FORM 10-K

Annual report pursuant to section 13 and 15(d)

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FIRST WEST CHESTER CORP
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-K

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

For the fiscal year ended December 31, 1998, OR

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

For the transition period from _____________ to _____________

Commission File No. 0-12870

FIRST WEST CHESTER CORPORATION
(Exact name of Registrant as specified in its charter)

Pennsylvania	23-2288763
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

9 North High Street, West Chester, Pennsylvania 19380
(Address of principal executive offices)

Registrant's telephone number, including area code (610) 692-3000

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

Title of Each Class	Name of Each Exchange on Which Registered
None	None

Securities registered pursuant to Section 12(g) of the Act:
Common Stock, par value $1.00 per share
(Title of Class)

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

The aggregate market value of the Common Stock of the Registrant held by non-affiliates as of March 1, 1999, was approximately $73,687,000.

The number of shares outstanding of Common Stock of the Registrant as of March 1, 1999, was 4,605,282.

DOCUMENTS INCORPORATED BY REFERENCE

The Registrant's Annual Report to Shareholders for the year ended December 31, 1998, is incorporated by reference into Parts I and II hereof. The Registrant's definitive Proxy Statement for its 1998 Annual Meeting of Shareholders is incorporated by reference into Part III hereof.

FIRST WEST CHESTER CORPORATION AND SUBSIDIARIES

TABLE OF CONTENTS

<TABLE>

<CAPTION>

</TABLE>

PART I

Item 1. Business.

GENERAL

First West Chester Corporation (the "Corporation") is a Pennsylvania business corporation and a bank holding company registered under the Federal Bank Holding Company Act of 1956, as amended (the "BHC Act"). As a bank holding company, the Corporation's operations are confined to the ownership and operation of banks and activities deemed by the Board of Governors of the Federal Reserve System (the "Federal Reserve Board") to be so closely related to banking to be a proper incident thereto. The Corporation was incorporated on March 9, 1984, for the purpose of becoming a registered bank holding company pursuant to the BHC Act and acquiring The First National Bank of West Chester (the "Bank"), thereby enabling the Bank to operate within a bank holding company structure. On September 13, 1984, the Corporation acquired all of the issued and outstanding shares of common stock of the Bank. The principal activities of the Corporation are the owning and supervising of the Bank, which engages in a general banking business in Chester County, Pennsylvania. The Corporation directs the policies and coordinates the financial resources of the Bank. In addition, the Corporation is the sole shareholder of 323 East Gay Street Corp., a Pennsylvania corporation ("EGSC"), which was formed in 1996 for the purpose of holding the Bank's interest in and operating foreclosed real property until liquidation of such property.

BUSINESS OF THE BANK

The Bank is engaged in the business of commercial and retail banking and was organized under the banking laws of the United States in December 1863. The Bank currently conducts its business through seven banking offices located in Chester County, Pennsylvania, including its main office. In addition, the Bank operates four limited service ATM facilities. The Bank is a member of the Federal Reserve System. At December 31, 1998, the Bank had total assets of approximately $471 million, total loans of approximately $320 million, total deposits of approximately $418 million and employed 206 full-time equivalent persons.

The Bank is a full service commercial bank offering a broad range of retail banking, commercial banking, trust and financial management services to individuals and businesses. Retail services include checking accounts, savings programs, money-market accounts, certificates of deposit, safe deposit facilities, consumer loan programs, residential mortgages, overdraft checking, automated tellers and extended banking hours. Commercial services include revolving lines of credit, commercial mortgages, equipment leasing and letter of credit services.

These retail and commercial banking activities are provided primarily to consumers and small to mid-sized companies within the Bank's market area. Lending services are focused on commercial, consumer and real estate lending to local borrowers. The Bank attempts to establish a total borrowing relationship with its customers which may typically include a commercial real estate loan, a business line of credit for working capital needs, a mortgage loan for a borrower's residence, a consumer loan or a revolving personal credit line.

The Bank's Financial Management Services Department (formerly, the Trust Department) provides a broad range of personal trust services. It administers and provides investment management services for estates, trusts, agency accounts and employee benefit plans. At December 31, 1998, the Bank's Financial Management Services Department administered or provided investment management for 827 accounts, which possessed assets with an aggregate market value of approximately $405 million. For the year ended December 31, 1998, gross income from the Bank's Financial Management Services Department and related activities amounted to approximately $2.3 million and accounted for 5.9% of the total of interest income and other income of the Bank for such period.

COMPETITION

The Bank's service area consists primarily of greater Chester County, including West Chester and Kennett Square, as well as the fringe of Delaware County, Pennsylvania. The core of the Bank's service area is located within a fifteen-mile radius of the Bank's main office in West Chester, Pennsylvania. The Bank encounters vigorous competition for market share in the communities it serves from community banks, thrift institutions and other non-bank financial organizations. The Bank also competes with banking and financial branching systems, some from out of state, which are substantially larger and have greater financial resources than the Bank. There are branches of many commercial banks, savings banks and credit unions, including the Bank, in the general market area serviced by the Bank. The largest of these institutions had assets of over $100 billion and the smallest had assets of less than $30 million. The Bank had total assets of approximately $471 million as of December 31, 1998.

The Bank competes for deposits with various other commercial banks, savings banks, credit unions, brokerage firms and stock, bond and money market funds. The Bank also faces competition from major retail-oriented firms that offer financial services similar to traditional services available through commercial banks without being subject to the same degree of regulation. Mortgage banking firms, finance companies, insurance companies and leasing companies also compete with the Bank for traditional lending services.

Management believes that the Bank is able to effectively compete with its competitors because of its ability to provide responsive personalized services and competitive rates. This ability is a direct result of management's knowledge of the Bank's market area and customer base. Management believes the needs of the small to mid-sized commercial business and retail customers are not adequately met by larger financial institutions, therefore creating a marketing opportunity for the Bank.

BUSINESS OF EGSC

EGSC was formed in 1996 to hold the Bank's partnership interest in WCP Partnership. WCP Partnership was formed to facilitate the acquisition, necessary repairs, required environmental remediation and other actions necessary to sell real property located in West Chester, Pennsylvania (the "West Chester Property") at fair market value. EGSC purchased a 62% interest in the mortgage on the West Chester Property in 1996 from the Bank at book value and immediately contributed the interest in the mortgage to WCP Partnership as capital. Another financial institution contributed the remaining 38% interest in the mortgage to WCP Partnership. WCP Partnership foreclosed on the West Chester Property in 1996. During 1997, the property was liquidated. The proceeds from the liquidation were in excess of the transferred loan amount resulting in a gain which was included in noninterest income. As of December 31, 1998, the WCP

Partnership was dissolved.

SUPERVISION AND REGULATION

General

The Corporation is a bank holding company subject to supervision and regulation by the Federal Reserve Board. In addition, the Bank is subject to supervision and regulation by the Office of the Comptroller of the Currency (the "OCC"), and the Federal Deposit Insurance Corporation (the "FDIC"). Certain aspects of the Bank's operation are also subject to state laws. The following is not intended to be an exhaustive description of the statutes and regulations applicable to the Corporation and the Bank.

Government Regulation

The Corporation is required to file with the Federal Reserve Board an annual report and such additional information as the Federal Reserve Board may require pursuant to the BHC Act. Annual and other periodic reports also are required to be filed with the Federal Reserve Board. The Federal Reserve Board also makes examinations of bank holding companies and their subsidiaries. The BHC Act requires each bank holding company to obtain the prior approval of the Federal Reserve Board before it may acquire substantially all of the assets of any bank, or if it would acquire or control more than 5% of the voting shares of such a bank. The Federal Reserve Board considers numerous factors, including its capital adequacy guidelines, before approving such acquisitions. For a description of certain applicable guidelines, see this Item "Capital," Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Capital Adequacy," and Part II, Item 8, "Note I -- Capital Requirements" in the consolidated financial statements.

The BHC Act also restricts the types of businesses and operations in which a bank holding company and its subsidiaries may engage. Generally, permissible activities are limited to banking and activities found by the Federal Reserve Board to be so closely related to banking as to be a proper incident thereto. Further, a bank holding company and its subsidiaries are generally prohibited from engaging in certain tie-in arrangements in connection with any extension of credit, lease or sale of property or furnishing of services.

The operations of the Bank are subject to requirements and restrictions under federal and state law, including requirements to maintain reserves against deposits, restrictions on the types and amounts of loans that may be made and the types of services which may be offered, and restrictions on the ability to acquire deposits under certain circumstances. Various consumer laws and regulations also affect the operations of the Bank. Approval of the OCC is required for branching by the Bank and for bank mergers in which the continuing bank is a national bank.

The Community Reinvestment Act

The Community Reinvestment Act of 1977, as amended (the "CRA"), and the regulations promulgated to implement the CRA are designed to create a system for bank regulatory agencies to evaluate a depository institution's record in meeting the credit needs of its community. The CRA regulations were completely revised in 1995 to establish performance-based standards for use in examining a depository institution's compliance with the CRA (the "revised CRA regulations"). The revised CRA regulations establish new tests for evaluating both small and large depository institutions' investment in the community. For the purposes of the revised CRA regulations, the Bank is deemed to be a large retail institution, based upon financial information as of December 31, 1998. The Bank has opted to be examined under a three-part test evaluating the Bank's lending service and investment performance. The Bank received a "satisfactory" rating in 1998.

Dividend Restrictions

The Corporation is a legal entity separate and distinct from the Bank. Virtually all of the revenue of the Corporation available for payment of dividends on its common stock, with a par value of $1.00 (the "Common Stock") will result from amounts paid to the Corporation from dividends received from the Bank. All such dividends are subject to limitations imposed by federal and state laws and by regulations and policies adopted by federal and state regulatory agencies.

The Bank as a national bank is required by federal law to obtain the approval of the OCC for the payment of dividends if the total of all dividends declared by the Board of Directors of the Bank in any calendar year will exceed the total of Bank's net income for that year and the retained net income for the preceding two years, less any required transfers to surplus or a fund for the retirement of any preferred stock. Under this formula, in 1998, the Bank, without affirmative governmental approvals, could declare aggregate dividends in

1998 of approximately $5.9 million, plus an amount approximately equal to the net income, if any, earned by the Bank for the period from January 1, 1998, through the date of declaration of such dividend less dividends previously paid in 1998, subject to the further limitations that a national bank can pay dividends only to the extent that retained net profits (including the portion transferred to surplus) exceed bad debts and provided that the Bank would not become "undercapitalized" (as these terms are defined under federal law).

If, in the opinion of the applicable regulatory authority, a bank or bank holding company under its jurisdiction is engaged in or is about to engage in an unsafe or unsound practice (which, depending on the financial condition of the bank or bank holding company, could include the payment of dividends), such regulatory authority may require such bank or bank holding company to cease and desist from such practice, or to limit dividends in the future. Finally, the several regulatory authorities described herein, may from time to time, establish guidelines, issue policy statements and adopt regulations with respect to the maintenance of appropriate levels of capital by a bank or bank holding company under their jurisdiction. Compliance with the standards set forth in such policy statements, guidelines and regulations could limit the amount of dividends which the Corporation and the Bank may pay.

Capital

The Corporation and the Bank are both subject to minimum capital requirements and guidelines. The Federal Reserve Board measures capital adequacy for bank holding companies on the basis of a risk-based capital framework and a leverage ratio. The Federal Reserve Board has established minimum leverage ratio guidelines for bank holding companies. These guidelines currently provide for a minimum leverage ratio of Tier I capital to adjusted total assets of 3% for bank holding companies that meet certain criteria, including that they maintain the highest regulatory rating. All other bank holding companies are required to maintain a leverage ratio of 3% plus an additional cushion of at least 100 to 200 basis points. The Federal Reserve Board has not advised the Corporation of any specific minimum leverage ratio under these guidelines which would be applicable to the Corporation. Failure to satisfy regulators that a bank holding company will comply fully with capital adequacy guidelines upon consummation of an acquisition may impede the ability of a bank holding company to consummate such acquisition, particularly if the acquisition involves payment of consideration other than common stock. In many cases, the regulatory agencies will not approve acquisitions by bank holding companies and banks unless their capital ratios are well above regulatory minimums.

The Bank is subject to capital requirements which generally are similar to those affecting the Corporation. The minimum ratio of total risk-based capital to risk-adjusted assets (including certain off-balance sheet items, such as standby letters of credit) is 8%. Capital may consist of equity and qualifying perpetual preferred stock, less goodwill ("Tier I capital"), and certain convertible debt securities, qualifying subordinated debt, other preferred stock and a portion of the reserve for possible credit losses ("Tier II capital").

A depository institution's capital classification depends upon its capital levels in relation to various relevant capital measures, which include a risk-based capital measure and a leverage ratio capital measure. A depository institution is considered well capitalized if it significantly exceeds the minimum level required by regulation for each relevant capital measure, adequately capitalized if it meets each such measure, undercapitalized if it fails to meet any such measure, significantly undercapitalized if it is significantly below any such measure and critically undercapitalized if it fails to meet any critical capital level set forth in the regulations. An institution may be placed in a lower capitalization category if it receives an unsatisfactory examination rating, is deemed to be in an unsafe or unsound condition, or engages in unsafe or unsound practices. Under applicable regulations, for an institution to be well capitalized it must have a total risk-based capital ratio of at least 10%, a Tier I risk-based capital ratio of at least 6% and a Tier I leverage ratio of at least 5% and not be subject to any specific capital order or directive. As of December 31, 1998, 1997 and 1996, the Corporation and the Bank had capital in excess of all regulatory minimums and the Bank was "well capitalized." See Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Financial Condition" and "--Capital Adequacy" and Part II, Item 8, "Note I -- Capital Requirements" in the consolidated financial statements.

Deposit Insurance Assessments

The Bank is subject to deposit insurance assessments by the FDIC's Bank Insurance Fund ("BIF"). The FDIC has developed a risk-based assessment system, under which the assessment rate for an insured depository institution varies according to its level of risk. An institution's risk category is based upon whether the institution is well capitalized, adequately capitalized or undercapitalized and the institution's "supervisory subgroups": Subgroup A, B or C. Subgroup A institutions are financially sound institutions with a few minor weaknesses; Subgroup B institutions are institutions that demonstrate weaknesses which, if not corrected, could result in significant deterioration; and Subgroup C institutions are institutions for which there is a substantial probability that the FDIC will suffer a loss in connection with the institution unless effective action is taken to correct the areas of weakness. Based on its capital and supervisory subgroups, each BIF member institution is assigned an annual FDIC assessment rate per $100 of insured deposits varying between 0.00% per annum (for well capitalized Subgroup A institutions) and 0.27% per annum (for undercapitalized Subgroup C institutions). As of January 1, 1999, well capitalized Subgroup A institutions will pay between 0.00% and 0.10% per annum.

In accordance with the Deposit Insurance Act of 1997 an additional assessment by the Financing Corporation ("FICO") became applicable to all insured institutions as of January 1, 1998. This assessment is not tied to the FDIC risk classification. The BIF FICO assessment will be 1.220 basis points for 1999. For the first quarter of 1999, the Bank's assessments for BIF and BIF FICO are $0.00 and $11,918, respectively.

Other Matters

Federal and state law also contains a variety of other provisions that affect the operations of the Corporation and the Bank including certain reporting requirements, regulatory standards and guidelines for real estate lending, "truth in savings" provisions, the requirement that a depository institution give 90 days prior notice to customers and regulatory authorities before closing any branch, certain restrictions on investments and activities of nationally-chartered insured banks and their subsidiaries, limitations on credit exposure between banks, restrictions on loans to a bank's insiders, guidelines governing regulatory examinations, and a prohibition on the acceptance or renewal of brokered deposits by depository institutions that are not well capitalized or are adequately capitalized and have not received a waiver from the FDIC.

The Corporation's Common Stock is registered under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). As a result, the Corporation is subject to the regulations promulgated under the Exchange Act regarding the filing of public reports, the solicitation of proxies, the disclosure of beneficial ownership of certain securities, short swing profits and the conduct of tender offers.

EFFECT OF GOVERNMENTAL POLICIES

The earnings of the Bank and, therefore, of the Corporation are affected not only by domestic and foreign economic conditions, but also by the monetary and fiscal policies of the United States and its agencies (particularly the Federal Reserve Board), foreign governments and other official agencies. The Federal Reserve Board can and does implement national monetary policy, such as the curbing of inflation and combating of recession, by its open market operations in United States government securities, control of the discount rate applicable to borrowings from the Federal Reserve and the establishment of reserve requirements against deposits and certain liabilities of depository institutions. The actions of the Federal Reserve Board influence the level of loans, investments and deposits and also affect interest rates charged on loans or paid on deposits. The nature and impact of future changes in monetary and fiscal policies are not predictable.

From time to time, various proposals are made in the United States Congress and the Pennsylvania legislature and before various regulatory authorities which would alter the powers of different types of banking organizations, remove restrictions on such organizations and change the existing regulatory framework for banks, bank holding companies and other financial institutions. It is impossible to predict whether any of such proposals will be adopted and the impact, if any, of such adoption on the business of the Corporation.

ACCOUNTING STANDARDS

Impairment of Long-Lived Assets

The Corporation adopted the Financial Accounting Standards Board Statement ("SFAS") No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of" on January 1, 1996. See Note A-6 in Notes to Consolidated Financial Statements included in the Corporation's 1998 Annual Report to Shareholders, incorporated herein by reference.

Stock Based Compensation Plans

The Corporation adopted SFAS No. 123, "Accounting for Stock Based Compensation" on January 1, 1996. See Note A-10 in Notes to Consolidated Financial Statements included in the Corporation's 1998 Annual Report to Shareholders, incorporated herein by reference.

