or 43.3% of the Bank's single-family residential mortgage loans were adjustable-rate loans.

Adjustable-rate loans decrease the risks associated with changes in interest rates but involve other risks, primarily because as interest rates increase the loan payment by the borrower increases to the extent permitted by the terms of the loan, thereby increasing the potential for default. Moreover, as with fixed-rate loans, as interest rates increase, the marketability of the underlying collateral property may be adversely affected by higher interest rates. The Bank believes that these risks, which have not had a material adverse effect on the Bank to date because of the generally stable interest rate environment in recent years, generally are less than the risks associated with holding fixed-rate loans in an increasing interest rate environment.

For conventional residential mortgage loans held in the portfolio and also for those loans originated for sale in the secondary market, the Bank's maximum loan-to-value ratio is 95%, and is based on the lesser of sales price or appraised value. On all loans with a loan-to-value ratio of over 80%, private mortgage insurance is required in an amount which reduces the Bank's exposure to 75%.

Commercial and Multi-Family Residential Real Estate Loans. The Bank has maintained a relative constant investment in commercial and multi-family lending for many years. The Bank continues to maintain its involvement in commercial real estate lending and intends to moderately increase the amount of such loans in the Bank's portfolio. Such loans are being extended primarily to small and medium-sized businesses located in the Bank's primary market area, a portion of the market that the Bank believes has been underserved in recent years. Loans secured by commercial and multi-family real estate amounted to $11.1 million, or 6.3%, of the Bank's total loan portfolio, at September 30, 1996. The Bank's commercial multi-family residential real estate loans are secured by professional office buildings, small retail establishments, warehouses and apartment buildings (with 36 units or less) located in the Bank's market area.

The Bank's multi-family residential and commercial real estate loans generally are either one-year or three-year adjustable-rate loans indexed to the CMT plus a margin. Generally, fees of 1% to 3% of the principal loan balances are charged to the borrower upon closing. Although terms for multi-family residential and commercial real estate loans may vary, the Bank's underwriting standards generally provide for terms of up to 25 years with amortization of principal over the term of the loan and loan-to-value ratios of not more than 75%. Generally, the Bank obtains personal guarantees of the principals of the borrower as additional security for any commercial real estate and multi-family residential loans and requires that the borrower have at least a 25% equity investment in any such property.

The Bank evaluates various aspects of commercial and multi-family residential real estate loan transactions in an effort to mitigate risk to the extent possible. In underwriting these loans, consideration is given to the stability of the property's cash flow history, future operating projections, current and projected occupancy, position in the market, location and physical condition. In recent periods, the Bank has also generally imposed a debt coverage ratio (the ratio of net cash from operations before payment of debt service to debt service) of not less than 110%. The

underwriting analysis also includes credit checks and a review of the financial condition of the borrower and guarantor, if applicable. An appraisal report is prepared by a state-licensed and certified appraiser (generally MAI qualified) commissioned by the Bank to substantiate property values for every commercial

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real estate and multi-family loan transaction. All appraisal reports are reviewed by the Bank prior to the closing of the loan.

Multi-family and commercial real estate lending entails different and significant risks when compared to single-family residential lending because such loans often involve large loan balances to single borrowers and because the payment experience on such loans is typically dependent on the successful operation of the project or the borrower's business. These risks can also be significantly affected by supply and demand conditions in the local market for apartments, offices, warehouses or other commercial space. The Bank attempts to minimize its risk exposure by limiting such lending to proven developers/owners, only considering properties with existing operating performance which can be analyzed, requiring conservative debt coverage ratios, and periodically monitoring the operation and physical condition of the collateral.

Construction Loans. Substantially all of the Bank's construction loans have consisted of loans to construct single-family properties extended either to individuals or to selected developers with whom the Bank is familiar to build such properties on a pre-sold or limited speculative basis. With respect to loans to individuals, such loans have a maximum term of six months, have variable rates of interest based upon the prime rate published in the Wall Street Journal ("Prime Rate") plus a margin, have loan-to-value ratios of 80% or less of the appraised value upon completion and generally do not require the amortization of principal during the term. Upon completion of construction, the loans convert to permanent residential mortgage loans.

The Bank also provides construction loans and lines of credit to developers. The majority of such loans consist of loans to selected local developers with whom the Bank is familiar to build single-family dwellings on a pre-sold or, to a significantly lesser extent, on a speculative basis. The Bank generally limits to two the number of unsold units which a developer may have under construction in a project. Such loans generally have terms of 24 months or less, have maximum loan-to-value ratios of 75% of the appraised value upon completion and generally do not require the amortization of the principal during the term. The loans are made with floating rates of interest based on the Prime Rate plus a margin adjusted on a monthly basis. The Bank also receives origination fees, which generally range from 1.0% to 3.0% of the commitment. The borrower is required to fund a portion of the project's costs, the exact amount determined on a case-by-case basis. Loan proceeds are disbursed in stages after inspections of the project indicate that such disbursements are for costs already incurred and which have added to the value of the project. Only interest payments are due during the construction phase and the Bank may provide the borrower with an interest reserve from which it can pay the stated interest due thereon. The Bank's construction loans include loans to the developers to acquire the necessary land, develop the site and construct the residential units ("ADC loans"). At September 30, 1996, construction loans included $851,000 of ADC loans. At September 30, 1996, Paine Webber Group Inc. residential construction loans totalled $10.6 million, or 5.9%, of the total loan portfolio, of which $8.8 million consisted of construction loans to developers.

The Bank also will originate ground or land loans, both to individuals to purchase a building lot on which he intends to build his primary residence, as well as to developers to purchase lots to build speculative homes at a later date. Such loans have terms of 36 months or less with a maximum loan-to-value ratio of 75% of the lower of appraised value or sale price with respect to loans to individuals and 65% of the lower of appraised value or sales price with respect to loans to developers. The loans are made with floating rates based on the Prime Rate plus a margin. The Bank also receives origination fees, which generally range between 1.0% and 3.0% of the loan amount. At September 30, 1996, land loans (including loans to acquire and develop land) totalled $7.1 million or 4.0% of the total loan portfolio.

Prior to making a commitment to fund a construction loan, the Bank requires an appraisal of the property by an independent state-licensed and qualified appraiser approved by the Board of Directors. In addition, during the term of the construction loan, the project is inspected by an independent inspector.

Construction financing is generally considered to involve a higher degree of risk of loss than long-term financing on improved, owner-occupied real estate. Risk of loss on a construction loan is dependent largely upon the accuracy of the initial estimate of the property's value at completion of construction or development and the estimated cost

(including interest) of construction. During the construction phase, a number of factors could result in delays and cost overruns. If the estimate of value proves to be inaccurate, the Bank may be confronted, at or prior to the maturity of the loan, with a project, when completed, having a value which is insufficient to assure full repayment. Loans on lots may run the risk of adverse zoning changes, environmental or other restrictions on future use.

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Consumer Lending Activities. The Bank offers consumer loans in order to provide a full range of retail financial services to its customers. At September 30, 1996, $24.0 million, or 13.5%, of the Bank's total loan portfolio was comprised of consumer loans. The Bank originates substantially all of such loans in its primary market area.

The largest component of the Bank's consumer loan portfolio consists of home equity loans and home equity lines of credit (a form of revolving credit), both of which are secured by the underlying equity in the borrower's primary residence. Home equity loans are amortizing loans with fixed interest rates and maximum terms of 15 years while equity lines of credit have adjustable interest rates indexed to the Prime Rate. Generally home equity loans or home equity lines do not exceed $100,000. The Bank's home equity loans and lines of credit generally require combined loan-to-value ratios of 80% or less. At September 30, 1996, home equity loans amounted to $20.4 million, or 11.5%, of the Bank's total loan portfolio.

At September 30, 1996, the remaining portion of the Bank's consumer loan portfolio was comprised of education, deposit and other consumer loans. At September 30, 1996, the Bank had $917,000 or .52% of education loans, all of which were underwritten to conform with the standards of the Pennsylvania Higher Education Agency. Deposit loans and other consumer loans totalled $2.7 million, or 1.5%, of the Bank's total loan portfolio at September 30, 1996. In April, 1995 the Bank introduced their own credit card program. The credit cards were offered to only the Bank's most creditworthy customers. At September 30, 1996, these loans totalled $465,000 or .26% of the total loan portfolio. Consumer loans also included certain consumer leases purchased from the Bennett Funding Group of $1.6 million. See "-Asset Quality - Non-Performing Assets" for a discussion of the Bank's non-performing consumer loans.

Consumer loans generally have shorter terms and higher interest rates than mortgage loans but generally involve more credit risk than mortgage loans because of the type and nature of the collateral and, in certain cases, the absence of collateral. These risks are not as prevalent in the case of the Bank's consumer loan portfolio, however, because a high percentage of the portfolio is comprised of home equity loans and home equity lines of credit which are secured by real estate and underwritten in a manner such that they result in a lending risk which is substantially similar to single-family residential loans.

Commercial Business Loans. At September 30, 1996, lease financing receivables amounted to $2.2 million or 1.2% of the Bank's total loan portfolio. The remainder of commercial business loans consist of a limited number of commercial lines of credit secured by real estate. A majority of such portfolio consisted of office equipment and other leases purchased from the Bennett Funding Group, a leasing company located in Syracuse, New York. Such lines totalled $763,000 or .43% of the Bank's total loan portfolio at September 30, 1996. See "-Asset Quality - Non- Performing Assets" for a discussion of the Bank's non-performing commercial business loans.

The Bank is in the process of developing a commercial business lending policy and procedures for small businesses located in the Bank's primary market area. The Bank is expected to moderately grow this portfolio in the coming year.

Mortgage-Banking Activities. Due to customer preference for fixed-rate loans, especially during the stable mortgage interest rate environment in 1996 and 1995, the Bank has continued to originate fixed-rate loans. Long term, generally 30 years, fixed rate loans not taken into portfolio for asset/liability purposes are sold into the secondary market. In addition, the Bank has developed a product for sale in the secondary market for non-conforming jumbo and impaired credit loans. The Bank sold a substantial amount of the long-term 30 year, fixed-rate conforming and non-conforming mortgage loans originated during fiscal 1996 and 1994 and, to a lesser extent, during fiscal 1995. The Bank's net gain on sales of mortgage loans amounted to $209,000, $53,000 and $350,000 during the years ended September 30, 1996, 1995 and 1994, respectively. Due to the general increases in rates in fiscal 1995, mortgage originations declined significantly for both the Bank and the mortgage industry. The development of non-conforming loan products, whose loan rates generally do not fluctuate during the interest rate

cycles, should smooth out originations over various interest rate cycles. The Bank had $2.4 million and $57,000 of mortgage loans held for sale at September 30, 1996 and 1995, respectively.

The Bank's conforming mortgage loans sold to others are sold, generally with servicing retained, on a loan-by-loan basis primarily to the FHLMC and the FNMA. A period of less than five days generally lapses between the closing of the loan by the Bank and its purchase by the investor. Mortgages with established interest rates generally will decrease in value during periods of increasing interest rates. Accordingly, fluctuations in prevailing interest

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rates may result in a gain or loss to the Bank as a result of adjustments to the carrying value of loans held for sale or on sale of loans. The Bank attempts to protect itself from these market fluctuations through the use of forward commitments at the time of the rate lock-in by the borrower. These commitments are mandatory delivery contracts with FHLMC and FNMA within a certain time frame and within certain dollar amounts and a price determined at the commitment date. Market risk does exist as non-refundable points paid by the borrower may not be sufficient to offset fees associated with closing the forward commitment contract. Non-conforming mortgage loans sold to others are sold, servicing released, on a loan-by-loan basis and are generally pre-approved by the buyer prior to closing.

Borrowers are generally charged an origination fee, which is a percentage of the principal balance of the loan. In accordance with the provisions of Statement of Financial Accounting Standards ("SFAS") No. 91, "Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases," the various fees received by the Bank in connection with the origination of loans are deferred and amortized as a yield adjustment over the lives of the related loans using the interest method. However, when such loans are sold, the remaining unamortized fees (which is all or substantially all of such fees due to the relatively short period during which such loans are held) are recognized on the sale of loans held for sale.

The Bank, for conforming loan products, generally retains the servicing on all loans sold to others. In addition, the Bank services substantially all of the loans which it retains in portfolio. Loan servicing includes collecting and remitting loan payments, accounting for principal and interest, making advances to cover delinquent payments, making inspections as required of mortgaged premises, contacting delinquent mortgagors, supervising foreclosures and property dispositions in the event of unremedied defaults and generally administering the loans. Funds that have been escrowed by borrowers for the payment of mortgage-related expenses, such as property taxes and hazard and mortgage insurance premiums, are maintained in noninterest-bearing accounts at the Bank.

The following table presents information regarding the loans serviced by the Bank for others at the dates indicated. Substantially all the loans were secured by properties in Pennsylvania. A small percentage of the loans are secured by properties located in Delaware, Maryland and New Jersey.

<TABLE>
<CAPTION>

	September 30,		
	1996	1995	1994
		(In thousands)	
<S>	<C>	<C>	<C>
Loans originated by the Bank and serviced for:			
FNMA	$ 5,817	$ 6,513	$ 7,612
FHLMC	121,029	127,831	132,980
Others	383	293	312
Total loans serviced for others	$127,229	$134,637	$140,904

</TABLE>

The Bank receives fees for servicing mortgage loans, which generally amount to 0.25% per annum on the declining principal balance of mortgage loans. Such fees serve to compensate the Bank for the costs of performing the servicing function. Other sources of loan servicing revenues include late charges. For years ended September 30, 1996, 1995 and 1994, the Bank earned gross fees of $331,000, $357,000 and $375,000, respectively, from loan servicing. The Bank retains a portion of funds received from borrowers on the loans it services for others in payment of its servicing fees received on loans serviced for others. In July 1994, the Bank acquired the servicing rights related to $25.0 million of single-family residential mortgage loans for $337,000. Such loans consist primarily of long-term, fixed-rate loans secured by owner occupied properties located in Eastern Pennsylvania.

Loans-to-One Borrower Limitations. Regulations impose limitations on the aggregate amount of loans that a savings institution could make to any one borrower, including related entities. Under such regulations, the permissible amount of loans-to-one borrower follows the national bank standard for all loans made by savings institutions, which generally does not permit loans-to-one borrower to exceed 15% of unimpaired capital and surplus. Loans in an amount equal to an additional 10% of unimpaired capital and surplus also may be made to

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a borrower if the loans are fully secured by readily marketable securities. At September 30, 1996, the Bank's five largest loans or groups of loans-to-one borrower, including related entities, ranged from an aggregate of $1.1 million to $3.8 million (loans to Bennett Funding Group - See "-Asset Quality - Non-Performing Assets") , and the Bank's loans-to-one borrower limit was $3.8 million at such date.

ASSET QUALITY

General. As a part of the Bank's efforts to improve its asset quality, it has developed and implemented an asset classification system. All of the Bank's assets are subject to review under the classification system, but particular emphasis is placed on the review of multi-family and commercial real estate loans, construction loans and commercial business loans. All assets of the Bank are periodically reviewed and the classification recommendations submitted to the Asset Classification Committee at least monthly. The Asset Classification Committee is composed of the President and Chief Executive Officer, the Chief Financial Officer, the Chief Lending Officer, the Vice President of Loan Administration and one outside director. All assets are placed into one of four categories -Pass, Substandard, Doubtful and Loss. The criteria used to review and establish each asset's classification are substantially identical to the asset classification system used by the Office of Thrift Supervision (the "OTS") in connection with the examination process. As of September 30, 1996, the Bank did not have any assets which it had classified as doubtful and loss. See "- Non-Performing Assets" and "- Other Classified Assets" for a discussion of certain of the Bank's assets which have been classified as substandard and of the regulatory classification standards generally.

When a borrower fails to make a required payment on a loan, the Bank attempts to cure the deficiency by contacting the borrower and seeking payment. Contacts are generally made 30 days after a payment is due. In most cases, deficiencies are cured promptly. If a delinquency continues, late charges are assessed and additional efforts are made to collect the loan. While the Bank generally prefers to work with borrowers to resolve such problems, when the account becomes 90 days delinquent, the Bank institutes foreclosure or other proceedings, as necessary, to minimize any potential loss.

Loans are placed on non-accrual status when, in the judgment of management, the probability of collection of interest is deemed to be insufficient to warrant further accrual. When a loan is placed on non-accrual status, previously accrued but unpaid interest is deducted from interest income. As a matter of policy, the Bank does not accrue interest on loans past due 90 days or more. See Note 1 of the Notes to Consolidated Financial Statements included in the Company's Annual Report to Stockholders' for the year ended September 30, 1996 set forth as Exhibit 13 hereto ("Annual Report").

Real estate acquired by the Bank as a result of foreclosure or by deed-in-lieu of foreclosure are classified as real estate owned until sold. Real estate owned is initially recorded at the lower of fair value minus estimated costs to sell the property, or cost (generally the balance of the loan on the property at the date of acquisition). After the date of acquisition, all costs incurred in maintaining the property are expenses and costs incurred for the improvement or development of such property are capitalized up to the extent of their net realizable value.

Under GAAP, the Bank is required to account for certain loan modifications or restructuring as "troubled debt restructuring." In general, the modification or restructuring of a debt constitutes a troubled debt restructuring if the Bank for economic or legal reasons related to the borrower's financial difficulties grants a concession to the borrower that the Bank would not otherwise consider under current market conditions. Debt restructuring or loan modifications for a borrower do not necessarily always constitute troubled debt restructuring, however, and troubled debt restructuring do not necessarily result in non-accrual loans.

Delinquent Loans. The following table sets forth information concerning delinquent loans at the dates indicated, in dollar amounts and as a percentage of each category of the Bank's loan portfolio. The amounts presented represent the total outstanding principal balances of the related loans, rather than the actual payment amounts which are past due.

<TABLE>
<CAPTION>

	September 30, 1996	
	30-59 Days	60-89 Days

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	Amount	Percent of Loan Category	Amount	Percent of Loan Category
	(Dollars in thousands)			
<S>	<C>	<C>	<C>	<C>
Real estate loans:				
Single-family residential	$928	63.60%	$614	99.84%
Commercial and multi-family				
Construction	528	36.19		
Consumer loans	2	.14		
Commercial business loans	1	.07	1	.16
Total	$ 1,459	100.00%	$615	100.00%

</TABLE>

<TABLE>
<CAPTION>

	September 30, 1995			
	30-59 Days		60-89 Days	
	Amount	Percent of Loan Category	Amount	Percent of Loan Category
	(Dollars in thousands)			
<S>	<C>	<C>	<C>	<C>
Real estate loans:				
Single-family residential	$1,335	75.68%	$74	66.07%
Commercial and multi-family				
Construction	429	24.32	37	33.04
Consumer loans				
Commercial business loans			1	.89
Total	$ 1,764	100.00%	$112	100.00%

</TABLE>

Non-Performing Assets. The following table sets forth the amounts and categories of the Bank's non-performing assets at the dates indicated. The Bank did not have any accruing loans more than 90 days delinquent at any of the periods presented.

<TABLE>
<CAPTION>

	September 30,				
	1996	1995	1994	1993	1992
	(Dollars in thousands)				
<S>	<C>	<C>	<C>	<C>	<C>
Non-performing loans:					
Single-family residential	$1,466	$1,986	$1,907	$1,649	$1,973
Commercial and multi-family(1)	55	22	2,400	2,686	2,800
Construction(2)		888	872	1,027	258
Consumer	1,666	2	1	1	1
Commercial business	2,165	258	196	121	
Total non-performing loans	5,352	3,156	5,376	5,484	5,032
REO	1,557	465	503	971	2,084

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Total non-performing assets	$6,909	$3,621	$5,879	$6,455	$7,116
	======	======	======	======	======
Troubled debt restructuring (1)		$2,348			
	======	======	======	======	======
Total non-performing loans and troubled debt restructuring as a percentage of gross loans receivable (3)	3.10%	3.45%	3.73%	3.92%	3.32%
	======	======	======	======	======
Total non-performing assets as a percentage of total assets	2.35%	1.29%	2.43%	2.76%	3.06%
	======	======	======	======	======
Total non-performing assets and troubled debt restructuring as percentage of total assets	2.35%	2.12%	2.43%	2.76%	3.06%
	======	======	======	======	======

</TABLE>

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(1) Consist of two loans and one loan at September 30, 1996 and 1995, respectively. For fiscal 1994 and earlier years, consists primarily of one loan restructured during fiscal 1995. The loan has been performing in accordance with the terms of the agreement since the restructuring.

(2) Consist of two loans at September 30, 1995 and one loan at September 30, 1994 and 1993.

(3) Includes loans receivable and loans available for sale, less construction and land loans in process and deferred loan origination fees and discounts.

The Bank's total non-performing assets and troubled debt restructuring have increased from $6.0 million, or 2.12%, at September 30, 1995 to $6.9 million, or 2.35% at September 30, 1996. The primary reason for the increase was the addition of certain consumer and commercial lease financings related to the Bennett Funding Group ("Bennett Funding").

Between September 1992 and March 1996, the Company purchased 16 separate pools of lease financings from Bennett Funding and its affiliates with a total balance outstanding as of September 30, 1996 of $3.8 million. Included in the total balance were $890,00 in equipment leases (some of which are insured by a private insurer), $800,000 in interim contract financings for equipment leases which have not yet been pooled and sold and $380,00 in consumer financings. Also included in the Company's total balance were $1.3 million in consumer receivables issued by Resort Funding, Inc., an affiliate of Bennett Funding, secured by timeshare financing contracts and $475,000 in equipment leases from Aloha Capital Corp., another affiliate of Bennett Funding. On March 29, 1996, Bennett Funding filed for Chapter 11 bankruptcy protection. On April 24, 1996, Aloha Capital Corp. and certain other Bennett Funding affiliates, including affiliates who act as the processor for payments due holders of lease and loans issued by Bennett Funding and its affiliates, also filed for Chapter 11 bankruptcy protection. Although the Company is continuing to receive payments on the $1.3 million in consumer receivables (approximately $100,000 in principal reduction had been received through September 30, 1996) from Resort Funding, Inc., the Company has chosen to place the entire $3.8 million on non-accrual status and has classified the credits as substandard. Although the Company has not established any specific reserves or charged off any portion of the financings, the Company , in accordance with its policy regarding classified assets, has provided an additional $1.1 million in reserves and has allocated approximately $1.4 million of its unallocated general loss allowance. The Company is actively monitoring the bankruptcy proceedings and is vigorously pursuing all options available to protect its interest. However, no assurance can be given that significant additional provisions or charge offs will not be required or that losses will not be incurred in connection with the resolution of the situation.

The $1.5 million of non-performing single-family residential loans at September 30, 1996 consisted of 39 loans, with principal balances ranging from $3,400 to $216,000 with an average of approximately $38,000. Many of such loans

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are involved in bankruptcy proceedings which increases the period of time it takes the Bank to resolve such assets.

At September 30, 1996, the $1.6 million of REO consisted of four single-family residential properties with an average carrying value of approximately $91,100 and one former construction loan project. The loan was for the acquisition and development of a 107-lot residential townhouse project located in Pennsylvania.. The project currently has 13 units under varying stages of development and 23 building lots. The Company has hired a developer to complete the project and is actively marketing the units.

Other Classified Assets. Federal regulations require that each insured savings association classify its assets on a regular basis. In addition, in connection with examinations of insured institutions, federal examiners have authority to identify problem assets and, if appropriate, classify them. There are three classifications for problem assets: "substandard," "doubtful" and "loss." Substandard assets have one or more defined weaknesses and are characterized by the distinct possibility that the insured institution will sustain some loss if the deficiencies are not corrected. Doubtful assets have the weaknesses of substandard assets with the additional characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions and values questionable, and there is a high possibility of loss. An asset classified loss is considered uncollectible and of such little value that continuance as an asset of the institution is not warranted.

At September 30, 1996, the Bank had $6.9 million of assets classified as substandard and no assets classified as doubtful or loss. Substantially all classified assets are also non-performing, except for the Resort Funding consumer receivable loans discussed above that are performing according to their contract terms but have been placed on non-accrual status due to the uncertainty surrounding the bankruptcy.

Allowance for Loan Losses. The Bank's policy is to establish reserves for estimated losses on delinquent loans when it determines that losses are expected to be incurred on such loans and leases. The allowance for losses on loans is maintained at a level believed adequate by management to absorb potential losses in the portfolio. Management's determination of the adequacy of the allowance is based on an evaluation of the portfolio, past loss experience, current

economic conditions, volume, growth and composition of the portfolio, and other relevant factors. The allowance is increased by provisions for loan losses which are charged against income. The activity in the Bank's allowance for loan losses has remained relatively stable (other than the charge-off in fiscal 1993 related to the Bank's largest non-performing construction loan) and the level of provisions has been relatively small with the exception in fiscal 1996 of an additional $1.1 million provision related to the Bennett Funding Group. As shown in the table below, at September 30, 1995, the Bank's allowance for loan losses amounted to 49.03% and 1.57% of the Bank's non-performing loans and gross loans receivable, respectively.

