FORM 10-K405

Annual report pursuant to section 13 and 15(d), Regulation S-K Item 405

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FILER

PHS BANCORP INC

CIK:**915742**| IRS No.: **232744266** | State of Incorp.:**PA** | Fiscal Year End: **1231**
Type: **10-K405** | Act: **34** | File No.: **000-23230** | Film No.: **99574593**
SIC: **6036** Savings institutions, not federally chartered

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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)
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 _________________

SEC File Number 000-23230

PHS Bancorp, Inc.
(Exact name of Registrant as specified in its Charter)

Pennsylvania	23-2744266
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
744 Shenango Road, Beaver Falls, Pennsylvania	15010
(Address of principal executive offices)	Zip Code

Registrant's telephone number, including area code: (724) 846-7300

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

Title of Each Class	Name of Each Exchange on which Registered
Common Stock, par value $.10 per share	Nasdaq National Market

Securities registered pursuant to Section 12(g) of the Act: None

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 (ss.229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

The aggregate market value of the voting stock held by non-affiliates of the Registrant, based on the closing price of the Registrant's Common Stock as quoted on the Nasdaq National Market, Inc., on March 5, 1999, was $12.3 million (981,607 shares at $12.50 per share).

As of March 5, 1999 there were issued and outstanding 2,760,000 shares of the Registrant's Common Stock.

DOCUMENTS INCORPORATED BY REFERENCE

1. Portions of the Annual Report to Stockholders for the Fiscal Year Ended December 31, 1998. (Parts I, II and IV)
2. Portions of the Proxy Statement for the 1999 Annual Meeting of Stockholders. (Part III)

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PART I

PHS Bancorp, Inc. (the "Company") may from time to time make written or oral "forward- looking statements", including statements contained in the Company's filings with the Securities and Exchange Commission (including this Annual Report on Form 10-K and the exhibits thereto), in its reports to stockholders and in other communications by the Company, which are made in good faith by the Company pursuant to the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995.

These forward-looking statements involve risks and uncertainties, such as statements of the Company's plans, objectives, expectations, estimates and intentions, that are subject to change based on various important factors (some of which are beyond the Company's control). The following factors, among others, could cause the Company's financial performance to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements: the strength of the United States economy in general and the strength of the local economies in which the Company conducts operations; the effects of, and changes in, trade, monetary and fiscal policies and laws, including interest rate policies of the board of governors of the federal reserve system, inflation, interest rates, market and monetary fluctuations; the timely development of and acceptance of new products and services of the Company and the perceived overall value of these products and services by users, including the features, pricing and quality compared to competitors' products and services; the willingness of users to substitute competitors' products and services for the Company's products and services; the success of the Company in gaining regulatory approval of its products and services, when required; the impact of changes in financial services' laws and regulations (including laws concerning taxes, banking, securities and insurance); technological changes, acquisitions; changes in consumer spending and saving habits; disruptions of the Company's operation due to the "Year 2000 Problem;" and the success of the Company at managing the risks resulting from these factors.

The Company cautions that the listed factors are not exclusive. The Company does not undertake to update any forward-looking statement, whether written or oral, that may be made from time to time by or on behalf of the Company.

Item 1. Business

General

The Bank attracts deposits from the general public and uses such deposits primarily to invest in consumer loans, mortgage-backed and other securities, and to purchase and originate one- to four-family mortgage loans. Because the Bank faces strong competition in originating traditional residential mortgage loans, the Bank has emphasized other forms of lending, including the origination of automobile loans. The principal sources of funds for the Bank's lending and investing activities are deposits, the repayment and maturity of loans and sale, maturity, and call of securities, and FHLB advances. The principal source of income is interest on loans, mortgage-backed and investment securities and the principal expense is interest paid on deposits, FHLB advances and other borrowings.

Mutual Holding Company/Stock Holding Company Reorganization

On July 9, 1997, the Bank reorganized from a Pennsylvania mutual savings bank into the mutual holding company structure (the "Reorganization"). Pursuant to the Reorganization, the Bank, among other things, exchanged its Pennsylvania mutual savings bank charter for a Pennsylvania stock savings bank charter and formed PHS Bancorp, M.H.C., a Pennsylvania-chartered mutual holding company (the

"M.H.C."). Concurrently with the Reorganization, 1,242,000 shares of the Bank's Common Stock representing 45.0% of the then issued and outstanding shares of the Bank's Common Stock were issued in a public offering to certain depositors of the Bank. Each share of Common Stock was issued and sold at a price of $10.00 per share.

On November 9, 1998 the Bank completed its reorganization to the stock holding company form of organization. In connection with the reorganization, stockholders of the Bank exchanged their shares of common stock in the Bank for shares of common stock in PHS Bancorp, Inc., a Pennsylvania corporation, on a one for one basis. Upon completion of the reorganization, there were 2,760,000 shares of common stock of PHS Bancorp, Inc. issued and outstanding. PHS Bancorp, M.H.C. owns 55% of the outstanding stock of PHS Bancorp, Inc., the stock holding company. The company's stock now trades under the Bank's old symbol "PHSB."

Geographic Lending Area

The Bank is authorized to make real estate loans throughout the United States. The Bank's primary market area generally includes Beaver and Lawrence Counties, Pennsylvania, which are between the Pittsburgh, Pennsylvania and Youngstown, Ohio metropolitan areas. The Bank has identified its primary lending area as a twenty mile radius from its principal office in Beaver Falls, Pennsylvania, which includes Beaver County and portions of Lawrence, Allegheny and Butler Counties. These areas were once largely dependent on heavy industry manufacturing, primarily steel. Due to a nationwide recession in the early 1980's and competition from imported steel, these communities suffered a severe recession. Parts of these communities have now moved to a more diversified economic base consisting of food services, light industrial, high technology, educational and health related industries.

The Bank believes its market area has benefitted from the new Greater Pittsburgh International Airport, which opened in October 1992 in adjacent Allegheny County. Beaver County's largest employers are U.S. Airways, which operates its hub out of the Pittsburgh airport, Beaver County Medical Center, Beaver County Government, LTV Steel and Duquesne Light Co. The unemployment rate has steadily declined in the Bank's market area since the early 1980's, and at December 31, 1998, unemployment in the Bank's market area was approximately at the national average. However, many of the new jobs are in the service sector of the economy and tend to be lower paying than those that previously existed in manufacturing. Average wages in the area are believed to be lower than the national averages.

Lending Activities

Analysis of Loan Portfolio. The following table sets forth information concerning the composition of the Company's loan portfolio in dollar amounts and in percentages of the total loan portfolio as of the dates indicated.
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	At December 31,									
	1998		1997		1996		1995		1994	
	$	%	$	%	$	%	$	%	$	%

(Dollars in Thousands)

<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Mortgage loans:										
One-to-four family units(1).......	$ 49,084	48.88%	$ 45,108	44.94%	$41,279	42.93%	$36,997	42.16%	$37,056	44.65%
Multi-family units................	554	0.55	217	0.22	353	0.37	865	0.99	1,028	1.24
Construction......................	326	0.32	304	0.30	150	0.16	259	0.30	-	-
Commercial........................	941	0.94	1,378	1.37	1,573	1.64	1,934	2.20	2,404	2.90
Total mortgage loans...........	50,905	50.69	47,007	46.83	43,355	45.10	40,055	45.65	40,488	48.79
Commercial loans....................	3,617	3.60	2,464	2.46	1,967	2.04	1,442	1.64	1,314	1.58
Consumer loans:										
Consumer credit line.............	5,288	5.27	5,468	5.45	5,250	5.46	5,521	6.29	6,027	7.26
Automobile........................	36,618	36.47	39,569	39.42	39,215	40.79	34,710	39.55	29,351	35.36
Other(2)..........................	3,990	3.97	5,859	5.84	6,352	6.61	6,005	6.84	5,744	6.92
Total consumer loans...........	45,896	45.71	50,896	50.71	50,817	52.86	46,236	52.68	41,122	49.54
Lease financing receivables.........	-	-	-	-	4	-	26	0.03	74	0.09
Total loans....................	100,418	100.00%	100,367	100.00%	96,143	100.00%	87,759	100.00%	82,998	100.00%
Less:										
Loans in process..................	219		370		105		263		62	
Deferred loan fees................	(1,002)		(1,088)		(1,169)		(1,108)		(1,026)	
Allowance for losses on loans.....	1,287		1,394		1,434		1,274		1,085	
Total loans, net...............	$ 99,914		$99,691		$95,773		$87,330		$82,877	

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(1) Includes home equity and junior lien mortgage loans.
(2) Consists primarily of student loans held for sale and secured and unsecured personal loans.

Loan Maturity Tables. The following table sets forth the maturity of the Company's loan portfolio at December 31, 1998. The table does not include prepayments or scheduled principal repayments. Prepayments and scheduled principal repayments on loans totalled $48.5 million, $40.5 million, and $37.1 million for the three years ended December 31, 1998, 1997 and 1996. Adjustable-rate mortgage loans are shown as maturing based on contractual maturities.

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	1-4 Family Real Estate Mortgages	Other Real Estate Mortgages	Commercial Loans and Leases	Consumer	Total
	(Dollars in Thousands)				
<S>	<C>	<C>	<C>	<C>	<C>
Nonperforming....................	$ 214	$ -	$ 20	$ 293	$ 527
Amounts Due:					
Less than 1 year...............	520	13	171	6,588	7,292
After 1 year:					
1 to 3 years	1,614	16	405	12,237	14,272
3 to 5 years...................	8,733	8	935	20,881	30,557
5 to 10 years..................	14,794	960	660	5,316	21,730
Over 10 years..................	23,535	498	1,426	581	26,040
Total due after one year....	48,676	1,482	3,426	39,015	92,599
Total amount due............	49,410	1,495	3,617	45,896	100,418
Less:					
Allowance for losses on loans..	255	30	72	930	1,287
Loans in process...............	219	-	-	-	219
Deferred loan fees.............	126	-	-	(1,128)	(1,002)
Loans receivable, net.......	$48,810	$1,465	$3,545	$46,094	$99,914

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(1) Includes $326,000 in construction loans on one-to-four family residences. Construction loans are written as permanent loans at the loan's conception, with a specified period of time to complete construction.

The following table sets forth the dollar amount of all loans due after December 31, 1999 which have pre-determined interest rates and which have floating or adjustable interest rates.

	Fixed Rates	Floating or Adjustable Rates	Total
		(In Thousands)	
One-to-four family units...........	$46,598	$2,078	$48,676
Other real estate mortgages.........	1,482	-	1,482
Commercial loans and leases.........	2,645	781	3,426
Consumer............................	39,015	-	39,015
Total..........................	$89,740	$2,859	$92,599

One-to-four Family Lending. The Bank originates fixed rate-loans for terms of 15 to 30 years. The Bank seeks to reduce its risk by originating adjustable-rate loans. The Bank also offers a one-year adjustable rate loan with an interest rate indexed to the one-year Treasury, with a cap on interest rate increases of 2% per year and 6% over the life of the loan.

The original contractual loan repayment period on residential mortgage loans generally average 20 years. However, the Bank's experience has been that the average life of those loans has been substantially shorter than the contractual period. The average life based upon the Bank's experience has been approximately 10 to 12 years.