Accounting for Transfer and Services of Financial Assets and Extinquishments of

The Corporation adopted SFAS No. 125, "Accounting for Transfer and Servicing of Financial Assets and Extinguishments of Liabilities" as amended by SFAS No. 127, as of January 1, 1998. See Note A-14 in Notes to Consolidated Financial Statements included in the Corporation's 1998 Annual Report to Shareholders, incorporated herein by reference.

Earnings Per Share

The Corporation adopted SFAS No. 128, "Earnings per Share" as of January 1, 1998. See Note A-12 in Notes to Consolidated Financial Statements included in the Corporation's 1998 Annual Report to Shareholders, incorporated herein by reference.

Reporting Comprehensive Income

The Corporation adopted SFAS No. 130, "Reporting Comprehensive Income" effective as of January 1, 1998. See Note A-15 in Notes to Consolidated Financial Statements included in the Corporation's 1998 Annual Report to Shareholders, incorporated herein by reference.

Disclosures about Segments of an Enterprise and Related Information

The Corporation adopted SFAS No. 131, "Disclosure about Segments of an Enterprise and Related Information" as of January 1, 1998. See Note A-16 in Notes to Consolidated Financial Statements included in the Corporations 1998 Annual Report to Shareholders, incorporated by herein by reference.

Disclosures about Derivative Instruments and Hedging Activities

In June 1998, SFAS No. 133, "Disclosures about Derivative Instruments and Hedging Activities" was issued effective for all fiscal quarters of fiscal years beginning after June 15, 1999. See Note A-17 in Notes to Consolidated Financial Statements included in the Corporation's 1998 Annual Report to Shareholders, incorporated herein by reference.

STATISTICAL DISCLOSURES

The following tables set forth certain statistical disclosures concerning the Corporation and the Bank. These tables should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations contained in the Corporation's 1998 Annual Report to Shareholders, incorporated herein by reference.

FIRST WEST CHESTER CORPORATION AND SUBSIDIARIES
RATE VOLUME ANALYSIS (1)

<TABLE>
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	Increase (decrease) in net interest income due to:					
	Volume (2)	Rate (2)	Total	Volume (2)	Rate (2)	Total
(Dollars in thousands)	1998 Compared to 1997			1997 Compared to 1996		
<S>	<C>	<C>	<C>	<C>	<C>	<C>

INTEREST INCOME						
Federal funds sold	$ 138	$ (10)	$ 128	$ (435)	$ 9	$ (426)
Interest Bearing Deposits in Banks	(12)	-	(12)	(35)	-	(35)
Investment securities						
Taxable	244	(410)	(166)	(946)	187	(759)
Tax-exempt(3)	(42)	4	(38)	(29)	5	(24)
Total investment securities	202	(406)	(204)	(975)	192	(783)
Loans						
Taxable	2,035	(198)	1,837	4,430	(738)	3,692
Tax-exempt(3)	(205)	32	(174)	210	(169)	41
Total loans(4)	1,830	(167)	1,663	4,640	(907)	3,733
Total interest income	2,158	(582)	1,575	3,195	(706)	2,489
INTEREST EXPENSE						
Savings, NOW and money market deposits	323	(46)	277	162	43	205
Certificates of deposits and other time	714	18	732	582	68	650
Total interest bearing deposits	1,037	(28)	1,009	744	111	855
Securities sold under repurchase agreements	(181)	16	(165)	(37)	(2)	(39)
Other borrowings	(76)	15	(61)	--	401	401
Total Interest expense	780	3	783	707	510	1,217
Net Interest income	$ 1,378	$ (585)	$ 792	$ 2,488	$(1,216)	$1,272

<FN>

NOTES:

(1) The related average balance sheets can be found on page 25 of the Corporation's 1998 Annual Report to Shareholders.

(2) The changes in interest due to both rate and volume has been allocated to volume and rate changes in proportion to the relationship of the absolute dollar amounts of the change in each.

(3) The indicated changes are presented on a tax equivalent basis.

(4) Non-accruing loans have been used in the daily average balances to determine changes in interest due to volume. Loan fees included in the interest income computation are not material.

</FN>
</TABLE>

FIRST WEST CHESTER CORPORATION AND SUBSIDIARIES
LOAN PORTFOLIO BY TYPE AT DECEMBER 31,

<TABLE>
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(Dollars in thousand)	1998		1997		1996		1995		1994	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Commercial loans	$ 85,110	27%	$ 93,914	30%	$ 87,932	34%	$ 86,686	36%	$ 87,689	37%

Real estate - construction	13,439	4%	17,256	5%	11,447	4%	9,372	4%	4,607	2%
Real estate - other	133,191	42%	117,953	37%	109,179	41%	100,814	41%	101,589	42%
Consumer loans (1)	62,481	19%	66,753	21%	39,803	15%	33,836	14%	32,984	14%
Lease financing receivables	26,174	8%	23,023	7%	16,221	6%	11,879	5%	12,257	5%
Total gross loans	$ 320,395	100%	$ 318,899	100%	$264,582	100%	$242,587	100%	$ 239,126	100%
Allowance for possible loan losses(2)	$ (5,877)		$ (5,900)		$ (5,218)		$ (4,506)		$ (3,303)	
Total loans(2)	$ 314,518		$ 312,999		$259,364		$238,081		$ 235,823	

<FN>

NOTES:

(1) Consumer loans include open-end home equity lines of credit and credit card receivables.

(2) The Corporation does not breakdown the allowance for possible loan losses by area, industry or type of loan because the evaluation process used to determine the adequacy of the reserve is based on the portfolio as a whole. Management believes such an allocation would not be meaningful. See pages 29-30 of the Corporation's 1998 Annual Report to Shareholders for additional information.

(3) At December 31, 1998 there were no concentrations of loans exceeding 10% of total loans which is not otherwise disclosed as a category of loans in the above table.
</FN>
</TABLE>

FIRST WEST CHESTER CORPORATION AND SUBSIDIARIES
MATURITIES AND RATE SENSITIVITY OF LOANS DUE TO CHANGES IN INTEREST RATES AT DECEMBER 31, 1998 (1) (2)

<TABLE>
<CAPTION>

(Dollars in thousands)	Maturing Within 1 Year (3)	Maturing After 1 Year And Within 5 Years	Maturing After 5 Years	Total
<S>	<C>	<C>	<C>	<C>
Commercial loans	$64,963	$5,563	$14,584	$85,110
Real Estate - construction	13,439	--	--	13,439
Total	$78,402	$5,563	$14,584	$98,549
Loans maturing after 1 year with:				
Fixed interest rates		$5,563	$14,584	
Variable interest rates		--	--	
Total		$5,563	$14,584	

<FN>

NOTES:

(1) Determination of maturities included in the loan maturity table are based upon contract terms. In situations where a "rollover" is appropriate, the Corporation's policy in this regard is to evaluate the credit for collectability consistent with the normal loan evaluation process. This policy is used primarily in evaluating ongoing customer's use of their lines of credit with the Bank that are at floating interest rates.

(2) This data excludes real estate-other loans, consumer loans and lease financing receivables.

(3) Demand loans and overdrafts are reported maturing "Within 1 Year". Construction real estate loans are reported maturing "Within 1 Year" because of their short term maturity or index to the Bank's prime rate. An immaterial amount of loans has no stated schedule of repayments.

</FN>
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FIRST WEST CHESTER CORPORATION AND SUBSIDIARIES
INVESTMENT SECURITIES YIELD BY MATURITY AT DECEMBER 31, 1998

<TABLE>
<CAPTION>

(Dollars in thousands)	Due Within 1 year	Due over 1 year Through 5 years	Due over 5 years Through 10 years	Due Over 10 years	Total
<S>	<C>	<C>	<C>	<C>	<C>
Held-to-Maturity					
U.S. Treasury	--	--	--	--	--
U.S. Government agency	--	--	--	--	--
Mortgage-backed securities (1)	442	359	--	58	859
State and municipal (2)	340	907	1,660	--	2,907
Corporate securities	1,000	2,110	--	--	3,110
Asset-backed (1)	530	--	--	--	530
	2,312	3,376	1,660	58	7,406
Available-for-Sale					
U.S. Treasury	4,996	--	--	--	4,996
U.S. Government agency	--	--	--	--	--
Mortgage-backed securities (1)	--	10,737	11,409	55,259	77,405
State and municipal (2)	--	--	--	500	500
Corporate securities	1,000	--	4,578	694	6,272
Asset-backed (1)	--	--	1,585	7,052	8,637
Mutual Funds	--	--	--	1,091	1,091
Other equity securities (3)	--	--	--	3,037	3,037
	5,996	10,737	17,572	67,633	101,938
Total Investment securities	$ 8,308	$14,113	$19,232	$ 67,691	$109,344
Percent of portfolio	7.60%	12.91%	17.59%	61.91%	100.00%
Weighted average yield	5.82%	5.90%	6.50%	5.71%	5.89%

<FN>

NOTES:

(1) Mortgage-backed and Asset-backed securities are included in the above table based on their contractual maturity.

(2) The yield on tax-exempt obligations has been computed on a tax equivalent basis using the Federal marginal rate of 34% adjusted for the 20% interest expense disallowance.

(3) Other equity securities having no stated maturity have been included in "Due over 10 years".

</FN>
</TABLE>

FIRST WEST CHESTER CORPORATION AND SUBSIDIARIES
INVESTMENT SECURITIES AT DECEMBER 31,

<TABLE>
<CAPTION>

	1998		1997		1996	
(Dollars in thousands)	Book Value	Market Value	Book Value	Market Value	Book Value	Market Value
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Held-to-Maturity						
U.S. Treasury	$ --	$ --	$ 1,493	$ 1,494	$ 1,483	$ 1,482
U.S. Government agency	--	--	--	--	--	--
Mortgage-backed securities	859	860	1,519	1,520	2,145	2,130
State and municipal	2,907	3,069	3,955	4,081	5,742	5,834
Corporate securities	3,110	3,144	4,115	4,129	5,121	5,123
Asset-backed	530	533	1,000	1,013	1,176	1,180
Mutual funds	--	--	--	--	--	--
Other equity securities	--	--	--	--	--	--
	$ 7,406	$ 7,606	$ 12,082	$ 12,237	$ 15,667	$15,749
Available-for-Sale						
U.S. Treasury	$ 5,019	$ 5,019	$ 6,528	$ 6,528	$ 9,529	$ 9,529
U.S. Government agency	--	--	7,392	7,392	14,503	14,503
Mortgage-backed securities	77,516	77,516	47,688	47,688	47,031	47,031
State and municipal	497	497	--	--	278	278
Corporate securities	6,262	6,262	1,000	1,000	--	--
Asset-backed	8,760	8,760	--	--	1,268	1,268
Mutual Funds	1,039	1,039	1,042	1,042	7,535	7,535
Other equity securities	3,287	3,287	1,866	1,866	1,864	1,864
	$ 102,380	$ 102,380	$ 65,516	$ 65,516	$ 82,008	$82,008

</TABLE>

MATURITIES OF CERTIFICATES OF DEPOSIT AND OTHER TIME DEPOSITS,
$100,000 OR MORE, AT DECEMBER 31, 1998

<TABLE>
<CAPTION>

(Dollars in thousands)	Due Within 3 Months	Over 3 Months Through 6 Months	Over 6 Months Through 12 Months	Due Over 12 Months	Total
<S>	<C>	<C>	<C>	<C>	<C>
Certificates of Deposit $100,000 or more	$ 7,778	$ 6,193	$ 3,697	$ 10,153	$27,821

</TABLE>

FIRST WEST CHESTER CORPORATION AND SUBSIDIARIES
EFFECT OF NONACCRUING LOANS ON INTEREST FOR

YEARS ENDED DECEMBER 31,

<TABLE>
<CAPTION>

(Dollars in thousands)	1998	1997	1996	1995	1994
Interest income which would have been recorded (1)	$ 129	$ 64	$ 42	$ 103	$ 432
Interest income that was received from customer	25	37	1	172	--
	$ 104	$ 27	$ 41	$ (69)	$ 432

<FN>

NOTES:

(1) Generally the Bank places a loan in nonaccrual status when principal or interest has been in default for a period of 90 days or more unless the loan is both well secured and in the process of collection.

</FN>
</TABLE>

Item 2. Properties.

The Bank owns eight properties which are not subject to any mortgages. The Corporation owns one property which is not subject to any mortgage, and which is located at 124 West Cypress Street, Kennett Square, Pennsylvania. In addition, the Corporation leases the Westtown-Thornbury, Exton and Frazer Offices. Management of the Corporation believes the Corporation's and the Bank's facilities are suitable and adequate for their respective present needs. Set forth below is a listing of each banking office presently operated by the Bank and the Corporation, and other properties owned by the Bank and the Corporation which may serve as future sites for branch offices.

<TABLE>
<CAPTION>

Current Banking Offices / Use	Address	Date Acquired or Opened
Main Office / Branch and Corporate Headquarters	9 North High Street West Chester, Pennsylvania	December 1863
Walk-In Facility / Branch	17 East Market Street West Chester, Pennsylvania	February 1978
Westtown-Thornbury / Branch	Route 202 and Route 926 Westtown, Pennsylvania	May 1994
Goshen / Branch	311 North Five Points Road West Goshen, Pennsylvania	September 1956
Kennett Square / Branch	126 West Cypress Street Kennett Square, Pennsylvania	February 1987
Exton / Branch	Route 100 and Boot Road West Chester, Pennsylvania	August 1995

Frazer / Branch	309 Lancaster Avenue Frazer, Pennsylvania	August 1998
Former Commonwealth Building / Mortgage Center	High & Market Streets West Chester, Pennsylvania	July 1995

Other Properties / Use	Address	Date Acquired or Opened
Operations Center / Operations	202 Carter Drive West Chester, Pennsylvania	July 1988
Matlack Street / Operations	887 South Matlack Street West Chester, Pennsylvania	September 1998
Paoli Pike / Parking	1104 Paoli Pike West Chester, Pennsylvania	July 1963
Kennett Square / Parking	124 West Cypress Street Kennett Square, Pennsylvania	July 1986
Westtown / Operations	1039 Wilmington Pike Westtown, Pennsylvania	February 1965

</TABLE>

Item 3. Legal Proceedings.

There are no material pending legal proceedings, other than ordinary routine litigation incidental to the business, to which the Corporation, the Bank or EGSC is a party or of which any of their respective property is the subject.

Item 4. Submission of Matters to a Vote of Security Holders.

None.

PART II

Item 5. Market for the Corporation's Common Equity and Related Stockholder Matters.

The Corporation's Common Stock is publicly traded over the counter. Trading is sporadic. Information regarding high and low bid quotations is incorporated herein by reference from the Corporation's 1998 Annual Report to Shareholders, attached as an exhibit hereto. As of March 1, 1998, there were approximately 920 shareholders of record of the Corporation's Common Stock.

The Corporation declared cash dividends per share on its Common Stock during each quarter of the fiscal years ended December 31, 1998 and 1997, as set forth in the following table (which have been adjusted for the stock splits which occurred on April 1, 1997 and November 24, 1998):

	Dividends Amount Per Share 1998	Dividends Amount Per Share 1997
First Quarter	$ 0.11	$ 0.10
Second Quarter	0.11	0.10
Third Quarter	0.11	0.10
Fourth Quarter	0.14	0.12
Total	$ 0.47	$ 0.42

The holders of the Corporation's Common Stock are entitled to receive such dividends as may be legally declared by the Corporation's Board of Directors. The amount, time, and payment of future dividends, however, will depend on the earnings and financial condition of the Corporation, government policies, and other factors. See Part I, Item 1, "Supervision and Regulation" for information concerning limitations on the payment of dividends by the Bank and the Corporation and on the ability of the Corporation to otherwise obtain funds from the Bank.

Item 6. Selected Financial Data.

Selected financial data concerning the Corporation and the Bank is incorporated herein by reference from the Corporation's 1998 Annual Report to Shareholders, attached as an exhibit hereto.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Management's Discussion and Analysis of Financial Condition and Results of Operations is incorporated herein by reference from the Corporation's 1998 Annual Report to Shareholders, attached as an exhibit hereto.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Quantitative and Qualitative Disclosures About Market Risk are incorporated herein by reference from the Corporation's 1998 Annual Report to Shareholders, attached as an exhibit hereto.

Item 8. Financial Statements and Supplementary Data.

Consolidated financial statements of the Corporation and the Report of Independent Certified Public Accountants thereon are incorporated herein by reference from the Corporation's 1998 Annual Report to Shareholders, attached as an exhibit hereto.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

PART III

Item 10. Directors and Executive Officers of the Corporation.

The information called for by this item is incorporated herein by reference to the Corporation's Proxy Statement dated February 19, 1998, for its 1999 Annual Meeting of Shareholders.

Item 11. Executive Compensation.

The information called for by this item is incorporated herein by reference to the Corporation's Proxy Statement dated February 19, 1998, for its 1999 Annual Meeting of Shareholders.

Item 12. Security Ownership of Certain Beneficial Owners and Management.

The information called for by this item is incorporated herein by reference to the Corporation's Proxy Statement dated February 19, 1998, for its 1999 Annual Meeting of Shareholders.

Item 13. Certain Relationships and Related Transactions.

The information called for by this item is incorporated herein by reference to the Corporation's Proxy Statement dated February 19, 1998, for its 1999 Annual Meeting of Shareholders.

PART IV

Item 14. Exhibits, Financial Statement Schedules, and Reports on Form 8-K.

1. Index to Consolidated Financial Statements

<TABLE>
<CAPTION>

</TABLE>

The Consolidated Financial Statements listed in the above index, together with the report thereon of Grant Thornton LLP dated January 22, 1999, which are included in the Corporation's Annual Report to Shareholders for the year ended December 31, 1998, are hereby incorporated herein by reference.

2. Financial Statement Schedules

Financial Statement Schedules are not required under the related instructions of the Securities and Exchange Commission, are inapplicable or are included in the Consolidated Financial Statements or notes thereto.

