SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **1994-05-13** | Period of Report: **1994-03-31**
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USBANCORP INC /PA/

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

(Mark One)

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the period ended March 31, 1994

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from to

Commission File Number 0-11204

USBANCORP, Inc.
(Exact name of registrant as specified in its charter)

Pennsylvania
(State or other jurisdiction of incorporation or organization)

25-1424278
(I.R.S. Employer Identification No.)

Main & Franklin Streets, P.O. Box 430, Johnstown, Pennsylvania 15907-0430

(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code (814) 533-5300

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

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

Class	Outstanding at April 29, 1994
Common Stock, par value $2.50 per share	4,743,037

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USBANCORP, INC.

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USBANCORP, INC.
CONSOLIDATED BALANCE SHEET
(In thousands)

<CAPTION>

<S>	March 31 1994 (Unaudited) <C>	December 31 1993 <C>	March 31 1993 (Unaudited) <C>
ASSETS			
Cash and due from banks	$ 40,741	$ 38,606	$ 30,520
Interest bearing deposits with banks	342	4,809	5,167
Federal funds sold and securities purchased under agreements to resell	4,000	7,000	3,000
Investment Securities:			
Available for sale (market value $432,315 on December 31, 1993, $393,321 on March 31, 1993)	370,315	428,712	387,786
Held to maturity (market value $52,148 on March 31, 1994)	53,576	-	-
Assets held in trust for collateralized mortgage obligation	12,409	13,815	17,332
Fixed-rate mortgage loans held for sale	7,780	1,054	2,769
Loans	734,244	732,026	681,268
Less: Unearned income	4,982	5,894	9,257
Allowance for loan losses	15,553	15,260	13,791
Net loans	713,709	710,872	658,220
Premises and equipment	16,771	16,960	15,481
Accrued income receivable	9,238	8,892	9,730
Other assets	16,572	10,801	15,396
TOTAL ASSETS	$1,245,453	$1,241,521	$1,145,401

LIABILITIES

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Non-interest bearing deposits	$ 129,167	$ 137,411	$ 107,131
Interest bearing deposits	911,521	911,455	857,060
Total deposits	1,040,688	1,048,866	964,191
Federal funds purchased and securities sold under agreements to repurchase	24,194	12,648	8,402
Other short-term borrowings	10,898	270	469
Advances from Federal Home Loan Bank	26,271	31,285	21,326
Collateralized mortgage obligation	11,365	12,674	15,573
Long-term debt	3,105	3,445	8,949
Other liabilities	14,008	15,718	14,369
TOTAL LIABILITIES	1,130,529	1,124,906	1,033,279
STOCKHOLDERS' EQUITY			
Preferred stock, no par value; 2,000,000 shares authorized; There were no shares issued and outstanding on March 31, 1994, and December 31, 1993; 240,102 shares issued and outstanding on March 31, 1993	-	-	6,003
Common stock, par value $2.50 per share; 6,000,000 shares authorized; 4,738,064 shares issued and outstanding on March 31, 1994; 4,726,181 shares issued and outstanding on December 31, 1993; 4,491,963 shares issued and outstanding on March 31, 1993	11,845	11,815	11,229
Surplus	70,955	70,720	66,200
Retained earnings	36,076	34,080	28,690
Net unrealized holding gains (losses) on available for sale securities due to adoption of SFAS #115	(3,952)	-	-
TOTAL STOCKHOLDERS' EQUITY	114,924	116,615	112,122
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$1,245,453	$1,241,521	$1,145,401

See accompanying notes to consolidated financial statements.
</TABLE>

<TABLE>

USBANCORP, INC.
CONSOLIDATED STATEMENT OF INCOME
(In thousands, except per share data)
Unaudited

<CAPTION>

<S>	Three Months Ended March 31 1994 <C>	1993 <C>
INTEREST INCOME		
Interest and fees on loans and loans held for sale:		
Taxable	$14,680	$14,352
Tax exempt	375	259
Deposits with banks	11	30
Federal funds sold and securities purchased under agreements to resell	20	132
Investment securities:		
Taxable - available for sale	5,182	5,156
Tax exempt - held to maturity	526	405
Assets held in trust for collateralized mortgage obligation	272	340
Total Interest Income	21,066	20,674
INTEREST EXPENSE		
Deposits	7,343	7,904
Federal funds purchased and securities sold under agreements to repurchase	113	58

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Other short-term borrowings	9	4
Advances from Federal Home Loan Bank	352	222
Collateralized mortgage obligation	287	405
Long-term debt	61	180
Total Interest Expense	8,165	8,773
NET INTEREST INCOME	12,901	11,901
Provision for loan losses	405	600
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	12,496	11,301
NON-INTEREST INCOME		
Trust fees	718	733
Net realized gains on investment securities available for sale	271	252
Net realized gains on loans held for sale	93	-
Wholesale cash processing fees	318	305
Service charges on deposit accounts	592	596
Other income	664	579
Total Non-Interest Income	2,656	2,465
NON-INTEREST EXPENSE		
Salaries and employee benefits	5,343	4,863
Net occupancy expense	988	817
Equipment expense	803	588
Professional fees	448	489
Supplies, postage, and freight	547	513
Miscellaneous taxes and insurance	296	288
FDIC deposit insurance expense	587	512
Other expense	1,628	1,755
Total Non-Interest Expense	10,640	9,825
INCOME BEFORE INCOME TAXES AND CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	4,512	3,941
Provision for income taxes	1,473	1,405
INCOME BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	3,039	2,536
Cumulative effect of change in accounting principle -- adoption of SFAS #109	-	1,452
NET INCOME	$ 3,039	$3,988
PER COMMON SHARE DATA:		
Primary:		
Net income	$ 0.64	$ 1.06
Average shares outstanding	4,740,461	3,654,442
Fully Diluted:		
Income before SFAS #109 benefit	$ 0.64	$ 0.61
Net income	0.64	0.96
Average shares outstanding	4,740,461	4,175,391
Cash Dividends Declared	$ 0.22	$ 0.20

See accompanying notes to consolidated financial statements.
</TABLE>

<TABLE>

USBANCORP, INC.
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
(In thousands)
Unaudited

<CAPTION>

	Preferred Stock	Common Stock	Surplus	Retained Earnings	Net Unrealized Holding Gains (Losses)	Total

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<S>	<C>	<C>	<C>	<C>	<C>	
Balance December 31, 1992	$13,800	$ 7,456	$36,022	$25,693	$ -	$ 82,971
Net income	-	-	-	3,988	-	3,988
Dividend reinvestment and stock purchase plan	-	12	119	-	-	131
Preferred stock converted to common stock	(7,797)	886	6,911	-	-	-
Secondary common stock issuance of 1,150,000 shares net of issuance costs	-	2,875	23,148	-	-	26,023
Cash dividends declared:						
Preferred stock dividends paid on conversion	-	-	-	(103)	-	(103)
Common stock ($0.20 per share on 4,436,257 shares)	-	-	-	(888)	-	(888)
Balance March 31, 1993	$ 6,003	$11,229	$66,200	$28,690	$ -	$112,122
Balance December 31, 1993	$ -	$11,815	$70,720	$34,080	$ -	$116,615
Net income	-	-	-	3,039	-	3,039
Dividend reinvestment and stock purchase plan	-	30	235	-	-	265
Net unrealized holding gains (losses) on available for sale securities	-	-	-	-	(3,952)	(3,952)
Cash dividends declared:						
Common stock ($0.22 per share on 4,737,321 shares)	-	-	-	(1,043)	-	(1,043)
Balance March 31, 1994	$ -	$11,845	$70,955	$36,076	$(3,952)	$114,924

See accompanying notes to consolidated financial statements.
</TABLE>

<TABLE>

USBANCORP, INC.
CONSOLIDATED STATEMENT OF CASH FLOWS
(In thousands)
Unaudited

<CAPTION>

	Three Months Ended March 31	
	1994	1993
<S>	<C>	<C>
OPERATING ACTIVITIES		
Net income	$ 3,039	$ 3,988
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	405	600
Depreciation and amortization expense	763	638
Net amortization of investment securities	574	145
Net realized gains on investment securities	(271)	(252)
Net gains on loans	(93)	-
Increase in accrued income receivable	(346)	(367)
Increase (decrease) in accrued expense payable	(1,966)	149
Net cash provided by operating activities	2,105	4,901
INVESTING ACTIVITIES		
Purchases of investment securities available for sale and other short-term investments	(76,232)	(83,419)
Proceeds from maturities of investment securities available for sale and other short-term investments	36,689	38,819
Proceeds from sales of investment securities		