The majority of the Bank's one- to four-family residential loans are underwritten in accordance with the Federal Home Loan Mortgage Corporation ("FHLMC") or Federal National Mortgage Association ("FNMA") guidelines to facilitate their sale in the secondary market (although the Bank usually retains residential mortgages for portfolio). Substantially all of the Bank's residential mortgages include "due on sale" clauses, which are provisions giving the Bank the right to declare a loan immediately payable if the borrower sells or otherwise transfers an interest in the property to a third party.

Included in the Company's one- to four-family loan portfolio are home equity loans and second mortgage loans. Second mortgages are generally fixed rate with interest rates based on market rates. In most instances, the Bank holds the first lien on a second mortgage. At December 31, 1998, such loans totaled $20.9 million, or 20.8% of the Company's total loan portfolio.

Multi-Family Residential Real Estate. The Bank also originates multi-family residential real estate loans. The Bank's multi-family residential real estate loans are permanent loans primarily secured by apartment buildings. The largest multi-family residential real estate loan was secured by several rental properties located in Beaver County, Pennsylvania, with an outstanding balance of $435,000 at December 31, 1998. Multi-family residential real estate loans can be originated in amounts up to 75% of the appraised value of the mortgaged property. The Bank makes both adjustable and fixed-rate multi-family residential real estate loans. The adjustable rate loans have terms of up to 15 years, the rate of interest is tied to the Wall Street Journal prime rate.

Construction. The Bank will occasionally originate loans to finance the construction of one- to four-family residences. Constructions loans typically are originated directly to the owners of pre-sold single-family houses that are being built, and generally convert to a permanent loan upon completion of construction. Construction loans require payment of interest only during the construction period and are offered at the same rates as the Bank's one- to four-family permanent mortgage loan rates.

Commercial Real Estate. The Bank originates commercial real estate loans. The Bank's commercial real estate loans are permanent loans secured by improved property such as office buildings, retail stores, and other non-residential buildings. Essentially all originated commercial real estate loans are within the Bank's market area. The largest commercial real estate loan was secured by a medical office building in Beaver County, Pennsylvania, with a balance of $269,000 on December 31, 1998. Commercial real estate loans can be originated in amounts up to 75% of the appraised value of the mortgaged property. The Bank makes both adjustable and fixed-rate commercial real estate loans. Commercial real estate loans are primarily adjustable rate loans with terms of up to 15 years, with the rate tied to the Wall Street Journal prime rate.

Commercial Loans. Subject to the restrictions contained in the Pennsylvania

Banking Code of 1965, as amended, federal laws and the regulations promulgated thereunder, the Bank is authorized to

make secured or unsecured commercial business loans for corporate and agricultural purposes, including issuing letters of credit.

Commercial business loans generally are deemed to entail significantly greater risk than that which is involved with real estate lending. The repayment of commercial business loans typically is dependent on the successful operations and income stream of the borrower. Such risks can be significantly affected by economic conditions. In addition, commercial lending generally requires substantially greater oversight efforts compared to residential real estate lending.

Commercial business loans are generally provided to various types of closely-held businesses located principally in the Bank's primary market area. The Bank's commercial business loans may be structured as term loans or as revolving lines of credit. Commercial business term loans generally have terms of seven years or less and interest rates which float in accordance with the prime rate, although the Bank also originates commercial business loans with fixed rates of interest. The Bank's commercial term loans generally are secured by equipment, machinery or other corporate assets. In addition, the Bank generally obtains personal guarantees from the principals of the borrower with respect to all commercial business loans.

Consumer Loans. The Bank's consumer lending portfolio has steadily increased since its inception in 1982. Consumer loans are all originated in the Bank's local market area and generally have maturities of one to seven years. Consumer loans are generally collateralized by personal property (primarily new and used automobiles) or secondary liens on real estate. Unsecured consumer loans are only made up to $20,000. The Bank does not participate in any secondary market consumer loans and all such loans are originated by the Bank.

Consumer loans are shorter term and generally contain higher interest rates than residential loans. Management believes the consumer loan market has been helpful in improving its spread between average loan yield and costs of funds and at the same time improved the matching of its rate sensitive assets and liabilities.

The largest category of the Company's consumer loan portfolio is loans secured by new and used automobiles. Automobile loans amounted to $36.6 million or 79.8% of the Company's total consumer loan portfolio at December 31, 1998. These loans have terms of up to six years, depending on the age of the automobile. The Bank requires that the vehicles be insured and the Bank be listed as the loss payee on the insurance policy. These loans are obtained primarily indirectly by the Bank through a network of over 20 new and used car dealers located within the Bank's primary market area with whom the Bank has ongoing relationships. Dealers are selected based upon their stability and location, among other factors. The Bank began offering this type of lending in June 1993 and currently originated approximately equal amounts of loans secured by new and used automobiles. The lending and support staff and data processing system have since been enhanced as the portfolio has grown. Each loan is individually underwritten and processed by the Bank pursuant to the Bank's underwriting policies prior to its origination of the loan. All borrower information is confirmed by the Bank before an automobile loan is approved. The dealer generally retains a reserve on each loan originated. Indirect loans are generally made under terms which do not allow the Bank to seek recourse from the dealer in the event of default. During fiscal 1998, 1997 and 1996, the Company charged net credit losses against its allowance for loan losses of $383,000 or 1.04%, $419,000 or 1.06% and $208,000 or 0.58% of its average indirect auto loans, respectively.

The Company's consumer loans also include credit extended pursuant to VISA credit cards issued by the Bank, student loans and secured and unsecured personal loans.

Consumer loans entail greater risks than one-to four-family residential mortgage loans, particularly consumer loans secured by rapidly depreciable assets such as automobiles or loans that are unsecured. In such cases, any repossessed collateral for a defaulted loan may not provide an adequate source of repayment of the outstanding loan balance, since there is a greater likelihood of damage, loss or depreciation of the underlying collateral.

Further, consumer loan collections are dependent on the borrower's continuing financial stability, and therefore are more likely to be adversely affected by job loss, divorce, illness or personal bankruptcy. Finally, the application of various Federal and state laws, including Federal and state bankruptcy and insolvency laws, may limit the amount which can be recovered on such loans in the event of a default. Management seeks to minimize the risks associated with automobile lending by, among other things, maintaining seasoned employees knowledgeable with this type of lending, underwriting loans pursuant to the Bank's underwriting standards, establishing relationships with automobile lenders who submit loan applications, and limiting business with any single dealer to no more than 25% of the outstanding automobile loan portfolio.

The underwriting standards employed by the Bank for consumer loans include a determination of the applicant's credit history and an assessment of the applicant's ability to meet existing obligations and payments on the proposed loan. The stability of the applicant's monthly income may be determined by verification of gross monthly income from primary employment, and additionally from any verifiable secondary income. Creditworthiness of the applicant is of primary consideration; however, the underwriting process also includes a comparison of the value of the collateral in relation to the proposed loan amount. See "- Non-performing Loans and Problem Assets" for information regarding the Bank's loan loss experience and reserve policy.

Loans to One Borrower. Under Pennsylvania and federal law, savings banks have, subject to certain exemptions, lending limits to one borrower in an amount equal to 15% of the institution's capital accounts. An institution's capital account includes the aggregate of all capital, surplus, undivided profits, capital securities and general reserves for loan losses. As of December 31, 1998, the Bank's largest aggregation of loans to one borrower was $435,000, consisting of one loan secured by several rental properties in Beaver County, which was within the Bank's legal lending limit to one borrower of $4.2 million at such date. At December 31, 1998, this loan was current and at a market rate of interest.

Loan Purchases and Sales. The Company's activity in the secondary mortgage market mainly consists of the purchase and sale of mortgage-backed securities. The Bank originates and holds residential and commercial loans until maturity. Prior to 1984, the Bank from time-to-time had purchased participation interests in residential mortgage pools and commercial real estate loans. Currently the Bank does not purchase such loans. In June 1993, the Bank entered into an agreement with the Student Loan Marketing Association to sell all qualifying student loans held by the Bank.

The following table sets forth total loans originated, purchased, sold and repaid during the periods indicated.

	Year Ended December 31,		
	1998	1997	1996
		(In Thousands)	
BEGINNING LOANS RECEIVABLE.............	$100,367	$ 96,143	$87,759
Loan originations:			
One-to-four family....................	18,596	13,515	12,810
Multi-family..........................	450	-	-
Other real estate.....................	-	220	215
Commercial and leases.................	3,127	1,472	1,405
Consumer Loans:			
Savings account loans.................	446	351	547
Consumer Credit Line..................	7,052	5,334	1,832
Automobile............................	18,234	22,075	23,283
Other.................................	1,926	2,335	6,129
Total loans originated............	49,831	45,302	46,221
Sales and loan principal reductions:			
Loan principal reductions.............	48,484	40,531	37,137
Loans sold(1).........................	1,296	547	700
ENDING LOANS RECEIVABLE................	$100,418	$100,367	$96,143

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(1) Loans sold consist of student loans held for sale.

Loan Commitments. The Bank generally grants commitments to fund fixed-rate single-family mortgage loans for periods of up to 90 days at a specified term and interest rate. The total amount of the Bank's commitments to extend credit as of December 31, 1998, 1997 and 1996 was $19.9 million, $14.8 million, $13.4

million, respectively.

Loan Origination and Other Fees. In addition to interest earned on loans, the Bank received loan origination and commitment fees for originating or purchasing loans. In accordance with GAAP, all loan origination fees net of certain loan origination costs over the related life of the loan are amortized.

The Bank's loan origination fees generally are 1.0% for multi-family and commercial real estate loans. The total amount of deferred loan costs and net discounts on loans originated and purchased as of December 31, 1998 was $1.0 million.

The Bank also receives other fees and charges relating to existing loans, which include prepayment penalties, late charges, and fees collected in connection with a change in borrower or other loan modifications. These fees and charges have not constituted a material source of income.

Non-performing Loans and Problem Assets.

Non-performing Assets. The following table sets forth information with respect to the Bank's non-performing assets for the periods indicated. During the periods indicated the Bank had no restructured loans.
<TABLE>
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	At December 31,				
	1998	1997	1996	1995	1994
	(Dollars in Thousands)				
Loans accounted for on a non-accrual basis:					
Mortgage loans:					
Loans secured by 1-4 family dwelling units................	$ 204	$ 347	$ 769	$ 668	$ 605
All other mortgage loans.................................	--	--	--	63	63
Non-mortgage loans:					
Commercial...	20	33	17	--	--
Consumer...	168	377	367	251	72
Total..	$ 392	$ 757	$1,153	$ 982	$ 740
Accruing loans which are contractually past due 90 days or more:					
Mortgage loans:					
Loans secured by 1-4 dwelling units......................	$ 10	$ 61	$ 65	$ 49	$ 125
All other mortgage loans.................................	--	--	--	192	--
Non-mortgage loans:					
Commercial and leases....................................	--	--	--	5	13
Consumer...	125	52	65	80	24
Total..	$ 135	$ 113	$ 130	$ 326	$ 162
Total non-performing loans	$ 527	$ 870	$1,283	$ 1,308	$ 902
Real estate owned..	$ --	$ 33	$ 42	$ 275	$ 331
Total non-performing assets................................	$ 527	$ 903	$1,325	$ 1,583	$1,233
Total non-performing loans to total loans..................	0.52%	0.87%	1.33%	1.49%	1.09%
Total non-accrual and accrual loans to total assets.........	0.22%	0.40%	0.63%	0.66%	0.48%
Total non-performing assets to total assets................	0.22%	0.41%	0.66%	0.80%	0.66%

</TABLE>

During the years ended December 31, 1998, 1997, and 1996, approximately $47,000, $85,000, and $59,000, respectively of interest would have been recorded on loans accounted for on a non-accrual basis if such loans had been current according to the original loan agreements for the entire period. These amounts were not included in the Bank's interest income for the respective periods. The amount of interest income on loans accounted for on a non-accrual basis that was included in income during the same periods amounted to approximately $29,000, $50,000, and $56,000, during the years ended December 31, 1998, 1997, and 1996, respectively.