3. Exhibits

The following is a list of the exhibits filed with, or incorporated by reference into, this Report (those exhibits marked with an asterisk are filed herewith):

* 3(i). Articles of Incorporation. Copy of the Articles of Incorporation of the Corporation, as amended.

3(ii). By-Laws of the Corporation. By-Laws of the Corporation, filed as Exhibit 3 (ii) to the Corporation's Annual Report on Form 10-K for the year ended December 31, 1997 is incorporated by reference.

10. Material contracts.

(a) Copy of Employment Agreement among the Corporation, the Bank and Charles E. Swope dated January 1, 1998, filed as Exhibit 10 (a) to the Corporation's Annual Report on Form 10-K for the year ended December 31, 1997 is incorporated by reference.

(b) Copy of the Corporation's Dividend Reinvestment and Stock Purchase Plan, filed as an exhibit to the Corporation's registration statement on Form S-3 filed August 8, 1997 (File no. 333-33175) is incorporated herein by reference.

(c) Copy of the Corporation's Amended and Restated Stock Bonus Plan, filed as an exhibit to the Corporation's registration statement on Form S-8 filed August 12, 1997 (File no. 333-33411) is incorporated herein by reference.

(d) Copy of the Bank's Amended and Restated Supplemental Benefit Retirement Plan, effective date January 1, 1995, is incorporated herein by reference to Exhibit 10(g) to the Corporation's Annual Report on Form 10-K for the year ended December 31, 1994.

(e) Copy of the Corporation's and the Bank's Directors Deferred Compensation Plan, effective December 30, 1995, is incorporated herein by reference to Exhibit 10(h) to the Corporation's Annual Report on Form 10-K for the year ended December 31, 1995.

(f) Copy of the Corporation's Amended and Restated 1995 Stock Option Plan, filed as an exhibit to the Corporation's Proxy statement for the 1999 Annual Meeting of Shareholders is incorporated herein by reference.

* 13 Annual Report to Security Holders, Form 10-Q or Quarterly Report to Security Holders. The Corporation's Annual Report to Shareholders for the year ended December 31, 1998. With the exception of the pages listed in the Index to Consolidated Financial Statements and the items referred to in Items 1, 5, 6, 7 and 8 hereof, the Corporation's 1998 Annual Report to Shareholders is not deemed to be filed as part of this Report.

* 21. Subsidiaries of the Corporation. The First National Bank of West Chester, a banking institution organized under the banking laws of the United States in December 1863. 323 East Gay Street Corporation incorporated in 1996 in the State of Pennsylvania.

* 23. Consents of experts and counsel. Consent of Grant Thornton LLP, dated March 25, 1999.

* 27. Financial Data Schedules. A Financial Data Schedule is being submitted with the Corporation's 1998 Annual Report on Form 10-K in the electronic format prescribed by the EDGAR Filer Manual and sets forth the financial information specified by Article 9 of Regulation S-X and Securities Act Industry Guide 3 information and Exchange Act Industry Guide 3 listed in Appendix C to Item 601 of Regulation S-K. 1996 and 1995 Restated Financial Data Schedules as per FASB 128.

(b) Reports on Form 8-K. No reports on Form 8-K were filed by the Corporation during the quarter ended December 31, 1998.

SIGNATURES

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

FIRST WEST CHESTER CORPORATION

/s/ Charles E. Swope
By:______________________
Charles E. Swope,
President

Date: March 26, 1999

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this report has been signed below by the following persons on behalf of the Corporation and in the capacities indicated on March 26, 1999.

Signature	Title

---------	-----
/s/ Charles E. Swope ______________________________ Charles E. Swope	President, Chief Executive Officer and Chairman of the Board of Directors
/s/ J. Duncan Smith ______________________________ J. Duncan Smith	Treasurer (Principal Accounting and Financial Officer)

(Signatures continued on following page)

(Signatures continued from previous page)

Signature	Title
/s/ John J. Ciccarone -------------------------------- John J. Ciccarone	Director
/s/ M. Robert Clarke --------------------------------- M. Robert Clarke	Director
/s/ Edward J. Cotter --------------------------------- Edward J. Cotter	Secretary and Director
/s/ Clifford E. DeBaptiste --------------------------------- Clifford E. DeBaptiste	Director
/s/ John A. Featherman, III --------------------------------- John A. Featherman, III	Director
/s/ J. Carol Hanson --------------------------------- J. Carol Hanson	Director
/s/ John S. Halsted --------------------------------- John S. Halsted	Director
/s/ David L. Peirce --------------------------------- David L. Peirce	Director
/s/ John B. Waldron --------------------------------- John B. Waldron	Director

Index to Exhibits

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COMMONWEALTH OF PENNSYLVANIA
DEPARTMENT OF STATE
CORPORATION BUREAU

ARTICLES OF INCORPORATION *
OF
FIRST WEST CHESTER CORPORATION

In compliance with the requirements of the Business Corporation Law, approved the fifth day of May, A.D., 1933, as amended, the undersigned, desiring to be incorporated as a business corporation, does hereby certify:

Article 1

The name of the Corporation is: First West Chester Corporation

Article 2

The location and post office address of the initial registered office of the Corporation in the Commonwealth of Pennsylvania is: Nine North High Street, West Chester, Pennsylvania 19380.

Article 3

The Corporation is incorporated under the Business Corporation law of the Commonwealth of Pennsylvania for the following purposes: To engage in and do any lawful act concerning all lawful business for which corporations may be incorporated under the Business Corporation Law of Pennsylvania and to do all things and exercise all powers, rights and privileges which a business corporation may now or hereafter be organized or authorized to do or to exercise under the laws of the Commonwealth of Pennsylvania.

Article 4

The term for which the Corporation is to exist is perpetual.

Article 5

The aggregate number of shares of capital stock which the Corporation shall have authority to issue is (10,000,000) shares of common stock with a par value of $20.00 per share.

* Restated to include the amendment there to approved by stockholders on March 16, 1999.

Article 6

A. The provisions of this Article 6 shall apply to any of the following transactions (hereinafter referred to as "Business Combinations"):

(1) any merger or consolidation of the Corporation or any subsidiary of the Corporation with or into any other corporation, person or other entity which is the owner or beneficial owner, directly or indirectly, of 20% or more of the outstanding voting securities of the Corporation; or

(2) any sale or lease or exchange or other disposition (in one transaction or a series of related transactions) of all or substantially all of the assets of the Corporation to any other corporation, person or other entity which is the beneficial owner, directly or indirectly, of 20% or more of the outstanding voting securities of the Corporation; or

(3) any sale or lease or exchange or other disposition (in one transaction or a series of related transactions) to the Corporation or any subsidiary of the Corporation of any agents having an aggregate fair market value equal to or greater than ten (10%) percent of the Corporation's consolidated stockholders' equity as of the date thereof in exchange for voting securities (or securities convertible into or exchangeable for voting securities, or options, warrants or rights to purchase voting securities or securities convertible into or exchangeable for voting securities) of the Corporation or any subsidiary of the Corporation by any other corporation, person or other entity which is the beneficial owner, directly or indirectly, of 20% or more of the outstanding voting securities of the Corporation; or

(4) any reclassification of securities, recapitalization or other transactions designed to decrease the numbers of hollers of the Corporation's voting securities remaining after any other corporation, person or other entity has acquired 20% or more of the outstanding voting securities of the Corporation. A corporation, person or other entity (other than the Corporation or any subsidiary of the Corporation) which is the beneficial owner, directly or indirectly, of 20% or more of the Corporation's outstanding voting securities (taken together as a single class) is herein referred to as the "Acquiring Entity".

B. Notwithstanding the fact that by law or by agreement with a national securities exchange or otherwise, no vote, or a lesser vote, of shareholders may be specified or required, the affirmative vote of the holders of at least seventy-five (75%) percent of outstanding shares of capital stock of the Corporation entitled to vote generally in the election of directors (taken together as a single class) shall be required to approve any Business Combination or any plan or proposal for the liquidation or dissolution of the Corporation which would require or permit a distribution of any surplus remaining after payment of all debts and liabilities o the Corporation to the shareholders in accordance with their respective rights and preferences.

C. Notwithstanding the foregoing, if three-fourths (3/4) of the entire Board of Directors (or if there is a person or persons serving on the Board other than Continuing Directors (as hereinafter defined); in which event this requirement shall be for three-fourths (3/4) of the Continuing Directors) recommends in favor of acceptance of Business Combination or a plan of liquidation or dissolution described in paragraph B of this Article 6, the Board may waive the provisions above requiring a greater percentage of shareholder vote and the same may be effected upon the affirmative vote of the holders of a majority of the outstanding shares of capital stock of the Corporation entitled to vote generally in the election of directors (taken together as a single class). If any provision herein requiring a 75% shareholder approval is finally judicially determined invalid, then a Business Combination or plan of liquidation or dissolution must be approved by the affirmative vote of the holders of not less than two-thirds (2/3) of the outstanding shares of capital stock of the Corporation entitled to vote generally in the election of directors (taken together as a single class). A "Continuing Director" shall mean a person who was a member of the Board of Directors of the Corporation elected prior to the date as of which any Acquiring Entity acquired in excess of twenty (20%) percent of the Corporation's outstanding voting securities (taken together as a single class), or a person designated (before his initial election as a director) as a Continuing Director by a majority of the then Continuing Directors.

Article 7

Any amendment, alteration, change or repeal of these Articles of Incorporation or the By-Laws of the Corporation shall require the affirmative vote of the holders of at least seventy-five (75%) percent of the outstanding shares of capital stock of the Corporation entitled to vote generally in the election of directors (taken as a single class); provided, however, that this Article 7 shall not apply to, and such seventy-five (75%) percent vote shall not be required for, and the affirmative vote or a majority of the outstanding shares of capital stock of the Corporation entitled to vote generally in the election of directors (taken together as a single class) shall be required for, any amendment, alteration, change or repeal recommended to the stockholders by three-fourths (3/4) of the entire Board of Directors (or if there is a person or persons serving on the Board other than Continuing Directors, by three-fourths (3/4) of the Continuing Directors). If any of the foregoing provisions are finally judicially determined to be invalid, then these Articles of Incorporation and the By-Laws of the Corporation may only be amended, altered, changed or repealed by the affirmative vote of the holders of not less than two-thirds (2/3) of the outstanding shares of capital stock of the Corporation entitled to vote generally in the election of directors (taken together as a single class).

Article 8

The management, control and government of the Corporation shall be vested in a Board of Directors consisting of not less than five (5) nor more than twenty-five (25) members in number, as fixed from time to time by the Board of Directors of the Corporation. The Directors of the Corporation shall be divided into three classes: Class I, Class II and Class III. Each class shall be as nearly equal in number as possible. If the number of Class I, Class II or Class III Directors is fixed for any term of office, it shall not be increased during that term, except by a majority vote of Directors, the term of office of each class shall be three years; provided, however, that the term of office of the initial Class I Directors shall expire at the annual election of Directors by the shareholders of the Corporation in 1985; the term of office of the initial Class II Directors shall expire at the annual election of Directors by the shareholders of the Corporation in 1986; the term of office of the initial Class III Directors shall expire at the annual election of Directors by the shareholders of the Corporation in 1987, so that, after the expiration of each such initial term, the terms of office of one class of Directors shall expire each year when their respective successors have been duly elected by the shareholders and qualified. At each annual election of the Directors by the shareholders of the Corporation held during and after 1984, the Directors chosen to succeed those whose terms then expire shall be identified as being of the same class as the Directors they succeed. A Director must be a shareholder of the Corporation. If a vacancy occurs on the Board of Directors of the Corporation after the first annual election of Directors for the class in which such Director sits, a majority of the remaining Directors shall have the exclusive power to fill the vacancy by electing a Director to hold office for the unexpired term in respect of which the vacancy occurred.

Article 9

The shareholders of this Corporation shall not be permitted to cumulate their votes for the election of directors.

Article 10

The Corporation shall indemnify its officers, directors, employees and agents of the Corporation and its subsidiaries to the extent set forth in the By-Laws of the COrporation.

Article 11

The name and post office address of the incorporators and the number and class of shares subscribed by him is:

Name	Address	Number of and Class of Shares
David B. Harwi	3800 Centre Square West Philadelphia, PA 19102	1 Common

IN TESTIMONY WHEREOF, the incorporator has signed and sealed these Articles of Incorporation this 7th day of March 1984.

/s/ DAVID B. HARWI(SEAL)

David B. Harwi

FIRST WEST CHESTER CORPORATION AND SUBSIDIARIES

FIVE-YEAR STATISTICAL SUMMARY

<TABLE>
<CAPTION>

(Dollars in thousands, except per share data)

STATEMENTS OF CONDITION	December 31 1998	1997	1996	1995	1994
<S>	<C>	<C>	<C>	<C>	<C>
Assets	$ 470,693	$ 431,368	$ 397,684	$388,500	$348,099
Loans	320,395	318,899	264,582	242,587	239,126
Investment securities	109,786	77,598	97,675	93,511	78,389
Deposits	418,398	374,249	351,266	343,926	305,465
Stockholders' equity	39,723	36,213	33,175	30,692	28,299
Financial Management Services assets, at market value	405,217	348,069	271,212	255,992	256,998

STATEMENTS OF INCOME	Year Ended December 31 1998	1997	1996	1995	1994
Interest income	$ 33,753	$ 32,114	$ 29,627	$ 28,466	$ 24,374
Interest expense	14,135	13,351	12,135	11,564	8,719
Net interest income	19,618	18,763	17,492	16,902	15,655
Provision for possible loan losses	911	1,135	1,079	1,666	1,790
Net interest income after provision for possible loan losses	18,707	17,628	16,413	15,236	13,865
Non-interest income	4,687	3,787	3,562	3,497	3,514
Non-interest expense	16,278	14,911	13,632	12,768	12,216
Income before income taxes	7,116	6,504	6,343	5,965	5,163
Income taxes	2,100	1,889	2,038	1,865	1,556
Net income	$ 5,016	$ 4,615	$ 4,305	$ 4,100	$ 3,607
PER SHARE DATA (1)					
Net income per share (Basic)	$ 1.09	$ 1.00	$ 0.94	$ 0.88	$ 0.75
Net income per share (Diluted)	$ 1.07	$ 1.00	$ 0.94	$ 0.88	$ 0.75
Cash dividends declared	$ 0.47	$ 0.43	$ 0.38	$ 0.34	$ 0.29
Book value	$ 8.61	$ 7.89	$ 7.25	$ 6.72	$ 5.90
Basic weighted average shares outstanding	4,609,874	4,580,814	4,569,712	4,673,100	4,799,424
Diluted weighted average shares outstanding	4,676,031	4,619,620	4,584,668	4,673,342	4,799,424

<FN>

(1) Adjusted for 1998 2-for-1 stock split and 1997 4-for-3 stock split. See Note A12 - Earnings per Share and Stockholders' Equity - in the accompanying financial statements for additional information.
</FN>
</TABLE>

FIRST WEST CHESTER CORPORATION AND SUBSIDIARIES

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

This discussion is intended to further your understanding of the consolidated financial condition and results of operations of First West Chester Corporation (the "Corporation") and its wholly-owned subsidiaries, The First National Bank of West Chester (the "Bank") and 323 East Gay Street Corp ("EGSC"). It should be read in conjunction with the consolidated financial statements included in this report.

In addition to historical information, this discussion and analysis contains statements relating to future results of the Corporation that are considered "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. These statements can often be identified by the use of forward-looking terminology such as "believes," "expects," "intends," "may," "will," "should" "or anticipates" or similar terminology. These statements involve risks and uncertainties and are based on various assumptions. Investors and prospective investors are cautioned that such statements are only projections. The risks and uncertainties noted below, among others, could cause the Corporation's actual future results to differ materially from those described in forward looking statements made in this report or presented elsewhere by Management from time to time.

These risks and uncertainties include, but are not limited to, the following: (a) loan growth and/or loan margins may be less than expected due to competitive pressures in the banking industry and/or changes in the interest rate environment; (b) general economic conditions in the Corporation's market area may be less favorable than expected resulting in, among other things, a deterioration in credit quality causing increased loan losses; (c) costs of the Corporation's planned training initiatives, product development, branch expansion, new technology and operating systems may exceed expectations; (d) volatility in the Corporation's market area due to recent mergers of competing financial institutions may have unanticipated consequences, such as customer turnover; (e) changes in the regulatory environment, securities markets, general business conditions and inflation may be adverse; (f) impact of changes in interest rates on customer behavior; (g) unforeseen difficulties in implementing the Corporation's Year 2000 compliance plan or contingency plans; (h) failure of suppliers and customers to be Year 2000 compliant; (i) estimated changes in net interest income; (j) anticipated pressure on net yields; and (k) branch locations. These risks and uncertainties are all difficult to predict and most are beyond the control of the Corporation's Management.

Although the Corporation believes that its expectations are based on reasonable assumptions, readers are cautioned that such statements are only projections. The Corporation undertakes no obligation to publicly release any revisions to the forward-looking statements to reflect events or circumstances after the date of this report.

EARNINGS AND DIVIDEND SUMMARY

In 1998, net income increased $401 thousand or 8.7% to $5.0 million from $4.6 million in 1997. The improvement was primarily the result of increases in net interest income and non-interest income, partially offset by increased operating expenses. Net income for 1997 increased $310 thousand or 7.2% from $4.3 million in 1996. The 1997 increase was primarily the result of an increase in net interest income and a reduction in the effective tax rate, partially offset by a higher provision for loan losses and increased operating expenses. On a per share basis, 1998 earnings were $1.09, an increase of 9.0% over 1997 earnings of $1.00. On a per share basis, 1997 earnings were 6.4% higher than 1996 earnings of $0.94. Cash dividends per share in 1998 were $0.47, a 9.3% increase over the 1997 dividend of $0.43. Cash dividends per share in 1997 were 13.3% higher than the 1996 dividend of $0.38. In the past, the Corporation's practice has been to pay a dividend of at least 35.0% of net income. The following performance ratios for 1998 remained stable compared to 1997 and 1996 ratios.