Effective December 21, 1993, the OTS, in conjunction with the Office of the Comptroller of the Currency, the FDIC and the Federal Reserve Board, issued a joint policy statement ("Policy Statement") regarding an institution's allowance for loan and lease losses. The Policy Statement, which reflects the position of the issuing regulatory agencies and does not necessarily constitute GAAP, includes guidance (i) on the responsibilities of management for the assessment and establishment of an adequate allowance and (ii) for the agencies' examiners to use in evaluating the adequacy of such allowance and the policies utilized to determine such allowance. The Policy Statement also sets forth quantitative measures for the allowance with respect to assets classified substandard and doubtful and with respect to the remaining portion of an institution's loan portfolio. While the Policy Statement sets forth quantitative measures, such guidance is not intended as a "floor" or "ceiling." The review of the Policy Statement did not result in a material adjustment to the Bank's policy for establishing loan losses.

The following table summarizes changes in the allowance for loan losses and other selected statistics for the periods presented.

<TABLE>
<CAPTION>

Year Ending September 30,

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	1996	1995	1994	1993	1992
			(Dollars in thousands)		
<S>	<C>	<C>	<C>	<C>	<C>
Non-performing loans:					
Single-family residential	$ (113)	$ (163)	$ (141)	$ (121)	$ (77)
Construction				(1,154)	
Commercial and multi-family residential					
Consumer and commercial business		(5)			
Total charged-off loans	(113)	(168)	(141)	(1,275)	(77)
Recoveries on loans previously charged off:					
Residential real estate		12			
Construction		43			23
Commercial and multi-family residential		8			
Consumer and business					
Total recoveries		63			23
Net loans charged-off	(113)	(105)	(141)	(1,275)	(54)
Provision for loan losses	1,250	52	416	390	120
Allowance for loan losses, end of period	$2,624	$1,487	$1,540	$1,265	$2,150
Net loans charged-off to average interest-earning loans(1)	.07%	.07%	.10%	.89%	.03%
Allowance for loan losses to gross loans receivable(1)	1.57%	.93%	1.07%	.91%	1.42%
Allowance for loan losses to non-performing loans	49.03%	47.12%	28.65%	23.07%	42.72%
Net loans charged-off to allowance for loan losses	4.31%	7.06%	9.16%	100.79%	2.51%
Recoveries to charge-offs	%	37.50%	%	.87%	29.87%

</TABLE>

(1) Gross loans receivable and average interest-earning loans receivable include loans receivable and loans available for sale, less construction and land loans in process and deferred loan origination fees and discounts.

The following table presents the Bank's allocation of the allowance for loan losses to the total amount of loans in each category listed at the dates indicated.

<TABLE>
<CAPTION>

	September 30,					
	1996		1995		1994	
	Amount	% of Loans in Each Category to Total Loans	Amount	% of Loans in Each Category to Total Loans	Amount	% of Loans in Each Category to Total Loans
			(Dollars in thousands)			
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Single-family residential	$ 204	68.68%	$ 226	69.01%	$ 280	69.77%
Commercial and multi-family residential	3	6.25	12	7.06	243	8.38
Construction	290	9.93	615	9.79	481	9.11
Consumer	370	13.50	100	12.62	79	11.23

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Commercial business	1,152	1.64	55	1.52	45	1.51
Unallocated	605		479		412	
Total allowance for loan losses	$2,624	100.00%	$1,487	100.00%	$1,540	100.00%

</TABLE>

<TABLE>
<CAPTION>

	September 30,			
	1993		1992	
	Amount	% of Loans in Each Category to Total Loans	Amount	% of Loans in Each Category to Total Loans
	(Dollars in thousands)			
<S>	<C>	<C>	<C>	<C>
Single-family residential	$ 282	74.72%	$ 324	74.39%
Commercial and multi-	243	9.04	231	8.87
family residential	546	8.08	444	11.10
Construction	43	6.36	31	5.08
Consumer	55	1.80	7	.56
Commercial business	96		1,113	
Unallocated				
Total allowance for loan losses	$1,265	100.00%	$2,150	100.00%

</TABLE>

Management of the Bank presently believes that its allowance for loan losses is adequate to cover any potential losses in the Bank's loan portfolio. However, future adjustments to this allowance may be necessary, and the Bank's results of operations could be adversely affected if circumstances differ substantially from the assumptions used by management in making its determinations in this regard.

MORTGAGE-RELATED SECURITIES AND INVESTMENT SECURITIES

Mortgage-Related Securities. Federally chartered savings institutions have authority to invest in various types of liquid assets, including United States Treasury obligations, securities of various federal agencies and of state and municipal governments, certificates of deposit at federally-insured banks and savings and loan associations, certain bankers' acceptances and Federal funds. Subject to various restrictions, federally chartered savings institutions may also invest a portion of their assets in commercial paper, corporate debt securities and mutual funds, the assets of which conform to the investments that federally chartered savings institutions are otherwise authorized to make directly.

The Bank maintains a significant portfolio of mortgage-related securities as a means of investing in housing-related mortgage instruments without the costs associated with originating mortgage loans for portfolio retention and with limited credit risk of default which arises in holding a portfolio of loans to maturity. Mortgage-related securities (which also are known as mortgage participation certificates or pass-through certificates) represent a participation interest in a pool of single-family or multi-family mortgages. The principal and interest payments on mortgage-backed securities are passed from the mortgage originators, as servicer, through intermediaries (generally U.S. Government agencies and government-sponsored enterprises) that pool and repackage the participation interests in the form of securities, to investors such as the Bank. Such U.S. Government agencies and government sponsored enterprises, which guarantee the payment of principal and interest to investors, primarily include the FHLMC, the FNMA and the Government National Mortgage Association ("GNMA"). The Bank also invests to a limited degree in certain privately issued, credit enhanced mortgage-related securities rated AAA by national securities rating agencies.

The FHLMC is a public corporation chartered by the U.S. Government and owned by the 12 Federal Home Loan Banks ("FHLBs") and federally insured savings

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institutions. The FHLMC issues participation certificates backed principally by conventional mortgage loans. The FHLMC guarantees the timely payment of interest and the ultimate return of principal on participation certificates. The FNMA is a private corporation chartered by the U.S. Congress with a mandate to establish a secondary market for mortgage loans. The FNMA guarantees the timely payment of principal and interest on FNMA securities. FHLMC and FNMA securities are not backed by the full faith and credit of the United States, but because the FHLMC and the FNMA are U.S. Government-sponsored enterprises, these securities are considered to be among the highest quality investments with minimal credit risks. The GNMA is a government agency within the Department of Housing and Urban Development which is intended to help finance government-assisted housing programs. GNMA securities are backed by FHA-insured and VA-guaranteed loans, and the timely payment of principal and interest on GNMA securities are guaranteed by the GNMA and backed by the full faith and credit of the U.S. Government. Because the FHLMC, the FNMA and the GNMA were established to provide support for low- and middle-income housing, there are limits to the maximum size of loans that qualify for these, programs which limit is currently $203,150.

Mortgage-related securities typically are issued with stated principal amounts, and the securities are backed by pools of mortgages that have loans with interest rates that are within a range and have varying maturities. The underlying pool of mortgages can be composed of either fixed-rate or adjustable-rate loans. As a result, the risk characteristics of the underlying pool of mortgages, (i.e., fixed-rate or adjustable rate) as well as prepayment risk, are passed on to the certificate holder. The life of a mortgage-backed pass-through security thus approximates the life of the underlying mortgages.

The Bank's mortgage-related securities include regular interests in collateralized mortgage obligations ("CMOs"). CMOs have been developed in response to investor concerns regarding the uncertainty of cash flows associated with the prepayment option of the underlying mortgagor and are typically issued by governmental agencies, governmental sponsored enterprises and special purpose entities, such as trusts, corporations or partnerships, established by financial institutions or other similar institutions. A CMO can be collateralized by loans or securities which are insured or guaranteed by the FNMA, the FHLMC or the GNMA. In contrast to pass-through mortgage-related securities, in which cash flow is received

pro rata by all security holders, the cash flow from the mortgages underlying a CMO is segmented and paid in accordance with a predetermined priority to investors holding various CMO classes. By allocating the principal and interest cash flows from the underlying collateral among the separate CMO classes, different classes of bonds are created, each with its own stated maturity, estimated average life, coupon rate and prepayment characteristics.

The short-term classes of a CMO usually carry a lower coupon rate than the longer term classes and, therefore, the interest differential cash flow on a residual interest is greatest in the early years of the CMO. As the early coupon classes are extinguished, the residual income declines. Thus, the longer the lower coupon classes remain outstanding, the greater the cash flow accruing to CMO residuals. As interest rates decline, prepayments accelerate, the interest differential narrows, and the cash flow from the CMO declines. Conversely, as interest rates increase, prepayments decrease, generating a larger cash flow to residuals.

A senior-subordinated structure often is used with CMOs to provide credit enhancement for securities which are backed by collateral which is not guaranteed by FNMA, FHLMC or GNMA. These structures divide mortgage pools into various risk classes: a senior class and one or more subordinated classes. The subordinated classes provide protection to the senior class. When cash flow is impaired, debt service goes first to the holders of senior classes. In addition, incoming cash flows also may go into a reserve fund to meet any future shortfalls of cash flow to holders of senior classes. The holders of subordinated classes may not receive any funds until the holders of senior classes have been paid and, when appropriate, until a specified level of funds has been contributed to the reserve fund.

Certain CMOs can be classified as "high-risk mortgage securities" under OTS Thrift Bulletin 52 ("TB 52") and its predecessor. Pursuant to TB 52, a savings institution such as the Bank generally may only acquire high-risk mortgage securities, which are defined as any CMO that at the time of purchase, or at any subsequent date, meets any of the three tests set forth therein, to reduce its overall interest rate risk, although an institution with strong capital and earnings and adequate liquidity and that has a closely supervised trading department may acquire such securities if they are reported as trading assets or held for sale at market value. The three tests are an average life test, an average life sensitivity test and a price sensitivity test.

Mortgage-related securities generally yield less than the loans which underlie such securities because of their payment guarantees or credit

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enhancements which offer nominal credit risk. In addition, mortgage-related securities are more liquid than individual mortgage loans and may be used to collateralize certain obligations of the Bank. At September 30, 1996, $6.5 million of the Bank's mortgage-related securities were pledged to secure various obligations of the Bank, primarily public deposits. Mortgage-related securities issued or guaranteed by the FNMA or the FHLMC (except interest-only securities or the residual interests in CMOs) are weighted at no more than 20.0% for risk-based capital purposes, compared to a weight of 50.0% to 100.0% for residential loans. See "Regulation - The Bank - Capital Requirements."

The Bank's mortgage-related securities are classified as either "held to maturity" or "available for sale" based upon the Bank's intent and ability to hold such securities to maturity at the time of purchase, in accordance with GAAP. As of September 30, 1996, the Bank had an aggregate of $83.4 million, or 28.4%, of total assets invested in mortgage-related securities, net, of which $23.2 million was held to maturity and $60.2 million was available for sale. The tables below present the Bank's mortgage-related securities on the basis of these classifications, which were included in the Bank's Consolidated Financial Statements beginning in fiscal 1995. The mortgage-related securities of the Bank which are held to maturity are carried at cost, adjusted for the amortization of premiums and the accretion of discounts using a method which approximates a level yield, while mortgage-related securities available for sale are carried at the current market value. See Notes 1 and 4 of the Notes to Consolidated Financial Statements in the Annual Report.

In November 1995, the Financial Accounting Standards Board (the "FASB") issued a special report, "A Guide to Implementation of Statement 115 on Accounting for Certain Investments in Debt and Equity Securities", (the "Guide"), which discussed through a question and answer format many of the implementation questions that have arisen since the adoption of SFAS 115. Concurrent with the initial adoption of this implementation guidance but no later than December 31, 1995, an enterprise was permitted to reassess the appropriateness of the classifications of all securities held at that time and account and disclose resulting reclassifications in accordance with SFAS 115. The Guide further states that

reclassifications from the held-to-maturity category that result from this one-time assessment will not call into question the intent of an enterprise to hold other debt securities to maturity in the future. In December 1995, in accordance with the Guide, the Company reclassified certain securities with an aggregated amortized cost of $50.5 million from held to maturity to available for sale.

The following table sets forth the composition of the Bank's mortgage-related securities portfolio, both held to maturity and available for sale, at the dates indicated.

<TABLE>
<CAPTION>

	September 30,		
	1996	1995	1994
Held to maturity:		(In thousands)	
<S>	<C>	<C>	<C>
Mortgage-backed securities:			
FHLMC	$ 3,631	$ 8,743	$10,073
FNMA	11,383	26,014	28,836
Total mortgage-backed securities	15,014	34,757	38,909
Collateralized mortgage obligations:			
FHLMC	2,238	8,337	10,959
FNMA	5,789	16,968	18,184
Other	180	232	317
Total collateralized mortgage obligations	8,207	25,537	29,460
Total mortgage-related securities, amortized cost	$23,221	$60,294	$68,369
Total market value(1)	$22,060	$59,010	$64,880

Available for sale:

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Mortgage-backed securities:			
FHLMC	$ 12,852	$ 3,935	
FNMA	11,079	2,913	
GNMA	8,355	1,136	
	------	-----	
Total mortgage-backed securities	32,286	7,984	
	------	-----	
Collateralized mortgage obligations:			
FHLMC	7,298		$251
FNMA	18,594	9,682	
GNMA	1,593		
Other	1,131	1,640	
	------	------	
Total collateralized mortgage obligations	28,616	11,322	251
	------	------	---
Total mortgage-related securities, amortized cost	$60,902	$19,306	$251
	======	======	===
Total market value(1)	$60,211	$19,538	$252
	======	======	===

</TABLE>

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(1) See Note 4 of the Notes to Consolidated Financial Statements in the Annual Report.

The following table sets forth the purchases, sales and principal repayments of the Bank's mortgage-related securities for the periods indicated.

<TABLE>
<CAPTION>

	Year Ended September 30,		
	1996	1995	1994
<S>	<C>	<C>	<C>
Mortgage-related securities, beginning of period(1)	$79,832	$68,620	$65,159
	-------	-------	-------
Purchases:			
Mortgage-backed securities - held to maturity	1,938		20,237
CMO-held to maturity	2,000		11,825
Mortgage-backed securities - available for sale	15,471	8,094	
CMO - available for sale	9,997	13,824	
Sales:			
Mortgage-backed securities - available for sale	(6,422)	(2,250)	
CMO -available for sale	(6,374)		
Repayments and prepayments:			
Mortgage-backed securities	(6,467)	(4,241)	(8,538)
CMO	(5,788)	(4,216)	(19,909)
Increase (decrease) in net premium	169	(231)	(154)
Change in net unrealized gain (loss) on mortgage-related securities available for sale	(924)	232	
	-------	-------	--------
Net increase in mortgage-related securities	3,600	11,212	3,461
	-------	-------	--------
Mortgage-related securities, end of period(1)	$83,432	$79,832	$68,620
	=======	=======	=======

</TABLE>

----

(1) Includes mortgage-related securities available for sale.

At September 30, 1996, the weighted average contractual maturity of the Bank's fixed-rate mortgage-backed securities was approximately 15.0 years. The actual maturity of a mortgage-backed security is less than its stated maturity due to prepayments of the underlying mortgages. Prepayments that are faster than anticipated may shorten the life of the security and adversely affect its yield to maturity. The yield is based upon the interest income and the amortization of any premium or discount related to the mortgage-backed security. In accordance with GAAP, premiums and discounts are amortized over the estimated lives of the loans, which decrease and increase interest income, respectively. The prepayment assumptions used to determine the amortization period for premiums and discounts can significantly affect the yield of the mortgage-backed security, and these

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assumptions are reviewed periodically to reflect actual prepayments. Although prepayments of underlying mortgages depend on many factors, including the type of mortgages, the coupon rate, the age of mortgages, the geographical location of the underlying real estate collateralizing the mortgages and general levels of market interest rates, the difference between the interest rates on the underlying mortgages and the prevailing mortgage interest rates generally is the most significant determinant of the rate of prepayments. During periods of rising mortgage interest rates, if the coupon rates of the underlying mortgages are less than the prevailing market interest rates offered for mortgage loans, refinancings generally decrease and slow the prepayment of the underlying mortgages and the related securities. Conversely, during periods of falling mortgage interest rates, if the coupon rates of the underlying mortgages exceed the prevailing market interest rates offered for mortgage loans, refinancing generally increases and accelerates the prepayment of the underlying mortgages and the related securities. Under such circumstances, the Bank may be subject to reinvestment risk because to the extent that the Bank's mortgage-related securities amortize or prepay faster than anticipated, the Bank may not be able to reinvest the proceeds of such repayments and prepayments at a comparable yield. At September 30, 1996, of the $23.2 million of mortgage-related securities held to maturity, an aggregate of $12.4 million were secured by fixed-rate securities and an aggregate of $10.8 million were secured by adjustable-rate securities.

Investment Securities. The following table sets forth information regarding the carrying and market value of the Bank's investment securities at the dates indicated.

<TABLE>
<CAPTION>

	At September 30,					
	1996		1995		1994	
	Carrying Value	Fair Value	Carrying Value	Fair Value	Carrying Value	Fair Value
	(In thousands)					
<S>	<C>	<C>	<C>	<C>	<C>	<C>
FHLB stock	$ 2,337	$ 2,337	$ 1,492	$ 1,492	$ 1,370	$ 1,370
U.S. Government and agency obligations	16,500	16,388	10,565	10,505	12,000	11,725
Municipal securities	145	144	145	145	145	140
Total	$18,982	$18,869	$12,202	$12,142	$13,515	$13,235

</TABLE>

At September 30, 1996, all of the Bank's investment securities had a contractual maturity of between one and ten years and such portfolio had a weighted average yield of 6.62%.

SOURCES OF FUNDS

General. The Bank's principal source of funds for use in lending and for other general business purposes has traditionally come from deposits obtained through the Bank's branch offices. The Bank also derives funds from contracted payments and prepayments of outstanding loans and mortgage-related securities, from sales of loans, from maturing investment securities and from advances from the FHLB of Pittsburgh and other borrowings. Loan repayments are a relatively stable source of funds, while deposits inflows and outflows are significantly influenced by general interest rates and money market conditions. The Bank uses borrowings to supplement its deposits as a source of funds.

Deposits. The Bank's current deposit products include passbook accounts, NOW accounts, MMDA, certificates of deposit ranging in terms from 30 days to five years and noninterest-bearing personal and business checking accounts. The Bank's deposit products also include Individual Retirement Account ("IRA") certificates and Keogh accounts.

The Bank's deposits are obtained primarily from residents in Delaware and Chester Counties in southeastern Pennsylvania. The Bank attracts local deposit accounts by offering a wide variety of accounts, competitive interest rates, and convenient branch office locations and service hours. The Bank utilizes traditional marketing methods to attract new customers and savings deposits,

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including print media and radio advertising and direct mailings. However, the Bank does not solicit funds through deposit brokers nor does it pay any brokerage fees if it accepts such deposits. The Bank participates in the regional ATM network known as MAC(R).

The Bank has been competitive in the types of accounts and in interest rates it has offered on its deposit products but does not necessarily seek to match the highest rates paid by competing institutions. With the significant decline in interest rates paid on deposit products, the Bank in recent years has experienced disintermediation of deposits into competing investment products.

The following table shows the distribution of, and certain information relating to, the Bank's deposits by type of deposit as of the dates indicated.

<TABLE>
<CAPTION>

	September 30,					
	1996		1995			
	Amount	Percent	Amount	Percent	Amount	Percent
	(Dollars in thousands)					
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Passbook and statement savings accounts	$ 41,504	18.93%	$ 43,088	19.25%	$ 53,124	24.59%
MMDA	16,159	7.37	17,892	8.00	24,818	11.49
NOW accounts	28,085	12.81	26,621	11.90	24,685	11.42
Certificates of deposit	128,747	58.73	126,985	56.75	110,696	51.23
Noninterest-bearing deposits	4,710	2.16	9,167	4.10	2,742	1.27%
Total deposits at end of period	$219,205	100.00%	$223,753	100.00%	$216,065	100.00%

</TABLE>

The following table sets forth the net savings flows of the Bank during the periods indicated.

<TABLE>
<CAPTION>

	Year Ended September 30,		
	1996	1995	1994
<S>	<C>	<C>	<C>
	(In thousands)		
Decrease before interest credited	$(13,152)	$ (1,040)	$(12,170)
Interest credited	8,604	8,728	9,874
Net savings increase (decrease)	$ (4,548)	$ 7,688	$ (2,296)

</TABLE>

The following table sets forth maturities of the Bank's certificates of deposit of $100,000 or more at September 30, 1996 by time remaining to maturity.

<TABLE>
<CAPTION>

	Amounts in Thousands
<S>	<C>
Three months or less	$2,915
Over three months through six months	842
Over six months through twelve months	3,669

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Over twelve months	2,400
	$9,826

</TABLE>

The following table presents, by various interest rate categories, the amount of certificates of deposit at September 30, 1996 and 1995, and the amounts at September 30, 1996 which mature during the periods indicated.

Certificates of Deposit	September 30, 1996	September 30, 1995	Amounts at September 30, 1996 Maturing Within One Year	Two Years	Three Years	Thereafter
			(In thousands)			
4.0% or less	$ 1,740	$ 6,094	$ 1,740			
4.01% to 6.0%	103,038	67,685	63,588	$19,856	$4,024	$15,570
6.01% to 8.0%	21,092	30,430	7,815	1,618	1,863	9,796
8.01% to 10.0%	2,877	22,776		1,986	891	
Total certificate accounts	$128,747	$126,985	$73,143	$23,460	$6,778	$25,366

The following table presents the average balance of each deposit type and the average rate paid on each deposit type for the periods indicated.

	1996 Average Balance	1996 Average Rate Paid	1995 Average Balance	1995 Average Rate Paid	1994 Average Balance	1994 Average Rate Paid
			(Dollars in thousands)			
Passbook and statement savings accounts	$ 42,270	2.44%	$ 47,058	2.48%	$ 53,607	2.58%
Money market accounts	18,358	2.65	19,997	2.68	25,490	2.55
Certificates of deposit	128,384	5.82	120,106	6.32	111,596	5.97
NOW accounts	27,098	.37	25,904	1.68	24,232	1.72
Noninterest-bearing deposits	4,193		3,446		3,413	
Total deposits	$220,303	4.25%	$216,511	4.49%	$218,338	4.17%

</TABLE>

Borrowings. The Bank may obtain advances from the FHLB of Pittsburgh upon the security of the common stock it owns in that bank and certain of its residential mortgage loans and securities held to maturity, provided certain standards related to creditworthiness have been met. Such advances are made pursuant to several credit programs, each of which has its own interest rate and range of maturities. The Bank, during fiscal 1996 and 1995 increased its FHLB borrowings to fund asset growth thereby leveraging some of the capital raised during the year ended September 30, 1995. At September 30, 1996, the Bank had $46.7 million in outstanding FHLB advances. See Note 10 of the Notes to Consolidated Financial Statements in the Annual Report.

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The Bank has in the past occasionally entered into agreements to sell securities under terms which require it to repurchase the same or substantially similar securities by a specified date. Repurchase agreements are considered borrowings which are secured by the sold securities and generally are short-term (90 days or less) in nature. At September 30, 1996, the Bank did not have any repurchase agreements outstanding.

SUBSIDIARIES

The Bank is permitted to invest up to 2% of its assets in the capital stock of, or secured or unsecured loans to, subsidiary corporations, with an additional investment of 1% of assets when such additional investment is utilized primarily for community development purposes. Under such limitations, as of September 30, 1996, the Bank was authorized to invest up to approximately $8.8 million in the stock of, or loans to, service corporations. As of September 30, 1996, the net book value of the Bank's investment in stock, unsecured loans, and conforming loans to its service corporations was $1.2 million.