Management of the Bank regularly reviews the loan portfolio in order to identify potential problem loans, and classifies any potential problem loan as a special mention, substandard, doubtful, or loss asset according to the

Pennsylvania Department of Banking (the "Department") classification of asset regulations. At December 31, 1998, the Bank had no loans classified as troubled debt restructuring.

Classified Assets. Management, in compliance with regulatory guidelines, has instituted an internal loan review program, whereby loans are classified as special mention, substandard, doubtful or loss. When a loan is classified as substandard or doubtful management is required to establish a general valuation reserve for loan losses in an amount that is deemed prudent. General allowances represent loss

allowances which have been established to recognize inherent risk associated with lending activities, but which, unlike specific allowances, have not been allocated to particular problem assets. When management classifies a loan as a loss asset, a reserve equal to 100% of the loan balance is required to be established or the loan is to be charged-off.

An asset is considered "substandard" if it is inadequately protected by the paying capacity and net worth of the obligor or the collateral pledged, if any. "Substandard" assets include those characterized by the "distinct possibility" that the insured institution will sustain "some loss" if the deficiencies are not corrected. Assets classified as "doubtful" have all of the weaknesses inherent in those classified "substandard," with the added characteristic that the weaknesses present make "collection or liquidation in full," "highly questionable and improbable," on the basis of currently existing facts, conditions, and values. Assets classified as "loss" are those considered "uncollectible" and of such little value that their continuance as assets without the establishment of a specific loss reserve is not warranted. Assets which do not currently expose the insured institution to a sufficient degree of risk to warrant classification in one of the aforementioned categories but possess credit deficiencies or potential weaknesses are required to be designated "special mention" by management.

Management's evaluation of the classification of assets and the adequacy of the reserve for loan losses is reviewed by the Board on a regular basis and by the regulatory agencies as part of their examination process.

At December 31, 1998, the Bank had total classified assets of $710,000, of which $596,000, $66,000 and $48,000 were considered substandard, doubtful, and loss, respectively. Special mention assets totaled $602,000 at December 31, 1998.

Allowance for Loan and Lease Losses and REO. The Bank's management evaluates the need to establish reserves against losses on loans and other assets each quarter based on estimated losses on specific loans and on any real estate held for sale or investment when a finding is made that a loss is estimable and probable. Such evaluation includes a review of all loans for which full collectibility may not be reasonably assured and considers, among other matters, the estimated market value of the underlying collateral of problem loans, prior loss experience, economic conditions and overall portfolio quality. These provisions for losses are charged against earnings in the year they are established.

While the Bank believes it has established its existing allowance for loan losses in accordance with GAAP, there can be no assurance that regulators, in reviewing the Bank's loan portfolio, will not request the Bank to significantly increase its allowance for loan losses, or that general economic conditions, a deteriorating real estate market, or other factors will not cause the Bank to significantly increase its allowance for loans losses, therefore negatively effecting the Bank's financial condition and earnings.

In making loans, the Bank recognizes that credit losses will be experienced and that the risk of loss will vary with, among other things, the type of loan being made, the creditworthiness of the borrower over the term of the loan and, in the case of a secured loan, the quality of the security for the loan.

It is the Bank's policy to review its loan portfolio, in accordance with regulatory classification procedures, on a quarterly basis. Additionally, the Bank maintains a program of reviewing loan applications prior to making the loan and immediately after loans are made in an effort to maintain loan quality.

The following table sets forth certain information regarding the Bank's allowances for loan losses at the dates indicated.
<TABLE>
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	At December 31,				
	1998	1997	1996	1995	1994
	(Dollars in Thousands)				
<S>	<C>	<C>	<C>	<C>	<C>
Total loans outstanding	$100,418	$100,367	$96,143	$87,759	$82,998
Average loans outstanding	$99,253	$99,594	$92,834	$87,209	$75,111
Allowance balances (at beginning of period)	$ 1,394	$ 1,434	$ 1,274	$ 1,085	$ 902
Add provisions charged to operations	365	555	455	370	300
Less Charge-offs:					
Residential	23	119	12	1	17
Commercial real estate	-	-	21	-	15
Commercial business loans	9	-	4	-	15
Consumer	495	533	270	208	78
Sub-total	527	652	307	209	125
Add: Recoveries					
Residential	12	8	1	-	6
Commercial real estate	-	6	-	-	-
Commercial business loans	-	-	-	-	2
Consumer	43	43	11	28	-
Sub-total	55	57	12	28	8
Net loans charged-off	472	595	295	181	117
Allowance balance, at end of period	$ 1,287	$ 1,394	$ 1,434	$ 1,274	$ 1,085
Allowance for loan losses as a percent of total loans outstanding	1.28%	1.39%	1.49%	1.45%	1.31%
Net loans charged-off as a percent of average loans outstanding	0.48%	0.60%	0.32%	0.21%	0.16%

</TABLE>

To further monitor and assess the risk characteristics of the loan portfolio, loan delinquencies are reviewed to consider any developing loan problems. Based upon the procedures in place, considering the Bank's past charge-offs and recoveries and assessing the current risk elements in the portfolio, management believes the allowance for loan losses at December 31, 1998 is adequate.

In providing for loans to customers, banks are subject to the risk of loan losses as one of the costs of lending. While management recognizes and charges against the allowance for loan losses accounts which are determined to be uncollectible, experience indicates that at any point in time, possible losses may exist in the loan portfolio which are not specifically identifiable. Therefore, based upon management's best estimate, each year an amount is charged to earnings to maintain the allowance for loan losses at a level sufficient to recognize this potential risk.

The amount charged to earnings is based upon several factors such as, quarterly review of all significant loans, commitments outstanding, and real estate owned, a continuing review of problem or nonperforming loans and overall portfolio quality; regular examinations of the loan and real estate owned portfolios quality; regular examinations of the loan and real estate owned portfolios by representatives of regulatory agencies and independent accountants; management's judgment with respect to economic conditions and their impact on the existing loan portfolio.

The Bank currently does not purchase loans in the secondary market. However, in 1983 the Bank purchased a 90 percent participation in residential loans secured by shareholders' stock in co-operative units located in a multi-family housing facility in Arlington, Virginia (the "Co-operative Loans"). The balance of these loans was approximately $1.3 million at December 31, 1998. At December 31, 1998, these loans were performing according to their current loan terms. Management will continue to monitor these loans closely and has included these loans in the calculation of the general loan loss reserves.

The following table exhibits a breakdown by loan category of the allowance for loan losses.

	December 31,									
	1998		1997		1996		1995		1994	
	Amount	% of loans in each category to total loans	Amount	% of loans in each category to total loans	Amount	% of loans in each category to total loans	Amount	% of loans in each category to total loans	Amount	% of loans in each category to total loans
	(Dollars in Thousands)									
Real estate mortgage loans....	$ 285	50.69%	$ 397	46.83%	$ 462	45.10%	$ 419	45.64%	$ 386	48.78%
Commercial business loans and lease financing receivables...	72	3.60	71	2.46	61	2.04	65	1.67	58	1.67
Consumer loans................	930	45.71	926	50.71	911	52.86	790	52.69	641	49.55
Total....................	$1,287	100.00%	$1,394	100.00%	$1,434	100.00%	$1,274	100.00%	$1,085	100.00%

The following table sets forth certain information regarding the Bank's allowance for REO losses for the periods indicated.

	For the Year Ended December 31,				
	1998	1997	1996	1995	1994
	(Dollars in Thousands)				
Total real estate owned, net.........................	$ --	$ 33	$ 42	$ 275	$ 331
Allowance balances, beginning of period.............	$ --	$ 25	$ 396	$ 409	$ 446
Provisions charged to operations....................	--	11	18	1	29
Charge-offs..	--	36	389	14	66
Allowance balance, end of period....................	$ --	$ --	$ 25	$ 396	$ 409
Allowance for losses on real estate owned as a percent of net real estate owned.............	--%	--%	59.52%	144.00%	123.56%

Investment Activities

General. Pennsylvania-chartered savings banks have the authority to invest in various types of liquid assets, including United States Treasury obligations, securities of various Federal agencies, certain certificates of deposits of insured banks and savings institutions, certain bankers' acceptances, repurchase agreements, and loans to other banking institutions on Federal Funds. Subject to various restrictions, state chartered institutions may also invest a portion of their assets in commercial paper, corporate debt securities and asset-backed securities. A significant portion of the Bank's income during recent years has been attributable to interest income and gains from the sale of investment securities. For example, $2.6 million of the $16.1 million for the year ended December 31, 1998, in total interest income for the Company was attributable to interest on investment securities.

The Investment Policy of the Bank, which is established by the Board of Directors is designed to provide and maintain liquidity, to generate a favorable return on investments without incurring undue interest rate and credit risk, and to compliment the Bank's lending activities. The policy currently provides for investment, held for sale, and trading portfolios, although the Bank does not currently engage in trading investment securities, and does not anticipate doing so in the future.

The Bank maintains a portfolio of securities available for sale to enhance total return on investments value. These assets are accounted for at fair market value. The Bank's Investment Policy designates what securities may be maintained in this portfolio.

Mortgage-backed Securities. To deploy excess liquidity, the Bank also purchases mortgage-backed securities guaranteed by participation certificates issued by FHLMC, the Government National Mortgage Association ("GNMA") and FNMA. The mortgage-backed securities are participation certificates issued and guaranteed by the FHLMC or FNMA and secured by interest in pools of conventional mortgages originated by other financial institutions. A majority of the FNMA and FHLMC securities are classified as held-to-maturity, while most of the Bank's GNMA securities are fixed-rate and classified as available-for-sale.

Mortgage-backed securities provide for monthly payments of principal and interest and generally have contractual maturities ranging from five to thirty years. However, due to expected repayment terms being significantly less than the underlying mortgage loan pool contractual maturities, the estimated lives

of these securities could be significantly shorter.

Investment decisions are made within policy guidelines established by the Board of Directors.

Investment and Mortgage-backed Securities Portfolios. The following table sets forth the carrying value of the Bank's investment and mortgage-backed securities portfolios, short-term investments and FHLB stock at the dates indicated. At December 31, 1998, the carrying and market value of the Bank's investment and mortgage-backed securities portfolio was $135.4 million and $136.6 million, respectively. The market value is equal to the carrying value for interest-bearing deposits and FHLB stock.