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available for sale and other short-term investments	37,981	23,809
Long-term loans originated	(88,305)	(78,491)
Fixed-rate mortgage loans held for sale	(7,780)	(2,769)
Principal collected on long-term loans	79,187	53,358
Loans sold or participated	6,021	75
Net decrease in credit card receivables and other short-term loans	1,002	1,401
Purchases of premises and equipment	(337)	(801)
Net decrease in assets held in trust for collateralized mortgage obligation	1,406	1,250
Net increase in other assets	(3,879)	(3,277)
Net cash used by investing activities	(14,247)	(50,045)
FINANCING ACTIVITIES		
Proceeds from sales of certificates of deposit	84,279	85,456
Payments for maturing certificates of deposit	(92,343)	(92,660)
Net decrease in demand and savings deposits	(114)	(26,196)
Net increase (decrease) in federal funds purchased, securities sold under agreements to repurchase, and other short-term borrowings	22,174	(2,295)
Net principal borrowings (repayments) of advances from Federal Home Loan Bank and long-term debt	(6,663)	8,553
Preferred stock cash dividends paid	-	(378)
Common stock cash dividends paid	(1,039)	(595)
Proceeds from dividend reinvestment and stock purchase plan	265	131
Secondary common stock offering (net of expenses)	-	26,023
Net increase in other liabilities	251	3,370
Net cash provided by financing activities	6,810	1,409
NET DECREASE IN CASH EQUIVALENTS	(5,332)	(43,735)
CASH EQUIVALENTS AT JANUARY 1	50,415	82,422
CASH EQUIVALENTS AT MARCH 31	$ 45,083	$ 38,687

See accompanying notes to consolidated financial statements.
</TABLE>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Principles of Consolidation

The consolidated financial statements include the accounts of USBANCORP, Inc. (the "Company") and its wholly-owned subsidiaries, United States National Bank in Johnstown ("U.S. Bank"), Three Rivers Bank and Trust Company ("Three Rivers Bank"), Community Bancorp, Inc. ("Community"), USBANCORP Trust Company ("Trust Company"), and United Bancorp Life Insurance Company ("UBLIC"). In addition, the Parent Company is an administrative group that provides support in such areas as audit, finance, investments, loan review, general services, loan policy, and marketing. Intercompany accounts and transactions have been eliminated in preparing the consolidated financial statements.

2. Basis of Presentation

The unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information. In the opinion of management, all adjustments that are of a normal recurring nature and are considered necessary for a fair presentation have been included. They are not, however, necessarily indicative of the results of consolidated operations for a full year.

With respect to the unaudited consolidated financial information of the Company for the three month periods ended March 31, 1994, and 1993, Arthur

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Andersen & Co., independent public accountants, conducted reviews (based upon procedures established by the American Institute of Certified Public Accountants) and not audits, as set forth in their separate report dated April 25, 1994, appearing herein. This report does not express an opinion on the interim unaudited consolidated financial information. Arthur Andersen & Co. has not carried out any significant or additional audit tests beyond those which would have been necessary if its report had not been included. The December 31, 1993, numbers are derived from audited financial statements.

For further information, refer to the consolidated financial statements and accompanying notes included in the Company's "Annual Report and Form 10-K" for the year ended December 31, 1993.

3. Earnings Per Common Share

Primary earnings per share amounts are computed by dividing net income, after deducting preferred stock dividend requirements, by the weighted average number of Common Stock and Common Stock equivalent shares outstanding. Fully diluted earnings per share amounts are calculated assuming that the Series A $2.125 Cumulative Convertible Non-Voting Preferred Stock was converted at the beginning of the year into 1.136 shares of the Company's Common Stock and that no preferred dividends were paid. By April 7, 1993, all Preferred Stock was either redeemed or converted to the Company's Common Stock.

4. Consolidated Statement of Cash Flows

On a consolidated basis, cash equivalents include cash and due from banks, interest bearing deposits with banks, and federal funds sold, and securities purchased under agreements to resell. The Company made $500,000 in federal income tax payments in the first three months of 1994 as compared to $890,000 for the same 1993 interim period. Total interest expense paid amounted to $8,183,000 in 1994's first three months compared to $8,624,000 in the same 1993 period.

5. Investment Securities

In the first quarter of 1994, the Company adopted Statement of Financial Accounting Standards ("SFAS") #115, "Accounting for Certain Investments in Debt and Equity Securities." This statement addresses the accounting and reporting for investments in equity securities that have readily determinable fair values and for all investments in debt securities. This adoption requires that the investment securities available for sale be carried at market value while investment securities held to maturity are carried at amortized cost. Under SFAS #115, securities are classified as available for sale or held to maturity at the date of purchase. Currently, the Company has classified tax-free municipal securities as held to maturity with the remainder of the securities portfolio classified as available for sale. The book and market values of investment securities are summarized as follows (in thousands):

Investment securities available for sale:

March 31, 1994

	Book Value	Gross Unrealized Gains	Gross Unrealized Losses	Market Value
U.S. Treasury	$ 22,269	$ 65	$ (176)	$ 22,158
U.S. Agency	90,742	170	(1,898)	89,014
State and municipal taxable	2,121	28	(71)	2,078
Mortgage-backed securities *	222,590	775	(4,977)	218,388
Other securities **	38,671	430	(424)	38,677
Total	$376,393	$1,468	$(7,546)	$370,315

* Approximately 96% of these obligations represent U.S. Agency issued securities.

** Other investment securities include corporate notes

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and bonds, asset-backed securities, and
equity securities.

Investment securities held to maturity:

March 31, 1994

	Book Value	Gross Unrealized Gains	Gross Unrealized Losses	Market Value
State and municipal tax free securities	$53,576	$291	$(1,719)	$52,148

Prior to the first quarter of 1994 adoption of SFAS #115, the entire investment security portfolio, as described in the table below, was classified as "available for sale." The investment security portfolio was carried at the lower of aggregate amortized cost or market value; any necessary valuation adjustments were recorded in the Consolidated Statement of Income as a "Net unrealized gain or loss on investment securities available for sale" (in thousands).

December 31, 1993

	Book Value	Gross Unrealized Gains	Gross Unrealized Losses	Market Value
U.S. Treasury	$ 13,333	$ 186	$ (16)	$ 13,503
U.S. Agency	72,648	890	(116)	73,422
State and municipal	44,547	1,129	(90)	45,586
Mortgage-backed securities *	251,631	2,379	(1,402)	252,608
Other securities **	46,553	680	(37)	47,196
Total	$428,712	$5,264	$(1,661)	$432,315

* Approximately 95% of these obligations represent U.S. Agency issued securities.
** Other investment securities include corporate notes and bonds, asset-backed securities, and equity securities.

March 31, 1993

	Book Value	Gross Unrealized Gains	Gross Unrealized Losses	Market Value
U.S. Treasury	$ 13,805	$ 282	$ -	$ 14,087
U.S. Agency	51,180	1,220	(1,195)	51,205
State and municipal	37,226	733	(12)	37,947
Mortgage-backed securities *	226,754	4,153	(195)	230,712
Other securities **	58,821	791	(242)	59,370
Total	$387,786	$7,179	$(1,644)	$393,321

* Approximately 93% of these obligations represent U.S. Agency issued securities.
** Other investment securities include corporate notes and bonds, asset-backed securities, and equity securities.

All purchased investment securities are recorded on settlement date which is not materially different from the trade date. Realized gains and losses are calculated by the specific identification method and are included in "Net realized gain or loss on investment securities available for sale."

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Maintaining investment quality is a primary objective of the Company's investment policy which, subject to certain limited exceptions, prohibits the purchase of any investment security below a Moody's Investors Service or Standard & Poor's rating of "A." At March 31, 1994, 91.0% of the portfolio was rated "AAA" and 92.7% "AA" or higher as compared to 86.76% and 88.29%, respectively, at March 31, 1993. Only 1.80% of the portfolio was rated below "A" or unrated on March 31, 1994.