The Bank only has one active, wholly owned subsidiary, First Pointe, Inc. ("First Pointe"), which was formed for the purpose of developing a real estate parcel received in a deed-in-lieu of foreclosure action. At September 30, 1996, the Bank's equity investment in First Pointe was a net deficit of $302 and First Pointe had total assets of $1.2 million consisting of 13 units under development and 23 building lots. For the year ended September 30, 1996, First Pointe had total revenue of $255 and a net loss of $10,302. The Bank also has four other inactive subsidiaries, three of which had been involved in either real estate development or real estate management. With the Bank's cessation of its involvement in such activity and the resolution of the various development projects in which subsidiaries were involved, the Bank's subsidiaries involved in such activities were placed in an inactive status. The other inactive subsidiary was formed to engage in title insurance. See "-Asset Quality - Non-Performing Assets" and Notes 1 and 7 of the Notes to Consolidated Financial Statements in the Annual Report.

COMPETITION

The Bank faces strong competition both in attracting deposits and making real estate loans. Its most direct competition for deposits has historically come from other savings associations, credit unions and commercial banks located in its market area including many large financial institutions which have greater financial and marketing resources available to them. In addition, during times of high interest rates, the Bank has faced additional significant competition for investors' funds from short-term money market securities, mutual funds and other corporate and government securities. The ability of the Bank to attract and retain savings deposits depends on its ability to generally provide a rate of return, liquidity and risk comparable to that offered by competing investment opportunities.

The Bank experiences strong competition for real estate loans principally from other savings associations, commercial banks and mortgage banking companies. The Bank competes for loans principally through the interest rates and loan fees it charges and the efficiency and quality of services it provides borrowers and the convenient locations of its branch office network. Competition may increase as a result of the continuing reduction of restrictions on the interstate operations of financial institutions.

EMPLOYEES

The Bank had 72 full-time employees and 22 part-time employees as of September 30, 1996. None of these employees is represented by a collective bargaining agreement. The Bank believes that it enjoys excellent relations with its personnel.

REGULATION

The Company. The Company as a savings and loan holding company within the meaning of the Home Owners' Loan Act, as amended ("HOLA") is required as such with the OTS and is subject to OTS regulations, examinations, supervision and reporting requirements. As a subsidiary of a savings and loan holding company, the Bank is subject to certain restrictions in its dealings with the Company and affiliates thereof.

Federal Activities Restrictions. There are generally no restrictions on the activities of a savings and loan holding company which holds only one subsidiary savings association. However, if the Director of the OTS determines that there is reasonable cause to believe that the continuation by a savings and loan holding company of an activity constitutes a serious risk to the financial safety, soundness or stability of its subsidiary savings association, the Director may impose such restrictions as deemed necessary to address such risk, including limiting (i) payment of dividends by the savings association; (ii)

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transactions between the savings association and its affiliates; and (iii) any activities of the savings association that might create a serious risk that the liabilities of the holding company and its affiliates may be imposed on the savings association. Notwithstanding the above rules as to permissible business activities of unitary savings and loan holding companies, if the savings association subsidiary of such a holding company fails to meet a QTL test, then such unitary holding company also shall become subject to the activities restrictions applicable to multiple savings and loan holding companies and, unless the savings association qualifies as a QTL within one year thereafter, shall register as, and become subject to the restrictions applicable to, a bank holding company. See "- The Bank - Qualified Thrift Lender Test."

If the Company were to acquire control of another savings association, other than through merger or other business combination with the Bank, the Company would thereupon become a multiple savings and loan holding company. Except where such acquisition is pursuant to the authority to approve emergency thrift acquisitions and where each subsidiary savings association meets the QTL test, as set forth below, the activities of the Company and any of its subsidiaries (other than the Bank or other subsidiary savings associations) would thereafter be subject to further restrictions. No multiple savings and loan holding company or subsidiary thereof which is not a savings association shall commence or continue for a limited period of time after becoming a multiple savings and loan holding company or subsidiary thereof any business activity, other than: (i) furnishing or performing management services for a subsidiary savings association; (ii) conducting an insurance agency or escrow business; (iii) holding, managing, or liquidating assets owned by or acquired from a subsidiary savings association; (iv) holding or managing properties used or occupied by a subsidiary savings association; (v) acting as trustee under deeds of trust; (vi) those activities authorized by regulation as of March 5, 1987 to be engaged in by multiple savings and loan holding companies; or (vii) unless the Director of the OTS by regulation prohibits or limits such activities for savings and loan holding companies, those activities authorized by the Federal Reserve Board as permissible for bank holding companies. The activities described in (i) through (vi) above may only be engaged in after giving the OTS prior notice and being informed that the OTS does not object to such activities. In addition, the activities described in (vii) above also must be approved by the Director of the OTS prior to being engaged in by a multiple savings and loan holding company.

Limitations on Transactions with Affiliates. Transactions between savings associations and any affiliate are governed by Sections 23A and 23B of the Federal Reserve Act ("FRA"). An affiliate of a savings association is any company or entity which controls, is controlled by or is under common control with the savings association. In a holding company context, the parent holding company of a savings association (such as the Company) and any companies which are controlled by such parent holding company are affiliates of the savings association. Generally, Sections 23A and 23B (i) limit the extent to which the savings association or its subsidiaries may engage in "covered transactions" with any one affiliate to an amount equal to 10% of such association's capital stock and surplus, and contain an aggregate limit on all such transactions with all affiliates to an amount equal to 20% of such capital stock and surplus and (ii) require that all such transactions be on terms substantially the same, or at least as favorable, to the association or subsidiary as those provided to a non-affiliate. The term "covered transaction" includes the making of loans, purchase of assets, issuance of a guarantee and similar transactions. In addition to the restrictions imposed by Sections 23A and 23B, no savings association may (i) loan or otherwise extend credit to an affiliate, except for any affiliate which engages only in activities which are permissible for bank holding companies, or (ii) purchase or invest in any stocks, bonds, debentures, notes or similar obligations of any affiliate, except for affiliates which are subsidiaries of the savings association.

In addition, Sections 22(g) and (h) of the FRA place restrictions on loans to executive officers, directors and principal stockholders. Under Section 22(h), loans to a director, an executive officer and to a greater than 10% stockholder of a savings institution (a "principal stockholder"), and certain affiliated interests of either, may not exceed, together with all other outstanding

loans to such person and affiliated interests, the savings institution's loans to one borrower limit (generally equal to 15% of the institution's unimpaired capital and surplus). Section 22(h) also requires that loans to directors, executive officers and principal stockholders be made on terms substantially the same as offered to employees of the Bank and also requires prior board approval for certain loans. In addition, the aggregate amount of extensions of credit by a savings institution to all insiders cannot exceed the institution's unimpaired capital and surplus. Furthermore, Section 22(g) places additional restrictions on loans to executive officers. At September 30, 1996, the Bank was in compliance with the above restrictions.

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Restrictions on Acquisitions. Except under limited circumstances, savings and loan holding companies are prohibited from acquiring, without prior approval of the Director of the OTS, (i) control of any other savings association or savings and loan holding company or substantially all the assets thereof or (ii) more than 5% of the voting shares of a savings association or holding company thereof which is not a subsidiary. Except with the prior approval of the Director of the OTS, no director or officer of a savings and loan holding company or person owning or controlling by proxy or otherwise more than 25% of such company's stock, may acquire control of any savings association, other than a subsidiary savings association, or of any other savings and loan holding company.

The Director of the OTS may only approve acquisitions resulting in the formation of a multiple savings and loan holding company which controls savings associations in more than one state if (i) the multiple savings and loan holding company involved controls a savings association which operated a home or branch office located in the state of the association to be acquired as of March 5, 1987; (ii) the acquiror is authorized to acquire control of the savings association pursuant to the emergency acquisition provisions of the Federal Deposit Insurance Act ("FDIA"); or (iii) the statutes of the state in which the association to be acquired is located specifically permit institutions to be acquired by the state-chartered associations or savings and loan holding companies located in the state where the acquiring entity is located (or by a holding company that controls such state-chartered savings associations).

FIRREA amended provisions of the Bank Holding Company Act of 1956 ("BHCA") to specifically authorize the FRB to approve an application by a bank holding company to acquire control of a savings association. FIRREA also authorized a bank holding company that controls a savings association to merge or consolidate the assets and liabilities of the savings association with, or transfer assets and liabilities to, any subsidiary bank which is a member of the BIF with the approval of the appropriate federal banking agency and the FRB. As a result of these provisions, there have been a number of acquisitions of savings associations by bank holding companies in recent years.

Federal Securities Laws. The Company's Common Stock is registered with the Securities and Exchange Commission "SEC" under the Exchange Act. The Company is subject to the information, proxy solicitation, insider trading restrictions and other requirements under the Exchange Act.

Shares of common stock owned by an affiliate of the Company are subject to the resale restrictions of Rule 144 under the Securities Act of 1933, as amended ("Securities Act"). If the Company meets the current public information requirements of Rule 144 under the Securities Act, each affiliate of the Company who complies with the other conditions of Rule 144 (including those that require the affiliate's sale to be aggregated with those of certain other persons) would be able to sell in the public market, without registration, a number of shares not to exceed, in any three-month period, the greater of (i) 1% of the outstanding shares of the Company or (ii) the average weekly volume of trading in such shares during the preceding four calendar weeks.

The Bank. The OTS has extensive regulatory authority over the operations of savings associations. As part of this authority, savings associations are required to file periodic reports with the OTS and are subject to periodic examinations by the OTS. The investment and lending authority of savings associations are prescribed by federal laws and regulations and they are prohibited from engaging in any activities not permitted by such laws and regulations. Those laws and regulations generally are applicable to all federally chartered savings associations and may also apply to state-chartered savings associations. Such regulation and supervision is primarily intended for the protection of depositors.

The OTS' enforcement authority over all savings associations and their holding companies was substantially enhanced by FIRREA. This enforcement authority includes, among other things, the ability to assess civil money penalties, to issue cease and desist or removal orders and to initiate injunctive actions. In general, these enforcement actions may be initiated for violations of laws and regulations and unsafe or unsound practices. Other actions or inactions may provide the basis for enforcement action, including misleading or untimely reports filed with the OTS. FIRREA significantly increased the amount

of and grounds for civil money penalties. FIRREA requires, except under certain circumstances, public disclosure of final enforcement actions by the OTS.

Insurance of Accounts. The deposits of the Bank are insured to the maximum extent permitted by the SAIF, which is administered by the FDIC, and are backed by the full faith and credit of the United States Government. As insurer, the FDIC is authorized to conduct examinations of, and to require reporting by, FDIC-insured institutions. It also may prohibit any FDIC-insured institution

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from engaging in any activity the FDIC determines by regulation or order to pose a serious threat to the FDIC. The FDIC also has the authority to initiate enforcement actions against savings associations, after giving the OTS an opportunity to take such action.

The FDIC may terminate the deposit insurance of any insured depository institution, including the Bank, if it determines after a hearing that the institution has engaged or is engaging in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations, or has violated any applicable law, regulation, order or any condition imposed by an agreement with the FDIC. It also may suspend deposit insurance temporarily during the hearing process for the permanent termination of insurance, if the institution has no tangible capital. If insurance of accounts is terminated, the accounts at the institution at the time of the termination, less subsequent withdrawals, shall continue to be insured for a period of six months to two years, as determined by the FDIC. Management is aware of no existing circumstances which could result in termination of the Bank's deposit insurance.

The FDIC is authorized to establish separate assessment rates for deposit insurance for members of the BIF and SAIF. The FDIC may increase assessment rates for either fund to restore the fund's ratio of reserves to insured deposits to its statutorily set target level within a reasonable time, and may decrease such assessment rates if such target level has been met. Until the SAIF fund meets its target level, savings associations may not transfer to the BIF fund. Furthermore, any such transfers, when permitted, would be subject to exit and entrance fees. Under current FDIC regulations, SAIF member institutions are assigned to one of three capital groups which are based solely on the level of an institution's capital--"well capitalized," "adequately capitalized," and "undercapitalized." These three groups are then divided into three subgroups which reflect varying levels of supervisory concern, from those which are considered to be healthy to those which are considered to be of substantial supervisory concern. The matrix so created results in nine assessment risk classifications, with rates ranging from .23% for well capitalized, healthy institutions to .31% for undercapitalized institutions with substantial supervisory concerns. The insurance premium applicable to the Bank as of September 30, 1996 was .23% of insured deposits.

The BIF fund met its target reserve level in September 1995, but the SAIF was not expected to meet its target reserve level until at least 2002. Consequently, in late 1995, the FDIC approved a final rule regarding deposit insurance premiums which, effective with respect to the semi-annual premium assessment beginning January 1, 1996, reduced deposit insurance premiums for BIF member institutions to zero basis points (subject to an annual minimum of $2,000) for institutions in the lowest risk category, Deposit insurance premiums for SAIF members were maintained at their existing levels (23 basis points for institutions in the lowest risk category).

On September 30, 1996, President Clinton signed into law legislation (the "Deposit Insurance Funds Act of 1996") which will eliminate the premium differential between SAIF-insured institutions and BIF-insured institutions by recapitalizing the SAIF's reserves to the required ratio. The legislation provides that all SAIF member institutions pay a one-time special assessment to recapitalize the SAIF, which in the aggregate will be sufficient to bring the reserve ratio in the SAIF to 1.25% of insured deposits. The legislation also provides for the merger of the BIF and the SAIF, with such merger being conditioned upon, among other things, the prior elimination of the federal thrift charter.

Effective October 8, 1996, pursuant to the provision of the Deposit Insurance Fund Act of 1996, FDIC regulations imposed a one-time special assessment equal to 65.7 basis points for all SAIF-assessable deposits as of March 31, 1995, which was collected on November 27, 1996. The Bank's one-time special assessment amounted to approximately $1.4 million. Net of related tax benefits, the one-time special assessment amounted to $876,000. The payment of such special assessment had the effect of immediately reducing the Bank's capital by such an amount. Nevertheless, this one-time special assessment did not have a material adverse effect on the Bank's consolidated financial condition nor did it cause non-compliance by the Bank with its regulatory capital requirements.

On October 16, 1996, the FDIC proposed to lower assessment rates for SAIF members to reduce the disparity in the assessment rates paid by BIF and SAIF members. Beginning October 1, 1996, effective SAIF rates range from zero basis points

to 27 basis points. From 1997 through 1999, SAIF members will pay 6.4 basis points to fund the Financing Corporation while BIF member institutions will pay approximately 1.3 basis points. The Bank's insurance premiums, which have amounted to 23 basis points, will be reduced to 6.4 basis points. Based upon the $219.2 million of assessable deposits at September 30, 1996, the Bank would

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expect to pay $365,000 less in insurance premiums per year.

Capital requirements. Federally insured savings associations are required to maintain minimum levels of regulatory capital. Pursuant to FIRREA, the OTS has established capital standards applicable to all savings associations. These standards generally must be as stringent as the comparable capital requirements imposed on national banks. The OTS also is authorized to impose capital requirements in excess of these standards on individual associations on a case-by-case basis.

Current OTS capital standards require savings associations to satisfy three different capital requirements. Under these standards, savings associations must maintain "tangible" capital equal to 1.5% of adjusted total assets, "core" capital equal to 3% of adjusted total assets and "total" capital (a combination of core and "supplementary" capital) equal to 8.0% of "risk-weighted" assets. For purposes of the regulation, core capital generally consists of common stockholders' equity (including retained earnings), noncumulative perpetual preferred stock and related surplus, minority interests in the equity accounts of fully consolidated subsidiaries, certain nonwithdrawable accounts and pledged deposits and "qualifying supervisory goodwill." Tangible capital is given the same definition as core capital but does not include qualifying supervisory goodwill and is reduced by the amount of all the savings association's intangible assets, with only a limited exception for purchased mortgage servicing rights ("PMSRs"). Both core and tangible capital are further reduced by an amount equal to a savings association's debt and equity investments in subsidiaries engaged in activities not permissible for national banks (other than subsidiaries engaged in activities undertaken as agent for customers or in mortgage banking activities and subsidiary depository institutions or their holding companies). At September 30, 1996, the Bank did not have any investment in subsidiaries engaged in impermissible activities and required to be deducted from its capital calculation.

The Federal Deposit Insurance Corporation Improvement Act of 1991 ("FDICIA") granted the OTS the authority to prescribe rules for the amount of PMSRs that may be included in a savings association's regulatory capital and required that the value of readily marketable PMSRs included in the calculation of a savings association's regulatory capital not exceed 90% of fair market value and that such value be determined at least quarterly. Under final OTS rules effective March 4, 1994, (i) PMSRs do not have to be deducted from tangible and core regulatory capital, provided that they do not exceed 50% of core capital, (ii) savings associations are required to determine the fair market value and to review the book value of their PMSRs at least quarterly and to obtain an independent valuation of PMSRs annually, (iii) savings associations that desire to include PMSRs in regulatory capital may not carry them at a book value under GAAP that exceeds the discounted value of their future net income stream and (iv) for purposes of calculating regulatory capital, the amount of PMSRs reported as balance sheet assets should amount to the lesser of 90% of their fair market value, 90% of their original purchase price or 100% of their remaining unamortized book value. In June 1993, the OTS published a thrift bulletin on the valuation of PMSRs ("TB 60"). At September 30, 1996, the Bank had PMSRs totalling $232,000.

A savings association is allowed to include both core capital and supplementary capital in the calculation of its total capital for purposes of the risk-based capital requirements, provided that the amount of supplementary capital does not exceed the savings association's core capital. Supplementary capital generally consists of hybrid capital instruments; perpetual preferred stock which is not eligible to be included as core capital; subordinated debt and intermediate-term preferred stock; and, subject to limitations, general allowances for loan losses. Assets are adjusted under the risk-based guidelines to take into account different risk characteristics, with the categories ranging from 0% (requiring no additional capital) for assets such as cash to 100% for repossessed assets or loans more than 90 days past due. Single-family residential real estate loans which are not past-due or non-performing and which have been made in accordance with prudent underwriting standards are assigned a 50% level in the risk-weighing system, as are certain privately-issued mortgage-backed securities representing indirect ownership of such loans. Off-balance sheet items also are adjusted to take into account certain risk characteristics.

In August 1993, the OTS adopted a final rule incorporating an interest-rate risk component into the risk-based capital regulation. Under the rule, an institution with a greater than "normal" level of interest rate risk will be subject to a deduction of its interest rate risk component from total capital for purposes of calculating risk-based capital requirement. As a result, such an institution will be required to maintain additional capital in order to comply with the risk-based capital requirement. An institution with a greater than "normal" interest rate risk is defined as an institution that would suffer a loss of net portfolio value exceeding 2.0% of the estimated market value of its assets in the event of a 200 basis point increase or decrease (with certain minor exceptions) in interest rates. The interest rate risk component will be calculated, on a quarterly basis, as one-half of the

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difference between an institution's measured interest rate risk and 2.0%, multiplied by the market value of its assets. The rule also authorizes the Director of the OTS, or his designee, to waive or defer an institution's interest rate risk component on a case-by-case basis. The final rule became effective as of January 1, 1994 subject, however, to a two quarter "lag" time between the reporting date of the data used to calculate an institution's interest rate risk and the effective date of each quarter's interest rate risk component. However, in October 1994 the Director of the OTS indicated that it would waive the capital deductions for institutions with greater than "normal" risk until the OTS publishes an appeals process. On August 21, 1995, the OTS released Thrift Bulletin 67 which established (i) and appeals process to handle :"requests for adjustments" to the interest rate risk component and (ii) a process by which "well capitalized" institutions may obtain authorization to use their own interest rate risk model to determine their interest rat risk component. The Director of the OTS indicated, concurrent with release of Thrift Bulletin 67, that the OTS will continue to delay the implementation of the capital deduction for interest rate risk pending the testing of the appeals process set forth in Thrift Bulletin 67.

The following is a reconciliation of the Bank's equity determined in accordance with GAAP to regulatory tangible, core, and risk-based capital at September 30, 1996, 1995 and 1994.

<TABLE>
<CAPTION>

	September 30, 1996			September 30, 1995			September 30, 1994		
	Tangible Capital	Core Capital	Risk-based Capital	Tangible Capital	Core Capital	Risk-based Capital	Tangible Capital	Core Capital	Risk-based Capital
				(Dollars in thousands)					
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
GAAP equity	$ 22,608	$ 22,608	$ 22,608	$ 23,129	$ 23,129	$ 23,129	$11,622	$11,622	$11,622
Purchased mortgage servicing				(9)	(9)	(9)	(27)	(27)	(27)
Assets required to be deducted(1)			(55)			(55)			(55)
General valuation allowances			1,775			1,412			1,466
Total regulatory capital	22,608	22,608	24,328	23,120	23,120	24,477	11,595	11,595	13,006
Minimum capital requirement per FIRREA published guidelines	4,421	8,841	11,289	4,212	8,425	10,986	3,566	7,132	10,272
Excess	$ 18,187	$ 13,767	$ 13,039	$ 18,908	$ 14,695	$ 13,491	$ 8,029	$ 4,463	$ 2,734

</TABLE>

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(1) Consists of equity investment nonincludable in regulatory capital.

Prompt Corrective Action. Under Section 38 of the FDIA as added by the FDICIA, each federal banking agency is required to implement a system of prompt corrective action for institutions which it regulates. In early September 1992, the federal banking agencies, including the OTS, adopted substantially similar regulations which are intended to implement Section 38 of the FDIA. These regulations became effective December 19, 1992. Under the regulations, an institution shall be deemed to be (i) "well capitalized" if it has total risk-based capital of 10% or more, has a Tier I risk-based capital ratio of 6% or more, has a Tier I leverage capital ratio of 5% or more and is not subject to any order or final capital directive to meet and maintain a specific capital level for any capital measure, (ii) "adequately capitalized" if it has a total risk-based capital ratio of 8% or more, a Tier I risk-based capital ratio of 4% or more and a Tier I leverage capital ratio of 4% or more (3% under certain circumstances) and does not meet the definition of "well capitalized," (iii)

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"undercapitalized" if it has a total risk-based capital ratio that is less than 8%, a Tier I risk-based capital ratio that is less than 4% or a Tier I leverage capital ratio that is less than 4% (3% under certain circumstances), (iv) "significantly undercapitalized" if it has a total risk-based capital ratio that is less than 6%, a Tier I risk-based capital ratio that is less than 3% or a Tier I leverage capital ratio that is less than 3%, and (v) "critically undercapitalized" if it has a ratio of tangible equity to total assets that is equal to or less than 2%. Section 38 of the FDIA and the regulations promulgated thereunder also specify circumstances under which a federal banking agency may reclassify a well capitalized institution as adequately capitalized and may require an adequately capitalized institution or an undercapitalized institution to comply with supervisory actions as if it were in the next lower category (except that the FDIC may not reclassify a significantly undercapitalized institution as critically undercapitalized). At September 30, 1996 the Bank was in the "well capitalized" category.

Liquidity Requirements. All savings associations are required to maintain an average daily balance of liquid assets equal to a certain percentage of the sum of its average daily balance of net withdrawable deposit accounts and borrowings payable in one year or less. The liquidity requirement may vary from time to time (between 4% and 10%) depending upon economic conditions and savings flows of all savings associations. At the present time, the required minimum liquid asset ratio is 5%. The Bank has consistently exceeded such regulatory liquidity requirement and, at September 30, 1996, had a liquidity ratio of 8.46%

Accounting Requirements. FIRREA requires the OTS to establish accounting standards to be applicable to all savings associations for purposes of complying with regulations, except to the extent otherwise specified in the capital standards. Such standards must incorporate GAAP to the same degree as is prescribed by the federal banking agencies for banks or may be more stringent than such requirements. Such standards must have been fully implemented by January 1, 1994 and must be phased in as provided in federal regulations in effect on May 1, 1989.

Applicable OTS accounting regulations and reporting requirements apply the following standards: (i) regulatory reports will incorporate GAAP when GAAP is used by federal banking agencies; (ii) savings association transactions, financial condition and regulatory capital must be reported and disclosed in accordance with OTS regulatory reporting requirements that will be at least as stringent as for national banks; and (iii) the director of the OTS may prescribe regulatory reporting requirements more stringent than GAAP whenever the director determines that such requirements are necessary to ensure the safe and sound reporting and operation of savings associations.

The accounting principles for depository institutions are currently undergoing review to determine whether the historical cost model or market-based measure of valuation is the appropriate measure for reporting the assets of such institutions in their financial statements. Such proposal is controversial because any change in applicable accounting principles which require depository institutions to carry mortgage-backed securities and mortgage loans at fair market value could result in substantial losses to such institutions and increase volatility in their liquidity and operations. Currently, it cannot be predicted whether there may be any changes in the accounting principles for depository institutions in this regard beyond those imposed by SFAS 115 or when any such might become effective.