<TABLE>
<CAPTION>

	December 31, 1998	1997	1996
	(In Thousands)		
Investment and mortgage-backed securities held to maturity:			
U.S. Government Agency securities	$13,927	$ 6,998	$ 3,000
Corporate obligations	2,981	999	3,999
Obligations of States and Political Subdivisions	1,238	2,017	3,769
Mortgage-backed securities	42,287	40,234	31,138
Total investment and mortgage-backed securities	66,433	50,248	41,906
Interest-bearing deposits	9,332	3,308	3,004
FHLB stock	1,545	1,020	972
Total investments	$77,310	$54,576	$45,882

</TABLE>

<TABLE>
<CAPTION>

	December 31, 1998	1997	1996
	(In Thousands)		
Investment and mortgage-backed securities available for sale:			
U.S. Government Treasury securities	$ 9,132	$ 6,087	$ 6,129
Corporate obligations	-	49	92
Real estate mortgage investment conduits	102	518	852
Obligations of States and Political Subdivisions	15,963	17,599	19,615
Mortgage-backed securities	32,878	30,159	25,794
Total investments	$58,075	$54,412	$52,482

</TABLE>

During the years ended December 31, 1998, 1997 and 1996, excluding U.S. Government Treasury and Agency securities, the Company had no securities of a single issuer that exceeded 10% of stockholders' equity except as listed below.
<TABLE>

<CAPTION>

Issuer	December 31, 1998 Aggregate Book Value	December 31, 1998 Aggregate Market Value	December 31, 1997 Aggregate Book Value	December 31, 1997 Aggregate Market Value	December 31, 1996 Aggregate Book Value	December 31, 1996 Aggregate Market Value
			(In Thousands)			
<S>	<C>	<C>	<C>	<C>	<C>	<C>
General Electric Capital Corporation	$2,981	$2,981	$ -	$ -	$ -	$ -

</TABLE>

Investment Portfolio Maturities. The following table sets forth certain information regarding the carrying values, weighted average yields and maturities of the Bank's investment and mortgage-backed securities portfolio at December 31, 1998.

<TABLE>
<CAPTION>

	One Year or Less Carrying Value	One Year or Less Average Yield(1)	One to Five Years Carrying Value	One to Five Years Average Yield(1)	Five to Ten Years Carrying Value	Five to Ten Years Average Yield(1)	More than Ten Years Carrying Value	More than Ten Years Average Yield(1)	Total Investment and Mortgage-backed Securities Carrying Value	Total Investment and Mortgage-backed Securities Average Yield(1)	Total Investment and Mortgage-backed Securities Market Value
					(Dollars in Thousands)						
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Available for Sale:											
U.S. Government Treasury Obligations.	$5,072	6.73%	$4,060	5.53%	$ --	--%	$ --	--%	$ 9,132	6.20%	$ 9,132
Obligations of states and political subdivisions	--	--	5,663	9.49	1,085	9.21	9,215	8.17	15,963	8.71	15,963
Real estate investment conduits......	--	--	15	6.04	--	--	87	6.10	102	6.09	102
Mortgage-backed securities..........	--	--	29	7.20	633	7.21	32,216	7.24	32,878	7.24	32,878
Total..........................	$5,072	6.73%	$9,767	7.83%	$1,718	8.47%	$41,518	7.44%	$58,075	7.48%	$58,075
Held to Maturity:											
U.S. Government Agency securities....	$1,000	5.65%	$7,597	6.17%	$2,778	5.65%	$2,552	5.40%	$13,927	5.89%	$14,321
Obligations of states and political subdivisions	--	--	--	--	245	7.07	993	8.19	1,238	7.97	1,280
Corporate obligations...............	2,981	5.23	--	--	--	--	--	--	2,981	5.23	2,981
Mortgage-backed securities..........	--	--	--	--	--	--	48,287	7.00	48,287	7.00	48,768
Total..........................	$3,981	5.34%	$7,597	6.17%	$3,023	5.77%	$51,832	6.94%	$66,433	6.71%	$67,350

</TABLE>

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(1) Interest income is shown on a fully tax equivalent basis assuming a 34% federal income tax rate.

Deposit Portfolio

Deposits in the Bank as of December 31, 1998, were represented by various types of savings programs described below.

<TABLE>
<CAPTION>

Category	Term	Interest Rate as of December 31, 1998	Balance as of December 31, 1998(1)	Percentage of Total Deposits
<S>	<C>	<C>	<C>	<C>
NOW Checking and Demand Deposit Accounts	None	0.00% - 0.05%	$ 25,854	14.26%
Regular Savings	None	2.00%	27,601	15.23
Money Market Accounts	None	2.22% - 4.55%	25,131	13.87
Certificates of Deposit:				
Fixed Term, Fixed Rate	1 - 3 months	3.94%	929	0.51
Fixed Term, Fixed Rate	4 - 6 months	3.96%	10,435	5.76
Fixed Term, Fixed Rate	7 - 12 months	4.18%	15,699	8.66

Fixed Term, Fixed Rate	13 - 24 months	4.43% - 4.91%	12,656	6.98
Fixed Term, Fixed Rate	25 - 36 months	4.91% - 5.15%	23,836	13.15
Fixed Term, Fixed Rate	37 - 48 months	5.15%	4,391	2.42
Fixed Term, Fixed Rate	49 - 120 months	5.15% - 5.39%	11,683	6.44
IRA Fixed Term, Variable Rate	60 months	4.45%	9,408	5.19
IRA Fixed Term, Fixed Rate	60 months	5.39%	10,813	5.96
Jumbo Certificates		4.30% - 4.60%	2,677	1.48
			181,113	99.91
	Accrued interest on deposits		154	0.09
	Total		$181,267	100.00%

</TABLE>

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(1) In thousands

Time Deposits by Rate. The following table sets forth the time deposits in the Bank classified by rates as of the dates indicated.

	At December 31, 1998	1997	1996
Weighted Average Rate			
2.01% - 4.00%..........................	$ 6,056	$ --	$ 235
4.01% - 6.00%..........................	79,040	81,984	88,947
6.01% - 8.00%..........................	17,431	19,445	20,797
8.01% - 10.00%.........................	--	292	634
	102,527	101,721	110,613
Accrued interest on certificate accounts..	154	181	250
Total...............................	$102,681	$101,902	$110,863

Time Deposits Maturity Schedule. The following table sets forth the amount and maturities of time deposits at December 31, 1998.

<TABLE>
<CAPTION>

	At December 31,				
	December 31, 1999	December 31, 2000	December 31, 2001	December 31, 2002	Total
<S>	<C>	<C>	<C>	<C>	<C>
Interest Rate					
2.01% - 4.00%........	$ 6,056	$ --	$ --	$ --	$ 6,056
4.01% - 6.00%........	36,027	12,145	11,952	18,916	79,040
6.01% - 8.00%........	5,064	7,161	399	4,807	17,431
8.01% - 10.00%.......	--	--	--	--	--
	$47,147	$19,306	$12,351	$23,723	$102,527
Accrued interest on certificate accounts.............					154
Total............					$102,681

</TABLE>

Time deposits include certificates of deposit in denominations of $100,000 or more. Such deposits aggregated $9.2 million, $7.9 million and $8.7 million at December 31, 1998, 1997 and 1996, respectively with maturities as of December 31, 1998 as follows:

Maturity Period	Certificates of Deposit (In Thousands)
Within three months........................	$ 818
Beyond three but within six months..........	1,282
Beyond six but within twelve months.........	880
Beyond one year............................	6,174
Total................................	$9,154

Savings Deposit Activity. The following table sets forth the savings activities of the Company for the periods indicated:

	Year Ended December 31,		
	1998	1997	1996
Net increase (decrease) before interest credited..	$ 818	$(7,692)	$(3,609)
Interest credited................................	6,009	6,053	5,990
Net increase (decrease) in savings deposits.......	$6,827	$(1,639)	$2,381

Borrowings. Savings deposits are the primary source of funds of the Bank's lending and investment activities and for its general business purposes. The Bank, if the need arises, may rely upon advances from the FHLB of Pittsburgh and the Federal Reserve Bank discount window to supplement its supply of lendable funds and to meet deposit withdrawal requirements. Advances from the FHLB of Pittsburgh are typically secured by the Bank's stock in the FHLB and a portion of the Bank's residential

mortgage loans and other assets (principally securities which are obligations of or guaranteed by the U.S. Government). It is the Bank's policy to fund loan demand and investment opportunities out of current loan and mortgage-backed securities repayments, investment maturities and new deposits. However, the Bank has utilized FHLB advances to supplement these sources. This policy may change in the future as investment opportunities are presented or loan demand increases.

The following table sets forth information concerning FHLB advances during the periods indicated (includes both short- and long-term advances).

	Year Ended December 31,		
	1998	1997	1996
	(Dollars in Thousands)		
FHLB advances:			
Average balance outstanding...................	$19,435	$6,131	$ 8,059
Maximum amount outstanding at any month-end during the year...................	30,895	12,117	11,400
Weighted average interest rate during the year	5.89%	5.69%	5.67%
Total FHLB advances at end of period..........	30,895	12,117	8,100
Weighted Year End Rate........................	5.59%	6.11%	6.45%

Subsidiary Activity

The only subsidiary of the Company is the Bank. The Company owns 100% of the outstanding capital stock of the Bank.

Personnel

As of December 31, 1998, the Bank had 77 full-time employees and 15 part-time employees. The employees are not represented by a collective bargaining unit. The Bank believes its relationship with its employees to be satisfactory.

Competition

The Bank faces strong competition in its attraction of savings deposits, which are its primary source of funds for lending, and in the origination of real estate and consumer loans. The Bank's competition for savings deposits and loans historically has come from other savings institutions and commercial banks located in the Bank's market area. The Bank also competes with mortgage banking companies for real estate loans, and commercial banks and automobile finance companies for automobile loans; and faces competition for investor funds from short-term money market securities and corporate and government securities. The Bank's market area primarily includes Beaver and Lawrence Counties, Pennsylvania, which are between the Pittsburgh, Pennsylvania and Youngstown, Ohio Metropolitan areas.

The Bank competes for loans by charging competitive interest rates and loan fees, remaining efficient and providing a wide range of services to its customers. The Bank offers all consumer banking services such as checking accounts, certificates of deposit, retirement accounts, consumer and mortgage loans and ancillary services such as safe deposit boxes, convenient offices and drive-up facilities, automated teller machines and overdraft protection. These services help the Bank compete for deposits. The Bank offers competitive rates on deposits.

Legal Proceedings

The Bank, from time to time, is a party to routine litigation, which arises in the normal course of business, such as claims to enforce liens, condemnation proceedings on properties in which the Bank holds security interests, claims involving the making and servicing of real property loans, and other issues incident to the business of the Bank. There were no lawsuits pending or known to be contemplated against the Company or the Bank at December 31, 1998 that would have a material effect on the operations or income of the Company.

REGULATION AND SUPERVISION

Set forth below is a brief description of certain laws which relate to the regulation and supervision of the Bank and the Company. The description does not purport to be complete and is qualified in its entirety by reference to applicable laws and regulations.

Regulation of the Bank

General. As a Pennsylvania chartered, SAIF-insured savings bank, the Bank is subject to extensive regulation and examination by the Department, the Federal Deposit Insurance Corporation (the "FDIC"), which insures its deposits to the maximum extent permitted by law, and to a much less or extent, by the Federal Reserve. The federal and state laws and regulations which are applicable to banks regulate, among other things, the scope of their business, their investments, the reserves required to be kept against deposits, the timing of the availability of deposited funds and the nature and amount of and collateral for certain loans. The laws and regulations governing the Bank generally have been promulgated to protect depositors and not for the purpose of protecting stockholders. The regulatory structure also gives the regulatory authorities extensive discretion in connection with their supervisory and enforcement activities and examination policies, including policies with respect to the classification of assets and the establishment of adequate loan loss reserves for regulatory purposes. Any change in such regulation, whether by the Department, the FDIC or the United States Congress could have a material adverse impact on the Company, the Bank and their operations.