6. Fixed-Rate Mortgage Loans Held for Sale

At March 31, 1994, $7,780,000 of fixed-rate 30-year residential mortgage loans originated during the first quarter of 1994 were classified as "held for sale." It is management's intent to sell these residential mortgage loans during the next several months and retain servicing rights for the remaining lives; this strategy will be executed in an effort to help neutralize long-term interest rate risk. The residential mortgage loans held for sale are carried at the lower of aggregate amortized cost or market value. At March 31, 1994, the cost of these loans approximated market value. Realized gains and losses will be calculated by the specific identification method and will be included in "Net realized gain or loss on loans held for sale"; unrealized net valuation adjustments (if any) will be recorded in "Net unrealized gain or loss on loans held for sale" on the Consolidated Statement of Income.

7. Loans

The loan portfolio of the Company consists of the following (in thousands):

	March 31 1994	December 31 1993	March 31 1993
Commercial	$105,055	$ 99,321	$ 81,272
Commercial loans secured by real estate	123,615	126,044	123,718
Real estate - mortgage	345,400	338,778	315,889
Consumer	160,174	167,883	160,389
Loans	734,244	732,026	681,268
Less: Unearned income	4,982	5,894	9,257
Loans, net of unearned income	$729,262	$726,132	$672,011

Real estate construction loans were not material at these presented dates and comprise 2.2% of total loans net of unearned income at March 31, 1994. The Company has no credit exposure to foreign countries and borrowers or highly leveraged transactions. Additionally, the Company has no significant industry lending concentrations.

8. Allowance for Loan Losses and Charge-Off Procedures

As a financial institution which assumes lending and credit risks as a principal element of its business, the Company anticipates that credit losses will be experienced in the normal course of business. Accordingly, management of the Company makes a quarterly determination as to an appropriate provision from earnings necessary to maintain an allowance for loan losses that is adequate for potential yet undetermined losses. The amount charged against earnings is based upon several factors including, at a minimum, each of the following:

a continuing review of delinquent, classified and non-accrual loans, large loans, and overall portfolio quality. This continuous review assesses the risk characteristics of both individual loans and the total loan portfolio.

regular examinations and reviews of the loan portfolio by representatives of the regulatory authorities.

analytical review of loan charge-off experience, delinquency rates, and other relevant historical and peer statistical ratios.

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management's judgment with respect to local and general economic conditions and their impact on the existing loan portfolio.

When it is determined that the prospects for recovery of the principal of a loan have significantly diminished, the loan is immediately charged against the allowance account; subsequent recoveries, if any, are credited to the allowance account. In addition, non-accrual and large delinquent loans are reviewed monthly to determine potential losses. Consumer loans are considered losses when they are 90 days past due, except loans that are insured for credit loss.

An analysis of the changes in the allowance for loan losses follows (in thousands, except ratios):

	Three Months Ended March 31		Year Ended December 31
	1994	1993	1993
Balance at beginning of period	$15,260	$13,752	$13,752
Charge-offs:			
Commercial	55	118	383
Real estate - mortgage	87	363	628
Consumer	132	261	750
Total charge-offs	274	742	1,761
Recoveries:			
Commercial	44	36	338
Real estate - mortgage	9	10	27
Consumer	109	135	504
Total recoveries	162	181	869
Net charge-offs	112	561	892
Provision for loan losses	405	600	2,400
Balance at end of period	$15,553	$13,791	$15,260
As a percent of average loans and average loans held for sale, net of unearned income:			
Net charge-offs (annualized)	0.06%	0.34%	0.13%
Provision for loan losses (annualized)	0.22	0.36	0.34
Allowance as a percent of loans and loans held for sale, net of unearned income, at period end	2.11	2.04	2.10
Allowance as a multiple of net charge-offs (annualized), at period end	34.72x	6.15x	17.11x

(For additional information, refer to the "Provision for Loan Losses" and "Loan Quality" sections in the Management's Discussion and Analysis of Consolidated Financial Condition and Results of Operations on page 19 and 22, respectively.)

9. Components of Allowance for Loan Losses

The following table sets forth the allocation of the allowance for loan losses among various categories. This allocation is based upon historical experience and management's review of the loan portfolio. This allocation, however, is not necessarily indicative of the specific amount or specific loan category in which future losses may ultimately occur (in thousands, except percentages):

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<TABLE>

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	March 31 1994		December 31 1993		March 31 1993	
	Amount	Percent Of Loans In Each Category to Loans*	Amount	Percent Of Loans In Each Category to Loans*	Amount	Percent Of Loans In Each Category to Loans*
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Commercial	$ 1,696	14.1%	$ 1,637	13.6%	$ 1,784	11.9%
Commercial loans secured by real estate	3,959	16.7	4,073	17.2	4,702	18.1
Real estate - mortgage	284	47.6	279	46.3	268	46.6
Consumer	1,330	21.6	1,636	22.9	1,711	23.4
Allocation to general risk	8,284	-	7,635	-	5,326	-
Total	$15,553	100.0%	$15,260	100.0%	$13,791	100.0%

* This includes loans "held for sale."
</TABLE>

At March 31, 1994, the allowance for loan losses was adequate to cover potential yet undetermined losses within the Company's loan portfolio. The Company's management is unable to determine in what loan category future charge-offs and recoveries may occur. (For a complete discussion concerning the operations of the allowance for loan losses refer to Note 8.)

10. Non-Performing Assets

Non-performing assets are comprised of (i) loans which are on a non-accrual basis, (ii) consumer loans which are contractually past due 90 days or more as to interest or principal payments and which are insured for credit loss, and (iii) other real estate owned (real estate acquired through foreclosure and in-substance foreclosures). All loans, except for loans that are insured for credit loss, are placed on non-accrual status immediately upon becoming 90 days past due in either principal or interest. In addition, if circumstances warrant, the accrual of interest may be discontinued prior to 90 days. In all cases, payments received on non-accrual loans are credited to principal until full recovery of principal has been recognized; it is only after full recovery of principal that any additional payments received are recognized as interest income. Restoration of a non-accrual loan to accrual status requires the approval of the Credit Committee and/or Board Discount/Loan Committee with final authority for the decision resting with USBANCORP's Chief Financial Officer.

The following table presents information concerning non-performing assets (in thousands, except percentages):

	March 31 1994	December 31 1993	March 31 1993
Non-accrual loans	$ 4,006	$ 5,304	$ 5,296
Insured loans past due 90 days or more	262	203	212
Other real estate owned:			
Foreclosed properties	770	991	2,326
In-substance foreclosures	-	-	478
Total non-performing assets	$ 5,038	$ 6,498	$ 8,312
Total non-performing assets as a percent of loans and loans held for sale, net of unearned income, and other real estate owned	0.68%	0.89%	1.23%

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The Company is unaware of any additional loans which are required to either be charged-off or added to the non-performing asset totals disclosed above. Other real estate owned is recorded at the lower of fair value or carrying cost based upon appraisals.

The following table sets forth, for the periods indicated, (i) the gross interest income that would have been recorded if non-accrual loans had been current in accordance with their original terms and had been outstanding throughout the period or since origination if held for part of the period, (ii) the amount of interest income actually recorded on such loans, and (iii) the net reduction in interest income attributable to such loans (in thousands):

	Three Months Ended March 31	
	1994	1993
Interest income due in accordance with original terms	$ 163	$ 244
Interest income recorded	(292)	(47)
Net reduction (increase) in interest income	$(129)	$ 197

11. Income Taxes

During the first quarter of 1993 the Company adopted Statement of Financial Accounting Standards ("SFAS") #109, "Accounting for Income Taxes." SFAS #109 utilizes the liability method, and deferred taxes are determined based on the estimated future tax effects of differences between the financial statement and income tax bases of assets and liabilities given the provisions of the enacted tax laws. This adoption resulted in the recognition of a non-recurring benefit of $1,452,000 (net of a valuation allowance of $325,000) or $0.35 per share on a fully diluted basis. Net deferred income taxes of $5,724,000 have been provided on the differences between taxable income for financial and tax reporting purposes.