Qualified Thrift Lender Test. Under Section 2303 of the Economic Growth and Regulatory Paper work Reduction Act of 1996, a savings association can comply with the QTL test by wither meeting the QTL test set forth in the HOLA and implementing regulation or qualifying as a domestic building and loan association as defined in Section 7701(a)(19) of the Internal Revenue Code of 1986, as amended ("Code"). A savings institution that does not comply with the QTL test must either convert to a bank charter or comply with the following restrictions on its operations: (i) the association may not engage in any new activity or make any new investment, directly or indirectly, unless such activity or investment is permissible for a national bank; (ii) the branching powers of the association shall

be restricted to those of a national bank; (iii) the association shall not be eligible to obtain any advances from its FHLB; and (iv) payment of dividends by the association shall be subject to the rules regarding payment of dividends by a national bank. Upon the expiration of three years from the date the association ceases to be a QTL, it must cease any activity and not retain any investment not permissible for a national bank and immediately repay any outstanding FHLB advances (subject to safety and soundness considerations).

The QTL Test set forth in the HOLA requires that Qualified Thrift Investments ("QTLs") represent 65% of portfolio assets. Portfolio assets are defined as total assets less intangibles, property used by a savings association in its business and liquidity investments in an amount not exceeding 20% of

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assets. Generally, QTLs are residential housing relate assets, The 1996 amendments allow small business loans, credit card loans, student loans and loans for personal, family and household purposes to be included without limitation as qualified investments. At September 30, 1996, approximately 92.5% of the Bank's assets were invested in QTLs, which was in excess of the percentage required to qualify the Bank under the QTL Test in effect at that time.

Restrictions on Capital Distributions. OTS regulations govern capital distributions by savings associations, which include cash dividends, stock redemptions or repurchases, cash-out mergers, interest payments on certain convertible debt and other transactions charged to the capital account of a savings association to make capital distributions. Generally, the regulation creates a safe harbor for specified levels of capital distributions from associations meeting at least their minimum capital requirements, so long as such associations notify the OTS and receive no objection to the distribution from the OTS. Savings institutions and distributions that do not qualify for the safe harbor are required to obtain prior OTS approval before making any capital distributions.

Generally, savings associations that before and after the proposed distribution meet or exceed their fully phased-in capital requirements, or Tier 1 associations, may make capital distributions during any calendar year equal to the higher of (i) 100% of net income for the calendar year-to-date plus 50% of its "surplus capital ratio" at the beginning of the calendar year or (ii) 75% of net income over the most recent four-quarter period. The "surplus capital ratio" is defined to mean the percentage by which the association's ratio of total capital to assets exceeds the ratio of its fully phased-in capital requirement to assets. "Fully phased-in capital requirement" is defined to mean an association's capital requirement under the statutory and regulatory standards applicable on December 31, 1994, as modified to reflect any applicable individual minimum capital requirement imposed upon the association. Failure to meet fully phased-in or minimum capital requirements will result in further restrictions on capital distributions including possible prohibition without explicit OTS approval. See "- Capital Requirements."

In order to make distributions under these safe harbors, Tier 1 and Tier 2 associations must submit written notice to the OTS 30 days prior to making the distribution. The OTS may object to the distribution during that 30-day period based on safety and soundness concerns. In addition, a Tier 1 association deemed to be in need of more than normal supervision by the OTS may be downgraded to a Tier 2 or Tier 3 association as a result of such a determination. The Bank currently is a Tier 1 institution for purposes of the regulation dealing with capital distributions.

OTS regulations also prohibit the Bank from declaring or paying any dividends or from repurchasing any of its stock if, as a result, the regulatory (or total) capital of the Bank would be reduced below the amount required to be maintained for the liquidation account established by it for certain depositors in connection with its conversion from mutual to stock form.

Community Reinvestment. Under the Community Reinvestment Act of 1977, as amended ("CRA"), as implemented by OTS regulations, a savings association has a continuing and affirmative obligation consistent with its safe and sound operation to help meet the credit needs of its entire community, including low and moderate income neighborhoods. The CRA does not establish specific lending requirements or programs for financial institutions nor does it limit an institution's discretion to develop the types of products and services that it believes are best suited to its particular community, consistent with the CRA. The CRA requires the OTS, in connection with its examination of a savings institution, to assess the institution's record of meeting the credit needs of its community and to take such record into account in its evaluation of certain applications by such institution. FIRREA amended the CRA to require, effective July 1, 1990, public disclosure of an institution's CRA rating and require the OTS to provide a written evaluation of an institution's CRA performance utilizing a four tiered descriptive rating system in

lieu of the existing five-tiered numerical rating system. The Bank received an "outstanding" rating as a result of its last evaluation in February 1995.

Policy Statement on Nationwide Branching. Effective May 11, 1992, the OTS amended and codified its policy statement on branching by federally chartered savings associations to delete then-existing regulatory restrictions on the branching authority of such associations and to permit nationwide branching to the extent allowed by federal statute. (Prior OTS policy generally permitted interstate branching for federally chartered savings associations only to the extent allowed state-chartered savings associations in the states where the association's home office was located and where the branch was sought or if the branching resulted from OTS approval of a supervisory interstate acquisition of a troubled institution.) Current OTS policy generally permits a federally

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chartered savings association to establish branch offices outside of its home state if the association meets the domestic building and loan test in Section 7701(a)(19) of the Code or the asset composition test of subparagraph (c) of that section, and if, with respect to each state outside of its home state where the association has established branches, the branches, taken alone, also satisfy one of the two tax tests. An association seeking to take advantage of this authority would have to have a branching application approved by the OTS, which would consider the regulatory capital of the association and its record under the CRA, as amended, among other things.

Federal Home Loan Bank System. The Bank is a member of the FHLB of Pittsburgh, which is one of 12 regional FHLBs that administers the home financing credit function of savings associations. Each FHLB serves as a reserve or central bank for its members within its assigned region. It is funded primarily from proceeds derived from the sale of consolidated obligations of the FHLB System. It makes loans to members (i.e., advances) in accordance with policies and procedures established by the Board of Directors of the FHLB.

As a member, the Bank is required to purchase and maintain stock in the FHLB of Pittsburgh in an amount equal to at least 1% of its aggregate unpaid residential mortgage loans, home purchase contracts or similar obligations at the beginning of each year or 5% of its advances from the FHLB of Pittsburgh, whichever is greater. At September 30, 1996, the Bank had $2.3 million in FHLB stock, which was in compliance with this requirement.

The FHLBs are required to provide funds for the resolution of troubled savings associations and to contribute to affordable housing programs through direct loans or interest subsidies on advances targeted for community investment and low- and moderate-income housing projects. These contributions have adversely affected the level of FHLB dividends paid and could continue to do so in the future. These contributions also could have an adverse effect on the value of FHLB stock in the future. For the years ended September 30, 1996 and 1995, dividends paid by the FHLB of Pittsburgh to the Bank totalled approximately $106,000 and $94,000, respectively.

Federal Reserve System. The FRB requires all depository institutions to maintain reserves against their transaction accounts (primarily NOW and Super NOW checking accounts) and non-personal time deposits. At September 30, 1996, the Bank was in compliance with applicable requirements. However, because required reserves must be maintained in the form of vault cash or a noninterest-bearing account at a Federal Reserve Bank, the effect of this reserve requirement is to reduce an institution's earning assets.

Miscellaneous. In addition to requiring a new system of risk-based insurance assessments and a system of prompt corrective action with respect to undercapitalized banks, as discussed above, recent legislation requires federal banking regulators to adopt regulations in a number of areas to ensure bank safety and soundness, including: internal controls; credit underwriting; asset growth; management compensation; ratios of classified assets to capital; and earnings. Recent legislation also restricts the activities of state-chartered insured banks; amends various consumer banking laws; limits the ability of "undercapitalized banks" to borrow from the FRB's discount window; and requires regulators to perform annual on-site bank examinations and set standards for real estate lending.

FEDERAL AND STATE TAXATION

General. The Company and the Bank are subject to the corporate tax provisions of the Code, as well as certain additional provisions of the Code which apply to thrift and other types of financial institutions. The following discussion of tax matters is intended only as a summary and does not purport to be a comprehensive description of the tax rules applicable to the Company and the Bank.

Fiscal Year. For the year ended September 30, 1995 and thereafter, the Company and the Bank and its subsidiaries file a consolidated federal income tax return on a fiscal year basis. Prior to September 30, 1995, the Company and the Bank and its subsidiaries filed consolidated federal income tax returns on a calendar year basis.

Method of Accounting. The Bank maintains its books and records for federal income tax purposes using the accrual method of accounting. The accrual method of accounting generally requires that items of income be recognized when all events have occurred that establish the right to receive the income and the amount of income can be determined with reasonable accuracy, and that items of expense be deducted at the later of (i) the time when all events have occurred that establish the liability to pay the expense and the amount of such liability can be determined with reasonable accuracy or (ii) the time when economic performance with respect to the item of expense has occurred.

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Bad Debt Reserves. As a "domestic building and loan association," the Bank is permitted to establish reserves for bad debts and to make annual additions thereto which qualify as deductions from taxable income. The bad debt deduction is generally based on a savings institution's actual loss experience (the "Experience Method"). In addition, provided that certain definitional tests relating to the composition of assets and the nature of its business are met, a savings institution may elect annually to compute its allowable addition to its bad debt reserves for qualifying real property loans (generally loans secured by improved real estate) by reference to a percentage of its taxable income (the "Percentage Method").

Under the Experience Method, the deductible annual addition is the amount necessary to increase the balance of the reserve at the close of the taxable year to the greater of (i) the amount which bears the same ratio to loans outstanding at the close of the taxable year as the total net bad debts sustained during the current and five preceding taxable years bear to the sum of the loans outstanding at the close of those six years or (ii) the balance in the reserve account at the close of the Bank's "base year," which was its tax year ended December 31, 1987.

Under the Percentage Method, the bad debt deduction with respect to qualifying real property loans is computed as a percentage of the Bank's taxable income before such deduction, as adjusted for certain items (such as capital gains and the dividends received deduction). Under this method, a qualifying institution such as the Bank generally may deduct 8% of its taxable income. In the absence of other factors, the availability of the Percentage Method has permitted a qualifying savings institution, such as the Bank, to be taxed at an effective federal income tax rate of 31.28%, as compared to 34% for corporations generally.

For taxable years ended on or before December 31, 1988, the Bank has generally elected to use the Percentage Method to compute the amount of its bad debt deduction with respect to its qualifying real property loans. For all taxable years ended after December 31, 1988 with the exception of the September 30, 1996 tax year, the Bank has elected to use the Experience Method to compute the amount of its bad debt deduction with respect to its qualifying real property loans. As of September 30, 1996, the Bank's qualified assets constituted approximately 92.3% of its total assets and the balance of its accumulated bad debt reserve was 1.0% of its qualifying and non-qualifying loans. As a result, the Bank does not believe that any of the restrictions imposed upon the computation of the bad debt deduction would be a limiting factor.

The income of the Company or any non-bank subsidiaries would not be subject to the bad debt deduction allowed the Bank, whether or not consolidated tax returns are filed.

In August 1996, the Small Business Job Protection Act (the "Act") was signed into law. The Act repealed the percentage of taxable income method of accounting for bad debts for thrift institutions effective for years beginning after December 31, 1995. The Act will require the Company as of October 1, 1996 to change its method of

computing reserves for bad debts to the experience method. The bad debt deduction allowable under this method is available to small banks with assets less than $500 million. Generally, this method will allow the Company to deduct an annual addition to the reserve for bad debts equal to the increase in the balance of the Company's reserve for bad debts at the end of the year to an amount equal to the percentage of total loans at the end of the year, computed using the ratio of the previous six years net charge offs divided by the sum of the previous six years total outstanding loans at year end.

A thrift institution required to change its method of computing reserves for bad debts will treat such change as a change in a method of accounting determined solely with respect to he "applicable excess reserves" of the institution. The amount of the applicable excess reserves will be taken into account ratable over a six-taxable year period, beginning with the first taxable year beginning after December 31, 1995. The timing of the recapture may be delayed for a two-year period provided certain residential lending requirements are met. For financial reporting purposes, the Company will not incur any additional tax expense. At September 30, 1996, under SFAS No. 109, deferred taxes were provided on the difference between the book reserve at September 30, 1996 and the applicable excess reserve in an amount equal to the Bank's increase in the tax reserve from December 31, 1987 to September 30, 1996.

Distributions. While the Bank maintains a bad debt reserve, if it were to distribute cash or property to its sole stockholder having a total fair market value in excess of its accumulated tax-paid earnings and profits, or were to distribute cash or property to its stockholder in redemption of its stock, the Bank would generally be required to recognize as income an amount which, when

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reduced by the amount of federal income tax that would be attributable to the inclusion of such amount in income, is equal to the lesser of: (i) the amount of the distribution or (ii) the sum of (a) the amount of the accumulated bad debt reserve of the Bank with respect to qualifying real property loans (to the extent that additions to such reserve exceed the additions that would be permitted under the experience method) and (b) the amount of the Bank's supplemental bad debt reserve.

Minimum Tax. The Code imposes an alternative minimum tax at a rate of 20% on a base of regular taxable income plus certain tax preferences ("alternative minimum taxable income" or "AMTI"). The alternative minimum tax is payable to the extent such AMTI is in excess of an exemption amount. The Code provides that an item of tax preference is the excess of the bad debt deduction allowable for a taxable year pursuant to the percentage of taxable income method over the amount allowable under the experience method. The other items of tax preference that constitute AMTI include (a) tax-exempt interest on newly-issued (generally, issued on or after August 8, 1986) private activity bonds other than certain qualified bonds and (b) for taxable years beginning after 1989, 75% of the excess (if any) of (i) adjusted current earnings as defined in the Code, over (ii) AMTI (determined without regard to this preference and prior to reduction by net operating losses). Net operating losses can offset no more than 90% of AMTI. Certain payments of alternative minimum tax may be used as credits against regular tax liabilities in future years.

Audit by IRS. The Bank's consolidated federal income tax returns for taxable years through December 31, 1994 have been closed for the purpose of examination by the IRS.

STATE TAXATION

The Company is subject to the Pennsylvania Corporate Net Income Tax and Capital Stock and Franchise Tax. The Corporate Net Income Tax rate for fiscal 1996 is 9.99% and is imposed on the Company's unconsolidated taxable income for federal purposes with certain adjustments. In general, the Capital Stock Tax is a property tax imposed at the rate of 1.3% of a corporation's capital stock value, which is determined in accordance with a fixed formula.

The Bank is taxed under the Pennsylvania Mutual Thrift Institutions Tax Act (the ("MTIT"), as amended to include thrift institutions having capital stock. Pursuant to the MTIT, the Bank's tax rate is 11.5%. The MTIT exempts the Bank from all other taxes imposed by the Commonwealth of Pennsylvania for state income tax purposes and from all local taxation imposed by political subdivisions, except taxes on real estate and real estate transfers. The MTIT is a tax upon net earnings, determined in accordance with GAAP with certain adjustments. The MTIT, in computing GAAP income, allows for the deduction of interest earned on state and federal securities, while disallowing a percentage of a thrift's interest expense deduction in the proportion of interest income on those securities to the overall interest income of the Bank. Net operating losses, if any, thereafter can be carried forward three years for MTIT purposes.

ITEM 2. PROPERTIES

At September 30, 1996, the Bank conducted business from its executive offices located in Media, Pennsylvania and four full-service offices located in Delaware County, Pennsylvania. See also Note 8 of the Notes to Consolidated Financial Statements in the Annual Report.

The following table sets forth certain information with respect to the Bank's offices at September 30, 1996.

<TABLE>
<CAPTION>

Description/Address	Leased/Owned	Net Book Value of Property	Amount of Deposits
		(In thousands)	
<S>	<C>	<C>	<C>
Executive Offices:			
Main Office			
22 West State Street Media, Pennsylvania 19063	Owned	$1,042	$ 73,041
Branch Offices:			
3218 Edgmont Avenue			

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Brookhaven, Pennsylvania 19015	Owned	232	74,809
Routes 1 and 100 Chadds Ford, Pennsylvania 19318	Leased(1)	84	17,012
23 East Fifth Street Chester, Pennsylvania 19013	Leased(2)	306	16,327
330 Dartmouth Avenue Swarthmore, Pennsylvania 19081	Owned	134	38,016
		$1,798	$219,205

</TABLE>

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(1) Lease expiration date is September 30, 2000. The Bank has two five year renewal options.

(2) Lease expiration date is December 31, 2005. The Bank has one ten year renewal option.

ITEM 3. LEGAL PROCEEDINGS.

In April 1994, a lawsuit was filed in the Court of Common Pleas in Delaware County. The lawsuit was brought on behalf of the estates of eight individuals arising out of the activities of a now deceased attorney who maintained a law practice in Media, Pennsylvania. The attorney was accused of misappropriating the funds of such estates for which he served as counsel, executor and administrator. During the fiscal year ended September 30, 1996, the case settled with all of the plaintiffs in the amount of $400,000 with the settlement amount being completely covered by insurance, less any deductible.

Other than the matter discussed above, the Bank is involved in routine legal proceedings occurring in the ordinary course of business which, in the aggregate, are believed by management to be immaterial to the financial condition of the Bank.

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

Not applicable.

PART II.

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS.

The information required herein is incorporated by reference from page 3 of the Registrant's 1996 Annual Report. At December 16, 1996 there were approximately 489 shareholders of record, not including the number of persons or entities whose stock is held in nominee or street name through various brokerage firms or banks.

ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

The information required herein is incorporated by reference from pages 8 to 17 of the Registrant's 1996 Annual Report.

ITEM 7. FINANCIAL STATEMENTS.

The information required herein is incorporated by reference form pages 18 to 39 of the Registrant's 1996 Annual Report.

ITEM 8. CHANGES IN AND DISAGREEMENTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

Not applicable.

PART III

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ITEM 9. DIRECTORS, EXECUTIVE OFFICERS, AND PROMOTORS AND CONTROL PERSONS; COMPLIANCE WITH SECTION 16(a) OF THE EXCHANGE ACT OF THE REGISTRANT.

The information required herein is incorporated by reference from pages 2 to 5 and page 12 of the Registrant's Proxy Statement dated December 31, 1996 ("Proxy Statement").

ITEM 10. EXECUTIVE COMPENSATION.

The information required herein is incorporated by reference from pages 8 to 12 of the Registrant's Proxy Statement.

ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT.

The information required herein is incorporated by reference from pages 6 to 7 of the Registrant's Proxy Statement.

ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

The information required herein is incorporated by reference from page 12 of the Registrant's Proxy Statement.

ITEM 13. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K.

(a) Documents filed as part of this Report.

(1) The following documents are filed as part of this report and are incorporated herein by reference from the Registrant's Annual Report.

Report of Independent Auditors.

Consolidated Statements of Financial Condition at September 30, 1996 and 1995.

Consolidated Statements of Income for the Years Ended September 30, 1996, 1995 and 1994.

Consolidated Statements of Changes in Stockholders' Equity for the Years Ended September 30, 1996, 1995 and 1994.

Consolidated Statements of Cash Flows for the Years Ended September 30, 1996, 1995 and 1994.

Notes to the Consolidated Financial Statements.

(2) All schedules for which provision is made in the applicable accounting regulation of the SEC are omitted because they are not applicable or the required information is included in the Consolidated Financial Statements or notes thereto.

(3) The following exhibits are filed as part of this Form 10-KSB, and this list includes the Exhibit Index.

<TABLE>
<CAPTION>

No	Description	Page
<S>	<C>	
3.1	Amended and Restated Articles of Incorporation of First Keystone Financial, Inc. (*)	
3.2	Amended and Restated Bylaws of First Keystone Financial, Inc. (*)	
4	Specimen Stock Certificate of First Keystone Financial, Inc. (*)	
10.1	Employee Stock Ownership Plan and Trust of First Keystone Financial, Inc. (*)	
10.2	401(K)/ Profit Sharing Plan of First Keystone Federal Savings Bank *	
10.3	Employment Agreement between First Keystone Financial, Inc. and Donald S. Guthrie (incorporated by reference from Exhibit 10.3 to	

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Registrant's Form 10-KSB for the year ended September 30, 1995).

10.4	Employment Agreement between First Keystone Financial, Inc. and Stephen J. Henderson (incorporated by reference from Exhibit 10.4 to Registrant's Form 10-KSB for the year ended September 30, 1995).
10.5	Employment Agreement between First Keystone Financial, Inc. and Thomas M. Kelly (incorporated by reference from Exhibit 10.5 to Registrant's Form 10-KSB for the year ended September 30, 1995).
10.6	Form of Severance Agreement between First Keystone Financial, Inc. and Elizabeth M. Mulcahy (incorporated by reference from Exhibit 10.6 to Registrant's Form 10-KSB for the year ended September 30, 1995).
10.8	Form of Severance Agreement between First Keystone Financial, Inc. and Carol Walsh (incorporated by reference from Exhibit 10.8 to Registrant's Form 10-KSB for the year ended September 30, 1995).
10.9	1995 Stock Option Plan (incorporated by reference from Exhibit 10.9 to Registrant's Form 10-KSB for the year ended September 30, 1995).

</TABLE>

<TABLE>

<S>	<C>
10.10	1995 Recognition and Retention Plan and Trust Agreement, (incorporated by reference from Exhibit 10.10 to Registrants Form 10-KSB for the year ended September 30, 1995).
11	Statement re: Computation of Earnings
13	Annual Report to Stockholders
21	Subsidiaries of the Registrant - Reference is made to Item 1 "Business," for the required information
23	Consent of Experts and Counsel

</TABLE>

(*) Incorporated by reference from the Registration Statement Form S-1 (Registration No. 33-84824) filed by the Registrant with the SEC on October 6, 1994, as amended.

(b) Reports filed in Form 8-K.

None.

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 to be signed on its behalf by the undersigned, thereunto duly authorized.

FIRST KEYSTONE FINANCIAL, INC.

By:/s/ Donald S. Guthrie

Donald S. Guthrie
President and Chief Executive Officer

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

<TABLE>

<S>	<C>
/s/ Donald S. Guthrie ----------------------- Donald S. Guthrie President and Chief Executive Officer (Principal Executive Officer)	December 27, 1996

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/s/ Thomas M. Kelly -- Thomas M. Kelly Executive Vice-President and Chief Financial Officer (Principal Financial and Accounting Officer)	December 27, 1996
/s/ Donald A. Purdy -- Donald A. Purdy Chairman of the Board	December 27, 1996
/s/ William K. Betts -- William K. Betts Director	December 27, 1996
/s/ Edward Calderoni -- Edward Calderoni Director	December 27, 1996
/s/ Silvio F. D'Ignazio -- Silvio F. D'Ignazio Director	December 27, 1996

</TABLE>

<TABLE>

<S>	<C>
/s/ Olive J. Faulkner -- Olive J. Faulkner Director	December 27, 1996
/s/ Edmund Jones -- Edmund Jones Director	December 27, 1996
/s/ Willard F. Letts -- Willard F. Letts Director	December 27, 1996
/s/ Walter J. Lewicki -- Walter J. Lewicki Director	December 27, 1996
/s/ Charles E. Rankin --- Charles E. Rankin Director	December 27, 1996
/s/ Joan G. Taylor --- Joan G. Taylor Director	December 27, 1996

</TABLE>

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Exhibit 11.

Statement re: Computation of Earnings

Earnings per share for the year ended September 30, 1996 is based on net income of $885,000 divided by the weighted average number of shares and equivalent shares outstanding during the period of 1,191,583.

Earnings per share is based on income from January 25, 1995 (the date of the initial public offering) through September 30, 1995 of $928,000 divided by the weighted-average number of shares and equivalent shares outstanding during the period of 1,254,237. Since the initial offering was completed on January 25, 1995, earnings per share information for prior years is not applicable.

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EXHIBIT 13

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SELECTED CONSOLIDATED FINANCIAL AND OTHER DATA

The selected consolidated financial and other data of First Keystone Financial, Inc. set forth below does not purport to be complete and should be read in conjunction with, and is qualified in its entirety by, the more detailed information, including the Consolidated Financial Statements and related Notes, appearing elsewhere herein.