The "Consolidated Average Balance Sheet" on page may assist the reader in the following discussion.

PERFORMANCE RATIOS	1998	1997	1996
Return on Average Assets	1.14%	1.12%	1.12%
Return on Average Equity	13.13%	13.36%	13.59%
Earnings Retained	57.26%	57.88%	60.19%
Dividend Payout Ratio	42.74%	42.12%	39.81%

NET INTEREST INCOME

Net interest income is the difference between interest income on interest-earning assets and interest expense on interest-bearing liabilities. Net interest income, on a tax equivalent basis, increased 4.2% or $792 thousand, from $19.1 million in 1997 to $19.9 million in 1998, compared to a 7.3% increase of $1.3 million from 1996 to 1997. The increases in net interest income can be attributed to an increase in average interest earning assets of 6.8% or $26.1 million from 1997 to 1998 and 7.2% or $25.8 million from 1996 to 1997, partially offset by a decrease in the net yield on interest-earning assets. The increases in average interest-earning assets are primarily the result of increased loan and investment activity during the period. While the average balance of total loans increased for the year ended 1998, the loan growth rate has decreased compared to the same period last year. The decrease in loan growth rate can be attributed to the Corporation's decision to exit the third party automobile lending business due to less than expected results. The decision took effect on July 10, 1998. The Corporation will continue to service the existing portfolio totaling approximately $24.0 million, but has ceased adding any additional volume. Average net yields on interest-earning assets, on a tax equivalent basis, were 4.82% for 1998, and 4.94% for 1997 and 1996. The decrease in the Corporation's average net yield on interest-earning assets in 1998 was primarily the result of a decrease in the average yield earned on its interest-earning assets and an increase in the cost or average yield paid on interest bearing liabilities. The decrease in the average net yield earned on interest-earning assets can be attributed to decreases in loan demand, which resulted in more assets being reinvested in lower yielding investments as opposed to higher yielding loans. The Corporation's ability to maintain the average net yield on interest-earning assets from 1996 to 1997 was the result of increased loan demand which allowed the Corporation to shift more assets into higher yielding loans, resulting in increases in earned asset yields. The Corporation anticipates continued pressure on the net yield on interest-earning assets as competition for new loan business remains very strong and the cost of incremental deposit growth and other funding sources becomes more expensive.

AVERAGE INTEREST RATES (ON A TAX EQUIVALENT BASIS)

YIELD ON	1998	1997	1996
Interest-Earning Assets	8.24%	8.39%	8.30%
Interest-Bearing Liabilities	4.28	4.25	4.13
Net Interest Spread	3.96	4.14	4.17
Contribution of Interest-Free Funds	0.86	0.80	0.77
Net Yield on Interest-Earning Assets	4.82%	4.94%	4.94%

INTEREST INCOME ON FEDERAL FUNDS SOLD

Interest income on federal funds increased 41.6%, from $308 thousand in 1997 to $436 thousand in 1998. The increase in 1998 is primarily the result of a $2.5 million increase in the average federal funds sold, partially offset by a 12 basis point (a basis point equals one hundredth of one percent) decrease in rates compared to 1997. The 1997 decrease in average federal funds sold of $8.1 million was the result of increased loan demand for that period.

INTEREST INCOME ON INVESTMENT SECURITIES

On a tax equivalent basis, interest income on investment securities, decreased 3.9%, from $5.3 million in 1997 to $5.1 million in 1998, compared to an $800 thousand decrease from 1996 to 1997. The decrease in investment interest income from 1997 to 1998 was the direct result of a 49 basis point decrease in the yield on investment securities, partially offset by a $3.2 million increase in average investment securities. The 13.0% decrease in investment interest income from 1996 to 1997 was the result of a decrease in average investment securities of $15.5 million, partially offset by a 23 basis point increase in the yield on investment securities.

INTEREST INCOME ON LOANS

Interest income, on a tax equivalent basis, generated by the Corporation's loan portfolio increased 6.2%, from $26.8 million in 1997 to $28.5 million in 1998. The increase in interest income during 1998 was attributable to a $20.6 million increase in average loans outstanding, partially offset by a 5 basis point decrease in rates. The decrease in the average rates earned on the Corporation's loan portfolio are a direct result of the declining rate environment during the year as well as increased competition for new and existing loan relationships and volume increases in lower yielding lease and third party automobile related loans (occurring primarily during the first and second quarters of 1998). As noted earlier, the third party automobile lending portfolio failed to meet expected results prompting the Corporation's July 10, 1998 decision to cease adding additional volume while continuing to service the existing portfolio. Loan interest income, on a tax equivalent basis, increased $3.7 million, from $23.1 million in 1996 to $26.8 million in 1997. The 16.2% increase in loan interest income during 1997 was attributable to a $50.0 million increase in average loans outstanding, approximately 36.0% of which were third party automobile loans and leases. The 1997 loan volume increase was partially offset by a 30 basis point decrease in rates earned. Competition for new and existing loan relationships has been very strong the last four years. Price and fee competition on loans over $500,000 (new and renewals) has been especially strong. It is anticipated that this pricing pressure will continue to put pressure on overall loan yields and net interest margins. A reduction in fees will also result in a direct decrease in non-interest income.

INTEREST EXPENSE ON DEPOSIT ACCOUNTS

Interest expense on deposits increased 8.0% from $12.7 million in 1997 to $13.7 million in 1998. The increase in interest expense on deposits from 1997 to 1998 was the result of increases in average interest-bearing deposit balances of $22.7 million and a 2 basis point increase in the rates paid. The 7.2% increase in interest expense for deposits from 1996 to 1997 was the result of a $15.4 million increase in average interest-bearing deposits and a 7 basis point decrease in rates paid.

While total average interest-bearing deposits have grown 7.6% and 5.4% in 1998 and 1997, respectively, the components have not grown proportionately. During 1998, average savings, NOW, and money market deposits increased $10.3 million or 5.9%, while average certificates of deposit and other time deposits increased $12.4 million or 9.9%. During 1997, average savings, NOW, and money market deposits increased $5.2 million or 3.1%, while average certificates of deposit and other time deposits increased $10.2 million or 8.8%. The

Corporation's effective rate on interest-bearing deposits changed from 4.11%, 4.22%, 4.31%, and 4.30% in the first, second, third, and fourth quarters of 1997, respectively, to 4.21%, 4.27%, 4.29%, and 4.22% in the first, second, third, and fourth quarters of 1998, respectively. The overall increase in rates being paid on interest bearing liabilities is the direct result of increased competition. Competition for deposits from other banks and non-banking institutions such as credit unions and mutual fund companies continues to grow. In an effort to expand its deposit base, the Corporation opened a new branch site in the Frazer area on August 3, 1998. Future branch sites are expected.

PROVISION FOR POSSIBLE LOAN LOSSES

During 1998, the Corporation recorded a provision for possible loan losses of $911 thousand, compared to $1.14 million and $1.08 million in 1997 and 1996, respectively. The decrease in the provision expense can be attributed to the decreased rate in loan growth for 1998 and an overall decrease in total non performing assets, offset by an increase in charge-offs. Net charge-offs in 1998 were $934 thousand, compared to $453 thousand and $367 thousand in 1997 and 1996, respectively. Net charge-offs as a percentage of average loans outstanding were 0.29%, 0.15%, and 0.15% for 1998, 1997, and 1996, respectively. The increase in charge-offs is primarily attributed to our third party automobile loan program. This program accounted for 66% of total charge-offs in 1998. The allowance for possible loan loss was $5.88 million or 1.83% of loans outstanding at December 31, 1998.
See "Asset Quality and the Allowance For Possible Loan Losses" for additional information.

NON-INTEREST INCOME

Total non-interest income increased $900 thousand or 23.8%, from $3.8 million in 1997 to $4.7 million in 1998, compared to an increase of $225 thousand or 6.3% from 1996 to 1997. The primary component of non-interest income is Financial Management Services revenue, which increased $266 thousand or 13.3%, from $2.0 million in 1997 to $2.3 million in 1998, compared to an increase of $139 thousand or 7.5% from 1996 to 1997. The market value of Financial Management Services assets under management increased $57.1 million or 16.4%, from $348.1 million at the end of 1997 to $405.2 million at the end of 1998, and increased $76.9 million or 28.3% from 1996 to 1997. The 1998 and 1997 increases in market value of assets under management are attributable to new business development in the areas of trust, investment and pension management and market value appreciation.

Service charges on deposit accounts increased $50 thousand or 5.1% from $987 thousand in 1997 to $1.0 million in 1998 compared to an increase of $136 thousand or 16.0% from 1996 to 1997. This increase, as in 1997, relates to more effective enforcement of service charge policies, increases in volume of deposits, and fee based products and services offered and sold.

Other non-interest income increased 59% to $1.3 million in 1998 from $815 thousand in 1997. The increase can be attributed to income from service charges for non-customer ATM transactions, which commenced during the second quarter of 1998. Income from the sale of residential mortgages to the secondary market during the first and second quarters of 1998 also contributed to the increase. In 1997, other non-interest income decreased 3.6% from $845 thousand to $815 thousand. This decrease was a result of a gain of $135 thousand included in non-interest income relating to the sale of a property by EGSC during 1996.

NON-INTEREST EXPENSE

Total non-interest expense increased $1.4 million or 9.2%, from $14.9 million in 1997 to $16.3 million in 1998, compared to an increase of $1.3 million or 9.4% from 1996 to 1997. The growth in non-interest expense reflects the increased costs incurred to service the Corporation's expanding customer base. The components of non-interest expense changes are discussed below.

Salary and employee benefits increased $685 thousand or 8.2%, from $8.4 million in 1997 to $9.1 million in 1998. The increase in 1998 was a result of an average 4.0% salary increase for annual raises and a 3.1% increase in staff. As the Corporation expands and the cost of providing benefits increases, especially health insurance, it is anticipated that this component of non-interest expense will continue to increase. Salary and employee benefits increased $626 thousand or 8.1% from 1996 to 1997, primarily as a result of an average 4.0% salary increase and 2.1% increase in staff, partially offset by decreases in pension costs. The Corporation's full-time equivalents were 200, 194, and 190 at the end of 1998, 1997, and 1996, respectively.

Net occupancy, equipment and data processing expense increased $334 thousand or 11.3%, from $3.0 million in 1997 to $3.3 million in 1998. The increase is a direct result in the increased number of personal computers and related equipment costs, which were a necessary part of the Corporation's core system conversion. The conversion occurred during the fourth quarter of 1998. The increase can also be attributed to the addition of the new Frazer area branch in the second quarter. Occupancy, equipment and data processing expense increased $317 thousand or 12.0% from 1996 to 1997. The increase in 1997 from 1996 was primarily a result of building renovations on the mortgage center and Financial Management Services building. See section titled "Building Improvements and Technology Projects" for additional information.

Other non-interest expense increased $348 thousand or 9.7% from $3.6 million in 1997 to $4.0 million in 1998. This increase is the result of increases in the Corporation's expanded marketing efforts to attract new borrowers and depositors as well as promotion of the new branch site. Additional operating expenses associated with the increases in staff and premises also contributed to the increase. Other non-interest expense increased $336 or 10.3% from 1996 to 1997. This increase is the result of a $100 thousand expense incurred to comply with a reconciliation agreement with the United States Department of Labor's Office of Federal Contract Compliance Program.

Additional components of non-interest expense are the FDIC's Bank Insurance Fund ("BIF") assessments and Pennsylvania Bank Shares Tax. The BIF insurance assessment was $0 for 1998 and 1997, compared to $2 thousand in 1996. Effective January 1, 1997, in accordance with the Deposit Insurance Act of 1996 an additional assessment by the Financing Corporation ("FICO") became applicable to all insured institutions. This assessment is not tied to the FDIC risk classification. The BIF FICO assessment is 1.296 basis points per $100 in deposits for 1997. The Bank's assessment for the BIF FICO in 1997 was $43 thousand. Bank Shares Tax was 0.68%, 0.84%, and 0.97% of average stockholders' equity for 1998, 1997, and 1996, respectively. The Pennsylvania Bank Shares Tax is based primarily on Bank Stockholders equity and paid annually. See Note G - Other Non-interest Expense and Note H - Income Taxes, in the accompanying financial statements for additional information on Bank Shares Tax.

Preliminary plans for the opening of additional branch sites and office space continue to be pursued. The Corporation believes that the costs associated with achieving these objectives will have a direct impact on all the above components of non-interest expense. It is anticipated that increased costs and expenses will be offset over time by increases in net interest and fee income generated by business in new marketing areas.

INCOME TAXES

Income tax expense was $2.1 million in 1998 compared to $1.9 million in 1997 and $2.0 million in 1996, representing an effective tax rate of 29.5%, 29.0%, and 32.1%, respectively. Tax rates in 1998 and 1997 were affected by tax credits resulting from investments in a community development projects that were accounted for in the third quarter of 1998 and the second quarter of 1997. The primary reason for the increase in the effective tax rates from 1997 to 1998 was a decrease in tax exempt assets as a percentage of total average assets and a smaller amount of tax credits. Average tax-exempt assets as a percentage of total average assets were 1.8%, 2.6% and 2.4% in 1998, 1997 and 1996, respectively.

CONSOLIDATED AVERAGE BALANCE SHEET AND TAX EQUIVALENT INCOME/EXPENSES AND RATES FOR THE YEAR ENDED DECEMBER 31,

<TABLE>
<CAPTION>

	1998			1997			1996		
(Dollars in thousands)	Daily Average Balance	Interest	Rate	Daily Average Balance	Interest	Rate	Daily Average Balance	Interest	Rate
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
ASSETS									
Federal funds sold	$ 8,022	$ 436	5.44%	$ 5,544	$ 308	5.56%	$ 13,603	$ 734	5.40%
Interest bearing deposits in Banks	--	--	--	197	12	6.09	798	47	5.89
Investment securities									
Taxable	82,434	4,938	5.99	78,672	5,104	6.49	93,809	5,863	6.25
Tax-exempt (1)	1,548	119	7.69	2,114	157	7.43	2,519	182	7.23
Total investment securities	83,982	5,057	6.02	80,786	5,261	6.51	96,328	6,045	6.28
Loans (2)									
Taxable	313,893	27,849	8.87	291,114	26,012	8.94	242,862	22,320	9.19
Tax-exempt (1)	6,473	649	10.03	8,623	823	9.54	6,835	781	11.43
Total loans	320,366	28,498	8.90	299,737	26,835	8.95	249,697	23,101	9.25
Total interest-earning assets	412,370	33,991	8.24	386,264	32,416	8.39	360,426	29,927	8.30
Non-interest-earning assets									
Allowance for possible loan losses	(5,900)			(5,607)			(4,848)		
Cash and due from banks	20,121			18,853			17,153		
Other assets	14,772			13,218			13,016		
Total assets	$441,363			$412,728			$385,747		
LIABILITIES AND STOCKHOLDERS' EQUITY									
Savings, NOW, and money market									

deposits	$184,081	$ 5,713	3.10%	$173,753	$ 5,436	3.13%	$168,528	$ 5,231	3.10%
Certificates of deposit and other time	137,825	7,966	5.78	125,436	7,234	5.77	115,243	6,584	5.71
Total interest-bearing deposits	321,906	13,679	4.25	299,189	12,670	4.23	283,771	11,815	4.16
Securities sold under repurchase agreements	3,019	116	3.84	8,560	281	3.28	9,713	320	3.29
Other borrowings	5,269	340	6.45	6,508	401	6.16	--	--	
Total interest-bearing liabilities	330,194	14,135	4.28	314,257	13,352	4.25	293,484	12,135	4.13
Non-interest-bearing liabilities									
Non-interest-bearing demand deposits	64,705			57,659			55,018		
Other liabilities	8,268			6,264			5,574		
Total liabilities	403,167			378,180			354,076		
Stockholders' equity	38,196			34,548			31,671		
Total liabilities and stockholders' equity	$441,363			$412,728			$385,747		
Net interest income		$ 19,856			$19,064			$17,792	
Net yield on interest-earning assets			4.82%			4.94%			4.94%

<FN>

(1) The indicated income and annual rate are presented on a tax equivalent basis using the federal marginal rate of 34%, adjusted for the 20% interest expense disallowance for 1998, 1997, and 1996.
(2) Nonaccruing loans are included in the average balance.

</FN>
</TABLE>

LIQUIDITY MANAGEMENT AND INTEREST RATE SENSITIVITY

The objective of liquidity management is to ensure the availability of sufficient cash flows to meet all financial commitments and to capitalize on opportunities for business expansion. Liquidity management addresses the Corporation's ability to meet deposit withdrawals either on demand or at contractual maturity, to repay borrowings as they mature, and to make new loans and investments as opportunities arise. Liquidity is managed on a daily basis enabling Senior Management to effectively monitor changes in liquidity and to react accordingly to fluctuations in market conditions. The primary source of liquidity for the Corporation is its available-for-sale portfolio of liquid investment grade securities. Funding sources also include NOW, money market, savings, and small denomination certificates (less than $100,000) of deposit accounts. The Corporation considers funds from such sources as its "core" deposit base because of the historical stability of such sources of funds. Additional liquidity comes from the Corporation's non-interest-bearing demand deposit accounts, a three-tiered savings product and certificates of deposit in excess of $100,000. Details of core deposits, non-interest-bearing demand deposit accounts and other deposit sources are highlighted in the following table:

Deposit Analysis

<TABLE>
<CAPTION>

(Dollars in thousands)

	1998		1997		1996	
DEPOSIT TYPE	Average Balance	Effective Yield	Average Balance	Effective Yield	Average Balance	Effective Yield
<S>	<C>	<C>	<C>	<C>	<C>	<C>
NOW	$ 55,203	2.04%	$ 52,758	2.19%	$ 47,984	2.20%
Money Market	27,596	3.09	28,433	3.15	28,974	3.09
Statement Savings	47,046	3.28	48,381	3.31	48,834	3.24
Other Savings	2,382	2.73	2,996	2.74	4,222	2.75
CD's Less than $100,000	114,372	5.81	108,022	5.80	102,566	5.76
Total Core Deposits	246,599	4.15	240,590	4.16	232,580	4.11
Non-interest-Bearing Demand Deposits	64,705	--	57,659	--	55,018	--
Subtotal	311,304	--	298,249	--	287,598	--
Tiered Savings	51,854	4.09	41,184	4.14	38,514	4.11
CD's Greater than $100,000	23,453	5.63	17,415	5.54	12,677	5.36
Total Deposits	$386,611	--	$356,848	--	$338,789	--

</TABLE>

The Bank as a member of the Federal Home Loan Bank ("FHLB") maintains a credit line secured by the Bank's mortgage related assets. Additionally, the FHLB offers several other credit related products which are available to the Bank. The Corporation utilizes borrowings from the FHLB and collateralized repurchase agreements in managing its interest rate risk and as a tool to augment deposits in funding asset growth. The Corporation may utilize these funding sources to better match its longer term repricing assets (i.e., between one and five years). See Note F - Short Term Borrowings and Credit Facility in the accompanying financial statements for more detailed information on these funding sources.