12. Incentive Stock Option Plan

Under the Company's Incentive Stock Option Plan (the "Plan") options can be granted (the "Grant Date") to employees with executive, managerial, technical , or professional responsibility as selected by a committee of the board of directors. The option price at which a stock option may be exercised shall be a price as determined by the board committee but shall not be less than 100% of the fair market value per share of common stock on the Grant Date. The maximum term of any option granted under the Plan cannot exceed 10 years. The following stock options were granted:

	Shares Under Option	Shares Available For Option	Option Price Per Share
Balance at December 31, 1992	27,334	99,000	
Options granted	27,500	(27,500)	22.56
Options exercised	(5,000)	-	17.25
Options canceled or expired	-	-	
Balance at December 31, 1993	49,834	71,500	
Options granted	25,500	(25,500)	23.88
Options exercised	(2,167)	-	17.25
Options exercised	(4,000)	-	22.56
Options canceled or expired	-	-	
Balance at March 31, 1994	69,167	46,000	

On or after the first anniversary of the Grant Date, one-third of such options may be exercised. On or after the second anniversary of the Grant Date, two-

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thirds of such options may be exercised minus the aggregate number of such options previously exercised. On or after the third anniversary of the Grant Date, the remainder of the options may be exercised.

13. Preferred Stock

As discussed in the Company's "1993 Annual Report and Form 10-K," the board of directors authorized the redemption of all the Company's Series A $2.125 Cumulative Convertible Non-Voting Preferred Stock. The redemption date was established as April 7, 1993. The Preferred Stock redemption presented shareholders with the choice of either redeeming their shares at the redemption price of $25.638 per share or converting their shares into 1.136 shares of the Company's Common Stock. Shareholders of only 53,283 shares opted to redeem their shares resulting in a redemption payout of approximately $1.4 million; shareholders of 498,717 shares (approximately 90%) elected to convert their shares. This conversion resulted in the issuance of 566,543 new common shares.

14. Common Stock Issuance

On February 10, 1993, USBANCORP completed the sale of 1,150,000 shares of Common Stock at an offering price of $24.50 per share. This provided the Company with $26 million in net proceeds after payment of related issuance expenses. Approximately $1.4 million of the offering proceeds were used to redeem the remaining unconverted Series A Preferred Stock on April 7, 1993. Of the offering proceeds, $2 million was downstreamed as a capital infusion into Three Rivers Bank on April 5, 1993, in connection with the Integra Branches Acquisition to adequately capitalize the $88 million of deposits acquired. The remaining offering proceeds of $22.6 million will be used by USBANCORP for general corporate purposes including the funding of the Johnstown Savings Bank Acquisition which will close in June 1994 and also the previously announced stock repurchase program which will commence in July 1994.

15. Integra Branches Acquisition

On April 2, 1993, the Company's Three Rivers Bank subsidiary and Integra National Bank/Pittsburgh completed a Purchase and Assumption Agreement (the "Agreement") for four Integra branch offices located in the suburban Pittsburgh market area. Pursuant to the Agreement, Three Rivers Bank assumed $88.6 million in deposit liabilities and purchased $12.1 million of assets; these assets consisted of: home equity and other consumer loans; vault cash; furniture, fixtures, and equipment; real estate together with improvements; and safe deposit box business. In addition, Three Rivers Bank assumed certain other liabilities including contracts that relate to the operation of the branches and real estate leases relating to one branch and one ATM. In consideration for the assumption of the deposit liabilities, Three Rivers Bank paid Integra a deposit premium of 1.4% or $1.2 million.

16. Johnstown Savings Bank ("JSB") Acquisition

The Company and JSB announced January 18, 1994, that they have reached agreement on revised terms to the definitive agreement pursuant to which JSB would merge with U.S. Bank. USBANCORP anticipates recognizing approximately six months of earnings in 1994 from this latest acquisition; for the year ended December 31, 1993, JSB reported net income of $3,361,000. The Company will also recognize monthly after-tax purchase accounting net charges of approximately $120,000. Additionally, non-recurring acquisition restructuring charges, including such items as severance and professional fees, will be recognized in the second quarter and are estimated to approximate $1,700,000 after tax. Finally, the Company will issue approximately 982,000 additional common shares to effect the merger. Each of these items will result in significant impact to the financial performance reported by USBANCORP during the remainder of 1994. This planned acquisition is proceeding on schedule with an anticipated closing of the transaction late in the second quarter of 1994. (For further information, refer to the consolidated financial statements and accompanying notes included in the Company's "1993 Annual Report and Form 10-K.")

17. Interest Rate Swap

During the first quarter of 1994, the Company entered into an interest rate

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swap agreement with a notional amount of $10 million and a termination date of February 11, 1997. Under the terms of the swap agreement, the Company will receive a fixed interest rate of 5% and pay a floating interest rate defined as the 90-day USD-Libor-BBA which resets quarterly. The counterparty in this unsecured transaction is PNC Bank which has a Standard & Poor's rating of "A+."

The swap agreement was initiated to hedge interest rate risk in a declining, stable, or modestly rising rate environment. Specifically, this transaction hedges the CMO liability on the Company's Balance Sheet by effectively converting the fixed percentage cost to a variable rate cost. This hedge also offsets market valuation risk since any change in the market value of the swap agreement correlates in the opposite direction with a change in the market value of the CMO liability.

The interest differential to be paid or received is accrued by the Company on a monthly basis. Since only interest payments are exchanged, the cash requirements and exposure to credit risk are significantly less than the notional amount. The Company believes that its exposure to credit loss in the event of non-performance by the counterparty is minimal. Overall, this swap agreement favorably reduced interest expense by $22,000 in the first quarter of 1994.

The Company monitors and controls all off-balance sheet derivative products with a comprehensive Board of Director approved hedging policy. In addition to interest rate swaps, the policy also allows for the use of interest rate caps and floors. The Company has not instituted the use of interest rate caps or floors as of March 31, 1994.

18. Labor Agreement

Approximately 225 of U.S. Bank's clerical and teller personnel are represented by the United Steelworkers of America AFL-CI0-CLC Local Union 8204 ("Union"). Management successfully negotiated a one-year extension of its current labor agreement with the Union; the new agreement expires on October 15, 1995. The Company considers its relations with all employees to be satisfactory.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF CONSOLIDATED FINANCIAL CONDITION AND RESULTS OF OPERATIONS ("M. D. & A.")

.....PERFORMANCE OVERVIEW.....The Company's net income for the first quarter of 1994 totalled $3,039,000 or $0.64 per share on a fully diluted basis. This compared favorably to net income before a cumulative effect of change in accounting principle of $2,536,000 or $0.61 per fully diluted share reported for the same period of 1993. The Company's first quarter 1993 net income results also included a $1,452,000 or $0.35 per share non-recurring benefit due to the adoption of SFAS #109; no such change in accounting principle was recognized in the first quarter of 1994.

Before the SFAS #109 benefit, net income between periods increased by $503,000 or 19.8% while fully diluted earnings per share increased by a lesser amount of $0.03 or 4.9%. Similar trends were noted for two other key

performance ratios as the Company's return on assets increased by eight basis points to 0.99% while return on equity actually decreased by 23 basis points to 10.51%. The increase in net income resulted from the accretive impact of the purchase of four Integra Branch Offices in April 1993, growth in both net interest income and non-interest income, and a reduced loan loss provision. The growth of net income, however, was exceeded on a relative basis by the growth in average equity and shares outstanding due largely to the Company's successful February 1993 secondary Common Stock offering which resulted in the issuance of 1,150,000 new shares of the Company's Common Stock. The full impact of this offering was not reflected in the first quarter 1993 results as evidenced by the 565,000 or 13.5% increase in fully diluted weighted average common shares outstanding when compared to the first quarter of 1994.
The following table summarizes some of the Company's key performance indicators (in thousands, except per share data and ratios):

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	Three Months Ended March 31, 1994	Three Months Ended March 31, 1993
Net income	$3,039	$3,988
Net income (before SFAS #109 benefit)	3,039	2,536
Fully diluted earnings per share	0.64	0.96
Fully diluted earnings per share (before SFAS #109 benefit)	0.64	0.61
Return on average assets	0.99%	1.43%
Return on average assets (before SFAS #109 benefit)	0.99	0.91
Return on average equity	10.51	16.88
Return on average equity (before SFAS #109 benefit)	10.51	10.74
Average fully diluted common shares outstanding	4,740	4,175

.....NET INTEREST INCOME AND MARGIN.....The Company's net interest income represents the amount by which interest income on earning assets exceeds interest paid on interest bearing liabilities. Net interest income is a primary source of the Company's earnings; it is impacted by interest rate fluctuations, as well as, changes in the amount and mix of earning assets and interest bearing liabilities. It is the Company's philosophy to strive to maintain a stable net interest margin during periods of fluctuating interest rates. The following table compares the Company's net interest income performance for the first quarter of 1994 to the first quarter of 1993 (in thousands, except percentages):