<TABLE>
<CAPTION>

	AT OR FOR THE YEAR ENDED SEPTEMBER 30,				
	1996	1995	1994	1993	1992
<S>	<C>	<C>	<C>	<C>	<C>
(Dollars in Thousands)					
SELECTED FINANCIAL DATA:					
Total assets	$294,241	$ 280,979	$ 237,749	$ 233,516	$ 232,399
Loans receivable, net	167,530	158,002	142,226	137,186	147,739
Mortgage-related securities, net	23,221	60,294	68,369	64,213	46,004
Investment securities		10,710	12,145	11,238	11,997
Assets held for sale:					
Mortgage-related and equity securities	60,211	19,538	251	946	
Loans	2,447	57	168	1,245	1,633
Real estate owned	1,557	465	503	971	2,084
Deposit accounts	219,205	223,753	216,065	218,361	218,731
FHLB advances and other borrowings	46,740	28,411	5,267	343	
Stockholders' equity	23,084	24,463	11,622	11,206	10,161
Non-performing assets	6,909	3,621	5,879	6,455	7,116
SELECTED OPERATIONS DATA:					
Interest income	$19,837	$ 18,295	$ 15,547	$ 16,573	$ 18,389
Interest expense	10,932	10,767	9,153	10,048	12,197

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Net interest income	8,905	7,528	6,394	6,525	6,192
Provision for loan losses	1,250	52	416	390	120
Net interest income after provision for loan losses	7,655	7,476	5,978	6,135	6,072
Other income (expense):					
Service charges and other fees	1,047	1,029	1,010	962	924
Net gain on sales of interest-earning assets	203	113	350	778	545
Net gain (loss) on real estate activities	2	(44)	(47)	17	228
Net recovery on real estate investments					280
Other	56	89	158	119	116
Operating expenses	8,645(1)	7,036	7,728	6,918	6,334
Income (Loss) before income taxes, extraordinary item and cumulative effect of change in accounting principle	318 (1)	1,627	(279)	1,093	1,831
Income tax expense (benefit)	(567)	504	(95)	127	546
Extraordinary item, utilization of state tax carryforward				79	100
Cumulative effect of change in accounting for income taxes			600		
Net income	$ 885(1)	$ 1,123	$ 416	$ 1,045	$ 1,385
Earnings per common share	$ .74(1)	$ .74	N/A	N/A	N/A

</TABLE>

----

(1) Includes the effects of the one-time SAIF special assessment. The effects of the assessment increased operating expenses and decreased income before income taxes by $1.4 million. The effects of the assessment also decreased net income and earnings per share by $876,000 and $.74, respectively.

<TABLE>
<CAPTION>

	AT OR FOR THE YEAR ENDED SEPTEMBER 30,				
	1996	1995	1994	1993	1992
<S>	<C>	<C>	<C>	<C>	<C>
SELECTED OPERATING RATIOS:					
Average yield earned on interest-earning assets	7.45%	7.37%	6.84%	7.31%	8.25%
Average rate paid on interest-bearing liabilities	4.42	4.62	4.18	4.58	5.60
Average interest rate spread	3.03	2.75	2.66	2.73	2.65
Net interest margin	3.34	3.03	2.81	2.88	2.78
Ratio of interest-earning assets to interest-bearing liabilities	107.65	106.55	103.77	103.33	102.37
Net interest income after provision for loan losses to operating expenses	88.55(2)	106.25	77.36	88.68	95.86
Operating expenses as a percent of average assets	3.14(2)	2.73	3.29	2.95	2.74
Return on average assets	0.32(2)	0.44	.18	0.45	0.60
Return on average equity	3.84(2)	5.59	3.60	10.07	14.83
Ratio of average equity to average assets	8.36	7.80	4.91	4.42	4.04
Full-service offices at end of period	5	5	5	5	5
ASSET QUALITY RATIOS:(3)					
Non-performing loans as a percent of gross loans receivable	3.15	1.98	3.74	3.92	3.32
Non-performing assets as a percent of total assets	2.35	2.12	2.46	2.76	3.06
Allowance for loan losses as a percent of gross loans receivable	1.54	.93	1.07	0.91	1.42
Allowance for loan losses as a percent of nonperforming loans	49.03	47.12	28.65	23.07	42.43
Net loans charged-off to average interest-earning loans receivable	0.07	0.07	0.10	0.89	0.03
CAPITAL RATIOS:(3)					
Tangible capital ratio	7.67	8.23	4.88	4.80	4.37
Core capital ratio	7.67	8.23	4.88	4.80	4.37
Risk-based capital ratio	17.24	17.82	10.13	10.77	9.34

</TABLE>

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(2) Includes the effects of the one-time SAIF special assessment of $1.4 million. Excluding the one-time effects, the ratio of net interest income after provision for loan losses to operating expenses and operating expenses as a percent of average assets were 106.04% and 2.62%, respectively. In addition, return on average assets and return on average equity were .64% and 7.64%, respectively, excluding the assessment.

(3) Asset Quality Ratios and Capital Ratios are end of period ratios, except for charge-offs to average loans. With the exception of end of period ratios, all ratios are based on average daily balances during the indicated periods.

The following table shows market price information for Company's Common Stock (NASDAQ Symbol: FKFS). The prices set forth below represent the high and low prices on the Nasdaq National Market System during the periods indicated. During the periods presented, the Company did not declare or pay any dividend on its common stock. (See Note 20 to the Consolidated Financial Statements.)

QUARTERLY PERIOD ENDED	PRICE PER SHARE HIGH	LOW
March 31, 1995(a)	$12.75	$10.25
June 30, 1995	13.375	12.25
September 30, 1995	18.00	14.25
December 31, 1995	21.00	15.25
March 31, 1996	20.75	18.50
June 30, 1996	19.00	17.00
September 30, 1996	18.25	16.75

(a) The Company's Common Stock commenced trading on January 26, 1995.

A MESSAGE TO OUR SHAREHOLDERS

[PHOTO OF DONALD S. GUTHRIE]

I am pleased to report that in our first full year as a public company, First Keystone Financial, Inc., the holding company for First Keystone Federal Savings Bank, has successfully implemented a number of the initiatives outlined in our strategic plan during this past fiscal year:

ENHANCING SHAREHOLDER VALUE;

As part of the Company's initiatives to enhance shareholder value, the Company repurchased 5% of its issued and outstanding shares of common stock in the first quarter of 1996. In addition, as a result of the Company's strong earnings and capital position, your Board of Directors established a dividend policy with an initial quarterly dividend of $.05 per share payable in the first quarter of 1997.

INCREASING THE COMPANY'S CORE EARNINGS;

Excluding a one-time special assessment, core earnings have grown substantially, net interest margin has increased and our profitability ratios have improved. In the fourth quarter of this fiscal year, the Company, as did most banking institutions with Savings Association Insurance Fund (SAIF) deposits, had to pay a one-time assessment to recapitalize SAIF. As a result, the Company earned net income of $885,000 or .$74 per share for the year ended September 30, 1996, which reflects the effects of this $1.4 million pre-tax charge and a $1.2 million provision for possible loan losses. Excluding the one-time special assessment, the Company's net income was $1.8 million for fiscal 1996, an increase of $638,000 or 56.8% compared to fiscal 1995. The Company's earnings per share for fiscal 1996 were $.74 per share (including the one-time special assessment) and $1.48 per share (excluding the one-time special assessment) as compared to $.74 in fiscal 1995.

The one-time special assessment of 65.7 basis points on SAIF-insured deposits

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was part of federal legislation passed by Congress and signed by the President in September of 1996. The legislation also lowers the SAIF premium from 23 cents per $100 of deposits to approximately 6.5 cents per $100 of deposits. We are pleased that the insurance issue has finally been resolved as this will result in an annual estimated pre-tax savings of $365,000 per year for the Company.

REDUCING THE COMPANY'S OPERATING EXPENSE RATIOS;

Excluding the one-time assessment, the Company experienced a slight increase in operating expenses of $200,000 due primarily to a one time charge of approximately $311,000 incurred in association with the implementation of a cost reduction program announced in the first quarter of fiscal 1996. However, operating expenses as a percentage of average assets decreased from 2.7% of average assets during 1995 to 2.4% of average assets during 1996. Through staff reduction, controlled expenses and greater use of technology, operating expenses have begun to decline from $1.8 million in the fourth quarter of fiscal 1995 compared to $1.7 million for the fourth quarter of 1996.

MEETING THE BANKING NEEDS OF OUR CUSTOMERS AND THE COMMUNITIES THAT WE SERVE.

In keeping with the Company's strategic plan to increase core earnings and enhance net interest margin, in 1996, First Keystone expanded its services to include commercial lending. With more than 12 years of commercial lending experience, the Vice President of this new division will focus on small to moderate sized businesses located in the Delaware Valley region. Recognizing that commercial accounts are built on relationships and not just transactions, we will develop this part of our portfolio with the same prudent management style that has been the foundation of our success. This is a natural extension to our product line as First Keystone has been serving many of these businesses with their traditional retail banking needs for years. We see this new program as a significant opportunity to grow our business accounts and diversify our portfolio by providing a quicker response time and more personalized service than larger banks headquartered in cities and states outside our region, since as a community bank, management and its Board of Directors are local and have a comprehensive understanding of the Bank's marketplace.

As a new public company, we have had a successful first flight, but many opportunities lie ahead. We understand that there is no substitute for results and we plan to deliver even greater results in 1997. We plan to continue to increase our core earnings, improve our profitability ratios, provide our shareholders enhanced value and deliver an ever improving level of service to our valuable customers. Your Board of Directors, officers and dedicated employees are committed to these goals in 1997.

On behalf of myself, the Board of Directors, officers and employees of First Keystone, we thank you for your continued support and wish you and your family a healthy and prosperous new year.

/s/ Donald S. Guthrie

Donald S. Guthrie
President and Chief Executive Officer

[PHOTO CAPTION]
"Unlike other area banks which keep changing their names and their people, Monika and I appreciate the personal attention and relationships we've developed with the people at First Keystone Federal."

Z. Rehoric
Kenny's Flower Shop, Media

[PHOTO OF Z. Rehoric}

[PHOTO OF Emily R. Myers]

[PHOTO CAPTION]
"My branch manager took the time to research my account and located a cancelled check which saved me a substantial amount of money -- First Keystone Federal saved the day for me."

Emily R. Myers
Decision Design Research, Inc.

YEAR END HIGHLIGHTS

ON TECHNOLOGY...

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During 1996, First Keystone introduced Check Imaging to its services portfolio. This system eliminates the cost of collating and returning customer checks by mail. It also minimizes employee time required to research account inquiries. In the fourth quarter of 1995, the Bank introduced 24-Hour Telephone Banking which has won wide acceptance with our customers in 1996. Many types of customer transactions and inquiries can now be processed through the Bank's automated system 7 days a week, 24 hours a day by a touch tone telephone. The volume of monthly transactions that are handled by this system has increased by 78% from the first quarter of this fiscal year compared to the last quarter of this year. Previously these transactions were done by Bank personnel.

OUR STRENGTH IN LENDING . . .

Management, recognizing the customer's propensity for a more comprehensive product line and the intent of Congress as recently expressed in the newly enacted BIF/SAIF legislation, launched its commercial lending department in the fall of 1996. The solid judgement and knowledge of the marketplace that has been the cornerstone of First Keystone's success will serve as a tremendous resource as this part of the Bank's portfolio grows.

Capitalizing on our relationship with established builders in our area, and the Company's solid reputation in the local construction market, First Keystone placed renewed emphasis on construction lending, increasing its construction and land loan portfolio from $16.3 million at September 30, 1995 to $17.7 million at September 30, 1996.

Similarly, the Bank ended 1996 with $20.4 million in consumer loans up from $18.2 million in 1995, due primarily to a successful home equity promotion conducted in the third and fourth quarters.

Refinancing activity increased in the third quarter as a result of further reductions in long-term interest rates. Overall, originations of single-family real estate remained steady at $54.0 million.

In accordance with the Company's strategic plan to diversify its portfolio in order to enhance shareholder value through increased interest rate margins and fee revenue, after several years as a correspondent for nonconforming loans, in 1996 the Company began to expand its residential product line to include the origination of credit-impaired loans through First Keystone's new "Fresh Start" mortgage program. A third outside loan solicitor was hired to augment these efforts.

REINVESTING IN THE COMMUNITY...

First Keystone, like many local banks, was started more than 100 years ago during the industrial revolution, when the thousands of workers who manned the factories and maintained the port of Chester needed loans to buy their homes. The big city banks weren't there for these laborers, and so the community established its own building and loan associations which provided mortgages and a means to save for the future. This sense of community is a tradition that hasn't been lost at First Keystone Federal. The Bank supports and sponsors many civic and community activities such as the Halloween Parade and the Media Arts and Crafts Show.

The Company is proud of our leadership role in the participation in loan programs for low and moderate incomes as we continue to be recognized by the Federal Home Loan Bank of Pittsburgh's Affordable Housing Program as a leader among our financial peers. The federal regulators have also recognized First Keystone's achievements by its designation of an "outstanding" in community reinvestment for the last five years.

PRODUCT DEVELOPMENT
AND STRATEGIC MARKETING...

Direct mail will continue to be a major marketing tool throughout 1997 as we focus our efforts on providing multiple services to our existing household base in order to develop more loyal and less rate sensitive customers. In addition, we will continue to cross-sell our new "Escrow Manager," a single escrow account designed to enhance record keeping and reporting for commercial deposit account holders, as we evaluate the demand for a Cash Management Account allowing these commercial accounts greater flexibility in controlling their specific cash needs.

Also for 1997, we are investigating new areas for acquisition and/or branch development. In each of these instances, our objective is to take advantage of growth opportunities as they present themselves -- opportunities that will further refine the quality and efficiency of our services to meet the needs of our ever changing and growing customer base.

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[PHOTO CAPTION]
"I needed a 'rainy day' savings account for my business, one that didn't require a huge minimum deposit. I looked all over town, and First Keystone Federal was the only bank who would help me!"

Larry Cooperman
Media Pretzel Company

[PHOTO OF Larry Cooperman]

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

General

On January 25, 1995, the Board of Directors of First Keystone Federal Savings Bank (the "Bank") completed its Conversion from a federally chartered mutual savings bank to a federally chartered stock savings bank with the concurrent formation of a holding company (the "Conversion"). The Conversion resulted in the Bank becoming a wholly-owned subsidiary of First Keystone Financial, Inc. (the "Company"). The Conversion was accounted for in a manner similar to a pooling of interests. Accordingly, the Bank's assets, liabilities and equity continue to be reflected based on historical amounts.

As the Company presently does not own any operating subsidiaries other than the Bank, the discussion below with respect to the results of operations relates primarily to the Bank, and the financial data for the period prior to the Conversion reflects financial data of the Bank. For purposes of this discussion, First Keystone Financial, Inc., including its wholly-owned subsidiaries, will be referred to as the "Company". The following discussion should be read in conjunction with the Company's consolidated financial statements presented elsewhere herein.

The Company's results of operations depend primarily on its net interest income, which is the difference between interest income on interest-earning assets, which principally consist of loans, mortgage-related securities and investment securities, and interest expense on interest-bearing liabilities, which principally consist of deposits and Federal Home Loan Bank ("FHLB") advances. The Company's results of operations also are affected by the provision for loan losses, resulting from management's assessment of the adequacy of the allowance for loan losses; the level of its non-interest income, including service charges and other fees, and gains and losses from the sale of certain assets, the level of its operating expenses; and income tax expense.

Asset and Liability Management

The principal objective of the Company's asset and liability management function is to evaluate the interest rate risk included in certain assets and liabilities, determine the level of risk appropriate given the Company's business focus, operating environment, capital and liquidity requirements and performance objectives, establish prudent asset concentration guidelines and manage the risk consistent with Board approved guidelines. Through management, the Company seeks to reduce both the vulnerability and volatility of its operations to changes in interest rates and to manage the ratio of interest-rate sensitive assets to interest-rate sensitive liabilities within specified maturities or repricing dates. The Company's actions in this regard are taken under the guidance of the Asset/Liability Committee ("ALCO"), which is chaired by the Chief Financial Officer and comprised of members of the Company's senior management. The ALCO, at a minimum, meets quarterly to review, among other things, the sensitivity to interest rate changes of the Company's assets and liabilities, the book and market values of assets and liabilities, unrealized gains and losses, purchase and sale activity and maturities of investments and borrowings. In connection therewith, the ALCO generally reviews the Company's liquidity, cash flow needs, maturities of investments, deposits and borrowings, current market conditions and interest rates. In addition, the pricing of the Company's residential loans and deposits is reviewed at least weekly while the pricing of loans originated for sale in the secondary market is reviewed daily. The ALCO reports to the Company's Board of Directors on a quarterly basis.

The Company's primary asset/liability monitoring tool consists of various asset/liability simulation models, which are prepared on a quarterly basis and are designed to capture the dynamics of balance sheet, rate and spread movements and to quantify variations in net interest income under different interest rate environments.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

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The Company also utilizes market value analysis, which addresses the change in equity value arising from movements in interest rates. The market value of equity is estimated by valuing the Company's assets and liabilities. The extent to which assets have gained or lost value in relation to the gains or losses of liabilities determines the appreciation or depreciation in equity on a market value basis. Market value analysis is intended to evaluate the impact of immediate and sustained shifts of the current yield curve upon the market value of the current balance sheet.

A more conventional but limited Asset/Liability monitoring tool involves an analysis of the extent to which assets and liabilities are "interest rate sensitive" and measures an institution's interest rate sensitivity "gap." An asset or liability is said to be interest rate sensitive within a specific time period if it will mature or reprice within that time period. The interest rate sensitivity "gap" is defined as the difference between interest-earning assets and interest-bearing liabilities maturing or repricing within a given time period. A gap is considered positive when the amount of interest rate sensitive assets exceeds the amount of interest rate sensitive liabilities. A gap is considered negative when the amount of interest rate sensitive liabilities exceeds interest rate sensitive assets. During a period of rising interest rates, a negative gap would tend to adversely affect net interest income, while a positive gap would tend to result in an increase in net interest income. During a period of falling interest rates, a negative gap would tend to result in an increase in net interest income, while a positive gap would tend to affect net interest income adversely. While a conventional gap measure may be useful, it is limited in its ability to predict trends in future earnings. It makes no presumptions about changes in prepayment tendencies, deposit or loan maturity preferences or repricing time lags that may occur in response to a change in the interest rate environment.

Changes in Financial Condition

General. Total assets of the Company increased by $13.3 million, or 4.7%, from $281.0 million at September 30, 1995 to $294.2 million at September 30, 1996. The increase was due primarily to a $11.9 million or 7.5% increase in loans receivable and loans held for sale, and a $9.4 million, or 10.4% , increase in investment and mortgage-related securities (including securities classified as available for sale) offset, in part, by a $10.8 million, or 52.3% decrease in interest-bearing deposits. The net increase was funded primarily from proceeds of shorter term borrowings.

Cash and Investments. Cash and investments (including investments available for sale) decreased by $5.2 million, or 15.4%, to $28.2 million at September 30, 1996 compared to $33.4 million at September 30, 1995. The decrease was due to decreases in cash and cash equivalents as the Company used various cash management techniques to increase earnings, including investing the funds in higher-yielding shorter term government securities and maintaining minimal lower yielding overnight deposits.

Loans Held For Sale and Loans Receivable, Net. Aggregate loans receivable (loans receivable, net and loans held for sale) increased $11.9 million or 7.5% to $170.0 million at September 30, 1996 compared to $158.1 million at September 30, 1995. The increase is the result of the Company's continued emphasis on residential and consumer lending. Contributing to the increase were a $7.0 million or 6.1% increase in originated residential loans, a $1.3 million or 8.2% increase in originated construction loans and a $2.9 million or 14.0% increase in originated consumer loans.

Mortgage-Related Securities and Mortgage-Related Securities Available For Sale. Mortgage-related securities and mortgage-related securities available for sale increased in the aggregate by $3.6 million, or 4.5%, to $83.4 million at September 30, 1996 compared to $79.8 million at September 30, 1995. The increase is a result of the Company's leveraging its equity position, in conjunction with its loans receivable portfolio, to increase interest income. In accordance with the requirements of a Financial Accounting Standards Board ("FASB") special report and in order to enhance the Company's ability to respond to changes in interest rates, the

Company reclassified in December 1995 approximately $50.5 million in securities from its held to maturity category to the available for sale category. Additional purchases during the year were designated as either held to maturity or available for sale depending on bond characteristics (i.e. term, yield and price volatility, prepayment speeds) and the Company's asset/liability strategy.

Non-Performing Assets. The Company's total non-performing loans and real estate owned increased $3.3 million or 90.8% from $3.6 million or 1.3% of total

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assets at September 30, 1995 to $6.9 million or 2.3% of total assets at September 30, 1996. The increase in the nonperforming assets was due to the inclusion of lease financings from the Bennett Funding Group, Inc., a closely-held Syracuse, New York-based leasing company ("Bennett Funding") and affiliated companies.

Between September 1992 and March 1996, the Company purchased 16 separate pools of lease financings from Bennett Funding and its affiliates with a total balance outstanding as of September 30, 1996 of $3.8 million. Included in the total balance were $890,000 in equipment leases (some of which are insured by a private insurer), $800,000 in interim contract financings for equipment leases which have not yet been pooled and sold and $380,000 in consumer financings. Also included in the Company's total balance were $1.3 million in consumer receivables issued by Resort Funding, Inc., an affiliate of Bennett Funding, secured by timeshare financing contracts and $475,000 in equipment leases from Aloha Capital Corp., another affiliate of Bennett Funding. On March 29, 1996, Bennett Funding filed for Chapter 11 bankruptcy protection. On April 24, 1996, Aloha Capital Corp. and other Bennett Funding affiliates, including affiliates who act as the processor for payments due holders of lease and loans issued by Bennett Funding and its affiliates, also filed for Chapter 11 bankruptcy protection. Although the Company is continuing to receive payments on the $1.3 million in consumer receivables (approximately $100,000 in principal reduction had been received through September 30, 1996) from Resort Funding, Inc., the Company has chosen to place the entire $3.8 million on non-accrual status and has classified the credits as substandard. Although the Company has not established any specific reserves or charged off any portion of the financings, the Company, in accordance with its policy regarding classified assets, has allocated approximately $1.4 million of its unallocated general loss allowance. The Company is actively monitoring the bankruptcy proceedings and is vigorously pursuing all options available to protect its interest. However, no assurance can be given that significant additional provisions or charge offs will not be required or that losses will not be incurred in connection with the resolution of the situation. Other non-performing loans, which amounted to $1.5 million at September 30, 1996, consist primarily of single-family residential mortgage loans.

Real estate owned increased $1.1 million to $1.6 or .53% of total assets at September 30, 1996 as compared to $465,000 or .17% at September 30, 1995. The increase was a result of the Company's acceptance of a deed in lieu of foreclosure on the Company's only delinquent construction loan for the acquisition and improvement of a 107-lot real estate development project located in Pennsylvania. Seventy-one of the townhouses have been completed and sold and the Company has engaged a local builder to complete the project. It is expected that the project should be completed in 18 to 24 months.

Deposits. Deposits decreased by $4.5 million, or 2.0%, from $223.8 million at September 30, 1995 to $219.2 million at September 30, 1996. This decrease was primarily due to a $4.5 million decrease in non-interest bearing accounts as the balance in the prior year was unusually high. Certificates of deposit increased $1.8 million or 1.4% from September 30, 1995 to September 30, 1996 despite the maturing of approximately $20.0 million in high rate, long-term certificates. Offsetting this increase was a $1.9 million or 2.1% net decline in passbook, NOW and money market accounts. The shift in deposits accounts reflects general market conditions as customers sought to invest in higher yielding certificates of deposit.

Borrowings. The Company's borrowings, comprised solely of advances from the FHLB, increased $18.3 million to $46.7 million at September 30, 1996 from $28.4 million at

September 30, 1995. The FHLB advances had a weighted average interest rate of 5.83% at September 30, 1996 and were used to fund loan and investment growth.

Equity. At September 30, 1996, total stockholders' equity was $23.1 million or 7.8% of total assets, compared to $24.5 million or 8.7% of total assets at September 30, 1995. The $1.4 million decrease was due to the Company's repurchase of 67,500 shares of treasury stock for $1.3 million, a decrease of $636,000 in unrealized loss on available for sale securities and the purchase of stock for employee benefit programs of $704,000, offset by net income for the year and the amortization of expense relating to the employee benefit plans. The decrease in the capital ratio was due to the aforementioned factor as well as the increase in total assets as the Company leveraged its capital.

Average Balances, Net Interest Income and Yields Earned and Rates Paid. The

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following table sets forth, for the periods indicated, information regarding (i) the total dollar amount of interest income of the Company from interest-earning assets and the resultant average yields; (ii) the total dollar amount of interest expense on interest-bearing liabilities and the resultant average rate; (iii) net interest income; (iv) interest rate spread; and (v) net interest margin. Information is based on average daily balances during the indicated periods.