The goal of interest rate sensitivity management is to avoid fluctuating net interest margins, and to enhance consistent growth of net interest income through periods of changing interest rates. Such sensitivity is measured as the difference in the volume of assets and liabilities in the existing portfolio that are subject to repricing in a future time period. The Corporation's net interest rate sensitivity gap "gap position" within one year is ($151,780) million or 32.2% of total assets at December 31, 1998, compared with ($114.4) million or 26.5% of total assets at the end of 1997.

Interest Rate Sensitivity GAP as of December 31, 1998

<TABLE>
<CAPTION>

(Dollars in thousands)	Within One Year	One Through Five Years	Over Five Years	Non-Rate Sensitive	Total
<S>	<C>	<C>	<C>	<C>	<C>
ASSETS					
Federal funds sold	$ 5,675	$ -	$ -	$ -	$ 5,675
Investment securities	42,473	49,285	$ 18,028	-	109,786
Loans and leases	89,696	167,791	62,908	(5,877)	314,518
Cash and cash equivalents	-	-	-	25,006	25,006
Premises & equipment	-	-	-	9,579	9,579
Other assets	2,385	-	-	3,744	6,129
Total assets	$ 140,229	$ 217,076	$ 80,936	$ 32,452	$ 470,693
LIABILITIES AND CAPITAL					
Non-interest-bearing deposits	$ -	$ -	$ -	$ 72,556	$ 72,556
Interest bearing deposits	288,259	55,969	1,614	-	345,842
Borrowed funds	3,589	1,735	2,498	-	7,822
Other liabilities	-	-	-	4,750	4,750
Capital	161	-	-	39,562	39,723
Total liabilities and capital	$ 292,009	$ 57,704	$ 4,112	$ 116,868	$ 470,693
Net interest rate sensitivity gap	$(151,780)	$ 159,372	$ 76,824	$ (84,416)	$ -
Cumulative interest rate sensitivity gap	$(151,780)	$ 7,592	$ 84,416	$ -	$ -
Cumulative interest rate sensitivity gap divided by total assets	(32.2)%	1.6%	17.9%	-	-

</TABLE>

The Corporation's gap position is one factor used to evaluate interest rate risk and the stability of net interest margins. Other factors include computer simulations of what might happen to net interest income under various interest rate forecasts and scenarios. The Corporation's Asset Liability Management Policy requires quarterly calculation of the effects of changes in interest rates on net interest income. These calculations are prepared quarterly using computer based asset liability software. The table below summarizes estimated changes in net interest income over a twelve-month period, under alternative interest rate scenarios. The change in interest rates was based on an immediate and proportional shift in the December 31, 1998 Wall Street Journal prime rate of 7.75%.

<TABLE>
<CAPTION>

Change in Interest Rates	Net Interest Income	Dollar Change	Percent Change	Management Limits
<S>	<C>	<C>	<C>	<C>

+300 Basis Points	$21,776	$-462	-2.08%	12.00%
+200 Basis Points	21,878	-360	-1.62	10.00
+100 Basis Points	21,980	-258	-1.16	5.00
FLAT RATE	22,238	0	0	0.00
-100 Basis Points	22,342	104	0.47	5.00
-200 Basis Points	22,444	206	0.93	10.00
-300 Basis Points	22,547	309	1.39	12.00

</TABLE>

Management believes that the assumptions utilized in evaluating the vulnerability of the Corporation's net interest income to changes in interest rates approximate actual experience; however, the interest rate sensitivity of the Corporation's assets and liabilities as well as the estimated effect of changes in interest rates on net interest income could vary substantially if different assumptions are used or actual experience differs from the experience on which the assumptions were based. For example, certain assets, such as adjustable rate loans, have features which restrict changes in interest rates on a short term basis or over the life of the assets.

In the event the Corporation should experience a mismatch in its desired gap position or an excessive decline in its net interest income subsequent to an immediate and sustained change in interest rates, it has a number of options which it could utilize to remedy such a mismatch. The Corporation could restructure its investment portfolio through sale or purchase of securities with more favorable repricing attributes. It could also promote loan products with appropriate maturities or repricing attributes. The Corporation could also solicit deposits or search for borrowings with more desirable maturities. However, market circumstances might make execution of these strategies cost prohibitive or unattainable.

The nature of the Corporation's current operation is such that it is not subject to foreign currency exchange or commodity price risk. Additionally, neither the Corporation nor the Bank own trading assets. At December 31, 1998, the Corporation did not have any hedging transactions in place such as interest rate swaps, caps or floors.

ASSET QUALITY AND ALLOWANCE FOR POSSIBLE LOAN LOSSES

The allowance for possible loan losses is an amount that management believes will be adequate to absorb possible loan losses on existing loans that may become uncollectible based on evaluations of the collectibility of loans. The evaluations take into consideration such factors as changes in the nature and volume of the loan portfolio, overall portfolio quality, adequacy of collateral, review of specific problem loans, and current economic conditions that may affect the borrower's ability to pay.

Analysis of Changes in the Allowance for Possible Loan Losses
and comparison of loans outstanding

<TABLE>
<CAPTION>

	December 31				
(Dollars in thousands)	1998	1997	1996	1995	1994
<S>	<C> <C>	<C> <C>	<C> <C>		
Balance at beginning of year	$ 5,900	$ 5,218	$ 4,506	$ 3,303	$ 2,839
Provision charged to operating expense	911	1,135	1,079	1,666	1,790
Recoveries of loans previously charged off					
Commercial loans	48	67	36	4	19
Real estate - mortgages	145	-	-	46	9
Consumer loans	52	16	8	29	10
Total recoveries	245	83	44	79	38
Loan charge-offs					
Commercial loans	(247)	(237)	(118)	(348)	(253)
Real estate - mortgages	(45)	(117)	(218)	(25)	(1,042)
Consumer loans	(887)	(182)	(62)	(108)	(69)
Lease financing receivables	-	-	(13)	(61)	-
Total charge-offs	(1,179)	(536)	(411)	(542)	(1,364)
Net loan charge-offs	(934)	(453)	(367)	(463)	(1,326)
Balance at end of year	$ 5,877	$ 5,900	$ 5,218	$ 4,506	$ 3,303
Year-end loans outstanding	$320,395	$318,899	$264,582	$242,587	$239,126

Average loans outstanding	$320,366	$299,737	$249,697	$243,657	$228,456
Allowance for possible loan losses as a percentage of year-end loans outstanding	1.83%	1.85%	1.97%	1.86%	1.38%
Ratio of net charge-offs to average loans outstanding	0.29%	0.15%	0.15%	0.19%	0.58%

</TABLE>

Nonperforming loans include loans on non-accrual status and loans past due 90 days or more and still accruing. The Bank's policy is to write down all nonperforming loans to net realizable value based on updated appraisals of collateral. Nonperforming loans are generally collateralized by real estate and are in the process of collection. Management believes that loans that are past due over 90 days and still accruing are adequately collateralized as to principal and interest. Such loans are in the process of collection.

The allowance for possible loan losses as a percentage of non-performing loans ratio indicates that the allowance for possible loan losses

is sufficient to cover the principal of all non-performing loans. Other Real Estate Owned ("OREO") represents residential and commercial real estate that has been written down to realizable value (net of estimated disposal costs) based on professional appraisals. In July 1998, the Corporation liquidated from OREO, a commercial property for a net amount of $505 thousand resulting in a $15 thousand loss. Management intends to liquidate OREO in the most expedient and cost-effective manner.
This process could take up to 24 months, although swifter disposition is anticipated.

Management is not aware of any loans other than those included in these tables and mentioned in this paragraph that would be considered potential problem loans and cause Management to have doubts as to the borrower's ability to comply with loan repayment terms. The Corporation decided to withdraw from third party automobile lending on July 10, 1998 due to less than expected results. The Corporation will continue to service the existing portfolio but has not added any additional volume. This portfolio totaled approximately $24 million as of December 31, 1998. These loans are unseasoned and have increased non-performing loan numbers. As of December 31, 1998 approximately 9.92% of this portfolio was past due 30 or more days. In addition, approximately $57 thousand in repossessed vehicles are included in other assets. These assets have been charged down and recorded at their estimated realizable value. At December 31, 1998 there were no concentrations of loans exceeding 10% of total loans which are not otherwise disclosed.

NonPerforming Loans And Assets

<TABLE>
<CAPTION>

	December 31				
(Dollars in thousands)	1998	1997	1996	1995	1994
<S>	<C>	<C>	<C>	<C>	<C>
Past due over 90 days and still accruing	$ 546	$ 466	$ 2,772	$ 419	$ 323
Nonaccrual loans	1,316	1,443	713	726	2,997
Total nonperforming loans	1,862	1,909	3,485	1,145	3,320
Other real estate owned	192	1,651	1,274	1,447	1,565
Total nonperforming assets $ 2,054	$ 3,560	$ 4,759	$ 2,592	$ 4,885	
Nonperforming loans as a percentage of total loans	0.58%	0.60%	1.32%	0.47%	1.39%
Allowance for possible loan losses as a percentage of nonperforming loans	315.6%	309.1%	149.7%	393.5%	99.5%
Nonperforming assets as a percentage of total loans and other real estate owned	0.6%	1.1%	1.8%	1.1%	2.0%
Allowance for possible loan losses as a percentage of nonperforming assets	286.1%	165.7%	109.6%	173.8%	67.6%

</TABLE>

CAPITAL ADEQUACY

The Corporation is subject to Risk-Based Capital Guidelines adopted by the Federal Reserve Board for bank holding companies. The Bank is also subject to similar capital requirements adopted by the Office of the Comptroller of the Currency ("OCC"). Under these requirements, the regulatory agencies have set minimum thresholds for Tier I Capital, Total Capital, and Leverage ratios. At December 31, 1998, both the Corporation's and the Bank's capital exceeded all minimum regulatory requirements and were considered "well capitalized" as defined in the regulations issued pursuant to the FDIC Improvement Act of 1994. The Corporation's and Banks Risk-Based Capital Ratios, shown below, have been computed in accordance with regulatory accounting policies. See Note I - Capital Requirements in the accompanying financial statements for additional information.

Risk-Based Capital Ratios	December 31 1998	1997	1996	"Well Capitalized" Requirements
Corporation				
Leverage Ratio	8.59%	8.57%	8.58%	5.00%
Tier I Capital Ratio	11.67%	11.22%	12.05%	6.00%
Total Risk-Based Capital Ratio	12.95%	12.48%	13.31%	10.00%
Bank				
Leverage Ratio	8.36%	8.30%	8.30%	5.00%
Tier I Capital Ratio	11.35%	10.89%	11.66%	6.00%
Total Risk-Based Capital Ratio	12.62%	12.14%	12.92%	10.00%

The Bank is not under any agreement with the regulatory authorities nor is it aware of any current recommendations by the regulatory authorities which, if they were to be implemented, would have a material effect on liquidity, capital resources or operations of the Corporation. The internal capital growth rate for the Corporation was 9.69%, 9.16%, and 8.09% for the years ended December 31, 1998, 1997, and 1996, respectively.

BUILDING IMPROVEMENTS AND TECHNOLOGY PROJECTS

During 1998, the Corporation completed construction of a 2,750 square foot branch office in the Frazer area. The branch opened for business on August 3, 1998. In December 1997, the Corporation entered into an agreement to purchase a 25,000 square foot office building adjacent to the Corporation's existing Operation Center in West Chester, Pennsylvania for approximately $1.7 million. The Corporation took possession of the property in September 1998 and expects to occupy the building sometime during 1999. During 1998, the Corporation entered into an agreement to purchase additional land to accommodate future expansion. See Note P - Commitments and Contingencies in the accompanying financial statements for additional information.

During 1998, the Corporation completed a conversion of its Core Processing system to the Jack Henry and Associates, Inc. ("JHA") Silverlake system. JHA is a major provider of community bank core processing systems. Conversion costs incurred through December 31, 1998 were approximately $1.1 million. Additionally, the Corporation completed similar processing conversions in the areas of Financial Management Services, Credit Card Lending and Payroll.

YEAR 2000 ISSUES

State of Readiness

The Corporation has adopted a Year 2000 ("Y2K") policy to address the inability of certain information systems and automated equipment to properly recognize and process dates containing the Y2K and beyond, (the "Y2K Issue"). If not corrected, these systems and automated equipment could produce inaccurate or unpredictable results commencing on January 1, 2000. The Corporation, similar to most financial services providers, is particularly vulnerable to the potential impact of the Y2K Issue due to the nature of financial information. Potential impacts to the Corporation may arise from software, computer hardware, and other equipment failure both within the Corporation's direct control and outside of the Corporation's ownership yet with which the Corporation electronically or operationally interfaces. The Corporation has no internally generated software coding to correct. Substantially all of the software utilized by the Corporation is purchased or licensed from external providers.

In order to address the Y2K Issue, the Corporation has developed and implemented a five phase compliance plan. The compliance plan is divided into the following major components: (1) Awareness; (2) Assessment; (3) Renovation;

(4) Validation and Testing; and (5) Implementation. The Corporation has completed the first three phases of the plan for all of its mission-critical systems and is currently working on the final two phases. The Corporation anticipates that the validation, testing and implementation phases of mission-critical systems will be substantially completed by March 31, 1999.

JHA has tested the unmodified version of its Silverlake system and the Federal Financial Institutions Examination Council ("FFIEC") has reviewed JHA test procedures and has provided the Corporation with a copy of the results. The Corporation will conduct an independent test on the Silverlake system and related hardware during the week of March 7, 1999.

The Corporation's Financial Management Services Department outsources its core processing to Sunguard Trust System Inc.'s ("STS") Charlotte. STS is a provider of data processing services to the financial services industry. STS has informed the Corporation that, based upon tests, which it has conducted and is currently conducting, it believes its systems are Y2K compliant. The Corporation will rely on testing conducted by STS and will also rely on Proxy Tests conducted by certain STS customers. The Corporation anticipates testing to be completed by March 31, 1999.

The Costs to Address the Corporation's Year 2000 Issues

The Corporation has incurred direct Y2K project cost of $21,000 as of December 31, 1998. The Corporation anticipates that its total Y2K project cost will not exceed $150,000. This estimated project cost is based upon currently available information and includes expenses for the review and testing by third parties, including government entities. However, there can be no guarantee that the hardware, software, and systems of such third parties will be free of unfavorable Y2K issues and therefore not present a material adverse impact upon the Corporation. The aforementioned Y2K project cost estimate also may change as the Corporation progresses in its Y2K program and obtains additional information associated with, and conducts further testing concerning, third parties. At this time, no significant projects have been delayed as a result of the Corporation's Y2K effort.

Risk Assessment

In assessing the Corporation's Y2K exposure the Corporation is identifying those suppliers and customers whose possible lack of Y2K preparedness might expose the Corporation to financial loss. Financial loss includes but is not limited to the following: (1) monies paid to suppliers for which no performance is rendered; (2) inability of suppliers to furnish necessary items potentially resulting in costly business interruptions; and (3) inability of loan customers to repay amounts due.

The Corporation has initiated formal communications with all of its significant vendors and large loan customers (over $250,000) to determine its vulnerability as a result of the failure of those third parties to remediate their own Y2K Issues. For significant vendors, the Corporation will review their Y2K capabilities by March 31, 1999 or make plans to switch to new vendors with systems that are Y2K compliant. For large loan customers, the Corporation will take appropriate action based upon each customer's response to the Corporation's Y2K communication.

The Corporation's Contingency Plan

The Corporation has developed labor intensive contingency plans, which are designed to render the Corporation operational for a period of seven to fourteen days should a Y2K problem surface. These contingency plans consist of various manual tasks, which include but are not limited to the following: 1. Maintenance of loan data on Microsoft Excel spreadsheets or paper ledgers; 2. Maintenance of core deposit account information on Microsoft Excel spreadsheets or paper ledgers; 3. Manual sorting of deposit tickets and checks by account number; and 4. Maintenance of FMS account information on Microsoft Excel spreadsheets or manual ledgers;

At this time the Corporation cannot estimate the cost, if any, that might be required to implement such contingency plans.

Other

Financial institution regulators have intensively focused upon Y2K exposures, issuing guidance concerning the responsibilities of senior management and directors in addressing the Y2K Issue. Y2K testing and certification is being addressed as a key safety and soundness issue in conjunction with regulatory exams. In May 1997, the FFIEC issued an interagency statement to the chief executive officers of all federally supervised financial institutions regarding Y2K project management awareness. The FFIEC has highly prioritized Y2K compliance in order to avoid major disruptions to the operations of financial institutions and the country's financial systems when the new century begins. The FFIEC statement provides guidance to financial institutions, providers of data services, and all examining personnel of the federal banking agencies regarding the Y2K Issue.