<TABLE>

<CAPTION>

<S>	Three Months Ended March 31, 1994 <C>	Three Months Ended March 31, 1993 <C>	Change <C>	%Change <C>
Interest income	$21,066	$20,674	$ 392	1.9
Interest expense	8,165	8,773	(608)	(6.9)
Net interest income	12,901	11,901	1,000	8.4
Tax-equivalent adjustment	232	173	59	34.1
Net tax-equivalent interest income	13,133	12,074	1,059	8.8
Net interest margin	4.43%	4.53%	(0.10)%	*

*Not meaningful.
</TABLE>

USBANCORP's net interest income on a tax-equivalent basis increased by $1.1 million or 8.8% while the net interest margin percentage declined by 10 basis points to 4.43%. The increased net interest income was due primarily to a higher volume of earning assets resulting from the previously mentioned Integra Branches Acquisition, funds provided from the secondary common stock offering, and increased borrowings from the Federal Home Loan Bank. For the first quarter of 1994, total average earning assets were $104 million higher than the comparable 1993 period. Net interest income was also enhanced by approximately $300,000 of non-accrual loan interest recoveries which caused a ten basis point improvement in the net interest margin percentage (i.e. the core net

interest margin percentage for the first quarter of 1994 was 4.33%). The contraction in the actual and core net interest margin between the first quarter 1994 and the comparable 1993 period can be best explained by the following:

Presented on this page was a graphic representation of the net interest margin for the past five quarters. The data points presented were; 4.43% for 1/94, 4.28% for 4/93, 4.28% for 3/93, 4.38% for 2/93, and

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4.53% for 1/93.

The majority of the $88 million of acquired Integra deposits were redeployed into short duration investment securities since only $10 million of loans were acquired with the Integra Branch Offices. This initial dependence on the investment portfolio as the primary source of return on these acquired deposits was a major factor contributing to the contraction in the net interest margin percentage. It is management's intent to use this excess investment portfolio liquidity to more profitably fund anticipated loan growth in order to improve the net interest margin; this can be accomplished since the yield on currently originated loans range from 150 to 300 basis points more than the average current quarter yield of 5.40% in the investment portfolio.

The success of this strategy has been evident over the past three quarters as the Company's net interest margin stabilized at the 4.28% level for both the third and fourth quarters of 1993 and improved on a core basis by five basis points to 4.33% in the first quarter of 1994. During this same period, the Company's loan to deposit ratio improved by 440 basis points from 66.4% at June 30, 1993, to 70.8% at March 31, 1994. Furthermore, this improved core margin performance occurred during a rise in interest rates experienced throughout the first quarter of 1994. This favorable margin trend further solidifies the Company's belief that the asset liquidity contained within its balance sheet will allow for modest net interest margin improvement in a rising interest rate environment.

Regarding the separate components of net interest income, the Company's total interest income for the first quarter of 1994 increased by $392,000 or 1.9% when compared to the same 1993 period. This increase was due entirely to the previously mentioned $104 million increase in total average earning assets. This positive factor was partially offset by an unfavorable rate variance as the Company's earning assets have repriced downward in conjunction with the national decline in interest rates experienced during 1993. Specifically, the yield on the loan portfolio has decreased 62 basis points to 8.30% while the yield on the total investment securities portfolio has dropped 76 basis points to 5.40%. The national and local market trend of accelerated customer refinancing of mortgage loans has contributed materially to the declining yields experienced in both of these portfolios. Also, the earning asset yield continues to be negatively impacted by regularly scheduled maturities and prepayments of higher yielding loans and securities purchased or originated several years ago.

Even with an additional $70 million of average interest bearing liabilities, the Company's total interest expense still decreased by $608,000 or 6.9% in the first quarter of 1994. This decline is primarily a result of management repricing all deposit categories downward in the declining interest rate environment experienced during 1993. It has been management's ongoing pricing strategy to position USBANCORP's deposit rates within the lowest quartile of deposit rates offered by commercial banks in its market area. Management believes that a constant level of high service quality mitigates the impact this rate positioning strategy has on the deposit base size and funds availability provided that the rates offered are not appreciably below competition. Regarding the deposit mix, the Company has experienced a shift of funds from short-term certificates of deposit into more liquid interest bearing demand and savings accounts due to the narrowing of the rate spread between these products and customer preference for liquidity in the current interest rate environment.

A reduced dependence on long-term debt as a funding source favorably impacted the liability mix. The balance in long-term debt declined on average by $5.9 million due to the successful restructuring of several debt funding sources in the third and fourth quarters of 1993. The Company has also used an additional $15.0 million of borrowings from the Federal Home Loan Bank to extend the liability maturity base and fund the initial stages of an investment strategy designed to better leverage the Company's equity. Finally, the use of an interest rate swap for a portion of the first quarter of 1994 permitted

the Company to reduce the cost of the CMO liability by 42 basis points to 9.85%. (See detailed discussion on Investment Rate Swap Note 17.) These price and liability composition movements allowed USBANCORP to lower the average cost of interest bearing liabilities by 53 basis points from 3.91% during the first

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quarter of 1993 to 3.38% during the first quarter of 1994.

The table that follows provides an analysis of net interest income on a tax-equivalent basis setting forth (i) average assets, liabilities, and stockholders' equity, (ii) interest income earned on interest earning assets and interest expense paid on interest bearing liabilities, (iii) average yields earned on interest earning assets and average rates paid on interest bearing liabilities, (iv) USBANCORP's interest rate spread (the difference between the average yield earned on interest earning assets and the average rate paid on interest bearing liabilities), and (v) USBANCORP's net interest margin (net interest income as a percentage of average total interest earning assets). For purposes of this table, loan balances include non-accrual loans and interest income on loans includes loan fees or amortization of such fees which have been deferred, as well as, interest recorded on non-accrual loans as cash is received.

<TABLE>

Three Months Ended March 31 (In thousands, except percentages)

<CAPTION>

	1994			1993		
	Average Balance	Interest Income/ Expense	Yield/ Rate	Average Balance	Interest Income/ Expense	Yield/ Rate
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Interest earning assets:						
Loans and loans held for sale, net of unearned income	$ 735,016	$15,153	8.30%	$ 668,708	$14,681	8.92%
Deposits with banks	1,573	11	2.74	5,569	30	3.14
Federal funds sold and securities purchased under agreement to resell	2,619	20	3.09	17,344	132	3.04
Investment securities:						
Available for sale	386,193	5,182	5.37	370,659	5,664	6.16
Held to maturity	46,373	660	5.69	-	-	-
Total investment securities	432,566	5,842	5.40	370,659	5,664	6.16
Assets held in trust for collateralized mortgage obligation	12,885	272	8.56	17,961	340	7.69
Total interest earning assets/interest income	1,184,659	21,298	7.23	1,080,241	20,847	7.82
Non-interest earning assets:						
Cash and due from banks	38,543			29,088		
Premises and equipment	16,910			15,241		
Other assets	20,182			21,825		
Allowance for loan losses	(15,398)			(13,801)		
TOTAL ASSETS	$1,244,896			$1,132,594		
Interest bearing liabilities:						
Interest bearing deposits:						
Interest bearing demand	$ 103,190	$ 376	1.48%	$ 92,055	$ 507	2.23%
Savings	232,887	1,086	1.89	222,518	1,392	2.54
Other time	577,270	5,881	4.13	538,400	6,005	4.52
Total interest bearing deposits	913,347	7,343	3.26	852,973	7,904	3.76
Short-term borrowings:						
Federal funds purchased, securities sold under agreements to repurchase, and other short-term borrowings	20,039	122	2.49	14,684	62	2.10
Advances from Federal Home Loan Bank	31,110	352	4.53	17,095	222	5.07
Collateralized mortgage obligation	11,818	287	9.85	16,004	405	10.27
Long-term debt	3,262	61	7.65	9,171	180	7.97
Total interest bearing						

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liabilities/interest expense	979,576	8,165	3.38	909,927	8,773	3.91
Non-interest bearing liabilities:						
Demand deposits	132,362			108,439		
Other liabilities	15,673			18,432		
Stockholders' equity	117,285			95,796		
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$1,244,896			$1,132,594		
Interest rate spread			3.85			3.91
Net interest income/net interest margin		13,133	4.43%		12,074	4.53%
Tax-equivalent adjustment		(232)			(173)	
Net interest income		$12,901			$11,901	

</TABLE>

.....PROVISION FOR LOAN LOSSES.....The Company's asset quality permitted a $195,000 reduction in the loan loss provision to $405,000 or 0.22% of total loans in the first quarter of 1994 compared to a provision of $600,000 or 0.36% of total loans in the first quarter of 1993. This lower provision was possible because of a $1.5 million reduction in non-performing assets to $5 million or 0.68% of total loans. Additionally, net charge-offs for the first quarter of 1994 totalled $112,000 or only 0.06% of total loans compared to net charge-offs of $561,000 or 0.34% of average loans in the first quarter of 1993. At March 31, 1994, the balance in the allowance for loan losses had grown to $15.6 million or 308.7% of total non-performing assets.