<TABLE>
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	YEAR ENDED SEPTEMBER 30,									
		1996			1995			1994		
	YIELD/COST AT SEPTEMBER 30, 1996	AVERAGE BALANCE	INTEREST	AVERAGE YIELD/ COST	AVERAGE BALANCE	INTEREST	AVERAGE YIELD/ COST	AVERAGE BALANCE	INTEREST	AVERAGE YIELD/ COST
					(Dollars in Thousands)					
<S>	<C>	<C>	<C>		<C>	<C>		<C>	<C>	
INTEREST-EARNING ASSETS:										
Loans receivable(1)	7.89%	$164,359	$13,459	8.19%	$151,198	$12,472	8.25%	$137,457	$11,066	8.05%
Mortgage-related securities(2)	6.73	80,539	5,229	6.49	71,832	4,377	6.09	67,843	3,581	5.28
Investment securities	6.57	11,534	715	6.20	12,844	756	5.89	10,872	584	5.37
Other interest-earning assets	5.75	9,930	434	4.37	12,433	690	5.55	11,150	316	2.83
Total interest-earning assets	7.38	266,362	19,837	7.45	248,307	18,295	7.37	227,322	15,547	6.84
Noninterest-earning assets		9,325			9,198			7,785		
Total assets		$275,687			$257,505			$235,107		
INTEREST-BEARING LIABILITIES:										
Deposits	4.05	$220,303	9,363	4.25	$216,511	9,732	4.49	$218,338	9,112	4.17
FHLB advances and other borrowings	5.83	27,119	1,569	5.79	16,539	1,035	6.26	721	41	5.69
Total interest-bearing liabilities	4.36	247,422	10,932	4.42	233,050	10,767	4.62	219,059	9,153	4.18
Noninterest-bearing liabilities		5,210			4,382			4,500		
Total liabilities		252,632			237,432			223,559		
Stockholders' equity		22,604			20,073			11,548		
Total liabilities and stockholders' equity		$275,687			$257,505			$235,107		
Net interest-earning assets		$ 18,940			$ 15,257			$ 3,763		
Net interest income/interest rate spread	3.02%		$ 8,905	3.03%		$7,528	2.75%		$ 6,394	2.66%
Net yield on interest-earning assets(3)				3.34%			3.03%			2.81%
Ratio of average interest-earning assets to average interest-bearing liabilities				107.65%			106.55%			103.77%

</TABLE>

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(1) Includes non-accrual loans.
(2) Includes assets classified as either available for sale or held for sale.
(3) Net interest income divided by interest-earning assets.

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Rate/Volume Analysis. The following table describes the extent to which changes in interest rates and changes in volume of interest-related assets and liabilities have affected the Company's interest income and expense during 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 (change in volume multiplied by prior year rate), (ii) changes in rate (change in rate multiplied by prior year volume), and (iii) total change in rate and volume. The combined effect of changes in both rate and volume has been allocated proportionately to the change due to rate and the change due to volume.

	YEAR ENDED SEPTEMBER 30,					
	1996 VS. 1995			1995 vs. 1994		
	INCREASE (DECREASE) DUE TO RATE	VOLUME	TOTAL INCREASE (DECREASE)	INCREASE (DECREASE) DUE TO RATE	VOLUME	TOTAL INCREASE (DECREASE)
	(In Thousands)					
INTEREST-EARNINGS ASSETS:						
Loans receivable(1)	$ (90)	$ 1,077	$ 987	$ 278	$ 1,128	$ 1,406
Mortgage-related securities(1)	298	554	852	576	220	796
Investment securities	44	(85)	(41)	59	113	172
Other interest-earning assets	(132)	(124)	(256)	334	40	374
Total interest-earning assets	120	1,422	1,542	1,247	1,501	2,748
INTEREST-BEARING LIABILITIES:						
Deposits	(543)	174	(369)	695	(75)	620
FHLB advances on other borrowings	(71)	605	534	4	990	994
Total interest-bearing liabilities	(614)	779	165	699	915	1,614
Increase in net interest income	$ 734	$ 643	$ 1,377	$ 548	$ 58	$ 1,134

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(1) Includes assets classified as either available for sale or held for sale.

Results of Operations

General. The Company reported net income of $885,000, $1.1 million, and $416,000 for the years ended September 30, 1996, 1995 and 1994, respectively. The $238,000, or 21.2%, decrease in net income for the year ended September 30, 1996 compared to the year ended September 30, 1995 was primarily due to a $1.6 million, or 22.9% increase in operating expenses and a $1.2 million increase in the provision for loan losses offset by a $1.4 million, or 18.3% increase in net interest income, a $1.1 million decrease in income taxes and a $121,000 or 10.2% increase in other income. The increase in operating expenses for the year ended September 30, 1996 was primarily due to the one-time Savings Association Insurance Funds ("SAIF") special assessment of $1.4 million. Excluding this assessment, net income increased $638,000 to $1.8 million in fiscal 1996, an increase of 56.8%.

The $707,000, or 170.0%, increase in net income for the year ended September 30, 1995 compared to the year ended September 30, 1994 was primarily due to a $1.1 million, or 17.7%, increase in net interest income, a $692,000, or 9.0%, decrease in operating expenses and a $364,000, or 87.5%, decline in the provision for loan losses, which were partially offset by a $284,000, or 19.3%, decrease in other income, a $599,000 increase in income tax expense and the recognition of a cumulative effect of a change in accounting principle of $600,000 during the year ended September 30, 1994.

Net Interest Income. Net interest income is determined by interest rate spread (i.e., the difference between the yields earned on interest-earning assets and the rates paid on interest-bearing liabilities) and the relative amounts of interest-earning assets and interest-bearing liabilities. The Company's average interest-rate spread was 3.03%, 2.75% and 2.66% during the years ended September 30, 1996, 1995 and 1994, respectively. The Company's interest-rate spread was 3.02% at September 30, 1996. The Company's net interest

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margin (i.e., net interest income as a percentage of average interest-earning assets) was 3.34%, 3.03% and 2.81% during the years ended September 30, 1996, 1995 and 1994, respectively.

Net interest income increased by $1.4 million, or 18.3%, in the year ended September 30, 1996 to $8.9 million compared to $7.5 million in fiscal 1995. The reason for such increase was a $1.5 million, or 8.4%, increase in total interest income offset by a $165,000, or 1.5%, increase in total interest expense. Net interest income increased by $1.1 million, or 17.7%, in fiscal 1995 compared to fiscal 1994 due to a $2.7 million, or 17.7% increase in interest income offset by a $1.6 million, or 17.6% increase in total interest expense.

Interest Income. Total interest income amounted to $19.8 million for the year ended September 30, 1996 compared to $18.3 million for the year ended September 30, 1995. The primary reason for the increase in the 1996 period was a $987,000, or 7.9%, increase in interest on loans as a result of a $13.2 million, or 8.7%, increase in the average balance of the loan portfolio partially offset by a 6 basis point (with 100 basis points being equal to 1.0%) decrease in the average yield earned thereon. The increase in the average balance of the loan portfolio in fiscal 1996 reflects increased origination of both fixed and adjustable-rate mortgage loans held in the portfolio while the decrease in the yield reflects lower rates of interest earned during fiscal 1996. Additionally, interest income on mortgage-related securities, investments and other interest-earning assets increased $555,000, or 9.5% due to a $4.9 million, or 5.0% increase in the aggregate average balances thereof and a 25 basis point increase in the yield earned due to general increases in the interest rate environment.

The $2.7 million, or 17.7%, increase in total interest income during the year ended September 30, 1995 over 1994 was primarily due to a $1.4 million, or 12.7%, increase in interest income on loans. This increase was due to a $13.7 million, or 10.0% increase in the average balance of the loan portfolio combined with a 20 basis point rise in the average yield earned thereon. The increase in the average balance of the loan portfolio in the 1995 period reflects increased origination of both fixed and adjustable-rate mortgage loans held in the portfolio while the increase in the yield reflects higher market rates of interest earned in the 1995 period. Additionally, interest income on mortgage-related securities, investments and other interest-earning assets increased $1.3 million, or 29.9%, due to a $7.2 million, or 8.1%, increase in the aggregate average balances and a 101 basis point increase in the yield earned. The increases reflected a combination of both the effects of the general rise in interest rates during the period and the implementation of various asset liability strategies.

Interest Expense. Total interest expense increased by $165,000, or 1.5%, in the year ended September 30, 1996 compared to fiscal 1995. The reason for such increase was a $534,000 increase in interest expense on borrowings offset by a $369,000 decrease in interest expense on deposits. The increase in interest expense on borrowings was due to a $10.6 million, or 64.0% increase in the average balance offset by a 47 basis point decline in the average rate paid on borrowings. The decrease in interest paid on deposits was due to a 24 basis point decline in the average rate paid on deposits offset in part by a $3.8 million increase in the average balance of deposits. The increase in the average balances of deposits and borrowings was used to fund loan originations and purchases of investment securities. The decrease in the rates paid on deposits was due to the maturing of some long-term high interest rate deposits. Interest rates on borrowings also declined due to a decline in short-term interest rates.

Total interest expense amounted to $10.8 million for the year ended September 30, 1995 as compared to $9.2 million for fiscal 1994. The $1.6 million, or 17.6%, increase in interest expense in fiscal 1995 compared to fiscal 1994 was due to a $620,000 increase in interest expense on deposits and a $994,000 increase in interest expense on borrowings. The increase in interest expense on deposits was due to a 32 basis point increase in the average rate paid on deposits partially offset by a decline in the average balances of $1.8 million. The

increase in interest expense on borrowings was primarily due to an increase in the average balance of $15.8 million along with an increase in the average

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rate paid of 57 basis points. The increase in the average balance of borrowings was used to fund mortgage originations and, to a lesser extent, purchases of mortgage-related and investment securities. The increase in the average paid reflects the effects of the general increases in market rates of interest during fiscal 1995.

Provisions for Loan Losses. Provisions for loan losses are charged to earnings to bring the total allowance for loan losses to a level considered appropriate by management based on historical experience, the volume and type of lending conducted by the Company, the amount of the Company's classified assets, the status of past due principal and interest payments, general economic conditions, particularly as they relate to the Company's market area, and other factors related to the collectibility of the Company's loan portfolio. Management of the Company assesses the allowance for loan losses on a monthly basis and makes provisions for loan losses as deemed appropriate by management in order to maintain the adequacy of the allowance for loan losses. For the year ended September 30, 1996, the provision for loan losses amounted to $1.2 million as compared to $52,000 for fiscal 1995. The increase in the provision for fiscal 1996 reflected an increased amount for the Bennett Funding bankruptcies. (See Changes in Financial Condition -- Non Performing Assets) For the year ended September 30, 1994, the provision for loan losses was $416,000. The decrease in the provision for loan losses during fiscal 1995 reflected management's assessment of the risk of loss inherent in the loan portfolio. At September 30, 1996, the Company's allowance for loan losses amounted to 49.03% of total non-performing loans and 1.54% of gross loans receivable.

Although management of the Company believes that the Company's allowance for loan losses was adequate at September 30, 1996, based on facts and circumstances available to it, there can be no assurances that additions to such allowance will not be necessary in future periods, which would adversely affect the Company's results of operations. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the Company's provision for loan losses and the carrying value of its other non-performing assets based on their judgments about information available to them at the time of their examination. The Company was last examined by the OTS as of April 1996. The Company was not required to increase its provision for loan losses or adjust the carrying value of its other non-performing assets as a result of such examination.

Other Income. For the year ended September 30, 1996, the Company reported other income of $1.3 million compared to $1.2 million of other income for the year ended September 30, 1995. The primary reason for the $121,000 or 10.2% increase in other income in fiscal 1996 was a $156,000 increase in net gain on sales of mortgage loans held for sale partially offset by an decrease of $66,000 on gains on sales of investments and mortgage-related securities. The $284,000, or 19.3%, decline in other income for the year ended September 30, 1995 as compared to fiscal 1994 was due to decreases in gains on sales of mortgage loans of $297,000, partially offset by an increase of $60,000 on gains on sales of investments and mortgage-related securities. The increase in gains on sales of loans for fiscal 1996 reflected the Company's increased emphasis on the origination and sale, servicing released, of non-conforming loans. The decline in the gains on sales of mortgage loans during fiscal 1995 reflected the decrease in mortgage banking activity as a result of the increasing interest rate environment experienced during most of the year.

Operating Expenses. Operating expenses include compensation and employee benefits, occupancy and equipment expense, FDIC premiums, data processing expense and other items. Operating expenses increased $1.6 million, or 22.9%, for the year ended September 30, 1996 compared to the year ended September 30, 1995 and amounted to $8.6 million in fiscal 1996 compared to $7.0 million in fiscal 1995. The primary reason for the increase in operating expenses was the one-time SAIF special assessment of $1.4 million relating to deposit

insurance. As a result of recent legislation, the one-time assessment will recapitalize the SAIF insurance fund to the 1.25% of total insured deposits currently required by the Federal Deposit Insurance Corporation. This recapitalization will decrease the amount of insurance that the Company will pay to insure deposit accounts from the current $.23 per $100 of deposits to $.065 per $100, which amount effectively reflects the amount required to be paid by SAIF-insured institutions to pay the debt service on the Financing Corporation bonds. Also contributing to the increase in expenses for fiscal 1996 was a $311,000 charge to earnings for certain costs relating to the restructuring that the Company commenced in the first fiscal quarter. In addition, professional fees increased $257,000, or 47.9%, due to increased costs relating to litigation involving the Company as well as increased professional costs in the first full year of operation as a public company. Operating expenses decreased $692,000, or 9.0%, for the year ended September 30, 1995 compared to the year ended September

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30, 1994, and amounted to $7.0 million in fiscal 1995 compared to $7.7 million in fiscal 1994. The primary reason for the decrease in operating expenses was a $572,000, or 14.8%, decrease in salaries and employee benefits. Salary and employee benefits expense was higher in fiscal 1994 due to the accrual for certain pension benefits under deferred compensation plans. In addition, professional fees decreased $130,000, or 19.5%, to $536,000 during the year ended September 30, 1995 as compared to fiscal 1994 due to the completion of the discovery stages of litigation. See Note 15 to the Consolidated Financial Statements.

Income Taxes. The Company recognized an income tax benefit of $567,000 for the year ended September 30, 1996, compared to income tax expense of $504,000 for fiscal 1995. The benefit in fiscal 1996 was the result of an adjustment for prior year tax contingencies of approximately $700,000. Excluding this benefit, the income tax expense was $133,000, or 41.8% of pre-tax income. The Company's effective tax rate amounted to 31.0% for the year ended September 30, 1995. The higher percentage in fiscal 1996 related to the expiration of state tax carryforwards during fiscal 1995. The Company incurred income tax expense of $504,000 for the year ended September 30, 1995, compared to recognizing an income tax benefit of $95,000 for fiscal 1994. The benefit recorded during the year ended September 30, 1994 reflected the effects of the loss before income taxes (exclusive of the effects of the extraordinary item and the change in accounting principle).

The Company adopted Statement of Financial Accounting Standards ("SFAS") No. 109, "Accounting for income Taxes," during fiscal 1994. The general objective of SFAS No. 109 is to recognize annually the deferred tax assets and liabilities which will arise from future tax consequences of events that have been recognized in the Company's financial statements or tax returns. As a result of the adoption of SFAS No. 109, the Company recognized $600,000 in income during the year ended September 30, 1994 representing the cumulative effect of this change in accounting principle. See Note 11 to the Consolidated Financial Statements.

Federal legislation enacted in August 1996 repealed the percentage of taxable income method of accounting for bad debts for thrift institutions effective for years beginning after December 31, 1995. The Company was required as of October 1, 1996 to adopt the experience method computation for bad debts and to provide for taxes relating to excess bad debts reserves over the base year of December 1987. As of September 30, 1996, the Company has provided deferred income taxes on their excess bad debt reserves.

Liquidity and Capital Resources

The Company's liquidity, represented by cash and cash equivalents, is a product of its operating, investing and financing activities. The Company's primary sources of funds are deposits, amortization, prepayments and maturities of outstanding loans and mortgage-related securities, sales of loans, maturities of investment securities and other short-term investments, borrowings and funds provided from operations. While scheduled payments from the amortization of loans and mortgage-related

securities and maturing investment securities and short-term investments are relatively predictable sources of funds, deposit flows and loan prepayments are greatly influenced by general interest rates, economic conditions and competition. In addition, the Company invests excess funds in overnight deposits and other short-term interest-earning assets which provide liquidity to meet lending requirements. The Company has the ability to obtain advances from the FHLB of Pittsburgh through several credit programs and in addition, has established a line of credit with the FHLB in an amount not to exceed 10% of assets and subject to certain conditions, including holding a predetermined amount of FHLB stock as collateral. This line of credit is used from time to time for liquidity purposes. As an additional source of funds, the Company has access to the Federal Reserve discount window, but only after it has exhausted its access to the FHLB of Pittsburgh. At September 30, 1996, the Company had $46.7 million of outstanding advances from the FHLB of Pittsburgh.

Liquidity management is both a daily and long-term function of business management. Excess liquidity is generally invested in short-term investments such as overnight deposits. On a longer term basis, the Company maintains a strategy of investing in various lending products and mortgage-related securities. The Company uses its sources of funds primarily to meet its ongoing commitments, to pay maturing savings certificates and savings withdrawals, fund loan commitments and maintain a portfolio of mortgage-backed and investment securities. At September 30, 1996, the total approved loan commitments outstanding amounted to $5.7 million. At the same date, commitments under unused lines of credit and loans in process on construction loans amounted to $ 9.9

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million. Certificates of deposit scheduled to mature in one year or less at September 30, 1996 totalled $73.1 million. Based upon its historical experience, management believes that a significant portion of maturing deposits will remain with the Company.

The Company is required by the Office of Thrift Supervision ("OTS") to maintain average daily balances of liquid assets and short-term liquid assets (as defined) in amount equal to 5% and 1%, respectively, of net withdrawable deposits and borrowings payable in one year or less to assure its ability to meet demand for withdrawals and repayment of short-term borrowings. The liquidity requirements may vary from time to time at the direction of the OTS depending upon economic conditions and deposit flows. The Company's average monthly liquidity ratio and short-term liquid assets for September 1996 was 8.46% and 3.02%, respectively.

The OTS requires that the Bank meet minimum regulatory tangible, core, tier 1 risk-based and total risk-based capital requirements. At September 30, 1996, the Bank exceeded all regulatory capital requirements and was deemed a "well capitalized" institution for regulatory purposes. See Note 12 to the Consolidated Financial Statements.

The Company, as a separately incorporated holding company, has no significant operations other than serving as the sole stockholder of the Bank. On an unconsolidated basis, the Company has no paid employees. The Company's assets consist primarily of its investment in the Bank and its only material source of income consists of earnings from its investment in the Bank. The only expenses incurred by the Company relate to its reporting obligations under the Securities Exchange Act of 1934, and related expenses as a publicly traded company. The Company is directly reimbursed by the Bank for all such expenses. Management believes that the Company has adequate liquidity available to respond to its limited liquidity demands. Under applicable federal regulations, the Bank may pay dividends within certain limits and only after notice to the OTS. See Note 20 to the Consolidated Financial Statements.

Recent Accounting Pronouncements

In March 1995, the FASB issued SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of." This standard requires that long-lived assets and certain identifiable intangibles to be held and used by an entity be reviewed for impairment whenever events or changes in circumstances indicate that the

carrying amount of an asset may not be recoverable. In performing the review for recoverability, the entity should estimate the future cash flows expected to result from the use of the asset and its eventual disposition. An impairment loss is recognized only if the sum of the expected future cash flow is less than the carrying amount of the asset. It also requires that long-lived assets and certain identifiable intangibles be reported at the lower of carrying amount or fair value less cost to sell. This standard is effective for financial statements issued for fiscal years beginning after December 15, 1995. The adoption of SFAS No.121 is not expected to have a material effect on the Company's financial condition or results of operations.

In May 1995, the FASB issued SFAS No. 122, "Accounting for Mortgage Servicing Rights." This standard, effective for fiscal years beginning after December 31, 1995, will prospectively require the Company, which services mortgage loans for others in return for a servicing fee, to recognize these servicing rights as assets, regardless of how such asset was acquired. Additionally, the Company will be required to assess the fair value of these assets at each reporting date to determine impairment. The adoption of SFAS No. 122 is not expected to have a material effect on the financial condition or results of operations of the Company.

In October 1995, the FASB issued SFAS No. 123, "Accounting for Stock-Based Compensation," establishing financial accounting and reporting standards for stock-based employee compensation plans. This statement encourages all entities to adopt a new method of accounting to measure compensation cost of all employee stock compensation plans based on the estimated fair value of the award at the date it is granted. Companies are, however, allowed to continue to measure compensation cost for those plans using the intrinsic value based method of accounting, which generally does not result in compensation expense recognition for most plans. Companies that elect to remain with the existing accounting are required to disclose in a footnote to the financial statements pro forma net income and, if presented, earnings per share, as if this Statement had been adopted. The accounting requirements of this Statement are effective for transactions entered into for fiscal years that begin after December 15, 1995; however, companies are required to disclose information for awards granted in their first fiscal year beginning after December 15, 1994. The adoption of SFAS

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No. 123 is not expected to have a material effect on the Company's financial condition or results of operations.

In June 1996, the FASB issued SFAS No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." Under SFAS No. 125, after the transfer of a financial asset, the Company would recognize the financial and servicing assets it controls and the liabilities it has incurred. Furthermore, the Company would no longer recognize the financial assets for which control has been surrendered and liabilities that have been extinguished. SFAS No.125 is effective for transfers and servicing of financial assets and extinguishments of liabilities occurring after December 31, 1996. The adoption of SFAS No.125 is not expected to have a material effect on the Company's financial condition or results of operations.

Impact of Inflation and Changing Prices

The Consolidated Financial Statements of the Company and related notes presented herein 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 changes in the relative purchasing power of money over time due to inflation.

Unlike most industrial companies, substantially all of the assets and liabilities of a financial institution are monetary in nature. As a result, interest rates have a more significant impact on a financial institution's performance than the effects of general levels of inflation. Interest rates do not necessarily move in the same direction or in the same magnitude as the prices of goods and services, since such prices are affected by inflation to a larger extent than interest rates. In the current interest rate environment, liquidity and the maturity structure of the Company's assets and liabilities are critical to the maintenance of acceptable performance levels.

[DELOITTE & TOUCHE LLP LETTERHEAD]

Board of Directors
First Keystone Financial, Inc. and Subsidiaries
Media, Pennsylvania 19063

We have audited the accompanying consolidated statements of financial condition of First Keystone Financial, Inc. and Subsidiaries (the "Company") as of September 30, 1996 and 1995, and the related consolidated statements of income, stockholders' equity and cash flows for the years then ended. We have also audited the related consolidated statements of income, retained earnings and cash flows of First Keystone Federal Savings Bank and Subsidiaries (the "Predecessor Bank") for the year ended September 30, 1994. These consolidated financial statements are the responsibility of the Company's and the Predecessor Bank'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 generally accepted auditing standards. 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, such consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of First Keystone Financial, Inc. and Subsidiaries at September 30, 1996 and 1995 and the results of their operations and their cash flows for the years then ended, and the results of operations and cash flows of First Keystone Federal Savings Bank and Subsidiaries for the year ended September 30, 1994 in accordance with generally accepted accounting principles.

As discussed in Note 1 to the consolidated financial statements, on January 25, 1995, the Predecessor Bank converted from a federally chartered mutual savings bank into a federally chartered capital stock savings bank with the concurrent formation of the Company.

As discussed in Note 11 to the consolidated financial statements, the Predecessor Bank changed its method of accounting for income taxes to conform with SFAS No. 109, effective October 1, 1993.

/s/ DELOITTE & TOUCHE LLP

Deloitte & Touche LLP
Philadelphia, Pennsylvania

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November 8, 1996

DELOITTE TOUCHE
TOHMATSU
INTERNATIONAL

First Keystone Financial, Inc. and Subsidiaries
Consolidated Statements of Financial Condition

(dollars in thousands)

<TABLE>
<CAPTION>

	SEPTEMBER 30	
	1996	1995
<S>	<C>	<C>
ASSETS		
Cash and amounts due from depository institutions	$ 1,870	$ 2,091
Interest-bearing deposits with depository institutions	9,824	20,577
Total cash and cash equivalents	11,694	22,668
Investment securities available for sale	16,532	
Mortgage-related securities available for sale	60,211	19,538
Loans held for sale	2,447	57
Investment securities held to maturity -- at amortized cost (approximate fair value of $10,650)		10,710
Mortgage-related securities held to maturity -- at amortized cost (approximate fair value of $22,060 and $59,010 at September 30, 1996 and 1995, respectively)	23,221	60,294
Loans receivable -- net	167,530	158,002
Accrued interest receivable	2,404	2,407
Real estate owned	1,557	465
Federal Home Loan Bank stock -- at cost	2,337	1,492
Office properties and equipment -- net	2,507	2,943
Deferred income taxes	2,111	1,010
Prepaid expenses and other assets	1,690	1,393
TOTAL ASSETS	$ 294,241	$ 280,979
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Deposits	$ 219,205	$ 223,753
Advances from Federal Home Loan Bank	46,740	28,411
Accrued interest payable	1,501	1,096
Advances from borrowers for taxes and insurance	921	1,035
Accounts payable and accrued expenses	2,790	2,221
Total liabilities	271,157	256,516
Commitments and Contingencies		
Stockholders' Equity:		
Preferred stock, $.01 par value, 10,000,000 shares authorized; none issued		
Common stock, $.01 par value, 20,000,000 shares authorized; issued and outstanding; September 30, 1996 and 1995, 1,292,500 and 1,360,000 shares, respectively	14	14
Additional paid in capital	12,659	12,568
Common stock acquired by stock benefit plans	(1,437)	(1,006)
Treasury stock at cost, 67,500 shares	(1,288)	
Unrealized (loss) gain on available for sale securities -- net of tax	(494)	142
Retained earnings -- partially restricted	13,630	12,745
Total stockholders' equity	23,084	24,463
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 294,241	$ 280,979

</TABLE>

See notes to consolidated financial statements.