The federal banking agencies, including the OCC have been conducting Y2K compliance examinations. The failure to implement an adequate Y2K program can be identified as an unsafe and unsound banking practice. The Corporation and the Bank are subject to regulation and supervision by the OCC which regularly conducts reviews of the safety and soundness of the Corporation's operations, including the Corporation's progress in becoming Y2K compliant. The OCC has established an examination procedure which contains three categories of ratings: "Satisfactory", "Needs Improvement", and "Unsatisfactory". Institutions that receive a Y2K rating of Unsatisfactory may be subject to formal enforcement action, supervisory agreements, cease and desist orders, civil money penalties, or the appointment of a conservator. In addition, federal banking agencies will be taking into account Y2K compliance programs when reviewing applications and

may deny an application based on Y2K related issues. Failure by the Corporation to adequately prepare for Y2K issues could negatively impact the Corporation's banking operations, including the imposition of restrictions upon its operations by the OCC.

Despite the Corporation's activities in regards to the Y2K Issue, there can be no assurance that partial or total systems interruptions or the costs necessary to update hardware and software would not have a material adverse effect upon the Corporation's business, financial condition, results of operations, and business prospects.

DESCRIPTION OF CAPITAL STOCK AND MARKET INFORMATION

The authorized capital stock of the Corporation consists of 5,000,000 shares of common stock, par value $1.00 per share, of which 4,799,666 shares and 2,399,833 shares were outstanding at the end of 1998 and 1997, respectively.

The Corporation's common stock is publicly traded over the counter. Trading is sporadic. The following table, which shows the range of high and low month-end bid prices for the stock, is based upon transactions reported by the Philadelphia brokerage firm of Janney Montgomery Scott, Inc, one of the Corporation's market makers.

<TABLE>
Bid Prices (1)
<CAPTION>

	1998		1997	
Quarter Ended	High	Low	High	Low
<S>	<C>	<C>	<C>	<C>
First	$20.25	$16.75	$13.50	$11.25
Second	$20.25	$20.25	$15.00	$12.94
Third	$20.00	$17.00	$15.50	$15.00
Fourth	$19.00	$18.00	$16.50	$15.25

<FN>

(1) Adjusted for 1998 2-for-1 stock split and 1997 4-for-3 stock split. See Note A12 - Earnings per Share and Stockholders Equity - in the accompanying financial statements for additional information.
</FN>
</TABLE>

Other information regarding the Corporation can be found in the Corporation's Form 10-K, to be filed with the Securities and Exchange Commission on March 31, 1999. Copies of the form 10-K can be obtained from the Corporation's Shareholder Relations Officer, P.O. Box 523, West Chester, PA 19381-0523, at 610-344-2686.

FIRST WEST CHESTER CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

<TABLE>
<CAPTION>

(Dollars in thousands)	December 31	
	1998	1997

<S> <C> <C>

ASSETS		
Cash and due from banks	$ 25,006	$ 22,248
Federal funds sold	5,675	4,200
Total cash and cash equivalents	30,681	26,448
Investment securities held-to-maturity (market value of $7,606 and $12,237 in 1998 and 1997, respectively)	7,406	12,082
Investment securities available-for-sale, at fair value	102,380	65,516
Loans	320,395	318,899
Less allowance for possible loan losses	(5,877)	(5,900)
Net loans	314,518	312,999
Premises and equipment, net	9,579	6,659
Other assets	6,129	7,664
Total assets	$ 470,693	$ 431,368
LIABILITIES		
Deposits		
Non-interest-bearing	$ 72,556	$ 63,287
Interest-bearing (including certificates of deposit over $100 of $28,984 and $11,978 - 1998 and 1997, respectively)	345,842	310,962
Total deposits	418,398	374,249
Securities sold under repurchase agreements	2,795	7,625
Federal Home Loan Bank advances and other borrowings	5,027	7,380
Other liabilities	4,750	5,901
Total liabilities	430,970	395,155
STOCKHOLDERS' EQUITY		
Common stock, par value $1.00; authorized, 5,000,000 shares; Outstanding, 1998 - 4,799,666 and 1997 - 2,399,833.	4,800	2,400
Additional paid-in capital	542	2,729
Retained earnings	35,675	32,803
Accumulated Other Comprehensive Income	292	(33)
Treasury stock, at cost: 1998 - 183,640 and 1997 - 103,700.	(1,586)	(1,686)
Total stockholders' equity	39,723	36,213
Total liabilities and stockholders' equity	$ 470,693	$ 431,368

<FN>

The accompanying notes are an integral part of these statements.
</FN>
</TABLE>

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

<TABLE>
<CAPTION>

(Dollars in thousands, except per share)	December 31		
	1998	1997	1996
<S>	<C>	<C>	<C>
INTEREST INCOME			
Loans, including fees	$ 28,296	$ 26,580	$22,856
Investment securities	5,021	5,214	5,990
Federal funds sold	436	308	734
Deposits in banks	-	12	47
Total interest income	33,753	32,114	29,627
INTEREST EXPENSE			
Deposits	13,679	12,670	11,815
Securities sold under repurchase agreements	116	280	320
Other borrowings	340	401	-
Total interest expense	14,135	13,351	12,135
Net interest income	19,618	18,763	17,492
PROVISION FOR POSSIBLE LOAN LOSSES	911	1,135	1,079
Net interest income after provision for possible loan losses	18,707	17,628	16,413
NON-INTEREST INCOME			
Financial Management Services	2,266	2,000	1,861
Service charges on deposit accounts	1,037	987	851
Investment securities gains (losses), net	87	(15)	5
Other	1,297	815	845

Total non-interest income	4,687	3,787	3,562
NON-INTEREST EXPENSE			
Salaries and employee benefits	9,046	8,361	7,735
Occupancy, equipment, and data processing	3,298	2,964	2,647
Other	3,934	3,586	3,250
Total non-interest expense	16,278	14,911	13,632
Income before income taxes	7,116	6,504	6,343
INCOME TAXES	2,100	1,889	2,038
NET INCOME	$ 5,016	$ 4,615	$ 4,305
Other comprehensive Income			
Unrealized gains on securities			
Unrealized gains (losses) arising in period	523	265	(232)
Reclassification adjustment: gain (loss) included in net income	(87)	15	(5)
Net unrealized gains (losses)	436	280	(237)
Other comprehensive income (loss) before taxes	436	280	(237)
Income tax (expense) benefit on other comprehensive income (loss)	(111)	(71	60
Other comprehensive income	325	209	(177)
Comprehensive income	$ 5,341	$ 4,824	$ 4,128
PER SHARE			
Basic Earnings Per Common Share (1)	$ 1.09	$ 1.00	$ 0.94
Diluted Earnings Per Common Share (1)	$ 1.07	$ 1.00	$ 0.94
Dividends declared	$ 0.47	$ 0.43	$ 0.38
Basic weighted average shares outstanding	4,609,874	4,580,814	4,569,712
Diluted weighted average shares outstanding	4,676,031	4,619,620	4,584,668

<FN>

(1) Please refer to Note M - Earnings Per Share for information on this calculation.

The accompanying notes are an integral part of these statements.
</FN>
</TABLE>

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

<TABLE>
<CAPTION>

(Dollars in thousands)	Common Stock Shares	Common Stock Par Value	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Balance at January 1, 1996	1,799,941	1,800	3,301	27,542	(65)	(1,886)
Net income	-	-	-	4,305	-	-
Cash dividends declared	-	-	-	(1,714)	-	-
Other Comprehensive Income						
Net unrealized loss on investment securities available-for-sale	-	-	-	-	(177)	-
Treasury stock transactions	-	-	4	-	-	65
Balance at December 31, 1996	1,799,941	$ 1,800	$ 3,305	$30,133	$ (242)	$ (1,821)
Net income	-	-	-	4,615	-	-
Cash dividends declared	-	-	-	(1,945)	-	-
Other Comprehensive Income						
Net unrealized gain on investment securities available-for-sale	-	-	-	-	209	-
4 for 3 stock split	599,892	600	(600)	-	-	-
Treasury stock transactions	-	-	24	-	-	135
Balance at December 31, 1997	2,399,833	$ 2,400	$ 2,729	$32,803	$ (33)	$ (1,686)
Net income	-	-	-	5,016	-	-
Cash dividends declared	-	-	-	(2,144)	-	-
Other Comprehensive Income						
Net unrealized gain on investment securities available-for-sale	-	-	-	-	325	
2 for 1 stock split	2,399,833	2,400	(2,400)	-	-	-
Treasury stock transactions	-	-	213	-	-	100
Balance at December 31, 1998	4,799,666	$ 4,800	$ 542	$35,675	$ 292	$ (1,586)

<FN>

The accompanying notes are an integral part of these statements.

</FN>
</TABLE>

CONSOLIDATED STATEMENTS OF CASH FLOWS

<TABLE>
<CAPTION>

(Dollars in thousands)	December 31 1998	1997	1996
<S>	<C>	<C>	<C>
OPERATING ACTIVITIES			
Net income	$ 5,016	$ 4,615	$ 4,305
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation	1,279	860	786
Provision for loan losses	911	1,135	1,079
Amortization of investment security premiums and accretion of discounts, net	275	52	141
Amortization of deferred fees, net on loans	(92)	53	(57)
Provision for deferred income taxes	(155)	(235)	(331)
Investment securities (gains) losses, net	(87)	15	(5)
Decrease (increase) in other assets	1,858	(399)	29
(Decrease) increase in other liabilities	(1,151)	601	222
Net cash provided by operating activities	7,854	6,697	6,169
INVESTING ACTIVITIES			
(Increase) decrease in interest-bearing deposits with banks	--	1,000	(1,000)
Net increase in loans	(2,338)	(54,823)	(22,309)
Proceeds from sales of investment securities available-for-sale	22,061	30,646	4,172
Proceeds from maturities of investment securities available-for-sale	29,790	13,588	17,826
Proceeds from maturities of investment securities held-to-maturity	4,719	3,635	11,477
Purchase of investment securities available-for-sale	(88,789)	(27,543)	(33,919)
Purchase of investment securities held-to-maturity	--	--	(4,120)
Purchase of premises and equipment, net	(4,199)	(767)	(2,017)
Net cash used in investing activities	(38,756)	(34,264)	(29,890)
FINANCING ACTIVITIES			
Increase (decrease) in securities sold under repurchase agreements	(4,830)	7,380	--
Increase in deposits	44,149	22,983	7,340
Decrease in Federal Home Loan Bank advances and other borrowings	(2,353)	(318)	(915)
Cash dividends	(2,144)	(1,945)	(1,661)
Treasury stock transactions	313	159	69
Net cash provided by financing activities	35,135	28,259	4,833
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	4,233	692	(18,888)
Cash and cash equivalents at beginning of year	26,448	25,756	44,644
Cash and cash equivalents at end of year	$ 30,681	$ 26,448	$ 25,756

<FN>

The accompanying notes are an integral part of these statements.
</FN>
</TABLE>

FIRST WEST CHESTER CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

First West Chester Corporation (the "Corporation"), through its wholly-owned subsidiary, The First National Bank of West Chester (the "Bank"), has been serving the residents and businesses of Chester County, Pennsylvania, since 1863. The Bank is a locally managed community bank providing loan, deposit, and trust services from its seven branch locations. The Bank encounters vigorous competition for market share in the communities it serves from bank holding companies, other community banks, thrift institutions, credit unions and other non-bank financial organizations such as mutual fund companies, insurance companies, and brokerage companies.

The Corporation and the Bank are subject to regulations of certain state and federal agencies. These regulatory agencies periodically examine the Corporation and the Bank for adherence to laws and regulations. As a consequence, the cost of doing business may be affected.

1. Basis of Financial Statement Presentation

The accounting policies followed by the Corporation and its wholly-owned subsidiaries, the Bank and 323 East Gay Street Corp ("EGSC"), conform to generally accepted accounting principles and predominant practices within the banking industry. The accompanying consolidated financial statements include the accounts of the Corporation, the Bank, and EGSC. All significant intercompany transactions have been eliminated.

In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the balance sheets, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The principal estimate that is susceptible to significant change in the near term relates to the allowance for loan and lease losses. The evaluation of the adequacy of the allowance for loan losses include an analysis of the individual loans and overall risk characteristics and size of the different loan portfolios, and takes into consideration current economic and market conditions, the capability of specific borrowers to pay specific loan obligations, as well as current loan collateral values. However, actual losses on specific loans, which also are encompassed in the analysis, may vary from estimated losses.

2. Financial Instruments

The Corporation follows Statement of Financial Accounting Standards ("SFAS") No. 107, "Disclosures about Fair Value of Financial Instruments," which requires all entities to disclose the estimated fair value of their assets and liabilities considered to be financial instruments. Financial instruments requiring disclosure consist primarily of investment securities, loans, and deposits.

3. Investment Securities

The Corporation follows SFAS 115, "Accounting for Certain Investments in Debt and Equity Securities," which requires investments in securities to be classified in one of three categories: held-to-maturity, trading, or available-for-sale. Debt securities that the Corporation has the positive intent and ability to hold to maturity are classified as held-to-maturity and are reported at amortized cost. As the Corporation does not engage in security trading, the balance of its debt securities and any equity securities are classified as available-for-sale. Net unrealized gains and losses for such securities, net of tax effect, are required to be recognized as a separate component of stockholders' equity and excluded from the determination of net income.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

4. Loans and Allowance for Loan Losses

Loans are stated at the amount of unpaid principal, reduced by unearned discount and an allowance for loan losses. Interest on loans is accrued and credited to operations based upon the principal amount outstanding.

Accrual of interest is discontinued on a loan when management believes that the borrower's financial condition is such that collection of interest and principal is doubtful. Upon such discontinuance, all unpaid accrued interest is reversed. The determination of the allowance for loan losses is based upon the character of the loan portfolio, current economic conditions, loss experience, and other relevant factors which, in management's judgment, deserve recognition in estimating possible losses.

The Corporation accounts for impairment in accordance with SFAS No. 114, "Accounting by Creditors for Impairment of a Loan," as amended by SFAS No. 118, "Accounting by Creditors for Impairment of a Loan - Income Recognition and Disclosures." SFAS No. 114 requires loan impairment to be measured based on the present value of expected future cash flows discounted at the loan's effective interest rate, its observable market price or the fair value of the collateral if the loan is collateral dependent. If it is probable that a creditor will foreclose on a property, the creditor must measure impairment based on the fair value of the collateral. SFAS No. 118 allows creditors to use existing methods for recognizing interest income on impaired loans.

5. Loan Fees and Related Costs

Certain origination and commitment fees and related direct loan origination costs are deferred and amortized over the contractual life of the related loans, resulting in an adjustment of the related loan's yield.

6. Premises and Equipment

Premises and equipment are stated at cost less accumulated depreciation. Assets are depreciated over their estimated useful lives, principally by the straight-line method.

On January 1, 1996, the Corporation adopted SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of." This statement provides guidance on when assets should be reviewed for impairment, how to determine whether an asset or group of assets is impaired, how to measure an impairment loss, and the accounting for long lived-lived assets that a company plans to dispose of. The adoption of this new statement did not have a material impact on the Corporation's consolidated financial position or results of operations.

7. Contributions

The Corporation accounts for contributions in accordance with SFAS No. 116, "Accounting for Contributions Received and Contributions Made." SFAS No. 116 specifies that contributions made by the Corporation be recognized as expenses in the period made and as decreases of assets or increases of liabilities depending on the form of the benefits given. In accordance with SFAS No. 116, the Corporation incurred contribution expenses relating to long-term commitments to local not-for-profit organizations of $63,000, $83,000 and $137,000 during 1998, 1997 and 1996, respectively.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

8. Income Taxes

The Corporation accounts for income taxes in accordance with SFAS No. 109, "Accounting for Income Taxes. Under the liability method specified by SFAS No. 109, deferred tax assets and liabilities are determined based on the difference between the financial statement and tax bases of assets and liabilities as measured by the enacted tax rates which will be in effect when these differences reverse. Deferred tax expense and benefits are the result of changes in deferred tax assets and liabilities.

9. Employee Benefit Plans

The Corporation has certain employee benefit plans covering eligible employees. The Bank accrues such costs as earned.

10. Stock Based Compensation Plan

On January 1, 1996, the Corporation adopted SFAS No. 123, "Accounting for Stock-Based Compensation," which contains a fair value-based method for valuing stock-based compensation, which measures compensation cost at the grant date based on the fair value of the award. Compensation is then recognized over the service period, which is usually the vesting period. Alternately, the standard permits entities to continue accounting for employee stock options and similar instruments under Accounting Principles Board (APB) Opinion No. 25 "Accounting for Stock Issued to Employees." Entities that continue to account for stock options using APB Opinion No. 25 are required to make pro forma disclosures of net income and earnings per share, as if the fair-value based method of accounting defined in SFAS No. 123 had been applied. The Corporation's stock option plan is accounted for under APB Opinion No. 25.

11. Financial Management Services Assets and Income

Assets held by the Corporation in fiduciary or agency capacities for its customers are not included in the accompanying consolidated balance sheets since such items are not assets of the Corporation. Operating income and expenses of Financial Management Services are included under their respective captions in the accompanying consolidated statements of income and are recorded on the accrual basis.

12. Earnings per Share and Stockholders' Equity

Earnings per share are calculated using the weighted average shares outstanding during the year. On September 22, 1998, the Board of Directors declared a stock split, in the form of a 100% stock dividend to stockholders of record on October 23, 1998, payable November 24, 1998. Par value remained at $1.00 per share. The stock split resulted in the issuance of 2,399,833 additional shares of common stock from authorized but unissued shares. The issuance of authorized but unissued shares resulted in the transfer of $2,399,833 from additional paid-in capital to common stock, representing the par value of the shares issued. Accordingly, earnings per share, cash dividends per share, and weighted average shares of common stock outstanding have been restated to reflect the stock split.