Presented on this page was a graphic representation of the loan loss provision expense. The data points presented were; $405,000 for 1/94, $600,000 for each of the four quarters of 1993.

At March 31, 1994, management believed the allowance for loan losses was adequate at each subsidiary bank for potential losses inherent in the portfolio at that date. Furthermore, the allowance for loan losses at each of the Company's banking subsidiaries was well within compliance with the Company's policy of maintaining a general unallocated reserve of at least 20% of the estimated reserve requirement; the Company's aggregate unallocated reserve was 114% or $8.3 million with the subsidiaries' unallocated reserves ranging from 79% to 135% of the estimated reserve requirement. (See Allowance for Loan Losses Note 8.)

.....NON-INTEREST INCOME.....Non-interest income for the first quarter of 1994 totalled $2.7 million which represented a $191,000 or 7.7% increase over the same 1993 period. This increase was primarily due to a $93,000 realized gain on the sale of fixed-rate mortgage loans classified as "held for sale," an $85,000 increase in other income, and a $19,000 increase in realized gains on investment securities available for sale.

The $93,000 gain resulted from the sale of approximately $5.5 million of long-term fixed-rate residential mortgage loans which were originated during the fourth quarter of 1993 and first quarter of 1994. These loans were classified as "held for sale" in accordance with a previously disclosed strategy by the Company to sell new 30-year fixed-rate mortgage products in an effort to help neutralize long-term interest rate risk. Servicing rights amounting to approximately 35 basis points on the loan balance outstanding were retained on these sold loans in order to provide the Company with a recurrent source of fee income. Given the Company's ongoing loan pricing strategy of offering zero point mortgage loans at a slight premium to current market rates, management would expect to generate modest gains from fixed-rate mortgage loan sales each quarter. The amount of the gain may, however, vary depending upon the volume of new fixed-rate mortgage loan activity and market conditions at the time of sale.

The $85,000 increase in other income was due largely to a $40,000 increase in premium income generated from increased sales of credit life and disability insurance on new consumer loans through the Company's UBLIC subsidiary. Also contributing to the increased other income was a higher volume of letter of credit fees and data processing service income. The $19,000 increase in gains

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on the sale of investment securities available for sale resulted from the realization of a total gain of $271,000 on the sale of $28 million of securities. This sale was executed to capture available market premiums on securities with a remaining maturity of generally less than one year.

First quarter 1994 trust income declined modestly by $15,000 or 2% from the comparable 1993 period. On a core basis, however, trust fees actually increased by $60,000 or 9.1% as the first quarter 1993 results included an unusually large volume of estate fees. This core trust fee growth is prompted by the profitable expansion of the Company's business throughout western Pennsylvania including the Greater Pittsburgh marketplace. The Trust staff's marketing skills combined with their proven ability to deliver quality service has been the key to the Company's growth rate, which has approximated 20% annually for each of the past four years. While there can be no assurances of continuation of this trend, these factors provide a foundation for future growth of this important source of fee income.

.....NON-INTEREST EXPENSE.....Total non-interest expense of $10.6 million increased by $815,000 or 8.3% when compared to the first quarter of 1993. This increase was primarily due to the following items:

a $480,000 or 9.9% increase in salaries and employee benefits due to planned wage increases approximating 4.5%, 24 additional average full-time equivalent employees due primarily to the acquired Integra branches and increased pension expense.

a total $386,000 increase in net occupancy and equipment expense due to the additional branch facilities and equipment acquired with the Integra branches, increased small equipment purchases, and higher utilities and snow removal costs caused by the harsh winter.

a $127,000 decrease in other expense caused by reduced other real estate owned expense and the economy of scale benefits derived from the elimination of outside data processing fees as Community's data processing is now performed internally by Three Rivers Bank.

.....NET OVERHEAD BURDEN.....Although non-interest expense has increased as a result of the above listed factors, the net overhead to average assets ratio showed improvement as it dropped from 2.64% in the first quarter of 1993 to 2.60% in the first quarter of 1994. The Company's net overhead to net interest income ratio was relatively stable at 61.9% for that same time frame. Management has targeted a goal of reducing the Company's net overhead expense to net interest income ratio to 55% over the five year strategic planning forecast through productivity enhancements, operational efficiencies, and economy of scale benefits. The successful acquisition of JSB should allow the Company to reach this goal even sooner than originally planned.

.....INCOME TAX EXPENSE.....The Company's provision for income taxes for the first quarter of 1994 was $1.5 million reflecting an effective tax rate of 32.6%. The Company's 1993 first quarter income tax provision was $1.4 million or an effective tax rate of 35.7% (excluding the one-time favorable impact from the adoption of SFAS #109 which resulted in the recording of a deferred tax asset of $1,452,000 and a corresponding credit to the income statement as a cumulative effect of change in accounting principle). The Company's first quarter 1994 provision represented an increase of $68,000 compared to the 1993 first quarter due entirely to increased pre-tax income. The Company's effective tax rate declined by approximately 3% over the same period due to increased tax-free asset holdings.

.....BALANCE SHEET.....The Company's total consolidated assets were $1.245 billion at March 31, 1994, compared with $1.145 billion at March 31, 1993, which represents an increase of $100 million or 8.7%. This asset growth was funded primarily by $76.5 million of increased deposits, and $26 million of increased short-term borrowings (includes a $10 million of borrowings under the Federal Home Loan Bank Flexline Program). These funds have been primarily invested in the investment security and loan portfolios which have increased by $36.1

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million and $62.3 million, respectively, since March 31, 1993. The increase in short-term borrowings resulted from the initial stages of a planned strategy to enhance net interest income by better leveraging the investment securities portfolio through the use of funding sources available from the Federal Home Loan Bank.

As a result of the continued economic recovery and improved consumer confidence, the Company's loans and loans held for sale again increased to a total outstanding of $737 million at March 31, 1994. Loan originations totalled approximately $88 million for the first quarter of 1994 which compared favorably to approximately $78 million of loan originations generated in both the first and fourth quarters of 1993. Within the loan portfolio since December 31, 1993, commercial loans have grown by $5.7 million or 5.8% while residential real estate mortgage loans have grown by $13.3 million or 3.9%. Consumer loans and commercial loans secured by real estate have experienced declines of $6.8 million or 4.2% and $2.4 million or 1.9%, respectively, during that same time period. The commercial loan growth resulted from successful business development efforts in both regions of the Company's marketplace which includes suburban Pittsburgh and Greater Johnstown. The net growth in mortgage loans (including home equity) occurred despite the sale of approximately $5.5 million of 30-year fixed-rate products that originated during recent months. The majority of the mortgage growth occurred at Community with approximately 40% of this growth related to refinancing activity with new customers. The decline in consumer loans experienced during the first quarter of 1994 is largely attributed to the severe winter weather and a reduced volume of indirect auto loans.

.....LOAN QUALITY.....USBANCORP's written lending policies require underwriting, loan documentation, and credit analysis standards to be met prior to funding any loan. After the loan has been approved and funded, continued periodic credit review is required. Annual credit reviews are mandatory for all commercial loans in excess of $100,000 and for all commercial mortgages in excess of $250,000. In addition, due to the secured nature of residential mortgages and the smaller balances of individual installment loans, sampling techniques are used on a continuing basis for credit reviews in these loan areas.