FIRST KEYSTONE FINANCIAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

<TABLE>
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(dollars in thousands, except per share data)

	YEAR ENDED SEPTEMBER 30		
	1996	1995	1994
INTEREST INCOME:			
Interest on:			
Loans	$ 13,459	$ 12,472	$ 11,066
Mortgage-related securities	5,229	4,377	3,581
Investments	715	756	584
Interest-bearing deposits	434	690	316
TOTAL INTEREST INCOME	19,837	18,295	15,547
INTEREST EXPENSE:			
Interest on:			
Deposits	9,363	9,732	9,112
Federal Home Loan Bank advances	1,569	1,035	41
TOTAL INTEREST EXPENSE	10,932	10,767	9,153
Net interest income	8,905	7,528	6,394
Provision for loan losses	1,250	52	416
Net interest income after provision for loan losses	7,655	7,476	5,978
OTHER INCOME (LOSS):			
Service charges and other fees	1,047	1,029	1,010
Net (loss) gain on sale of:			
Investments and mortgage-related securities	(6)	60	
Loans	209	53	350
Real estate owned	34	(3)	2
Real estate operations	(32)	(41)	(49)
Other income	56	89	158
TOTAL OTHER INCOME	1,308	1,187	1,471
OPERATING EXPENSES:			
Salaries and employee benefits	3,236	3,289	3,861
Occupancy and equipment	1,022	911	850
Professional fees	793	536	666
Federal deposit insurance premium	530	550	602
SAIF special assessment	1,426		
Bank service charges	401	434	415
Data processing	337	371	364
Advertising	201	195	210
Other	699	750	760
TOTAL OPERATING EXPENSES	8,645	7,036	7,728
Income (Loss) before income tax expense (benefit)	318	1,627	(279)
Income tax expense (benefit)	(567)	504	(95)
Income (Loss) before cumulative effect of change in accounting principle	885	1,123	(184)
Cumulative effect of change in accounting for income taxes			600
NET INCOME	$ 885	$ 1,123	$ 416
EARNINGS PER COMMON SHARE	$ .74	$ .74	N/A

</TABLE>

See notes to consolidated financial statements.

FIRST KEYSTONE FINANCIAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

(dollars in thousands)

<TABLE>
<CAPTION>

	COMMON	ADDITIONAL PAID-IN	COMMON ACQUIRED BY STOCK BENEFIT	TREASURY	UNREALIZED GAIN (LOSS)ON SECURITIES AVAILABLE FOR SALE	RETAINED	TOTAL STOCK-HOLDERS'

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	STOCK	CAPITAL	PLANS	STOCK	(NET OF TAX)	EARNINGS	EQUITY
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Balance at September 30, 1993						$11,206	$11,206
Net income						416	416
Balance at September 30, 1994						11,622	11,622
Common stock issued	$14	$12,539					12,553
Common stock acquired by stock benefit plans			$(1,088)				(1,088)
ESOP stock committed to be released			82				82
Excess of fair value above cost of stock benefit plans committed to be released		29					29
Net unrealized gain on securities available for sale, net of tax					$ 142		142
Net income						1,123	1,123
Balance at September 30, 1995	14	12,568	(1,006)		142	12,745	24,463
Common stock acquired by stock benefit plans			(704)				(704)
ESOP stock committed to be released			109				109
Excess of fair value above cost of stock benefit plans committed to be released		91					91
RRP amortization			164				164
Net unrealized loss relating to transfer of securities from held to maturity to available for sale, net of tax					(227)		(227)
Net unrealized loss on securities available for sale, net of tax					(409)		(409)
Purchase of treasury stock				$(1,288)			(1,288)
Net income						885	885
BALANCE AT SEPTEMBER 30, 1996	$14	$ 12,659	$(1,437)	$(1,288)	$(494)	$13,630	$23,084

</TABLE>

See notes to consolidated financial statements.

FIRST KEYSTONE FINANCIAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

(dollars in thousands)

<TABLE>
<CAPTION>

	YEAR ENDED SEPTEMBER 30		
	1996	1995	1994
OPERATING ACTIVITIES:			
<S>	<C>	<C>	<C>
Net income	$ 885	$ 1,123	$ 416
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Provision for depreciation and amortization	520	408	324
Amortization of premiums (discounts)	(161)	(54)	169
Gain on sales of loans	(209)	(53)	(350)
Gain (Loss) on sales of investments and mortgage-related securities available for sale	6	(60)	
(Gain) Loss on sales of real estate owned	(34)	3	(2)
Provision for loan losses	1,250	52	416
Amortization of stock benefit plans	364	111	
Changes in assets and liabilities which provided (used) cash:			
Origination of loans held for sale	(30,239)	(5,501)	(27,996)
Loans sold in the secondary market	27,849	5,612	29,073
Deferred income taxes	(700)	146	(939)
Accrued interest receivable	3	(117)	(293)

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Prepaid expenses and other assets	(297)	(252)	(372)
Accrued interest payable	405	(136)	142
Accrued expenses	569	(344)	856
Net cash provided by operating activities	211	938	1,444
INVESTING ACTIVITIES:			
Loans originated or acquired	(52,056)	(51,976)	(42,682)
Purchases of:			
Investments held to maturity		(5,065)	(5,145)
Investments available for sale	(18,000)		
Mortgage-related securities held to maturity	(4,013)		
Mortgage-related securities available for sale	(25,770)	(21,919)	(32,310)
(Purchase) Redemption of FHLB stock	(845)	(122)	1,868
Proceeds from sales of investment and mortgage-related securities available for sale	17,790	3,247	
Proceeds from sales of real estate owned	1,009	579	732
Principal collected on loans	40,160	35,073	37,630
Proceeds from maturities, calls or repayments of:			
Investment securities available for sale	3,065		
Mortgage-related securities available for sale	3,908	578	
Investment securities held to maturity	4,000	6,500	1,000
Mortgage-related securities held to maturity	8,347	7,881	28,446
Purchase of property and equipment	(84)	(765)	(523)
Net expenditures on real estate acquired through foreclosure and in development	(371)	(69)	(82)
Net cash used in investing activities	(22,860)	(26,058)	(11,066)
FINANCING ACTIVITIES:			
Net increase (decrease) in deposit accounts	(4,548)	7,688	(2,296)
Net proceeds from FHLB and other borrowings	18,329	23,144	4,924
Net increase (decrease) in advances from borrowers for taxes and insurance	(114)	37	191
Common stock acquired by stock benefit plans	(704)		
Purchase of treasury stock	(1,288)		
Proceeds from the sale of stock, net of conversion costs		11,465	
Net cash provided by financing activities	11,675	42,334	2,819
Increase (Decrease) in cash and cash equivalents	(10,974)	17,214	(6,803)
Cash and cash equivalents at beginning of year	22,668	5,454	12,257
Cash and cash equivalents at end of year	$ 11,694	$ 22,668	$ 5,454
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:			
Cash payments for interest on deposits and borrowings	$ 10,500	$ 10,900	$ 8,970
Cash payments (refunds) of income taxes	720	(47)	17
Transfers of loans receivable into real estate owned	1,768	507	283
Transfers of investment securities to investment securities available for sale	6,710		
Transfers of mortgage-related securities to mortgage-related securities available for sale	43,823		
Conversion of loans into mortgage-related securities available for sale		993	

</TABLE>

See notes to consolidated financial statements

FIRST KEYSTONE FINANCIAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 1996, 1995 AND 1994 (DOLLARS IN THOUSANDS)

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1. NATURE OF OPERATIONS AND ORGANIZATION STRUCTURE

On September 21, 1994, the Board of Directors of First Keystone Federal Savings Bank (the "Bank") adopted a plan of conversion to convert from a federally chartered mutual savings bank to a federally chartered capital stock savings bank with the concurrent formation of a holding company (the "Conversion").

The Conversion was completed on January 25, 1995 with the issuance by the holding company, First Keystone Financial, Inc. (the "Company"), of 1,360,000 shares of its common stock in a public offering to the Bank's eligible depositors and borrowers, members of the general public and the Bank's employee stock ownership plan (the "ESOP"). In exchange for the net conversion proceeds of $11.5 million, less $1.0 million retained by the Company, the Company acquired 100% of the issued and outstanding capital stock of the Bank.

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The Bank is principally in the business of attracting deposits through its branch offices and investing those deposits together with funds from borrowings and operations in single family residential, commercial real estate and commercial business loans. The Bank is primarily supervised and regulated by the Office of Thrift Supervision.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company, the Bank, and the Bank's wholly-owned subsidiaries. Intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates in the Preparation of Financial Statements

The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates.

Securities Held to Maturity and Securities Available for Sale

The Company requires that investments be categorized as held to maturity or available for sale or trading. Securities held to maturity are carried at amortized cost only if the Company has the positive intent and ability to hold these securities to maturity. Securities available for sale are carried at fair value with resulting unrealized gains or losses recorded to equity, net of tax. At September 30, 1996 and 1995, there were no securities held in a trading account.

In November 1995, the Financial Accounting Standards Board (the "FASB") issued a special report, "A Guide to Implementation of Statement 115 on Accounting for Certain Investments in Debt and Equity Securities" (the "Questions and Answers Guide"). In December 1995, in accordance with the provisions of the Questions and Answers Guide, the Company reclassified certain securities with an aggregate amortized cost of $50.5 million from held to maturity to available for sale. The Questions and Answers Guide further states that reclassifications from the held-to-maturity category that result from this one-time reassessment will not call into question the intent of an enterprise to hold other debt securities to maturity in the future.

Allowance for Loan Losses

An allowance for loan losses is maintained at a level that management considers adequate to provide for losses based upon an evaluation of known and inherent risks in the loan portfolio. Management's evaluation of the portfolio is based upon past loss experience, current economic conditions and other relevant factors. While management uses the best information available to make such evaluation, future adjustments to the allowance may be necessary if conditions differ substantially from the assumptions used in making the evaluations.

The Company adopted Statement of Financial

Accounting Standards ("SFAS") No. 114 "Accounting by Creditors for Impairment of a Loan" and No. 118, "Accounting by Creditors for Impairment of a Loan-Income Recognition and Disclosures," as of October 1, 1995. SFAS No. 114 requires that impaired loans be measured based either on the present value of expected future cash flows discounted at the loan's effective interest rate, or the loan's observable market price or the fair value of the collateral if the loan is collateral dependent. The provision for loan losses charged to expense is based upon past loan loss experience and an evaluation of losses in the current loan and lease portfolio, including the evaluation of impaired loans under SFAS No. 114. 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

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according to the contractual terms of the loan. An insignificant delay or insignificant shortfall in amounts of payments does not necessarily result in the loan being identified as impaired. For this purpose, delays less than 90 days are considered to be insignificant. SFAS No. 114 does not apply to large groups of smaller balance homogeneous loans that 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. At September 30, 1996, the Company's impaired loans consisted of smaller balance consumer and residential mortgage loans.

Mortgage Banking Activities

The Company originates mortgage loans held for investment and for sale. At origination, the mortgage loan is identified as either held for sale or for investment purposes. Mortgage loans held for sale are carried at the lower of cost or forward committed contracts (which approximates market), determined on a net aggregate basis.

At September 30, 1996, 1995, and 1994, loans serviced for others totalled approximately $127,229, $134,600 and $140,900, respectively. Servicing loans for others consists of collecting mortgage payments, maintaining escrow accounts, disbursing payments to investors, and foreclosure processing. Loan servicing income is recorded on the cash basis and includes servicing fees from investors and certain charges collected from borrowers, such as late payment fees. The Company has fiduciary responsibility for related escrow and custodial funds aggregating approximately $998 and $950 at September 30, 1996 and 1995, respectively.

Income Recognition on Loans

Interest on loans is credited to income when earned. Accrual of loan interest is discontinued and a reserve established on existing accruals if management believes after considering economic and business conditions and collection efforts, that the borrowers' financial condition is such that collection of interest is doubtful.

Real Estate Owned

Real estate owned consists of properties acquired by foreclosure or deed in-lieu-of foreclosure. These assets are initially recorded at the lower of carrying value of the loan or estimated fair value less selling costs at the time of foreclosure and at the lower of the new cost basis or net realizable value thereafter. The amounts recoverable from real estate owned could differ materially from the amounts used in arriving at the net carrying value of the assets at the time of foreclosure because of future market factors beyond the control of the Company. Costs relating to the development and improvement of real estate owned properties are capitalized and those relating to holding the property are charged to expense.

Office Properties and Equipment

Office properties and equipment are recorded at cost. Depreciation is computed using the straight-line method over the expected useful lives of the assets. The costs of maintenance and repairs are expensed as they are incurred, and renewals and betterments are capitalized.

Income Taxes

Deferred income taxes are recognized for the tax consequences of "temporary differences" by applying enacted statutory tax rates applicable to future years to differences between the financial statement carry-

---

ing amounts and the tax bases of existing assets and liabilities. The effect on deferred taxes of a change in tax rates is recognized in income in the period that includes the enactment date.

Interest Rate Risk

At September 30, 1996 and 1995, the Company's assets consist primarily of assets that earned interest at either adjustable or fixed

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interest rates whose average life is longer term. Those assets were funded primarily with shorter term liabilities that have interest rates which vary over time with market rates. Since the assets and liabilities reprice at different times, the Company is exposed to interest rate risk.

Statement of Cash Flows

For purposes of reporting cash flows, cash and cash equivalents include cash and amounts due from depository institutions and interest-bearing deposits with depository institutions.

New Accounting Pronouncements Not Yet Adopted

In May 1995, the FASB issued SFAS No. 122 "Accounting for Mortgage Servicing Rights." This statement, which is effective for fiscal years beginning after December 15, 1995, will require the Company, which services mortgage loans for others in return for servicing fees, to recognize, prospectively, these servicing rights as assets, regardless of how such assets are acquired. Additionally, the Company would be required to assess the fair value of these assets at each reporting date to determine any potential impairment. Management of the Company does not believe this pronouncement will have a material effect on its results of operations or financial position.

In June 1996, FASB issued SFAS No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." The statement, which is effective for transactions occurring after December 31, 1996, requires an entity to recognize the financial and servicing assets it controls and liabilities it has incurred, derecognize financial assets when control has been surrendered, and derecognize liabilities when extinguished. It requires that servicing assets and other retained interests in transferred assets be measured by allocating the previous carrying amount between the asset sold, if any, and retained interest, if any, based on their relative fair values at the date of the transfer. It also provides implementation guidance for servicing of financial assets, securizations, loan syndications and participations and transfers of loan receivables with recourse. The statement supersedes SFAS No. 122, "Accounting for Mortgage Servicing Rights." Management of the Company does not believe the statement will have a material impact on the Company's results of operations or financial position when adopted.

In October 1995, the FASB issued SFAS No. 123, "Accounting for Stock-Based Compensation," which encourages, rather than requires, entities to account for stock compensation awards based on the estimated fair value at the date of the grant. Entities would be permitted, however, to continue to apply Accounting Principles Board Opinion ("APB") No. 25, "Accounting for Stock Issued to Employees." Entities who continue to apply APB No. 25 would be required to disclose in a footnote, pro forma net income and earnings per share determined as if the entity had applied the new method.

This method is effective for the Company's financial statements for fiscal year ending September 30, 1997 with pro forma disclosures of the application for awards made in fiscal year 1996 presented in the 1997 financial statements. The Company has not elected to adopt the recognition provisions of SFAS No. 123 for its employee stock-based arrangements. SFAS No. 123, when adopted, is not expected to have a material impact on the Company's financial position or results of operations.

Reclassifications

Certain reclassifications have been made to the September 30, 1995 and 1994 consolidated financial statements to conform with the September 30, 1996 presentation. Such reclassifications had no impact on the reported net income.

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3. INVESTMENT SECURITIES

The amortized cost and approximate fair value of investment securities, by contractual maturities, are as follows:

<TABLE>

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<CAPTION>

	SEPTEMBER 30, 1996			
	AMORTIZED COST	GROSS UNREALIZED GAIN	GROSS UNREALIZED LOSS	APPROXIMATE FAIR VALUE
<S>	<C>	<C>	<C>	<C>
Available for Sale:				
U.S. Treasury securities and securities of U.S. Government agencies:				
1 to 5 years	$ 13,500	$ 48	$ 30	$13,518
5 to 10 years	3,000		130	2,870
Other investments	145		1	144
Total	$ 16,645	$ 48	$161	$16,532

</TABLE>

<TABLE>
<CAPTION>

	SEPTEMBER 30, 1995			
	AMORTIZED COST	GROSS UNREALIZED GAIN	GROSS UNREALIZED LOSS	APPROXIMATE FAIR VALUE
<S>	<C>	<C>	<C>	<C>
Held to Maturity:				
U.S. Treasury securities and securities of U.S. Government agencies:				
1 to 5 years	$ 9,565	$ 10	$ 70	$ 9,505
5 to 10 years	1,000			1,000
Other investments	145			145
Total	$ 10,710	$ 10	$ 70	$10,650

</TABLE>

Included in investment securities are structured notes with various U.S. Government agencies. At September 30, 1995, these structured notes were comprised of step-up bonds with par values of $3,000. There were no structured notes as of September 30, 1996.

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4. MORTGAGE-RELATED SECURITIES

Mortgage-related securities available for sale and mortgage-related securities held to maturity are summarized as follows:

<TABLE>
<CAPTION>

	SEPTEMBER 30, 1996			
	AMORTIZED COST	GROSS UNREALIZED GAIN	GROSS UNREALIZED LOSS	APPROXIMATE FAIR VALUE
<S>	<C>	<C>	<C>	<C>
Available for Sale:				
FHLMC pass-through certificates	$12,852	$ 93	$ 144	$12,801
FNMA pass-through certificates	11,079	8	162	10,925
GNMA pass-through certificates	8,355		230	8,125
Collateralized mortgage obligations	28,616	102	358	28,360
Total	$60,902	$203	$ 894	$60,211
Held to Maturity:				
FHLMC pass-through certificates	$ 3,631		$ 161	$ 3,470
FNMA pass-through certificates	11,383	$ 27	510	10,900
Collateralized mortgage obligations	8,207		517	7,690

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Total	$23,221	$ 27	$1,188	$22,060

	SEPTEMBER 30, 1995			
	AMORTIZED COST	GROSS UNREALIZED GAIN	GROSS UNREALIZED LOSS	APPROXIMATE FAIR VALUE
Available for Sale:				
FHLMC pass-through certificates	$ 3,935	$ 75		$ 4,010
FNMA pass-through certificates	2,913		$ 16	2,896
GNMA pass-through certificates	1,136	8		1,145
Collateralized mortgage obligations	11,322	165		11,487
Total	$19,306	$248	$ 16	$19,538
Held to Maturity:				
FHLMC pass-through certificates	$ 8,743	$ 54	$ 167	$ 8,630
FNMA pass-through certificates	26,014	87	601	25,500
Collateralized mortgage obligations	25,537	63	720	24,880
TOTAL	$60,294	$204	$ 1,488	$59,010

The collateralized mortgage obligations contain both fixed and adjustable classes of securities which are repaid in accordance with a predetermined priority. The underlying collateral of the securities are loans which are primarily insured by FHLMC, FNMA, and GNMA.

Mortgage-related securities with a carrying value of $6,467 and $4,787 were pledged as collateral for public funds on deposit and treasury tax and loan processing at September 30, 1996 and 1995, respectively (see Note 9).

5. ACCRUED INTEREST RECEIVABLE

The following is a summary of accrued interest receivable by category:

	SEPTEMBER 30	
	1996	1995
Loans	$ 1,724	$ 1,781
Mortgage-related securities	476	445
Investment securities	204	181
Total	$ 2,404	$ 2,407

6. LOANS RECEIVABLE

Loans receivable consist of the following:

	SEPTEMBER 30	
	1996	1995
Real estate loans:		

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Single-family	$ 122,270	$ 115,225
Construction and land	17,682	16,343
Multi-family and commercial	11,129	11,789
Consumer loans:		
Home equity and lines of credit	20,444	18,229
Deposit	457	350
Education	917	1,010
Other	2,212	1,491
Commercial loans	2,923	2,533
Total loans	178,044	166,970
Loans in process	(6,368)	(6,070)
Allowance for loan losses	(2,624)	(1,487)
Deferred loan fees	(1,512)	(1,411)
Loans receivable -- net	$ 167,530	$ 158,002

</TABLE>

The Company originates loans primarily in its local market area of Delaware and Chester Counties, Pennsylvania to borrowers that share similar attributes. This concentration of credit exposes the Company to a higher degree of risk associated with this economic region.

The Company offers loans to its directors and senior officers on terms available to the general public. There were approximately $435 and $474 of loans outstanding to senior officers and directors as of September 30, 1996 and 1995, respectively. The amount of repayments during the years ended September 30, 1996 and 1995 totalled $81 and $35, respectively. There was $41 of new loans granted during fiscal year 1996 while none were granted during fiscal year 1995.

The Company has undisbursed portions under consumer and commercial lines of credit as of September 30, 1996 of $2,803 and $707, respectively.

The Company originates both adjustable and fixed interest rate loans and purchases mortgage-backed securities and collateralized mortgage obligations in the secondary market. The originated adjustable-rate loans have interest rate adjustment limitations and are generally indexed to U.S. Treasury securities plus a fixed margin. The adjustable mortgage-related securities adjust to various national indices plus a fixed margin. Future market factors

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may affect the correlation of the interest rate adjustment with rates the Company pays on the short-term deposits that have been primarily utilized to fund these loans. At September 30, 1996, the composition of these loans and mortgage-related securities follows:

<TABLE>
<CAPTION>

FIXED-RATE		ADJUSTABLE-RATE	
TERM TO MATURITY	BOOK VALUE	TERM TO RATE ADJUSTMENT	BOOK VALUE
1 month to 1 year	$ 3,919	1 month to 1 year	$ 72,178
1 year to 3 years	8,381	1 year to 3 years	31,038
3 years to 5 years	11,482	3 years to 5 years	4,337
5 years to 10 years	18,214		
Over 10 years	105,559		
Total	$ 147,555		$107,553

</TABLE>

The following is an analysis of the allowance for loan losses:

<TABLE>
<CAPTION>

YEAR ENDED SEPTEMBER 30

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	1996	1995	1994
Beginning balance	$ 1,487	$ 1,540	$ 1,265
Provisions charged to income	1,250	52	416
Charge-offs	(113)	(168)	(141)
Recoveries		63	
Total	$ 2,624	$ 1,487	$ 1,540

At September 30, 1996 and 1995, non-performing loans (which include loans in excess of 90 days delinquent) amounted to approximately $5,352 and $3,156, respectively.

7. REAL ESTATE OWNED

Real estate owned is comprised of:

	SEPTEMBER 30	
	1996	1995
Real estate acquired in settlement of loans	$ 365	$465
Real estate acquired and in development	1,192	
Total	$1,557	$465

In fiscal year 1996, First Pointe, Inc., a subsidiary of the Company, accepted a deed in lieu of foreclosure on a construction loan for the acquisition and improvement of a 107-lot real estate development project located in Pennsylvania. As of September 30, 1996, seventy one of the townhouses were completed and sold. Work-in-process consists of 13 units of which one is a sample home.