Pennsylvania Savings Bank Law. The Pennsylvania Banking Code ("Banking Code") contains detailed provisions governing the organization, location of offices, rights and responsibilities of trustees, officers, and employees, as well as corporate powers, savings and investment operations and other aspects of the Bank and its affairs. The Banking Code delegates extensive rule-making power and administrative discretion to the Department so that the supervision and regulation of state chartered savings banks may be flexible and readily responsive to changes in economic conditions and in savings and lending practices.

One of the purposes of the Banking Code is to provide savings banks with the opportunity to be fully competitive with each other and with other financial institutions existing under other state, federal and foreign laws. To this end, the Banking Code provides state-chartered savings banks with all of the powers enjoyed by federal savings and loan associations, subject to regulation by the Department. The Federal Deposit Insurance Corporation Act ("FDIA"), however, prohibits state chartered institutions from making new investments, loans, or becoming involved in activities as principal and equity investments which are not permitted for national banks unless (1) the FDIC determines the activity or investment does not pose a significant risk of loss to the SAIF and (2) the savings bank meets the fully phased-in capital requirements. Accordingly, the ability of the Banking Code to provide additional operating authority to the Bank is limited by the FDIA.

The Department generally examines each savings bank not less frequently than once every two years. The Banking Code permits the Department to accept the examinations and reports of the FDIC in lieu of the Department's examination. The present practice is for the Department to conduct individual examinations. The Department may order any savings bank to discontinue any violation of law or unsafe or unsound business practice and may direct any trustee, officer, attorney or employee of a savings bank engaged in an objectionable activity, after the Department has ordered the activity to be terminated, to show cause at a hearing before the Department why such person should not be removed.

Assessments. The FDIC is authorized to establish separate annual assessment rates for deposit insurance for members of the BIF and the SAIF. The FDIC may increase assessment rates for either fund if necessary to restore the fund's ratio of reserves to insured deposits to its target level within a reasonable time and may decrease such assessment rates if such target level has been met. The FDIC has established a risk-based assessment system for both SAIF and BIF members. Under this system, assessments are set within a range, based on the risk the institution poses to its deposit insurance fund. This risk level is determined based on the institution's capital level and the FDIC's level of supervisory concern about the institution. During the year ended December 31, 1998, the Bank paid $105,000 in assessments, including approximately $.064 per $100 in deposits to the Financing Corp. (Fico Bonds).

Regulatory Capital Requirements. The FDIC has promulgated regulations and adopted a statement of policy prescribing the capital adequacy requirements for state-chartered banks, some of which, like the Bank, are not members of the Federal Reserve. At December 31, 1998, the Bank exceeded all regulatory capital requirements and is classified as "well capitalized."

The FDIC's capital regulations establish a minimum 3% Tier I leverage capital requirement for the most highly-rated state-chartered, non-member banks, with an additional cushion of at least 100 to 200 basis points for all other state-chartered, non-member banks, which effectively will increase the minimum Tier I leverage ratio for such other banks to 4% to 5% or more. Under the FDIC's regulation, the highest-rated banks are those that the FDIC determines are not anticipating or experiencing significant growth and have well diversified risk, including no undue interest rate risk exposure, excellent asset quality, high liquidity, good earnings and, in general, which are considered a strong banking organization, rated composite 1 under the Uniform Financial Institutions Rating System. Leverage or core capital is defined as the sum of common stockholders' equity (including retained earnings), noncumulative perpetual preferred stock and related surplus, and minority interests in consolidated subsidiaries, minus all intangible assets other than certain qualifying supervisory goodwill, and certain purchased mortgage servicing rights and purchased credit and relationships.

The FDIC also requires that savings banks meet a risk-based capital standard. The risk-based capital standard for savings banks requires the maintenance of total capital (which is defined as Tier I capital and supplementary (Tier 2) capital) to risk weighted assets of 8%. In determining the amount of risk-weighted assets, all assets, plus certain off balance sheet assets, are multiplied by a risk-weight of 0% to 100%, based on the risks the FDIC believes are inherent in the type of asset or item.

The components of Tier I capital are equivalent to those discussed above under the 3% leverage standard. The components of supplementary (Tier 2) capital include certain perpetual preferred stock, certain mandatory convertible securities, certain subordinated debt and intermediate preferred stock and general allowances for loan and lease losses. Allowance for loan and lease losses includable in supplementary capital is limited to a maximum of 1.25% of risk-weighted assets. Overall, the amount of capital counted toward supplementary capital cannot exceed 100% of core capital.

A bank which has less than the minimum leverage capital requirement is subject to various capital plan and activities restriction requirements. The FDIC's regulation also provides that any insured depository institution with a ratio of Tier I capital to total assets that is less than 2.0% is deemed to be operating in an unsafe or unsound condition pursuant to Section 8(a) of the FDIA and could be subject to potential termination of deposit insurance.

The Bank is also subject to Department regulations. The components of leverage and risk-based capital are substantially the same as those defined by the FDIC.

The Bank was in compliance in both the FDIC and Pennsylvania capital requirements at December 31, 1998.

Community Reinvestment. Under the Community Reinvestment Act ("CRA"), as implemented by FDIC regulations, a savings association has a continuing and affirmative obligation consistent with its safe and sound operation to help meet the credit needs of its entire community, including low and moderate income neighborhoods. The CRA does not establish specific lending requirements or programs for financial institutions nor does it limit an institution's discretion to develop the types of products and services that it believes are best suited to its particular community, consistent with the CRA. The CRA requires the FDIC, in connection with its examination of a savings bank, to assess the institution's record of meeting the credit needs of its community and to take such record into account in its evaluation of certain applications by such institution, and to provide a written evaluation of an institution's CRA performance utilizing a four tiered descriptive rating system in lieu. The Bank received a "satisfactory" rating in its last CRA examination in May, 1996.

Transactions With Affiliates. Generally, restrictions on transactions with affiliates require that transactions between a savings association or its subsidiaries and its affiliates be on terms as favorable to the Bank as transactions with non-affiliates. In addition, certain of these transactions are restricted to a percentage of the Bank's capital. Affiliates of the Bank include the Holding Company and any company which would be under common control with the Bank.

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

As a member, the Bank is required to purchase and maintain stock in the FHLB of Pittsburgh in an amount equal to at least 1% of its aggregate unpaid residential mortgage loans, home purchase contracts or similar obligations at the beginning of each year. At December 31, 1998, the Bank had $1.5 million in FHLB stock, which was in compliance with this requirement. For the year ended December 31, 1998, dividends paid by the FHLB of Pittsburgh to the Bank totalled approximately $78,000.

Federal Reserve System. The Federal Reserve requires all depository institutions to maintain non-interest bearing reserves at specified levels against their transaction accounts (primarily checking, NOW and Super NOW checking accounts) and non-personal time deposits. The balances maintained to meet the reserve requirements imposed by the Federal Reserve may be used to satisfy the liquidity requirements that are imposed by the Department. At December 31, 1998, the Bank met its reserve requirements.

Regulation of the Company

General. The Company, as a bank holding company, is subject to regulation and supervision by the Board of Governors of the Federal Reserve and by the Department. This regulation is generally intended to ensure that the Company limits its activities to those allowed by law and that it operates in a safe and sound manner without endangering the financial health of its subsidiary banks. The Company is required to file annually a report of its operations with, and is subject to examination by, the Federal Reserve and the Department.

BHCA Activities and Other Limitations. The Bank Holding Company Act of 1956, as amended ("BHCA"), prohibits a bank holding company from acquiring direct or indirect ownership or control of more than 5% of the voting shares of any bank, or increasing such ownership or control of any bank, without prior approval of the Federal Reserve. In determining whether to authorize a bank holding company (or a company that will become a bank holding company) to acquire control of a bank, the Federal Reserve takes into consideration the financial and managerial resources of the bank holding company, as well as those of the bank to be acquired, and considers whether the acquisition is likely to have anti-competitive effects or other adverse effects. The BHCA also generally prohibits a bank holding company from acquiring any bank located outside of the state in which the operations of the existing bank subsidiaries of the bank holding company are principally conducted unless specifically authorized by applicable state law. No approval under the BHCA is required, however, for a bank holding company already owning or controlling 50% or more of the voting shares of a bank to acquire additional shares of such bank.

The BHCA also prohibits a bank holding company, with certain exceptions, from acquiring more than 5% of the voting shares of any company that is not a bank and from engaging in any business other than banking or managing or controlling banks. Under the BHCA, the Federal Reserve is authorized to approve the ownership of shares by a bank holding company in any company, the activities of which the Federal Reserve has determined to be so closely related to banking or to managing or controlling banks as to be a proper incident thereto. In making such determinations, the Federal Reserve is required to weigh expected benefits to the public, such as greater convenience, increased competition or gains in efficiency, against the possible adverse effects, such as undue concentration of resources, decreased or unfair competition, conflicts of interest or unsound banking practices.

The Federal Reserve has by regulation determined that certain activities are closely related to banking within the meaning of the BHCA. These activities include those of operating a mortgage company, a finance company, a credit card company, a factoring company, a trust company or a savings association; performing certain data processing operations; providing limited securities brokerage services; acting as an investment or financial advisor; leasing personal property on a full-payout (and, to a limited extent, less than full-payout), non-operating basis; providing tax planning and preparation services; operating a collection agency; and providing certain courier services. The Federal Reserve also has determined that certain other activities, including real estate brokerage and syndication, land development, property management and underwriting of life insurance not related to credit transactions, are not closely related to banking and a proper incident thereto.

Regulatory Capital Requirements. The Federal Reserve has adopted capital adequacy guidelines pursuant to which it assesses the adequacy of capital in examining and supervising a bank holding company and in analyzing applications to it under the BHCA. The Federal Reserve capital adequacy guidelines are similar to those imposed on the Bank by the FDIC. See "Regulation of the Bank - Regulatory Capital Requirements."

Item 2. Description of Properties

Properties

The Company is headquartered in Beaver Falls, Pennsylvania and operates through its wholly owned subsidiary, Peoples Home Savings Bank. The Bank operates through it's administrative office, its main office and eight branch offices. The Bank's total investment in office property and equipment is $7.7 million with a net book value of $4.5 million at December 31, 1998. The Bank currently operates automated teller machines at most of its branch offices (six machines).

The Bank utilizes Jack Henry's Silverlake Software on an inhouse computer system. The Bank has been advised by Jack Henry that the Silverlake Software is year 2000 compliant.

Item 3. Legal Proceedings

Neither the Bank nor its subsidiaries are involved in any pending legal proceedings, other than routine legal matters occurring in the ordinary course of business, which in the aggregate involve amounts which are believed by management to be immaterial to the consolidated financial condition or results of operations of the Bank.

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

At a special meeting of Stockholders of the Bank on August 20, 1998 (and subsequently reconvened on October 22, 1998), the following items were presented:

> Approval of the 1998 Stock Option Plan. The plan received 2,194,957 votes in favor, 75,078 votes against and 16,818 votes abstained.
>
> Approval of the 1998 Restricted Stock Plan. The Plan received 2,156,824 votes in favor, 120,406 votes against and 9,258 votes abstained.
>
> Adoption of an Agreement and Plan of Reorganization to form a middle tier stock holding company. The proposal received 2,144,002 votes in favor, 38,538 votes against and 9,488 votes abstained.