The following table sets forth information concerning USBANCORP's loan delinquency and other non-performing assets (in thousands, except percentages):

	March 31 1994	December 31 1993	March 31 1993
Total loan delinquency (past due 30 to 89 days)	$12,268	$10,428	$ 7,508
Total non-accrual loans	4,006	5,304	5,296
Total non-performing assets*	5,038	6,498	8,312
Loan delinquency, as a percentage of total loans and loans held for sale, net of unearned income	1.66%	1.43%	1.11%
Non-accrual loans, as a percentage of total loans and loans held for sale, net of unearned income	0.54	0.73	0.78
Non-performing assets, as a percentage of total loans and loans held for sale, net of unearned income, and other real estate owned	0.68	0.89	1.23

*Non-performing assets are comprised of (i) loans that are on a non-accrual basis, (ii) consumer loans that are contractually past due 90 days or more as to interest and principal payments and which are insured for credit loss, and (iii) other real estate owned including in-substance foreclosures. All loans, except for loans that are insured for credit loss, are placed on non-accrual status immediately upon becoming 90 days past due in either principal or interest.

At March 31, 1994, non-accrual loans and non-performing assets as a percentage of total loans and loans held for sale, net of unearned income, and other real estate owned were 0.54% and 0.68%, respectively. The decreases from December 31, 1993, in each of these categories were due primarily to the Company's ongoing loan work-out program which has been implemented at each banking subsidiary. Overall, total loan delinquency (past due 30 to 89 days) as a percentage of total loans, net of unearned income, totalled 1.66% at March 31,

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1994, and increased by 23 basis points since year-end 1993 due to increased delinquency in the 30 to 59 days category.

Presented on this page was a graphic representation of the total non-performing assets and unallocated loan loss reserve for the first quarters of 1993 and 1994, and year end 1993. The data points presented were; total non-performing assets $5,038,000 for 1/94, $6,498,000 for 12/93, and $8,312,000 for 1/93; unallocated loan loss reserve $8,284,000 for 1/94, $7,635,000 for 12/93, and $5,326,000 for 1/93.

.....ALLOWANCE FOR LOAN LOSSES.....The following table sets forth changes in the allowance for loan losses and certain ratios for the periods ended (in thousands, except percentages):

	March 31 1994	December 31 1993	March 31 1993
Allowance for loan losses	$15,553	$15,260	$13,791
Amount in the allowance for loan losses allocated to "general risk"	8,284	7,635	5,326
Allowance for loan losses as a percentage of each of the following:			
total loans and loans held for sale, net of unearned income	2.11%	2.10%	2.04%
total delinquent loans (past due 30 to 89 days)	126.78	146.34	183.68
total non-accrual loans	388.24	287.71	260.40
total non-performing assets	308.71	234.84	165.92

When compared to December 31, and March 31, 1993, each of the allowance coverage ratios for non-accrual loans and non-performing assets increased due to the previously discussed improvement in the Company's asset quality combined with an increased balance in the allowance for loan losses. The March 31, 1994, allowance to total loans and loans held for sale, net of unearned income, ratio of 2.11% was consistent with the December 31, 1993, level. The portion of the Company's allowance which is allocated to "general risk" and not to any particular loan or loan category has increased by approximately $3 million since March 31, 1993, to $8.3 million at March 31, 1994. The amount of the reserve allocated to general risk now represents 53.3% of the total allowance for loan losses.

.....INTEREST RATE SENSITIVITY.....Asset/liability management involves managing the risks associated with changing interest rates and the resulting impact on the Company's net interest income and capital. The management and measurement of interest rate risk at USBANCORP is performed by using the following tools: 1) Static "GAP" analysis which analyzes the extent to which interest rate sensitive assets and interest rate sensitive liabilities are matched at specific points in time; 2) simulation modeling which analyzes the impact of interest rate changes on net interest income and capital levels over specific future time periods by projecting the yield performance of assets and liabilities in numerous varied interest rate environments.

For static GAP analysis, USBANCORP typically defines interest rate sensitive assets and liabilities as those that reprice within one year. Maintaining an appropriate match is one method of avoiding wide fluctuations in net interest margin during periods of changing interest rates. The difference between rate sensitive assets and rate sensitive liabilities is known as the "interest sensitivity GAP." A positive GAP occurs when rate sensitive assets exceed rate sensitive liabilities repricing in the same time period and a negative GAP occurs when rate sensitive liabilities exceed rate sensitive assets repricing in the same time period. A GAP ratio (rate sensitive assets divided by rate sensitive liabilities) of one indicates a statistically perfect match. A GAP ratio of less than one suggests that a financial institution may be better positioned to take advantage of declining interest rates rather than increasing interest rates, and a GAP ratio of more than one suggests the converse. Since 1987, USBANCORP has generally endeavored to maintain a neutral one year GAP position thereby minimizing the impact (either positive or negative) of changing

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interest rates on both net interest income and capital levels.

The following table presents a summary of the Company's static GAP positions at March 31, 1994 (in thousands, except for the GAP ratios):

	March 31 1994	December 31 1993	March 31 1993
Six month cumulative GAP			
RSA.................	$319,304	$328,530	$351,796
RSL.................	384,338	355,613	341,538
GAP.................	$(65,034)	$(27,083)	$ 10,258
GAP ratio...........	0.83x	0.92x	1.03x
GAP as a % of total assets............	(5.22)%	(2.18)%	0.90%
GAP as a % of total capital...........	(56.59)	(23.22)	9.15
One year cumulative GAP			
RSA.................	$472,791	$482,229	$492,562
RSL.................	462,414	437,261	419,600
GAP.................	$ 10,377	$ 44,968	$ 72,962
GAP ratio...........	1.02x	1.10x	1.17x
GAP as a % of total assets............	0.83%	3.62%	6.37%
GAP as a % of total capital...........	9.03	38.56	65.07

There are some inherent limitations in using static GAP analysis to measure and manage interest rate risk. For instance, certain assets and liabilities may have similar maturities or periods to repricing but the magnitude or degree of the repricing may vary significantly with changes in market interest rates. As a result of these GAP limitations, management places considerable emphasis on simulation modeling to manage and measure interest rate risk. At December 31, 1993, these varied economic interest rate simulations indicated that the variability of USBANCORP's net interest income over the next twelve month period was within the Company's (+,-)5% policy limit given positive or negative interest rate changes of up to 250 basis points; indeed, these simulations show the greatest variability, -3.0%, in an economic scenario of an extreme immediate 250 basis point decline in interest rates. Capital is estimated to be effected under these simulations by no more than (+,-)1.0%.

With the adoption of SFAS #115 in the first quarter of 1994, 87.4% of the investment portfolio is classified as available for sale and 12.6% as held to maturity. The available for sale classification for the majority of the portfolio provides management with greater flexibility to more actively manage the securities portfolio to better achieve overall balance sheet rate sensitivity goals. Furthermore, it is USBANCORP's intent to continue to diversify Community's loan portfolio to increase liquidity and rate sensitivity and to better manage USBANCORP's long-term interest rate risk by continuing to sell newly originated 30-year fixed-rate mortgage loans. Community retains all servicing rights and recognizes fee income over the remaining lives of the loans sold at an average rate of approximately 35 basis points on the loan balances outstanding.

.....LIQUIDITY.....Financial institutions must maintain liquidity to meet day-to-day requirements of depositor and borrower customers, take advantage of market opportunities, and provide a cushion against unforeseen needs. Liquidity needs can be met by either reducing assets or increasing liabilities. Sources of asset liquidity are provided by short-term investment securities, time deposits with banks, federal funds sold, banker's acceptances, and commercial paper. These assets totaled $167 million at March 31, 1994, $151 million at December 31, 1993, and $160 million at March 31, 1993. Maturing and repaying loans, as well as, the monthly cash flow associated with certain asset- and mortgage-backed securities are other sources of asset liquidity.

Liability liquidity can be met by attracting deposits with competitive rates, using repurchase agreements, buying federal funds, or utilizing the

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facilities of the Federal Reserve or the Federal Home Loan Bank systems. USBANCORP's subsidiaries utilize a variety of these methods of liability liquidity. At March 31, 1994, USBANCORP's subsidiaries had approximately $90.5 million of unused lines of credit available under informal arrangements with correspondent banks compared to $98.6 million at March 31, 1993. These lines of credit enable USBANCORP's subsidiaries to purchase funds for short-term needs at current market rates. Additionally, each of the Company's subsidiary banks are members of the Federal Home Loan Bank which provides the opportunity to obtain intermediate to longer-term advances up to approximately 80% of their investment in assets secured by one-to-four family residential real estate; based upon December 31, 1993, balances, this would suggest a total available Federal Home Loan Bank borrowing capacity of approximately $504 million. Furthermore, USBANCORP had available at March 31, 1994, an unused $1 million unsecured line of credit.