8. OFFICE PROPERTIES AND EQUIPMENT

Office properties and equipment are summarized by major classification as follows:

	SEPTEMBER 30	
	1996	1995
Land and buildings	$ 3,878	$ 3,857
Furniture, fixtures and equipment	3,333	3,340
Total	7,211	7,197
Accumulated depreciation and amortization	(4,704)	(4,254)
Net	$ 2,507	$ 2,943

9. DEPOSITS

Deposits consist of the following major classifications:

SEPTEMBER 30	
1996	1995

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	AMOUNT	PERCENT	Amount	Percent
<S>	<C>	<C>	<C>	<C>
Non-interest bearing accounts	$ 4,710	2.2%	$ 9,167	4.1%
NOW accounts	28,085	12.8	26,621	11.9
Passbook accounts	41,504	18.9	43,088	19.3
Money market demand accounts	16,159	7.4	17,892	8.0
Certificate accounts	128,747	58.7	126,985	56.7
Total	$219,205	100.0%	$223,753	100.0%

</TABLE>

The weighted average interest rates for deposits were 4.05% and 4.38% at September 30, 1996 and 1995, respectively.

At September 30, 1996 and 1995, the Company has pledged certain mortgage-related securities aggregating approximately $3,415 and $1,535, respectively as collateral for government deposits.

A summary of scheduled maturities of certificates is as follows:

<TABLE>
<CAPTION>

	SEPTEMBER 30
	1996
<S>	<C>
Within one year	$ 73,143
One to two years	23,460
Two to three years	6,778
Thereafter	25,366
Total	$128,747

</TABLE>

A summary of interest expense on deposits is as follows:

<TABLE>
<CAPTION>

	YEAR ENDED SEPTEMBER 30		
	1996	1995	1994
<S>	<C>	<C>	<C>
NOW accounts	$ 372	$ 436	$ 417
Passbook accounts	1,030	1,169	1,381
Money market demand accounts	487	536	651
Certificate accounts	7,474	7,591	6,663
Total	$9,363	$9,732	$9,112

</TABLE>

10. ADVANCES FROM FEDERAL HOME LOAN BANK

A summary of advances from the Federal Home Loan Bank ("FHLB") of Pittsburgh follows:

<TABLE>
<CAPTION>

	SEPTEMBER 30			
	1996		1995	
	AMOUNT	WEIGHTED AVERAGE INTEREST RATE	Amount	Weighted average interest rate
<S>	<C>	<C>	<C>	<C>
Advances from FHLB due by September 30,				
1996			$21,950	6.0%
1997	$ 39,200	5.8%	6,200	5.9
1998	6,700	5.9		
Thereafter	840	6.1	261	6.0
Total	$ 46,740	5.8%	$28,411	6.0%

</TABLE>

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The advances are collateralized by Federal Home Loan Bank stock and substantially all first mortgage loans.

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11. INCOME TAXES

The Company is permitted under the Internal Revenue Code (the "Code") to deduct an annual addition to the reserve for bad debts in determining taxable income, subject to certain limitations.

The Company's deduction is based upon the percentage of taxable income method as defined by the Code. The bad debt deduction allowable under this method equals 8% of taxable income determined without regard to that deduction and with certain adjustments. This addition differs from the bad debt experience used for financial accounting purposes.

In August 1996, the Small Business Job Protection Act (the "Act") was signed into law. The Act repealed the percentage of taxable income method of accounting for bad debts for thrift institutions effective for years beginning after December 31, 1995. The Act will require the Company as of October 1, 1996 to change its method of computing reserves for bad debts to the experience method. The bad debt deduction allowable under this method is available to small banks with assets less than $500 million. Generally, this method will allow the Company to deduct an annual addition to the reserve for bad debts equal to the increase in the balance of the Company's reserve for bad debts at the end of the year to an amount equal to the percentage of total loans at the end of the year, computed using the ratio of the previous six years net chargeoffs divided by the sum of the previous six years total outstanding loans at year end.

A thrift institution required to change its method of computing reserves for bad debts will treat such change as a change in a method of accounting determined solely with respect to the "applicable excess reserves" of the institution. The amount of the applicable excess reserves will be taken into account ratably over a six-taxable year period, beginning with the first taxable year beginning after December 31, 1995. The timing of this recapture may be delayed for a two-year period provided certain residential lending requirements are met. For financial reporting purposes, the Company will not incur any additional tax expense. At September 30, 1996, under SFAS No. 109, deferred taxes were provided on the difference between the book reserve at September 30, 1996 and the applicable excess reserve in the amount equal to the Bank's increase in the tax reserve from December 31, 1987 to September 30, 1996. Retained earnings at September 30, 1996 and 1995 includes approximately $2.5 million representing bad debt deductions for which no deferred income taxes have been provided.

Income tax provision (benefit) is comprised of the following:

	YEAR ENDED SEPTEMBER 30		
	1996	1995	1994
Current			
Federal	$ 30	$307	$ 242
State	103	51	2
Subtotal	133	358	244
Deferred	(700)	146	(339)
Total	$(567)	$504	$ (95)

The Company's effective tax rate is less than the statutory federal income tax rate for the following reasons:

<TABLE>
<CAPTION>

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	YEAR ENDED SEPTEMBER 30					
	1996		1995		1994	
	AMOUNT	PERCENTAGE OF PRETAX INCOME	Amount	Percentage of Pretax Income	Amount	Percentage of Pretax Income
Tax at statutory rate	$ 108	34.0%	$553	34.0%	$(95)	34.0%
Increase (decrease) in taxes resulting from:						
Adjustment for resolution of tax contingency	(700)	(220.2)				
State tax -- net of federal tax effect	68	21.3	33	2.0	1	
Other	(43)	(13.4)	(82)	(5.1)	(1)	
Total	$ (567)	(178.3)	$504	30.9%	$(95)	34.0%

</TABLE>

The tax effect of temporary differences that give rise to significant portions of the deferred tax accounts, calculated at 34%, are as follows:

<TABLE>
<CAPTION>

	SEPTEMBER 30	
	1996	1995
Accelerated depreciation	$ 209	$ 172
Allowance for loan losses	851	506
Deferred loan fees	25	112
Accrued expenses	678	259
Unrealized gain (loss) on available for sale securities	311	(90)
Other	37	51
Total deferred tax asset	$2,111	$ 1,010

</TABLE>

Effective October 1, 1993, the Company adopted SFAS No. 109 "Accounting for Income Taxes." A cumulative effect of a change in accounting principle of $600 was recorded during the year ended September 30, 1994.

12. REGULATORY CAPITAL REQUIREMENTS

The Bank is subject to various regulatory capital requirements administered by the 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 the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities, and certain off-balance items as calculated under regulatory accounting practices. The Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below) of tangible and core capital (as defined in the regulations) to adjusted assets (as defined), and of Tier I and total capital (as defined) to average assets (as defined). Management believes, as of September 30, 1996, that the Bank meets all capital adequacy requirements to which it is subject.

As of September 30, 1996, the most recent notification from the Office of Thrift Supervision categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized the Bank must maintain

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minimum tangible, core and risk-based ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the institution's category.

The Bank's actual capital amounts and ratios are also presented in the table. At September 30, 1995, core capital and tangible capital are adjusted by $9, which is the amount excluded for certain purchased mortgage servicing rights which did not occur in fiscal year 1996. At September 30, 1996 and 1995, risk-based capital, for regulatory requirements, is increased by $1,775 and $1,412, respectively, of general loan loss reserves and decreased by $55 for equity investments, for a total of $24,328 and $24,477, respectively.

	ACTUAL		REQUIRED FOR CAPITAL ADEQUACY PURPOSES		REQUIRED TO BE WELL CAPITALIZED UNDER PROMPT CORRECTIVE ACTION	
	AMOUNT	PERCENTAGE	AMOUNT	PERCENTAGE	AMOUNT	PERCENTAGE
At September 30, 1996:						
CORE (LEVERAGE)	22,608	7.7%	8,841	3.0%	14,735	5.0%
TIER I RISK-BASED	23,120	16.8	11,223	4.0	16,835	6.0
TOTAL RISK-BASED	24,328	17.2	11,289	8.0	14,111	10.0
TANGIBLE	22,608	7.7	4,421	1.5		
At September 30, 1995:						
Core (Leverage)	23,120	8.2%	8,425	3.0%	14,041	5.0%
Tier I risk-based	23,120	16.8	11,223	4.0	16,835	6.0
Total risk-based	24,477	17.8	11,986	8.0	14,111	10.0
Tangible	23,120	8.2	4,212	1.5		

At the date of the Conversion, the Bank established a liquidation account in an amount equal to its retained income as of August 31, 1995. The liquidation account is maintained for the benefit of eligible account holders and supplemental eligible account holders who continue to maintain their accounts at the Bank after the Conversion. The liquidation account is reduced annually to the extent that eligible account holders and supplemental eligible account holders have reduced their qualifying deposits as of each anniversary date. Subsequent increases will not restore an eligible account holder's or supplemental eligible account holder's interest in the liquidation account. In the event of a complete liquidation of the Bank, each eligible account holders and supplemental eligible account holders will be entitled to receive a distribution from the liquidation account in an amount proportionate to the current adjusted qualifying balances for accounts then held.

The Bank may not declare or pay cash dividends on or repurchase any of its shares of common stock if the effect thereof would cause equity to be reduced below applicable regulatory capital maintenance requirements or if such declaration and payment would otherwise violate regulatory requirements.

13. LEASE COMMITMENTS

The future minimum rental payments required under operating leases that have initial or remaining noncancelable lease terms in excess of one year as of September 30, 1996 are as follows:

September 30:	
1997	$ 96
1998	96
1999	96
2000	96
2001	27
Thereafter	115
Total minimum future rental payments	$ 526

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</TABLE>

Leasehold expense was approximately $155, $137 and $143 for the years ended September 30, 1996, 1995 and 1994, respectively.

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14. EMPLOYEE BENEFITS

401(k/) Profit Sharing Plan

The Bank's 401(k/) profit sharing plan covers substantially all full-time employees of the Company and provides for pre-tax contributions by the employees with matching contributions at the discretion of the Board of Directors determined at the beginning of the calendar year. All amounts are fully vested. The Board has approved up to a 5% of salary match for calendar years 1995 and 1994 and up to a 2.5% of salary match for calendar year 1996. Pension expense was $88, $142 and $137 for the years ended September 30, 1996, 1995 and 1994, respectively.

Common Stock Acquired By The Employee Stock Ownership Plan

In connection with the Conversion, the Company established an ESOP for the benefit of eligible employees. The Company purchased 108,800 shares of common stock on behalf of the ESOP in the Conversion. At September 30, 1996, 19,040 shares of the total ESOP shares were committed to be released. The Company accounts for its ESOP in accordance with AICPA Statement of Position 93-6, "Employers Accounting for Employee Stock Ownership Plans," which requires the Company to recognize compensation expense equal to the fair value of the ESOP shares during the periods in which they become committed to be released. To the extent that the fair value of the ESOP shares differs from the cost of such shares, this differential will be charged or credited to equity as additional paid-in-capital. Management expects the recorded amount of expense to fluctuate as continuing adjustments are made to reflect changes in the fair value of the ESOP shares. The Company's ESOP, which is internally leveraged, does not report the loan receivable from the ESOP as an asset and does not report the ESOP debt from the employer as a liability. The Company recorded compensation and employee benefit expense related to the ESOP of $200 and $111 for the year ended September 30, 1996 and 1995, respectively. During fiscal 1996, the Board of Directors authorized the Company to lend funds to ESOP to permit it to purchase an additional 38,775 shares of common stock on behalf of the ESOP.

Recognition and Retention Plan

At a Special Meeting of the Stockholders held on July 26, 1995, the 1995 Recognition and Retention Plan and Trust (the "RRP") was approved by the Company's stockholders. The Company has granted an aggregate of 38,148 shares to the Company's Board of Directors and executive officers subject to vesting and other provisions of the RRP.

At September 30, 1996 the deferred cost of unearned RRP shares totaled $540 and is recorded as a charge against stockholders' equity. Compensation expense will be recognized ratably over the five year vesting period for shares granted. For the fiscal years ended September 30, 1996 and 1995, the Company recorded compensation and employee benefit expense of $137 and $27 relating to the RRP.

Stock Option Plan

At a Special Meeting of the Stockholders held on July 26, 1995, the 1995 Stock Option Plan (the "Plan") was approved by the Company's stockholders. Common Stock totaling 136,000 shares has been reserved for issuance under the Plan. An aggregate of 118,184 stock options have been granted to the Company's executive officers, nonemployee directors and other key employees, subject to vesting and other provisions of the Plan. Such options were not materially dilutive during the years ended September 30, 1996 and 1995. During the years ended September 30, 1996 and 1995, no options were exercised.

A summary of transactions under the Plan is as follows:

<TABLE>

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<CAPTION>

	NUMBER OF OPTION SHARES	EXERCISE PRICE RANGE	AVERAGE PRICE PER SHARE
Outstanding at September 30, 1994			
<S>	<C>	<C>	<C>
Granted	119,680	$15.00 - 15.00	$15.00
Outstanding at September 30, 1995	119,680	15.00 - 15.00	15.00
Granted	3,400	17.00 - 17.00	17.00
Canceled	(4,896)	15.00 - 15.00	15.00
Outstanding at September 30, 1996	118,184	$15.00 - 17.00	$15.06

</TABLE>

Other

The Company established an expense accrual in connection with the anticipated funding of a trust to be created to formalize the Company's deferred compensation arrangements with four former officers of the Company. A total of $532 and $616 was included in the Company's liabilities at September 30, 1996 and 1995.

15. COMMITMENTS AND CONTINGENCIES

The Company has outstanding loan commitments, excluding undisbursed portion of loans in process and equity lines of credit, of approximately $5,651 and $6,428 as of September 30, 1996 and 1995, respectively, which are all expected to be funded within four months. Of these commitments outstanding, the breakdown between fixed and adjustable rate loans is as follows:

<TABLE>
<CAPTION>

	SEPTEMBER 30	
	1996	1995
<S>	<C>	<C>
Fixed-rate (ranging from 6.38% to 16.75%)	$3,551	$3,951
Adjustable-rate	2,100	2,477
Total	$5,651	$6,428

</TABLE>

Generally, long-term, fixed rate loans are sold in the secondary market, depending on cash flow, interest rate, risk management and other considerations. There were approximately $3,653 and $57 in outstanding commitments to sell loans at September 30, 1996 and 1995, respectively.

In April 1994, a lawsuit was filed on behalf of the estates of eight individuals arising out of the activities of a now deceased attorney who maintained a law practice in Media, Pennsylvania. The attorney was accused of misappropriating the funds of such estates for which he served as counsel, executor and administrator. During the year, the case settled with all of the plaintiffs in the amount of $400,000, with the settlement amount being completely covered by insurance, less any deductible. There are various claims and pending actions against the Company and its subsidiaries arising out of the conduct of its business. In the opinion of the Company's management and based upon advice of legal counsel, the resolution of these matters will not have a material adverse impact on the consolidated financial position or the results of operations of the Company and its subsidiaries.

16. RELATED PARTY TRANSACTIONS

The Company retains a law firm in which one of the Company's Directors is a member. In addition to providing general legal counsel to the Company, the firm also prepares mortgage documents and attends loan closings for which it is paid directly by the borrower.

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17. SAVINGS ASSOCIATION INSURANCE FUND ASSESSMENT

On September 30, 1996, the Economic Growth and Paperwork Reduction Act of 1996, which includes the recapitalization of the Savings Association Insurance Fund (SAIF), became law. Accordingly, all depository institutions with SAIF insured deposits will be charged a one-time special assessment on their SAIF-assessible deposits as of March 31, 1995 at the rate of 65.7 basis points, payable on November 27, 1996. The Bank accrued $1.4 million for this special assessment at September 30, 1996.

18. FAIR VALUE OF FINANCIAL INSTRUMENTS

The following disclosure of the estimated fair value of financial instruments is made in accordance with the requirements of SFAS No. 107, "Disclosures about the Fair Value of Financial Instruments." The estimated fair value amounts have been determined by the Company using available market information and appropriate valuation methodologies. However, considerable judgment is required to interpret market data to develop the

estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Company could realize in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

	SEPTEMBER 30			
	1996		1995	
	CARRYING AMOUNT	ESTIMATED FAIR VALUE	Carrying Amount	Estimated Fair Value
Assets:				
Cash and interest-earning deposits	$ 11,694	$ 11,694	$ 22,668	$ 22,668
Investment securities	16,532	16,532	10,710	10,650
Loans	169,977	177,320	158,059	159,283
Mortgage-related securities	83,432	82,271	79,832	78,548
Liabilities:				
Savings deposits	41,504	41,504	43,088	43,088
NOW and MMDA deposits	48,954	48,954	53,680	53,680
Certificates of deposit	128,747	127,915	126,985	127,317
FHLB advances	46,740	48,016	28,411	28,381
Off balance sheet commitments	15,529	15,529	15,527	15,527

The fair value of cash and interest-earning deposits is their carrying value due to their short term nature. The fair value of investments and mortgage-related securities is based on quoted market prices, dealer quotes, and prices obtained from independent pricing services. The fair value of loans is estimated, based on present values using approximate current entry-value interest rates, applicable to each category of such financial instruments.

The fair value of NOW deposits, MMDA deposits, and savings deposits is the amount reported in the financial statements. The fair value of certificates of deposit and FHLB advances is based on a present value estimate, using rates currently offered for deposits of similar remaining maturity.

No adjustment was made to the entry-value interest rates for changes in credit performing commercial loans, construction loans, and land loans for which there are no known credit concerns. Management believes that the risk factor embedded in the entry-value interest rates, along with the general reserves applicable to the performing commercial, construction, and land loan portfolios for which there are no known credit concerns, result in a fair valuation of such loans on

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an entry-value basis. The fair value of non-performing loans, with a recorded book value of approximately $5,352 and $3,156 (which are collateralized by real estate properties with property values in excess of carrying amounts) as of September 30, 1996 and 1995 respectively was not estimated because it is not practicable to reasonably assess the credit adjustment that would be applied in the marketplace for such loans. The fair value estimates presented herein are based on pertinent information available to management as of September 30, 1996 and 1995. Although management is not aware of any factors that would significantly affect the estimated fair value amounts, such amounts have not been comprehensively revalued for purposes of these financial statements since that date and, therefore, current estimates of fair value may differ significantly from the amounts presented herein.

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19. PARENT COMPANY FINANCIAL INFORMATION

Condensed financial statements of First Keystone Financial, Inc. are as follows:

CONDENSED STATEMENTS OF FINANCIAL CONDITION

<TABLE>
<CAPTION>

	SEPTEMBER 30	
	1996	1995
ASSETS		
<S>	<C>	<C>
Interest-bearing deposits	$ 1,008	$ 1,194
Investment in subsidiary bank	22,115	23,272
Other assets	35	35
Total assets	$ 23,158	$ 24,501
LIABILITIES AND STOCKHOLDERS' EQUITY		
Other liabilities	$ 74	$ 38
Stockholders' Equity:		
Common stock	14	14
Preferred stock		
Additional paid-in capital	12,659	12,568
Common stock acquired by stock benefit plans	(1,437)	(1,006)
Treasury stock	(1,288)	
Unrealized gain (loss) on mortgage-related available for sale	(494)	142
Retained earnings	13,630	12,745
Total stockholders' equity	23,084	24,463
Total liabilities and stockholders' equity	$ 23,158	$ 24,501

</TABLE>

CONDENSED STATEMENTS OF OPERATIONS

<TABLE>
<CAPTION>

	FOR THE YEAR ENDED	PERIOD FROM JANUARY 25, 1995 THROUGH

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	SEPTEMBER 30, 1996	SEPTEMBER 30, 1995
INTEREST INCOME		
Loan to Employee Stock Ownership Plan	$ 88	$ 70
Interest-earning deposits	20	18
Total interest income	108	88
OPERATING EXPENSES	13	8
Income before income taxes and equity in undistributed income of subsidiary bank	95	80
Federal income tax expense	39	32
Income before equity in undistributed income of subsidiary bank	56	48
Equity in undistributed income of subsidiary bank	829	880
NET INCOME	$885	$928

FIRST KEYSTONE FINANCIAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED SEPTEMBER 30, 1996, 1995 AND 1994 (DOLLARS IN THOUSANDS)

CONDENSED STATEMENTS OF CASH FLOWS

	FOR THE YEAR ENDED SEPTEMBER 30, 1996	PERIOD FROM JANUARY 25, 1995 THROUGH SEPTEMBER 30, 1995
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 885	$ 928
Adjustments to reconcile net income to cash provided by operations:		
Equity in undistributed earnings of subsidiary bank	(829)	(880)
Amortization of common stock acquired by stock option plans	364	111
Increase in other assets		(35)
Increase in other liabilities	36	38
Net cash provided by operating activities	456	162
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of common stock of subsidiaries		(10,433)
Dividends received from subsidiary	1,350	
Net cash provided (USED) by investing activities	1,350	(10,433)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net proceeds from issuance of common stock		12,553
Common stock acquired by stock benefit plans	(704)	(1,088)
Purchase of treasury stock	(1,288)	
Net cash (Used) Provided By financing activities	(1,992)	11,465
Increase (Decrease) in cash	(186)	1,194
Cash at beginning of period	1,194	

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Cash at end of period	$ 1,008	$ 1,194

</TABLE>

20. SUBSEQUENT EVENT

On November 8, 1996, the Board of Directors of the Company declared a cash dividend of $.05 per common share payable on December 1, 1996 to stockholders of record on November 20, 1996.

FIRST KEYSTONE FINANCIAL, INC.

First Keystone Financial, Inc. is a unitary savings and loan holding company conducting business through its wholly-owned subsidiary, First Keystone Federal Savings Bank. The savings bank is a federally chartered SAIF-insured savings institution operating through five full-service offices located in Delaware County, Pennsylvania. The Company's headquarters is located at 22 West State Street, Media, PA 19063.

DIRECTORS

Donald A. Purdy, Esquire
   Chairman of the Board
William K. Betts; retired
   Former Senior Vice President of Human Resources,
   First Keystone Federal Savings Bank
Edward Calderoni
   President of Century-21 Calderon Brothers
Silvio F. D'Ignazio
   Owner of the Towne House Restaurant
Olive J. Faulkner; retired
   Former Vice President and Corporate Secretary,
   First Keystone Federal Savings Bank
Donald S. Guthrie, Esquire
   President/CEO
Edmund Jones, Esquire
   Chairman Emeritus
   Member Jones, Guthrie & Strohm, P.C.
Willard F. Letts
   President and Principal Stockholder
   Eastern Flame Hardening Company
Walter J. Lewicki; retired
   Former associate of Looker, Lees and Melcher, Inc.
Charles E. Rankin, Esquire
   Vice Chairman of the Board
Joan G. Taylor; retired
   Former Executive Director of the Young Women's
   Christian Association (YWCA)

SENIOR OFFICERS

Donald S. Guthrie,
   President/CEO
Thomas M. Kelly,
   Executive Vice President/CFO
Stephen J. Henderson,
   Senior Vice President/Lending
Elizabeth M. Mulcahy,
   Senior Vice President/Human Resources
Carol Walsh,
   Corporate Secretary

COUNSEL

Lawrence G. Strohm, Jr. Esquire
10 Beatty Road
Media, PA 19063

SPECIAL COUNSEL

Elias, Matz, Tiernan and Herrick L.L.P.
Suite 1200
734 15th Street, N.W.
Washington, DC 20005

TRANSFER AGENT

Registrar and Transfer Company
10 Commerce Drive
Cranford, NJ 07016

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EXECUTIVE OFFICES
22 West State Street
Media, PA 19063
(610) 565-6210

INDEPENDENT AUDITORS
Deloitte & Touche LLP
Twenty-Fourth Floor
1700 Market Street
Philadelphia, PA 19103-3984

INVESTOR INFORMATION
Thomas M. Kelly
Executive Vice President/CFO
(610) 565-6210

SHAREHOLDER INFORMATION
Carol Walsh
Corporate Secretary
(610) 565-6210

STOCK INFORMATION

First Keystone Financial is traded on the Nasdaq National Market under the symbol of "FKFS." There were approximately 526 shareholders of record, not including the number of persons or entities whose stock is held in nominee or street name through various brokerage firms or banks.

The Annual Meeting of Shareholders is scheduled for Wednesday, January 29, 1997, at 2:00 p.m. to be held at the Towne House Restaurant, 117 Veterans Square, Media, Pennsylvania.

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Exhibit 23.

INDEPENDENT AUDITORS' CONSENT

We consent to the incorporation by reference in Registration Statements File Nos. 333-09565 and 33-97562 of First Keystone Financial, Inc. on Form S-8 of our report dated November 8, 1996, incorporated by reference in the Annual Report on Form 10-KSB of First Keystone Financial, Inc. for the year ended September 30, 1996.

/s/ DELOITTE & TOUCHE, LLP

DELOITTE & TOUCHE LLP
Philadelphia, Pennsylvania
December 27, 1996

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