PART II

Item 5. Market for Common Equity and Related Stockholder Matters

Information relating to the market for Registrant's common equity and related stockholder matters appears under " Stock Market Information" in the Registrant's Annual Report to Stockholders for the fiscal year ended December 31, 1998 ("Annual Report") on pages 4 and 5, and is incorporated herein by reference.

Item 6. Selected Financial Data

The above-captioned information appears under "Selected Financial and Other Data" in the Annual Report on pages 2 through 3, and is incorporated herein by reference.

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

The above-captioned information appears under Management's Discussion and Analysis of Financial Condition and Results of Operations in the Annual Report on pages 5 through 15, and is incorporated herein by reference.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

The above captioned information appears under "Market Risk Analysis" in the Annual Report on pages 11 and 12 is incorporated herein by reference.

Item 8. Financial Statements and Supplementary Data

The Consolidated Financial Statements of the Company and its subsidiaries, together with the report thereon by SR Snodgrass, A.C. appears in the Annual Report on pages 16 through 44, and are incorporated herein by reference.

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

None.

PART III

Item 10. Directors and Executive Officers of the Registrant

The information contained under the section captioned "Proposal I-Election of Directors" at pages 3 to 7 of the Registrant's definitive proxy statement for the Registrant's Annual Meeting of Stockholders to be held on April 22, 1999 (the "Proxy Statement"), which was filed with the SEC on March 18, 1999 and incorporated herein by reference.

Item 11. Executive Compensation

The information relating to executive compensation is incorporated herein by reference to the Registrant's Proxy Statement at pages 8 through 12.

Item 12. Security Ownership of Certain Beneficial Owners and Management

The information relating to security ownership of certain beneficial owners and management is incorporated herein by reference to the Registrant's Proxy Statement at pages 2 and 3.

Item 13. Certain Relationships and Related Transactions

The information relating to certain relationships and related transactions is incorporated herein by reference to the Registrant's Proxy Statement on page 13.

PART IV

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

(a) The following documents are filed as a part of this report:

(1) Financial Statements of the Company are incorporated by reference to the following indicated pages of the Annual Report.

The remaining information appearing in the Annual Report is not deemed to be filed as part of this report, except as expressly provided herein.

(2) All schedules are omitted because they are not required or applicable, or the required information is shown in the consolidated financial statements or the notes thereto.

(3) Exhibits

(a) The following exhibits are filed as part of this report.

2.0 Agreement and Plan of Reorganization*
3.1 Articles of Incorporation of Peoples Home Savings Bank*
3.2 Bylaws of Peoples Home Savings Bank*
4.0 Form of Stock Certificate of PHS Bancorp, Inc.*
10.1 Amended Employment Agreement between Peoples Home Savings Bank and James P. Wetzel, Jr.*
10.2 1998 Restricted Stock Plan*
10.3 1998 Stock Option Plan*
11.0 Statement regarding computation of earnings per share (see Note 1 to the Notes to Consolidated Financial Statements in the Annual Report)
13.0 Annual Report to Stockholders for the fiscal year ended December 31, 1998
21.0 Subsidiary of the Registrant (see "Item 1 Business - Subsidiary Activity" herein)
23.0 Consent of Accountants
27.0 Financial Data Schedule (in electronic filing only)

* Incorporated by reference to Registrant's Quarterly Report on Form 10-Q for the Quarter Ended September 30, 1998 and filed with the Securities and Exchange Commission on November 13, 1998.

(b) Reports on Form 8-K.

On November 10, 1998, the Company filed a Current Report on Form 8-K with the Commission announcing the completion of its stock holding company reorganization.

SIGNATURES

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

PHS BANCORP, INC.

Dated: March 18, 1999

By:/s/James P. Wetzel, Jr.
James P. Wetzel, Jr.
President, Chief Executive Officer and Director
(Duly Authorized Representative)

Pursuant to the requirement of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the Registrant and in the capacities and on March 18, 1999.

By: /s/James P. Wetzel, Jr.	By:/s/Richard E. Canonge
James P. Wetzel, Jr. President, Chief Executive Officer and Director (Principal Executive Officer)	Richard E. Canonge Vice President and Treasurer (Principal Financial Officer)
By: /s/Douglas K. Brooks	By:/s/Emlyn Charles
Douglas K. Brooks Director	Emlyn Charles Director
By: /s/John C. Kelly	By:/s/Earl F. Klear
John C. Kelly Director	Earl F. Klear Director
By: /s/Howard B. Lenox	By:/s/John M. Rowse
Howard B. Lenox Director	John M. Rowse Director

EXHIBIT 13

[** PHS BANCORP, INC. LOGO **]

1998 ANNUAL REPORT

PHS BANCORP, INC.
1998 ANNUAL REPORT

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PHS BANCORP, INC.

To Our Stockholders:

The past year has been marked by significant changes in your Company. In January the Bank converted its data processing system to an in-house computer system using Jack Henry's Silverlake software and an IBM AS 400 computer. In conjunction with the system conversion, the Bank has made significant progress towards the completion of its year 2000 compliance program.

On November 9, 1998, the Bank completed its reorganization by the formation of PHS Bancorp, Inc., a mid-tier stock holding company, which is majority owned by PHS Bancorp, M.H.C. We believe that the stockholding company structure will provide greater flexibility for future growth and expansion.

We are proud to present to you our annual report for the fiscal year ended December 31, 1998. PHS Bancorp, Inc. completed the year profitably and in good financial condition.

As we begin fiscal 1999, we retain our goal of providing personal service to our customers and stockholders. At the same time, we will concentrate our energies on solid financial results and enhancing shareholder value.

Each member of your Board of Directors, and our employees, join me in thanking you for your continued dedication, loyalty and trust.

Sincerely,

/s/ James P. Wetzel, Jr.

James P. Wetzel, Jr.
President and Chief Executive Officer

March 18, 1999

PHS BANCORP, INC.
SELECTED FINANCIAL AND OTHER DATA

<TABLE>
<CAPTION>

Selected Financial Data

At December 31,	1998	1997	1996	1995	1994
(Dollars in Thousands)					
<S>	<C>	<C>	<C>	<C>	<C>
Assets..	$244,253	$217,735	$202,216	$198,939	$188,122
Loans...	99,914	99,691	95,773	87,330	82,877
Mortgage-backed securities held to maturity.........	48,287	40,234	31,138	30,051	45,814
Mortgage-backed securities available for sale..	32,878	30,159	25,794	25,442	3,909
Investment securities held to maturity.............	18,146	10,015	10,768	13,774	41,103
Investment securities available for sale...........	25,197	24,253	26,688	32,727	5,960
Interest-bearing deposits with other institutions...	9,332	3,308	3,004	1,809	1,116
Federal Home Loan Bank stock.......................	1,545	1,020	972	925	849
Deposits..	181,113	174,286	175,925	173,545	169,278
Other borrowings....................................	1,388	1,116	-	-	-
Advances from Federal Home Loan Bank................	30,895	12,117	8,100	7,400	3,851
Stockholders' equity(1).............................	29,184	28,609	16,645	16,643	13,893

Selected Consolidated Operating Data

Year Ended December 31,	1998	1997	1996	1995	1994
(Dollars in Thousands)					
Interest income....................................	$16,112	$14,950	$14,584	$13,950	$11,709
Interest expense...................................	8,523	7,857	7,882	7,598	6,154
Net interest income..............................	7,589	7,093	6,702	6,352	5,555
Provision for loan losses..........................	365	555	455	370	300
Net interest income after provision for loan losses................................	7,224	6,538	6,247	5,982	5,255
Total non-interest income..........................	914	937	781	848	872
Total non-interest expense.........................	6,245	5,687	6,638(2)	5,000	5,039
Income before income taxes.........................	1,893	1,788	390	1,830	1,088
Income taxes.......................................	391	150	(319)	353	168
Net income.......................................	$ 1,502	$ 1,638	$ 709	$ 1,477	$ 920

</TABLE>

(footnotes on following page)

<TABLE>
<CAPTION>

Other Selected Data

At or for the Year Ended December 31,	1998	1997	1996	1995	1994
<S>	<C>	<C>	<C>	<C>	<C>
Return on average assets (net income divided by average total assets)	0.65%	0.79%	.35%(2)	.76%	.50%
Return on average equity (net income divided by average equity assets)	5.24%	7.33%	4.37%(2)	10.09%	6.65%
Average equity to average assets	12.50%	10.81%	8.06%	7.52%	7.53%
Net interest rate spread	3.21%	3.48%	3.50%	3.40%	3.08%
Per Share Information:					
Diluted earnings per shares(3)	$0.56	$0.33	N/A	N/A	N/A
Tangible book value per shares(3)	$10.57	$10.37	N/A	N/A	N/A
Non-performing assets to total assets	0.22%	0.41%	.66%	.80%	0.66%
Non-performing assets to loans assets	0.52%	0.87%	1.33%	1.50%	1.09%
Allowance for loan losses to total loans	1.28%	1.39%	1.49%	1.45%	1.31%

</TABLE>

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(1) Prior to December 30, 1997, represents retained earnings (substantially restricted).

(2) Includes a one-time special assessment of $1,106,000 to recapitalize the SAIF.

(3) No shares of common stock were outstanding until July 10, 1997, therefore per share information for December 31, 1997 is based upon the period from July 10, 1997 to December 31, 1997, with weighted average shares outstanding of 2,705,880.

PHS BANCORP, INC.

Corporate Profile

The Company is a Pennsylvania-chartered, middle tier stock holding company organized in November 1998 (the "Reorganization") at the direction of Peoples Home Savings Bank (the "Bank"). In connection with the Reorganization, PHS Bancorp, M.H.C. (the "M.H.C.") and the stockholders of Peoples Home Savings Bank (the "Bank") exchanged their shares of common stock in the Bank for shares of common stock in the Company, on a one for one basis. Upon completion of the Reorganization, the M.H.C., a Pennsylvania-chartered mutual holding company, owned 55% of the Company's common stock with the remaining 45% being owned by common stock investors. As a result of the Reorganization, the Bank, a Pennsylvania stock savings bank, became a wholly-owned subsidiary of the Company. References to the "Bank" herein, unless the context required otherwise, also refer to the Company and M.H.C. on a consolidated basis.

Originally chartered in 1888, the Bank is a community oriented, full service retail savings institution offering traditional mortgage loan products and consumer loans, notably automobile loans. Its deposits are federally insured by the Savings Association Insurance Fund ("SAIF") and the Bank is a member of the Federal Home Loan Bank ("FHLB") System. The Bank attracts its deposits from the general public and has historically used such deposits primarily to originate mortgage and consumer (particularly new and used automobile) loans. Excess liquidity is invested in mortgage-backed securities.

Stock Market Information

In July 1997, the Bank, among other things, changed from a mutual form of ownership to that of a stock form. As a result, the Bank's common stock commenced trading on the Nasdaq National Market. In November 1998, the shareholders of the Bank exchanged their common stock for the Company's common stock, resulting in Company's common stock to commence its trading on the Nasdaq National Market and the Bank's Common Stock to cease its trading. The Company retained the Bank's old symbol and trades under "PHSB." The following table reflects the stock price as published by the Nasdaq National Market and includes the prices of the Company as well as the Bank before the Reorganization. The quotations reflect inter-dealer prices, without retail mark-up, mark-down, or commission, and may not represent actual transactions. On December 31, 1998, the Company's common stock closed at $14.125.