On December 15, 1997, the Corporation adopted SFAS No. 128, "Earnings per Share". The new standard eliminates primary and fully diluted earnings per share and requires presentation of basic and diluted earnings per share together with disclosure of how the per share amounts were computed. Basic earnings per share excludes dilution and is computed by dividing income available to common shareholders by the weighted-average common

Shares outstanding for the period. Diluted earnings per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised and converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the entity.

13. Cash Flow Information

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks, and federal funds sold. Generally, federal funds are purchased and sold for one-day periods. Cash paid during the years ended December 31, 1998, 1997, and 1996 for interest was $15,900,000, $12,600,000, and $11,718,000, respectively. Cash paid during the years ended December 31, 1998, 1997, and 1996 for income taxes was $2,053,000, $2,045,000, and $2,100,000, respectively.

14. Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities

The FASB issued SFAS No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," as amended by SFAS No. 127, which provides accounting guidance on transfers of financial assets, servicing of financial assets, and extinguishments of liabilities occurring after December 31, 1996. Adoption of this new statement has not had a material impact on the Corporation's consolidated financial position or results of operations.

15. Reporting Comprehensive Income

The Corporation has adopted the provisions of FASB issued SFAS No. 130, Reporting of Comprehensive Income, which establishes standards for reporting and display of comprehensive income and its components (revenues, expenses, gains and losses) in a full set of financial statements. This statement also requires that all items that are required to be recognized under accounting standards as components of comprehensive income be reported in a financial statement that is displayed with the same prominence as other financial statements.

16. Disclosure about Segments of an Enterprise and Related Information

On January 1, 1998, the Corporation adopted SFAS No. 131, "Disclosure about Segments of an Enterprise and Related Information". SFAS No. 131 redefines how operating segments are determined and requires disclosure of certain financial and descriptive information about a Company's operating segments. Management has concluded that under current conditions, the corporation will report one business segment.

17. Disclosure about Derivative Instruments and Hedging Activities

In June 1998, SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities was issued. SFAS No. 133 establishes standards for derivative instruments and hedging activities and requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. This statement is effective for all fiscal quarters of fiscal years beginning after June 15, 1999. The statement is not expected to have an effect on the Corporation's financial statements.

18. Advertising Costs

The Bank expenses advertising costs as incurred.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

19. Reclassifications

Certain prior year amounts have been reclassified to conform to the current year presentation.

NOTE B - INVESTMENT SECURITIES

The amortized cost, gross unrealized gains and losses, and fair market value of the Corporation's available-for-sale and held-to-maturity securities at December 31, 1998 and 1997 are summarized as follows:

<TABLE>
<CAPTION>

(Dollars in thousands) 1998	Held-to-Maturity Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Market Value	Available-for-Sale Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Market Value
<S>	<C>	<C>	<C>	<C>	<C>	<C>		
U.S. Treasury	$ -	$ -	$ -	$ -	$ 4,996	$ 23	$ -	$ 5,019
U.S. Government agency	-	-	-	-	-	-	-	-
Mortgage-backed securities	859	1	-	860	77,405	144	(33)	77,516
State and municipal	2,907	162	-	3,069	500	-	(3)	497
Corporate securities	3,110	34	-	3,144	6,272	-	(10)	6,262
Asset-backed securities	530	3	-	533	8,637	123	-	8,760
Mutual funds	-	-	-	-	1,091	-	(52)	1,039
Other equity securities	-	-	-	-	3,037	250	-	3,287
	$ 7,406	$ 200	$ -	$ 7,606	$101,938	$ 540	$ (98)	$102,380

(Dollars in thousands) 1997	Held-to-Maturity Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Market Value	Available-for-Sale Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Market Value
U.S. Treasury	$ 1,493	$ 1	$ -	$ 1,494	$ 6,512	$ 18	$ (2)	$ 6,528
U.S. Government agency	-	-	-	-	7,356	36	-	7,392
Mortgage-backed securities	1,519	8	(7)	1,520	47,742	213	(267)	47,688
State and municipal	3,955	126	-	4,081	-	-	-	-
Corporate securities	4,115	14	-	4,129	1,000	-	-	1,000
Asset-backed securities	1,000	13	-	1,013	-	-	-	-
Mutual funds	-	-	-	-	1,091	-	(49)	1,042
Other equity securities	-	-	-	-	1,866	-	-	1,866
	$12,082	$ 162	$ (7)	$12,237	$ 65,567	$ 267	$ (318)	$ 65,516

</TABLE>

The amortized cost and estimated fair value of debt securities classified as available-for-sale and held-to-maturity at December 31, 1998, by contractual maturity, are shown in the following table. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

NOTE B - INVESTMENT SECURITIES - continued

<TABLE>
<CAPTION>

(Dollars in thousands)	Held-to-Maturity Amortized Cost	Estimated Fair Value	Available-for-Sale Amortized Cost	Estimated Fair Value
<S>	<C>	<C>	<C>	<C>
Due in one year or less	$ 1,340	$ 1,344	$ 5,996	$ 6,029

Due after one year through five years	3,016	3,105	-	-
Due after five years through ten years	1,660	1,763	4,578	4,562
Due after ten years	-	-	1,194	1,188
	6,016	6,212	11,768	11,779
Mortgage-backed securities	859	861	77,405	77,516
Asset-backed securities	531	533	8,637	8,759
Other equity securities	-	-	4,128	4,326
	$ 7,406	$ 7,606	$101,938	$102,380

</TABLE>

Proceeds from the sale of investment securities available for sale during 1998 were $22.1 million. Gains of $155,000, $330,000, and $31,000, and losses of $68,000, $345,000, and $26,000 were realized on sales of securities in 1998, 1997, and 1996, respectively. The Corporation uses the specific identification method to determine the cost of the securities sold. The principal amount of investment securities pledged to secure public deposits and for other purposes required or permitted by law was $30,493,000 and $29,140,000 at December 31, 1998 and 1997, respectively. There were no securities held from a single issuer that represented more than 10% of stockholders' equity.

NOTE C - LOANS

Major classifications of loans are as follows:

(Dollars in thousands)	1998	1997
Commercial loans	$ 85,110	$ 84,514
Real estate - construction	13,439	17,256
Real estate - other	133,191	127,353
Consumer loans	62,481	66,753
Lease financing receivable	26,174	23,023
	320,295	318,899
Less: Allowance for loan losses	(5,877)	(5,900)
	$ 314,518	$ 312,999

Loan balances on which the accrual of interest has been discontinued amounted to approximately $1,316,000 and $1,443,000 at December 31, 1998 and 1997, respectively. Interest on these nonaccrual loans would have been approximately $176,000 and $115,000 in 1998 and 1997, respectively. Loan balances past due 90 days or more which are not on a nonaccrual status, but which management expects will eventually be paid in full, amounted to $546,000 and $466,000 at December 31, 1998 and 1997, respectively. Changes in the allowance for loan losses are summarized as follows:

NOTE C - LOANS - continued
<TABLE>
<CAPTION>

(Dollars in thousands)	1998	1997	1996
<S>	<C>	<C>	<C>
Balance at beginning of year	$ 5,900	$ 5,218	$ 4,506
Provision charged to operating expenses	911	1,135	1,079
Recoveries of charged-off loans	245	83	44
Loans charged-off	(1,179)	(536)	(411)
Balance at end of year	$ 5,877	$ 5,900	$ 5,218

</TABLE>

The Bank identifies a loan as impaired when it is probable that interest and principal will not be collected according to the contractual terms of the loan agreement. The accrual of interest is discontinued on impaired loans and no income is recognized until all recorded amounts of interest and principal are recovered in full. Retail loans and residential mortgages have been excluded from these calculations. See Note A4 - Loans and Allowance for Loan Losses for more information.

The balance of impaired loans was $919,000, $1,121,000, and $443,000 at December 31, 1998, 1997, and 1996, respectively. The associated allowance for loan losses for impaired loans was $286,000, $306,000, and $419,000 at December 31, 1998, 1997, and 1996, respectively.

During 1998, activity in the allowance for impaired loan losses included a provision of $150,000, write offs of $170,000 and recoveries of $0. Interest income of $25,000 was recorded in 1998, while contractual interest in the same period amounted to $129,000. Cash collected on impaired loans in 1998 was $836,000 of which $811,000 was applied to principal and $25,000 was applied to interest.

During 1997, activity in the allowance for impaired loan losses included a provision of $182,000, write-offs of $295,000, and recoveries of $0. Interest income of $37,000 was recorded in 1997, while contractual interest in the same period amounted to $64,000. Cash collected on impaired loans in 1997 was $278,000, of which $241,000 was applied to principal and $37,000 was applied to interest.

In the normal course of business, the Bank makes loans to certain officers, directors, and their related interests. All loan transactions entered into between the Bank and such related parties were made on the same terms and conditions as transactions with all other parties. In management's opinion, such loans are consistent with sound banking practices and are within applicable regulatory lending limitations. The balance of these loans at December 31, 1998 and 1997, was approximately $6,025,000 and $7,234,000, respectively. In 1998, new loans and payments amounted to approximately $1,429,000 and $1,870,000, respectively. Loans totaling $768,000 were no longer considered loans to officers and directors due to personnel changes that occurred during 1998.

NOTE D - PREMISES AND EQUIPMENT

Premises and equipment are summarized as follows:

(Dollars in thousands)	1998	1997
Premises	$ 10,813	$ 8,307
Equipment	7,675	5,982
	18,488	14,289
Less Accumulated depreciation	(8,909)	(7,630)
	$ 9,579	$ 6,659

NOTE E - DEPOSITS

At December 31, 1998, the scheduled maturities of certificates of deposit are as follows:

(Dollars in thousands)

1999	$ 93,199
2000	42,408
2001	7,390
2002	2,673
2003 and thereafter	5,113
	$ 150,783

NOTE F - SHORT-TERM BORROWINGS AND CREDIT FACILITY

Securities sold under agreements to repurchase are generally overnight transactions. These borrowings had interest rates of approximately 3.8%, 3.3% and 3.3% and balances of $2,795,000, $7,625,000 and $7,943,000 at December 31, 1998, 1997 and 1996, respectively. Daily average balances and weighted average interest rates for the years ended December 31, 1998, 1997 and 1996 were $3,019,000, $8,560,000 and $9,713,000 and 3.8%, 3.3% and 3.3%, respectively. Maximum amounts outstanding at any month-end were approximately $5,364,000, $11,450,000 and $11,715,000 for the years ended December 31, 1998, 1997 and 1996, respectively.

The Bank, as a member of the Federal Home Loan Bank ("FHLB"), maintains a $10 million flex-line of credit secured by the Bank's mortgage related assets. During 1998, 1997 and 1996, the Bank had no borrowings under this line of credit. As of December 31, 1998, the FHLB discontinued the flexline product and replaced it with a similar credit facility, the Open Repo Plus. This product is similar to the flexline but is expected to streamline the borrowing process. In addition to this, the Bank has additional borrowing capacity at the FHLB of approximately $110 million. FHLB advances as of December 31, 1998 consisted of $5.0 million in term advances, which represent a combination of maturities ranging from 6 months to 10 years. The weighted average interest rate on these advances for the year ended December 31, 1998 was 6.45%. FHLB advances are collateralized by a pledge of the Bank's entire portfolio of unencumbered investment securities, certain mortgage loans and a lien on the Bank's FHLB stock.

NOTE G - OTHER NON-INTEREST EXPENSE

The components of other non-interest expense are detailed as follows:
<TABLE>
<CAPTION>

(Dollars in thousands)	1998	1997	1996
<S>	<C>	<C>	<C>

Purchased services	$ 826	$ 833	$ 664
Telephone, postage, and supplies	669	583	633
Marketing and corporate communications	652	406	340
Loan and deposit supplies	476	436	406
Director costs	262	276	260
Bank shares tax	259	290	308
FDIC Insurance	45	43	2
Other	745	719	637
	$ 3,934	$3,586	$ 3,250

</TABLE>

NOTE H - INCOME TAXES

The components of income taxes are detailed as follows:

<TABLE>
<CAPTION>

(Dollars in thousands)	1998	1997	1996
<S>	<C>	<C>	<C>
Current	$ 2,255	$ 2,124	$ 2,369
Deferred	(155)	(235)	(331)
	$ 2,100	$ 1,889	$ 2,038

</TABLE>

The income tax provision reconciled to the tax computed at the statutory federal rate was as follows:

<TABLE>
<CAPTION>

	1998	1997	1996
<S>	<C>	<C>	<C>
Tax at statutory rate	34.0%	34.0%	34.0%
Increase (decrease) in taxes resulting from			
Tax-exempt loan and investment income	(2.0)	(3.0)	(3.3)
Tax credits	(0.9)	(3.0)	--
Other, net	(1.6)	1.0	1.4
Applicable income tax	29.5%	29.0%	32.1%

</TABLE>

The net deferred tax asset consists of the following:

<TABLE>
<CAPTION>

(Dollars in thousands)	1998	1997	1996
<S>	<C>	<C>	<C>
Allowance for possible loan losses	$ 1,715	$ 1,699	$ 1,489
Unrealized gain (loss) on securities available-for-sale	(150)	18	125
Deferred loan fees	158	210	249
Accrued pension and deferred compensation	421	367	305
Depreciation	181	53	29
Other	21	28	91
	2,346	2,375	2,288
Valuation allowance	-	-	-
Total deferred tax asset	2,346	2,375	2,288
Bond accretion	(32)	(48)	(89)
Total deferred tax liabilities	(32)	(48)	(89)
Net deferred tax asset	$ 2,314	$ 2,327	$ 2,199

</TABLE>

The Corporation's main operating subsidiary, The First National Bank of West Chester, is not subject to Pennsylvania corporate income taxes, but is taxed based on the value of its capital stock. Pennsylvania Bank Shares Tax expense incurred by the Bank amounted to $259,000, $290,000, and $308,000 in 1998, 1997, and 1996, respectively. Shares tax expense reflects tax credits of approximately $86,000 and $51,000 resulting from an investment in a local community development project for the years 1998 and 1997, respectively.

NOTE I - CAPITAL REQUIREMENTS

The Corporation and the Bank are subject to various regulatory capital requirements administered by 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 Corporation's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Corporation must meet specific capital guidelines that involve quantitative measures of the Corporation's assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The Corporation'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 Corporation to maintain minimum amounts and ratios of Total and Tier I capital to risk-weighted assets, and Tier I capital to average quarterly assets. Management believes that the Corporation and the Bank meet all capital adequacy requirements to which it is subject, as of December 31, 1998.

As of December 31, 1998, the most recent notification from the federal banking agencies categorized the Corporation and the Bank as well capitalized under the regulatory framework for corrective action. To be categorized as adequately capitalized the Corporation and the Bank must maintain minimum Total risk-based, Tier I risk-based, and Tier I leverage ratios as set forth in the table. There are no conditions or events since the notification that management believes have changed the institution's category.

The Corporation's actual capital amounts and ratios are presented below:

<TABLE>
<CAPTION>

(Dollars in thousands)	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
<S>	<C>	<C>	<C>	<C>	<C>	<C>
As of December 31, 1998:						
Total Capital (to Risk Weighted Assets)						
Corporation	$43,742	12.95%	$ 27,027	greater than or = 8.00%	$33,784	greater than or = 10.00%
Bank	$42,638	12.62%	$ 27,024		$33,780	
Tier I Capital (to Risk Weighted Assets)						
Corporation	$39,431	11.67%	$ 13,513	greater than or = 4.00%	$20,270	greater than or = 6.00%
Bank	$38,327	11.35%	$ 13,512		$20,268	
Tier I Capital (to Average Assets)						
Corporation	$39,431	8.59%	$ 18,369	greater than or = 4.00%	$22,961	greater than or = 5.00%
Bank	$38,327	8.36%	$ 18,344		$22,930	
As of December 31, 1997:						
Total Capital (to Risk Weighted Assets)						
Corporation	$40,253	12.48%	$ 25,811	greater than or = 8.00%	$32,264	greater than or = 10.00%
Bank	$39,060	12.14%	$ 25,731		$32,164	

</TABLE>

NOTE I - CAPITAL REQUIREMENTS- continued

<TABLE>

<S>	<C>	<C>	<C>	<C>	<C>	<C>
Tier I Capital (to Risk Weighted Assets)						
Corporation	$36,197	11.22%	$ 12,906	greater than or = 4.00%	$19,359	greater than or = 6.00%
Bank	$35,016	10.89%	$ 12,865		$19,298	
Tier I Capital (to Average Assets)						
Corporation	$36,197	8.57%	$ 16,891	greater than or = 4.00%	$21,114	greater than or = 5.00%
Bank	$35,016	8.30%	$ 16,885		$21,106	

Corporation	1998	1997
Risk Weighted Assets	337,836	322,642
Average Assets (Current Quarter)	459,218	422,284

Bank	1998	1997
Risk Weighted Assets	337,796	321,635
Average Assets (Current Quarter)	458,592	422,129

</TABLE>

NOTE J - FAIR VALUE OF FINANCIAL INSTRUMENTS

SFAS No. 107, "Disclosures about Fair Value of Financial Instruments," requires disclosure of the estimated fair value of an entity's assets and liabilities considered to be financial instruments. For the Corporation, as for most financial institutions, the majority of its assets and liabilities are considered financial instruments as defined in SFAS No. 107. However, many such instruments lack an available trading market, as characterized by a willing buyer and seller engaging in an exchange transaction. Also, it is the Corporation's general practice and intent to hold its financial instruments to maturity and not to engage in trading or sales activities. Therefore, the Corporation had to use significant estimations and present value calculations to prepare this disclosure.