.....EFFECTS OF INFLATION.....USBANCORP's asset and liability structure is primarily monetary in nature. As such, USBANCORP's assets and liabilities tend to move in concert with inflation. While changes in interest rates may have an impact on the financial performance of the banking industry, interest rates do not necessarily move in the same direction or in the same magnitude as prices of other goods and services and may frequently reflect government policy initiatives or economic factors not measured by a price index.

.....CAPITAL RESOURCES.....The following table highlights the Company's compliance with the required regulatory capital ratios for each of the periods presented (in thousands, except ratios):

<TABLE>

<CAPTION>

	March 31, 1994		December 31, 1993		March 31,1993	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Risk-Adjusted Capital Ratios						
Tier 1 capital	$ 112,248	13.76%	$ 113,718	14.72%	$ 109,794	15.24%
Tier 1 capital minimum requirements	32,630	4.00	30,893	4.00	28,815	4.00
Excess	$ 79,618	9.76%	$ 82,825	10.72%	$ 80,979	11.24%
Total capital	$ 122,443	15.01%	$ 123,372	15.97%	$ 118,799	16.49%
Total capital minimum requirement	65,259	8.00	61,787	8.00	57,630	8.00
Excess	$ 57,184	7.01%	$ 61,585	7.97%	$ 61,169	8.49%
Total risk-adjusted assets	$ 815,739		$ 772,333		$ 720,377	
Asset Leverage Ratio						
Tier 1 capital	$ 112,248	9.03%	$ 113,718	9.18%	$ 109,794	9.61%
Minimum requirement	62,139	5.00	61,931	5.00	57,154	5.00
Excess	$ 50,109	4.03%	$ 51,787	4.18%	$ 52,640	4.61%
Total adjusted assets	$1,242,777		$1,238,624		$1,143,073	

</TABLE>

The decline in each of the regulatory capital ratios between December 31, 1993, and March 31, 1994, was caused by the establishment of a $4 million equity valuation allowance for net unrealized holding losses on available for sale investment securities due to the adoption of SFAS #115. The establishment of this allowance negatively impacted the Company's March 31, 1994, book value per share by $0.83. Even after this decline, the Company exceeds all regulatory capital ratios for each of the periods presented. Furthermore, each of the Company's subsidiary banks are considered "well capitalized" under all applicable FDIC regulations. While remaining committed to maintaining this "well capitalized" designation, the Company will prudently pursue throughout 1994 appropriate strategies to improve its leveraging and use of capital to enhance total shareholder return.

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The Company's declared Common Stock cash dividend per share was $0.22 for the first three months of 1994 which was a 10% increase over the $0.20 per share dividend for the same 1993 interim period. The dividend yield on the Company's Common Stock now approximates 3.8% compared to an average Pennsylvania bank holding company yield of approximately 3.0%. The Company remains committed to a progressive total shareholder return which includes a competitive common dividend yield.

.....FUTURE OUTLOOK.....Numerous strategies are being explored to ensure that the Company continues to provide a progressive total shareholder return. Paramount among the challenges faced is the Company's desire to better leverage its capital strength. The successful acquisition of JSB, which is expected to be consummated by the end of the second quarter of 1994, will be an element in helping to leverage the Company's capital base. The Company will also leverage its capital base by a more extensive use of the borrowing capabilities available from the Federal Home Loan Bank. After the JSB Acquisition, USBANCORP will also execute its announced treasury stock repurchase program with the intent, dependent upon market circumstances, to buy back up to 5% of the total common shares outstanding. Management will continue to re-evaluate its dividend policies throughout the year in an ongoing effort to ensure a competitive dividend yield. Each of these actions will be directed to the goal of improved capital usage and leverage.

Overall corporate performance for the remainder of 1994 will be greatly affected by the consummation of the JSB acquisition which is expected to occur in June. USBANCORP anticipates recognizing approximately six months of earnings in 1994 from this latest acquisition; for the year ended December 31, 1993, JSB reported net income of $3,361,000. The Company will also recognize monthly after-tax purchase accounting net charges of approximately $120,000. Additionally, non-recurring acquisition restructuring charges, including such items as severance and professional fees, will be recognized in the second quarter and are estimated to approximate $1,700,000 after tax. Finally, the Company will issue approximately 982,000 additional common shares to effect the merger. Each of these items will result in a significant impact to the financial performance reported by USBANCORP during the remainder of 1994. Management continues to believe that the JSB acquisition will become accretive to the Company's earnings by the end of 1995 once all cost reductions and earnings enhancement opportunities have been successfully identified and implemented; excluding the one-time second quarter $1.7 million restructuring charges, the Company believes that the JSB Acquisition will be accretive to earnings per share by the fourth quarter of 1994, or within just two quarters of the deal consummation.

Service Area Map

Part II

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibit

15.1 Letter re: unaudited interim financial information

(b) Reports on Form 8-K

USBANCORP, Inc.'s Common Stock Repurchase Program

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

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undersigned thereunto duly authorized.

USBANCORP, Inc.
Registrant

Date: May 13, 1994

/s/Terry K. Dunkle
Terry K. Dunkle
Chairman, President and
Chief Executive Officer

Date: May 13, 1994

/s/Orlando B. Hanselman
Orlando B. Hanselman
Executive Vice President,
Chief Financial Officer and
Manager of Corporate Services

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STATEMENT OF MANAGEMENT RESPONSIBILITY

April 26, 1994

To the Stockholders and
Board of Directors of
USBANCORP, Inc.

Management of USBANCORP, Inc. and its subsidiaries have prepared the consolidated financial statements and other information in the Form 10-Q in accordance with generally accepted accounting principles and are responsible for its accuracy.

In meeting its responsibility, management relies on internal accounting and related control systems, which include selection and training of qualified personnel, establishment and communication of accounting and administrative policies and procedures, appropriate segregation of responsibilities, and programs of internal audit. These systems are designed to provide reasonable assurance that financial records are reliable for preparing financial statements and maintaining accountability for assets, and that assets are safeguarded against unauthorized use or disposition. Such assurance cannot be absolute because of inherent limitations in any internal control system.

Management also recognizes its responsibility to foster a climate in which Company affairs are conducted with the highest ethical standards. The Company's Code of Conduct, furnished to each employee and director, addresses the importance of open internal communications, potential conflicts of interest, compliance with applicable laws, including those related to financial disclosure, the confidentiality of proprietary information, and other items. There is an ongoing program to assess compliance with these policies.

The Audit Committee of the Company's Board of Directors consists solely of outside directors. The Audit Committee meets periodically with management and the independent accountants to discuss audit, financial reporting, and related matters. Arthur Andersen & Co. and the Company's internal auditors have direct access to the Audit Committee.

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/s/Terry K. Dunkle
Terry K. Dunkle
Chairman,
President & CEO

/s/Orlando B. Hanselman
Orlando B. Hanselman
Executive Vice President, CFO &
Manager of Corporate Services

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REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Stockholders and
Board of Directors of
USBANCORP, Inc.:

We have reviewed the accompanying consolidated balance sheets of USBANCORP, Inc. (a Pennsylvania corporation) and Subsidiaries as of March 31, 1994 and 1993, and the related consolidated statements of income, changes in stockholders' equity and cash flows for the three-month period ended March 31, 1994 and 1993. These financial statements are the responsibility of the company's management.

We conducted our review in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the financial statements referred to above for them to be in conformity with generally accepted accounting principles.

We have previously audited, in accordance with generally accepted auditing standards, the consolidated balance sheet of USBANCORP, Inc. as of December 31, 1993, and, in our report dated January 28, 1994, we expressed an unqualified opinion on that statement. In our opinion, the information set forth in the accompanying consolidated balance sheet as of December 31, 1993, is fairly stated, in all material respects, in relation to the balance sheet from which it has been derived.

ARTHUR ANDERSEN & CO.

/s/Arthur Andersen & Co.
Pittsburgh, Pennsylvania,
April 25, 1994

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