QUARTER ENDED	HIGH	LOW	CASH DIVIDENDS PAID PER SHARE

December 31, 1998	14.625	11.00	0.07
September 30, 1998	19.50	13.75	0.07
June 30, 1998	23.25	18.375	0.06
March 31, 1998	20.50	18.00	0.06
December 31, 1997	21.25	16.50	-
September 30, 1997	17.25	12.75	-

The number of stockholders of record of common stock as of March 5, 1998, the record date for the 1999 annual meeting of stockholders ("Record Date"), was approximately 684. This does not reflect the number of persons or entities who held stock in nominee or "street" name through various brokerage firms. As of the Record Date, there were 2,760,000 shares outstanding.

The Company's ability to pay dividends to stockholders is subject to the requirements of Pennsylvania law. No dividend may be paid by the Bank to the Company if the effect thereof would cause the Bank's regulatory capital to be reduced below (1) the amount required for the liquidation account established in connection with the Bank's conversion from mutual to stock form, or (2) the regulatory capital requirements imposed by the Federal Deposit Insurance Corporation and the Pennsylvania Department of Banking.

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

The Private Securities Litigation Act of 1995 contains safe harbor provisions regarding forward- looking statements. When used in this discussion, the words "believes", "anticipates", "contemplates", "expects", and similar expressions are intended to identify forward-looking statements. Such statements are subject to certain risks and uncertainties which could cause actual results to differ materially from those projected. Those risks and uncertainties include changes in interest rates, risks associated with the effect of opening a new branch, the ability to control costs and expenses, the year 2000 problem, and general economic conditions. The Company and the Bank undertake no obligation to publicly release the results of any revisions to those forward looking statements which may be made to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

Financial Condition

Total assets at December 31, 1998 of $244.3 million represented an increase of $26.5 million or 12.18% from December 31, 1997. This increase was primarily the result of increases in investment and mortgage-backed securities of $19.8 million and interest-bearing deposits of $6.0 million.

Loans receivable at December 31, 1998, of $99.9 million represented an increase of 0.2% from $99.7 million at December 31, 1997. Increases in mortgage loans of $3.9 million and commercial loans of $1.2 million were partially offset by decreases in consumer loans of $5.0 million. The increases in mortgage and commercial loans were primarily due to increased loan demand for these types of loans due to the current interest rate environment. The decrease in consumer loans was primarily attributable to decreases in automobile loans of $3.0 million due to increased competition by other lenders for these loans and the sale of a major portion of the Bank's education loan portfolio of $1.3 million. Historically, the Bank has originated student loans and subsequently sold these loans when they begin repayment.

The allowance for loan losses decreased $107,000 for the year ended December 31, 1998. The overall ratio of the allowance to loans receivable declined to at 1.28% at December 31, 1998, as compared to 1.39% at December 31, 1997. The ratio of the allowance for loan losses to non-performing loans increased to 244.2% at December 31, 1998, from 160.2% at December 31, 1997. The relationship between the allowance and loans receivable is a function of credit quality and known risk factors of the loan portfolio.

Investment and mortgage-backed securities increased $19.8 million to $124.5 million at December 31, 1998, from $104.7 million at December 31, 1997. This increase was the result of purchases of $48.7

million which were funded by sales of $2.3 million, maturities of $7.8 million, principal repayments of $18.9 million and increased Federal Home Loan Bank advances of $18.8 million. The purchases funded by fixed rate borrowings were part of the Bank's leverage strategy. The Bank's leverage strategy utilizes borrowed funds to fund asset purchases in an effort to use capital more efficiently and improve operating results. The sales of securities were in conjunction with a restructuring of the securities portfolio to reduce levels of tax exempt securities to maximize the tax benefits of such securities in light of alternative minimum tax computations.

Total deposits at December 31, 1998, were $181.1 million for an increase of $6.8 million or 3.9% from $174.3 million at December 31, 1997. Total deposits increased $0.8 million net of interest credited of $6.0 million for the year ended December 31, 1998.

Advances from the Federal Home Loan Bank of Pittsburgh increased $18.8 million to $30.9 million at December 31, 1998 from $12.1 million at December 31, 1997. This increase was the result of additional borrowings to fund securities purchases, as discussed above.

Other borrowings increased $0.3 million to $1.4 million at December 31, 1998 due to additional borrowings to fund the Employee Stock Ownership Plan (ESOP).

Stockholders' equity increased $575,000 for the year ended December 31, 1998, due to net income of $1,502,000 and an increase in net unrealized gains on securities of $128,000. These increases were partially offset by an increase in unearned ESOP shares of $301,000, an increase in unearned Restricted Stock Plan (RSP) shares of $43,000 and cash dividends paid of $696,000.

Average Balance Sheets and Interest Analysis

The following tables set forth certain information relating to the Bank's average balance sheet and reflects the average yield on assets and average cost of liabilities for the periods indicated and the average yields earned and rates paid. Such yields and costs are derived by dividing income or expense by the average balance of assets or liabilities, respectively, for the periods presented. Average balances are derived from daily balances.

<TABLE>
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	Year Ended December 31,								
	1998			1997			1996		
	Average Balance	Interest	Yield	Average Balance	Interest	Yield	Average Balance	Interest	Yield
	(Dollars in Thousands)								
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
ASSETS									
Interest-earning assets:									
Loans(1)	$ 99,253	$8,378	8.44%	$ 99,594	$ 8,308	8.34%	$ 92,834	$ 7,920	8.53%
Mortgage-backed securities	41,906	2,729	6.51	30,784	2,086	6.78	32,441	2,198	6.78
Investment securities(2)	22,271	1,244	5.59	16,138	1,005	6.23	16,804	1,028	6.12
Securities held for sale	58,339	4,272	7.32	53,757	4,196	7.81	53,980	4,118	7.63
Total interest-earning assets	221,769	16,623	7.50%	200,273	15,595	7.79%	196,059	15,264	7.79%
Noninterest-earning assets	7,576			6,324			5,144		
Total assets	$229,345			$206,597			$201,203		
LIABILITIES AND STOCKHOLDERS' EQUITY									
Interest-bearing liabilities:									
Savings(3)	29,863	637	2.13%	$ 31,253	$ 770	2.46%	$ 33,762	$ 825	2.44%
NOW and money markets	45,876	954	2.08	39,220	752	1.92	31,142	290	0.93
Time deposits	102,289	5,673	5.55	105,266	5,950	5.65	110,852	6,310	5.69
Advances from FHLB	19,435	1,145	5.89	6,131	349	5.69	8,059	457	5.67
Other borrowings	1,457	114	7.82	439	36	8.20	-	-	-
Total interest-bearing liabilities	198,920	8,523	4.28%	182,309	7,857	4.31%	183,815	7,882	4.29%
Non-interest bearing liabilities	1,747			1,955			1,170		
Total liabilities	200,667			184,264			184,985		
Stockholders' equity	28,678			22,333			16,218		
Total liabilities and retained earnings	$229,345			$206,597			$201,203		

Net interest income, interest rate spread(4)	$ 8,100	3.21%	$ 7,738	3.48%	$7,382	3.50%
Net yield on interest-earning assets.........		3.65%		3.86%		3.77%
Ratio of average interest-earning assets to average interest-bearing liabilities.....		111.49%		109.85%		106.66%

</TABLE>

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(1) Average balances include non-accrual loans.
(2) Includes interest-bearing deposits in other financial institutions. (3) Includes advances by borrowers for taxes and insurance. (4) Interest income is shown on a fully tax equivalent basis assuming a 34% federal income tax rate.

Rate/Volume Analysis

The volume and rate relationship of the Bank's interest-earning assets and interest-bearing liabilities are determining factors of net interest income. The following table reflects the significant sensitivity to changes in interest rates of the interest income and interest expense of the Bank. For each category of interest-earning assets and interest-bearing liabilities, information is provided on changes attributable to (i) changes in volume (changes in volume multiplied by old rate) and, (ii) changes in rate (changes in rate multiplied by old volume). Changes which are not solely attributable to rate or volume are allocated to changes in rate due to rate sensitivity of interest-earning assets and interest-bearing liabilities. <TABLE> <CAPTION>

	Year Ended December 31,					
	1998 vs. 1997			1997 vs. 1996		
	Increase (Decrease) Due to			Increase (Decrease) Due to		
	Volume	Rate	Net	Volume	Rate	Net
	(In Thousands)					
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Interest income:						
Loans................................	$ (28)	$ 98	$ 70	$ 577	$(189)	$ 388
Mortgage-backed securities...........	754	(111)	643	(112)	-	(112)
Investment securities (1)...........	382	(143)	239	(41)	18	(23)
Securities available for sale (1)....	358	(282)	76	(17)	95	78
Total interest-earning assets.......	1,466	(438)	1,028	407	(76)	331
Interest expense:						
Savings.............................	(34)	(99)	(133)	(61)	6	(55)
NOW and money markets...............	128	74	202	75	387	462
Time deposits.......................	(168)	(109)	(277)	(318)	(42)	(360)
Advances from FHLB..................	757	39	796	(109)	1	(108)
Other borrowings....................	83	(5)	78	36	0	36
Total interest-bearing liabilities.	766	(100)	666	(377)	(352)	(25)
Net change in interest income.........	$ 700	$ (338)	$ 362	$ 784	$(428)	$ 356

</TABLE>

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(1) Income and yields derived from state and political subdivisions securities are shown on a fully tax equivalent basis assuming a 34% federal income tax rate.

Comparison of Operating Results for the Years Ended December 31, 1998 and 1997.

General. Net income for the year ended December 31, 1998 decreased by $136,000 to $1,502,000, from $1,638,000 for the year ended December 31, 1997. This decrease was primarily due to increases in non-interest expense of $558,000 and increased income tax provisions of $241,000 along with a $23,000 decrease in non-interest income. These decreases to net income were partially offset by an increase in net interest income of $496,000 along with a decrease in provisions for loan losses of $190,000.

Net Interest Income. Reported net interest income increased $ 496,000 or 6.5% for the year ended December 31, 1998. Net interest income on a tax equivalent basis increased by $362,000 or 4.7% in a period when both average interest earning assets and average interest-bearing liabilities increased (increased $21.5 million and $16.4 million, respectively). The Company's net interest rate spread decreased 27 basis points (with 100 basis points being equal to 1%) to 3.21% for the year ended December 31, 1998. The increase in average earning assets of $21.5 million was primarily due to a $21.9 million increase in average investment and mortgage-backed securities partially offset by a $0.3 million decrease

in average loans. Due to the volume of obligations of state and political subdivision in the Company's investment portfolio, net interest income and interest income are presented on a tax equivalent basis. See also "- Average Balance Sheets and Interest Analysis."

Interest Income. Interest income on a fully tax equivalent basis totaled $16.6 million for the year ended December 31, 1998, an increase of $1,028,000 or 6.6% over the total of $15.6 million for the year ended December 31, 1997. This increase was mainly due to an increase in the Company's average interest-earning assets of $21.5 million for the year ended December 31, 1998. Interest earned on loans increased $70,000 or 0.8%, in 1998. The increase was due to a 10 basis point increase in the yield earned partially offset by a $0.3 million decrease in the average balance of loans. Interest earned on investment and mortgage-backed securities (including securities held for sale) increased $958,000 or 13.1%, in 1998. The increase was due to a $21.8 million increase in the average balance of investment and mortgage-backed securities partially offset by a 51 basis point decrease in the yield earned.