Changes in the assumptions or methodologies used to estimate fair values may materially affect the estimated amounts. Also, management is concerned that there may not be reasonable comparability between institutions due to the wide range of permitted assumptions and methodologies in the absence of active markets. This lack of uniformity gives rise to a high degree of subjectivity in estimating financial instrument fair values.

Fair values have been estimated using data which management considered the best available and estimation methodologies deemed suitable for the pertinent category of financial instrument. The estimated fair value of cash and cash equivalents, deposits with no stated maturities, short-term borrowings and commitments to extend credit, and outstanding letters of credit has been estimated to equal the carrying amount. Quoted market prices were used to determine the estimated fair value of investment securities held-to-maturity and available-for-sale. Fair values of net loans and deposits with stated maturities were calculated using estimated discounted cash flows based on the year-end offering rate for instruments with similar characteristics and maturities.

The estimated fair values and carrying amounts are summarized as follows:

NOTE J - FAIR VALUE OF FINANCIAL INSTRUMENTS - continued

<TABLE>

	1998		1997	
<S>	<C> <C>	<C> <C>	<C> <C>	
(Dollars in thousands)	Estimated Fair Value	Carrying Amount	Estimated Fair Value	Carrying Amount
<S>	<C>	<C>	<C>	<C>
Financial Assets				
Cash and cash equivalents	$ 30,681	$ 30,681	$ 26,448	$ 26,448
Investment securities held-to-maturity	7,606	7,406	12,237	12,082
Investment securities available-for-sale	102,380	101,938	65,516	65,567
Net loans	313,921	314,518	314,508	312,999
Financial Liabilities				
Deposits with no stated maturities	267,615	267,615	244,328	244,328
Deposits with stated maturities	152,005	150,783	130,239	129,921
Short-term borrowings	2,795	2,795	7,625	7,625
Off-Balance-Sheet Investments				
Commitments for extended credit and outstanding letters of credit	103,132	103,132	95,212	95,212

</TABLE>

NOTE K - FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET RISK AND CONCENTRATIONS OF CREDIT RISK

The Corporation is a party to financial instruments with off-balance-sheet risk to meet the financing needs of its customers and reduce its own exposure to fluctuations in interest rates. These financial instruments include commitments to extend credit and standby letters of credit. Such financial instruments are recorded in the financial statements when they become payable. Those instruments involve, to varying degrees, elements of credit and interest rate risks in excess of the amount recognized in the consolidated balance sheets. The contract or notional amounts of those instruments reflect the extent of involvement the Corporation has in particular classes of financial instruments.

The Corporation's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual or notional amount of those instruments. The Corporation uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

Unless noted otherwise, the Corporation does not require collateral or other security to support financial instruments with credit risk. The contract amounts are as follows:

(Dollars in thousands)	1998	1997
Financial instruments whose contract amounts represent credit risk		
Commitments to extend credit	$95,500	$90,029
Standby letters of credit and financial guarantees written	7,632	5,183

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination

NOTE K - FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET RISK AND CONCENTRATIONS OF CREDIT RISK - continued

clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Corporation evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Corporation upon extension of credit, is based on management's credit evaluation.

Standby letters of credit are conditional commitments issued by the Corporation to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements, including commercial paper, bond financing, and similar transactions. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Corporation holds residential or commercial real estate, accounts receivable, inventory and equipment as collateral supporting those commitments for which collateral is deemed necessary. The extent of collateral held for those commitments at December 31, 1998, varies up to 100%; the average amount collateralized is 80%.

Substantially all of the Corporation's loans, commitments, and commercial and standby letters of credit have been granted to customers in the Corporation's primary market area, Chester County, Pennsylvania. Investments in state and municipal securities also involve governmental entities within the Corporation's market area. The concentrations of credit by type of loan are set forth in Note C - Loans. Although the Corporation has a diversified loan portfolio, a substantial portion of its debtors' ability to honor their contracts is dependent upon the economic sector. The distribution of commitments to extend credit approximates the distribution of loans outstanding.

Commercial and standby letters of credit were granted primarily to commercial borrowers.

NOTE L - ACCOUNTING FOR STOCK-BASED COMPENSATION PLANS

The Corporation instituted the 1995 Stock Option Plan on September 18, 1995, which was subsequently ratified at the March 19, 1996, annual meeting of shareholders. This plan allows the Corporation to grant up to 807,500 fixed stock options to key employees and directors. The options have a term of ten years and become exercisable six months after grant. The exercise price of each option equals the average between the high and low bid price of the Corporation's stock on the date of grant.

The Corporation has elected to account for its stock option plan under APB Opinion No. 25, "Accounting for Stock Issued to Employees." Accordingly, no compensation cost has been recognized for its stock option plan. Had compensation cost for the plan been determined based on the fair value of the options at the grant dates consistent with the method of SFAS No. 123, "Accounting for Stock-Based Compensation," the Corporation's net income and earnings per share would have been:

	1998	1997	1996

<S> <C> <C> <C> <C>

Net income (in thousands)	As reported	$ 5,016	$ 4,615	$ 4,305
	Pro forma	$ 4,048	$ 4,036	$ 4,125
Earnings per share (Basic)	As reported	$ 1.09	$ 1.00	$ 0.94
	Pro forma	$ 0.88	$ 0.87	$ 0.90
Earnings per share (Diluted)	As reported	$ 1.07	$ 1.00	$ 0.94
	Pro forma	$ 0.86	$ 0.87	$ 0.90

</TABLE>

NOTE L - ACCOUNTING FOR STOCK-BASED COMPENSATION PLANS - continued

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions used for grants in 1998, 1997 and 1996, respectively: dividend yield of 2.20%, 2.82% and 3.80%; expected volatility of 0.48, 0.48 and 0.47; risk-free interest rate of 4.39%, 5.99% and 6.13%; and an expected life of 4 1/2 years, 5 years and 5 years.

Information about stock options outstanding at December 31, 1998, is summarized as follows:

	Outstanding	Weighted-Average Exercise Price
Balance 1/1/96	66,000	$ 8.66
Granted	62,000	11.11
Exercised	(8,000)	8.86
Cancelled	--	--
Balance 1/1/97	120,000	9.93
Granted	125,000	15.51
Exercised	(16,600)	9.55
Cancelled	--	--
Balance 1/1/98	228,400	13.01
Granted	233,000	18.76
Exercised	(33,400)	12.16
Cancelled	(36,000)	20.25
Balance, 12/31/98	392,000	$15.84

The weighted average fair value of options granted during 1998, 1997 and 1996 was $7.11, $6.10 and $3.53, respectively.

Options Outstanding

<TABLE>
<CAPTION>

Range of Exercise-Price	Number Outstanding	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable	Weighted-Average Exercise Price
<S>	<C>	<C>	<C>	<C>	<C>
$ 8.66 - $15.50	190,000	8.11 years	$13.09	170,800	$12.82
$15.81 - $17.81	141,000	9.68 years	$17.65	2,000	$15.81
$20.00 - $21.13	61,000	9.83 years	$20.20	11,000	$21.13
	392,000			183,800	

</TABLE>

NOTE M - EARNINGS PER SHARE (EPS)

During 1997, the Bank adopted the provisions of SFAS No. 128, "Earnings Per Share". SFAS No.128 eliminates primary and fully diluted earnings per share and requires presentation of basic and diluted earnings per share.

The following table illustrates the reconciliation of the numerators and denominators of the basic and diluted EPS computations:

NOTE M - EARNINGS PER SHARE (EPS) - continued

<TABLE>
<CAPTION>

1998:	For the Year Ended December 31, 1998 Income (Numerator)	Shares (Denominator)	Per-Share Amount
<S>	<C>	<C>	<C>

Basic EPS:			
Net income available to common stockholders	$5,016,039	4,609,874	$1.09
Effect of Dilutive Securities			
Add options to purchase common stock	--	66,157	
Diluted EPS:	$5,016,039	4,676,031	$1.07

</TABLE>

1,000 options to purchase shares of common stock with an exercise price of $21.19 per share were not included in the computation of 1998 diluted EPS because the options' exercise price was greater than the average market price of the common shares.

<TABLE>
<CAPTION>

	For the Year Ended December 31, 1997		
1997:	Income (Numerator)	Shares (Denominator)	Per-Share Amount
<S>	<C>	<C>	<C>
Basic EPS:			
Net income available to common stockholders	$4,615,000	4,580,814	$1.00
Effect of Dilutive Securities			
Add options to purchase common stock	--	38,806	
Diluted EPS:	$4,615,000	4,619,620	$1.00

</TABLE>

125,000 options to purchase shares of common stock with a range of exercise prices from $15.50 to $15.81 per share were not included in the computation of 1997 diluted EPS because the options' exercise price was greater than the average market price of the common shares.

------------- ------

<TABLE>
<CAPTION>

	For the Year Ended December 31, 1996		
1996:	Income (Numerator)	Shares (Denominator)	Per-Share Amount
<S>	<C>	<C>	<C>
Basic EPS:			
Income available to common stockholders	$4,305,000	4,569,712	$0.94
Effect of Dilutive Securities			
Add options to purchase common stock	--	14,956	
Diluted EPS:	$4,305,000	4,584,668	$0.94

</TABLE>

NOTE N - REGULATORY MATTERS

The Bank is required to maintain average reserve balances with the Federal Reserve Bank based upon deposit levels and other factors. The average amount of those reserve balances for the years ended December 31, 1998 and 1997, was approximately $4,739,000 and $3,754,000, respectively.

NOTE N - REGULATORY MATTERS - continued

Dividends are paid by the Corporation from its assets which are mainly provided by dividends from the Bank. However, certain restrictions exist regarding the ability of the Bank to transfer funds to the Corporation in the form of cash dividends, loans or advances. The Bank, without the prior approval of regulators, can declare dividends to the Corporation totaling approximately $5,855,000 plus additional amounts equal to the net earnings of the Bank for the period from January 1, 1999, through the date of declaration, less dividends previously paid in 1999.

NOTE O - EMPLOYEE BENEFIT PLANS - DEFINED CONTRIBUTION PLANS

1. Qualified

The Corporation has a qualified deferred salary savings 401(k) plan (the "401(k) Plan") under which the Corporation contributes $0.75 for each $1.00 that an employee contributes, up to the first 5% of the employee's salary. The Corporation's expenses were $181,000, $152,000, and $136,000 in 1998, 1997, and 1996, respectively. The Corporation also has a qualified defined contribution pension plan (the "QDCP Plan"). Under the QDCP Plan, the Corporation makes annual contributions into the 401(k) Plan on behalf of each eligible participant in an amount equal to 3% of salary up to $30,000 in salary plus 6% in excess of $30,000 up to $160,000. Contribution expense in 1998, 1997 and 1996 under the QDCP Plan was $199,000, $138,000 and $220,000, respectively. The Corporation may make additional discretionary employer contributions subject to approval of the Board of Directors.

2. Non-Qualified

The Corporation makes annual contributions to a non-qualified defined contribution Plan ("the NQDCP Plan ") equal to 3% of the participant's salary up to $160,000 plus 9% in excess of $160,000. Contribution expense for 1998, 1997 and 1996 under the NQDCP Plan was $43,000, $39,000 and $38,000, respectively. The Corporation may make additional discretionary employer contributions subject to approval of the Board of Directors.

NOTE P - COMMITMENTS AND CONTINGENCIES

In September 1998, the Corporation entered into an agreement to purchase approximately five acres of land in Chester County, Pennsylvania for approximately $1.4 million. The Corporation is scheduled to take possession of the land in September 1999.

The Corporation has an employment agreement with the Corporation's Chief Executive Officer ("CEO") that provides for severance payments upon termination of employment under certain circumstances or a change of control as defined. The Corporation's potential minimum obligation would be equal to 1.0 times the CEO's salary for a period totaling 10 years.

NOTE Q - CONDENSED FINANCIAL INFORMATION - PARENT CORPORATION ONLY

Condensed financial information for First West Chester Corporation (parent corporation only) follows:

NOTE Q - CONDENSED FINANCIAL INFORMATION - PARENT CORPORATION ONLY - continued

CONDENSED BALANCE SHEETS

<TABLE>
<CAPTION>

(Dollars in thousands)	December 31 1998	December 31 1997
<S>	<C>	<C>
ASSETS		
Cash and cash equivalents	$ 260	$ 67
Investment securities available for sale, at market value	741	--
Investment in subsidiaries, at equity	38,363	35,152
Inter company loan	105	932
Other assets	23	120
Total assets	$ 39,492	$ 36,271
LIABILITIES AND STOCKHOLDERS' EQUITY		
Other liabilities	$ 30	$ 25
Stockholders' equity	39,462	36,246
Total liabilities and stockholders' equity	$ 39,492	$ 36,271

</TABLE>

CONDENSED STATEMENTS OF INCOME

<TABLE>
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(Dollars in thousands)	Year ended December 31 1998	1997	1996
<S>	<C>	<C>	<C>
INCOME			
Dividends from subsidiaries	$ 1,948	$ 2,022	$ 1,814
Dividends from investment securities	1	1	12
Investment securities gains, net	23	182	-
Other income	35	16	23
Total income	2,007	2,221	1,849
EXPENSES			
Other expenses	203	169	196
Total expenses	203	169	196
Income before equity in undistributed			

income of subsidiaries	1,804	2,052	1,653
EQUITY IN UNDISTRIBUTED INCOME OF SUBSIDIARIES	3,212	2,563	2,652
NET INCOME	$ 5,016	$ 4,615	$ 4,305

</TABLE>

NOTE Q - CONDENSED FINANCIAL INFORMATION - PARENT CORPORATION ONLY - continued

CONDENSED STATEMENTS OF CASH FLOWS

<TABLE>
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	Year ended December 31		
(Dollars in thousands)	1998	1997	1996
<S>	<C>	<C>	<C>
OPERATING ACTIVITIES			
Net income	$ 5,016	$ 4,615	$ 4,305
Adjustments to reconcile net income to net cash provided by operating activities			
Equity in undistributed income of subsidiary	(3,212)	(2,563)	(2,652)
Investment securities (gains), net	(23)	(182)	-
Decrease (increase) in other assets	114	(61)	423
(Decrease) increase in other liabilities	5	8	(491)
Net cash provided by operating activities	1,900	1,817	1,585
INVESTING ACTIVITIES			
Proceeds from sales and maturities of investment securities	-	510	-
Purchases of investment securities available for sale	(672)	-	-
Net cash (used in) provided by investing activities	(672)	510	-
FINANCING ACTIVITIES			
Inter company loan	796	(933)	-
Dividends paid	(2,144)	(1,945)	(1,661)
Effect of treasury stock transactions	313	159	69
Net cash used in financing activities	(1,035)	(2,719)	(1,592)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	193	(393)	(7)
Cash and cash equivalents at beginning of year	67	460	467
Cash and cash equivalents at end of year	$ 260	$ 67	$ 460

</TABLE>

NOTE R - QUARTERLY FINANCIAL DATA (UNAUDITED)

A summary of the unaudited quarterly results of operations is as follows:

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1998

(Dollars in thousands, except per share)	December 31	September 30	June 30	March 31
<S>	<C>	<C>	<C>	<C>
Interest income	$ 8,725	$ 8,472	$ 8,338	$ 8,240
Interest expense	3,640	3,588	3,482	3,424
Net interest income	5,085	4,884	4,856	4,816
Provision for loan losses	298	201	188	224
Investment securities gains (losses), net	85	5	-	3
Income before income taxes	1,855	1,727	1,837	1,695
Net income	1,308	1,252	1,276	1,179
Per share				
Net income (Basic)	$ 0.28	$ 0.28	$ 0.27	$ 0.26
Net income (Diluted)	0.28	0.26	0.27	0.26

Dividends declared	0.14	0.11	0.11	0.11

1997

(Dollars in thousands, except per share)	December 31	September 30	June 30	March 31
Interest income	$ 8,150	$ 8,227	$ 8,072	$ 7,664
Interest expense	3,452	3,451	3,342	3,106
Net interest income	4,698	4,776	4,730	4,558
Provision for loan losses	189	290	446	210
Investment securities gains (losses), net	-	-	(20)	5
Income before income taxes	1,623	1,734	1,523	1,625
Net income	1,172	1,214	1,129	1,100
Per share				
Net income (Basic)	$ 0.26	$ 0.26	$ 0.24	$ 0.24
Net Income (Diluted)	0.26	0.26	0.24	0.24
Dividends declared	0.12	0.11	0.10	0.10

Report of Independent Certified Public Accountants

Board of Directors
First West Chester Corporation

We have audited the accompanying consolidated balance sheets of First West Chester Corporation and Subsidiaries as of December 31, 1998 and 1997, and the related consolidated statements of income and comprehensive income, changes in stockholders' equity and cash flows for each of the three years in the period ended December 31, 1998. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these 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 our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of First West Chester Corporation and Subsidiaries as of December 31, 1998 and 1997, and the consolidated results of their operations and their consolidated cash flows for each of the three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles.

Philadelphia, Pennsylvania
January 22, 1999

SUBSIDIARIES OF THE CORPORATION

The First National Bank of West Chester
9 North High Street
P.O. Box 523
West Chester, PA 19381-0523

323 East Gay Street Corporation
323 East Gay Street
West Chester, PA 19381-0523

CONSENT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

We have issued our report dated January 22, 1999 accompanying the consolidated financial statements included in the 1998 Annual Report to Shareholders which is incorporated by reference in the Annual Report of First West Chester Corporation and subsidiaries on Form 10-K for the year ended December31, 1998. We hereby consent to the incorporation by reference of said reports in the Registration Statement of First West Chester Corporation on Forms S-8 and S-3(File No. 33-09241, effective July 31, 1996, File No. 33-15733, effective November 7, 1996, File No. 333-33175, effective August 8, 1997, File No. 33-33411, effective August 12, 1997, File No. 333-69315, effective December 21, 1998).

Philadelphia, Pennsylvania
March 25, 1999

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