Interest Expense. Interest expense increased $666,000 to $8.5 million for the year ended December 31, 1998. The increase in interest expense was due to a $16.6 million increase in the average balance of interest-bearing liabilities primarily due to increased borrowings pursuant to the Bank's leverage strategy partially offset by a three basis point decrease in the average cost of interest-bearing liabilities.

Provision for Losses on Loans. The provision for loan losses decreased by $190,000 to $365,000 for the year ended December 31, 1998, from $555,000 for the year ended December 31, 1997. Gross loans at December 31, 1998 totaled $101.2 million compared to $101.1 million at December 31, 1997 resulting in the allowance for loan losses being 1.28% of total loans at December 31, 1998 and 1.39% of total loans at December 31, 1997. While management believes that the allowance for loan losses is sufficient, there can be no assurance that regulators, in reviewing the Company's loan portfolio, will not request the Bank to significantly increase its allowance for loan losses, or that a deteriorating real estate market will cause the Bank to significantly increase its allowance for loans losses, therefore negatively effecting the Bank's financial condition and earnings.

Non-interest Income. Non-interest income decreased $23,000 to $914,000 for the year ended December 31, 1998, from $937,000 for the year ended December 31, 1997. This decrease was primarily due to a decrease in service charges of $94,000, due to check printing charges being charged directly to depositors accounts instead the printer charging the Bank and the Bank subsequently charging depositors. In addition, gains on the sale of securities for the year ended December 31, 1998 of $117,000, a decrease of $15,000 from $132,000 for year ended December 31, 1997, due primarily to the restructuring of the Bank's portfolio as previously discussed. These decreases were partially offset by increases in gains on sales of loans of $17,000, increased automated teller machine fees of $15,000, and increased rental income of $4,000.

Non-interest Expense. Non-interest expense increased $558,000 to $6,245,000 for the year ended December 31, 1998, from $5,687,000 for the year ended December 31, 1997. This increase was primarily due to increases in compensation and employee benefits (including stock related benefits) of $491,000.

The increase in compensation and employee benefits of $491,000 was primarily the result of increased compensation of $318,000 due to employees working additional hours during the Company's computer system conversion along with staffing increases and normal merit increases, a $30,000 increase in expense related to the Bank's ESOP, and expense related to the Bank's Restricted Stock Plan of $129,000.

Income Tax Expense. Income tax expense increased $241,000 to $392,000 for the year ended December 31, 1998, from $150,000 for the year ended December 31, 1997.

Comparison of Operating Results for the Years Ended December 31, 1997 and 1996.

General. Net income for the year ended December 31, 1997 increased by $929,000 to $1,638,000, from $709,000 for the year ended December 31, 1996. This increase was primarily due to the SAIF Special Assessment of $1,106,000 which was recognized by the Company in the third quarter of 1996.

Net Interest Income. Reported net interest income increased $ 390,000 or 5.8% for the year ended December 31, 1997. Net interest income on a tax equivalent basis increased by $356,000 or 4.8% in a period when average interest earning assets increased and average interest-bearing liabilities decreased (increased $4.2 million and decreased $1.5 million, respectively). The Company's net interest rate spread decreased 2 basis points to 3.48% for the year ended December 31, 1997. The increase in average earning assets of $5.4 million was primarily due to a $6.8 million increase in average loans. Due to the volume of obligations of state and political subdivision in the Company's investment portfolio, net interest income and interest income are presented on a tax equivalent basis. See also "- Average Balance Sheets and Interest Analysis."

Interest Income. Interest income on a fully tax equivalent basis totaled $15.6 million for the year ended December 31, 1997, an increase of $331,000 or 2.2% over the total of $15.3 million for the year ended December 31, 1996. This increase was mainly due to an increase in the Company's average interest-earning assets of $4.2 million for the year ended December 31, 1997. Interest earned on loans increased $388,000 or 4.9%, in 1997. The increase was due to a $6.8 million increase in the average balance of loans which was partially offset by a 19 basis point decrease in the yield earned. This increase reflects the Bank's increased emphasis on lending activities. Interest earned on investment and mortgage-backed securities (including securities held for sale) decreased $57,000 or 0.8%, in 1997. The decrease was due to a $2.5 million decrease in the average balance of investment and mortgage-backed securities offset by a 13 basis point increase in the yield earned.

Interest Expense. Interest expense decreased $25,000 to $7.9 million for the year ended December 31, 1997. The decrease in interest expense was due to a $1.5 million decrease in the average balance of interest-bearing liabilities offset by a 2 basis point increase in the average cost of interest-bearing liabilities.

Provision for Losses on Loans. The provision for loan losses increased by $100,000 to $555,000 for the year ended December 31, 1997, from $455,000 for the year ended December 31, 1996. This increase was a result of a higher volume of loans charged off during the year ended December 31, 1997 and the increase in the Company's gross loan portfolio at December 31, 1997 compared to December 31, 1996. Gross loans at December 31, 1997 totaled $101.1 million compared to $96.1 million at December 31, 1996 resulting in the allowance for loan losses being 1.39% of total loans at December 31, 1997 and 1.49% of total loans at December 31, 1996. While management believes that the allowance for loan losses is sufficient, there can be no assurance that regulators, in reviewing the Bank's loan portfolio, will not request the Bank to significantly increase its allowance for loan losses, or that a deteriorating real estate market will cause the Bank to significantly increase its allowance for loans losses, therefore negatively effecting the Bank's financial condition and earnings.

Non-interest Income. Non-interest income increased $156,000 to $937,000 for the year ended December 31, 1997, from $781,000 for the year ended December 31, 1996. This increase was primarily

due to the fact that the bank had no gains on the sale of securities for the year ended December 31, 1996 compared to $132,000 for the year ended December 31 1997.

Non-interest Expense. Non-interest expense decreased $950,000 to $5,687,000 for the year ended December 31, 1997, from $6,637,000 for the year ended December 31, 1996. This increase was primarily due to the decrease in deposit insurance premiums of $1,290,000 due to the SAIF Special Assessment of $1,106,000 which was recognized by the Bank in the third quarter of 1996, partially offset by increases in compensation and employee benefits of $323,000 and occupancy expenses of $ 83,000 for the year ended December 31, 1997.

The increase in compensation and employee benefits of $323,000 was primarily the result of increased compensation of $117,000 due to staffing increases and normal merit increases and $137,000 in expense related to the Bank's newly formed ESOP.

Income Tax Expense. Income tax expense increased $469,000 to $150,000 for the year ended December 31, 1997, from a tax benefit of $319,000 for the year ended December 31, 1996. The $319,000 tax benefit was the result of a taxable loss for the year ended December 31, 1996 due to the SAIF special assessment along with the tax benefits of the Banks investments in municipal obligations.

Market Risk Analysis

Interest rate sensitivity and the repricing characteristics of assets and liabilities are actively monitored by management. The Bank's objective is to maintain a consistent level of profitability within acceptable risk tolerances across a broad range of potential interest rate environments. The Bank uses the Olson Research Associates, Inc., Columbia, Maryland, to monitor its exposure to interest rate risk, which calculates changes in market value of portfolio equity and net interest income. Reports generated from assumptions provided by Olson and modified by management are reviewed by the Interest Rate Risk and Asset Liability Management Committee and reported to the Board of Directors quarterly. The Balance Sheet Shock Report shows the degree to which balance sheet line items and the market value of portfolio equity are potentially affected by a 200 basis point upward and downward parallel shift (shock) in the Treasury yield curve. Exception tests are conducted as recommended under The Federal Deposit Insurance Corporation Improvement Act ("FDICIA") to determine if the bank qualifies as low risk and may therefore be exempt from supplemental reporting. In addition, the possible impact on risk-based capital is assessed using the methodology which had been previously proposed under FDICIA. An Income Shock Report shows the degree to which income statement line items and net income are potentially affected by a 200 basis point upward and downward parallel shift in the Treasury yield curve.

The following table displays interest-sensitivity as of December 31, 1998:

	Increase	Decrease
	+200 bp	-200 bp
Net interest income increase (decrease)	-0.20%	-1.40%
Increase (decrease) in return on average equity	0.00%	-5.50%
Increase (decrease) in basic and diluted earnings per share	$0.00	-$0.03
Portfolio equity increase (decrease)	-7.54%	6.88%

From analysis and discussion of the aforementioned reports as of December 31, 1998, management has assessed that the Bank's level of interest rate risk is appropriate for current market conditions. The percentage change in market value of the portfolio equity for an upward and downward shift of 200 basis points are (11.85)% and 1.88%, respectively. Net interest income decreased by $12,000 or 0.2% for an upward shift in rates of 200 basis points and decreased by $108,000 or 1.4%, for a downward shift of 200 basis points. Excess Net Interest Rate Risk was within those limits outlined in the Bank's Asset/Liability Management and Interest Rate Risk Policy. The Bank's calculated (total) risk-based capital before the interest rate risk impact was 27.46% and 24.36% after the interest rate risk impact. Results fall within policy limits for all applicable tests.

Management believes that the assumptions used are reasonable. The interest rate sensitivity of assets and liabilities could vary substantially if differing assumptions were used or if actual experience differs from the assumptions used in the analysis. For example, although certain assets and liabilities may have similar maturities or periods to repricing, they may react in differing degrees to changes in the market interest rates. The interest rates on certain types of assets and liabilities may fluctuate in advance of changes in market interest rates, while interest rates on other types may lag behind changes in market rates. Further, in the event of a significant change in interest rates, prepayment and early withdrawal levels would likely deviate significantly from those assumed. Finally, the ability of borrowers to service their adjustable-rate debt may decrease in the event of an interest rate increase. The operating results of the Company are not subject to Foreign Currency exchange or commodity price risk.

Liquidity and Capital Requirements

Liquidity refers to the Company's ability to generate sufficient cash to meet the funding needs of current loan demand, savings deposit withdrawals, and to pay operating expenses. The Company has historically maintained a level of liquid assets in excess of regulatory requirements. Maintaining a high level of liquid assets tends to decrease earnings, as liquid assets tend to have a lower yield than other assets with longer terms (e.g. loans). The Company adjusts liquidity as appropriate to meet its asset/liability objectives.

The Company's primary sources of funds are deposits, amortization and prepayment of loans and mortgage-backed securities, maturities of investment securities and funds provided from operations. While scheduled loan and mortgage-backed securities repayments are a relatively predictable source of funds, deposit flows and loan and mortgage-backed securities prepayments are greatly influenced by interest rates, economic conditions and competition. In addition, the Company invests excess funds in overnight deposits which provide liquidity to meet lending requirements

The primary activity of the Company is originating loans and purchasing investment and mortgage-backed securities. During the years ended December 31, 1998, 1997, and 1996, the Company originated loans in the amounts of $49.8, $45.3, and $46.2 million, respectively. The Company also purchases investment and mortgage-backed securities to invest excess liquidity and to supplement local loan demand. During the years ended December 31, 1998, 1997, and 1996, the Company purchased investment and mortgage-backed securities in the amounts of $48.7, $33.5, and $15.4 million, respectively.

The Company has other sources of liquidity if a need for additional funds arises, such as FHLB of Pittsburgh advances. Additional sources of liquidity can be found in the Company's balance sheet, such as investment securities and unencumbered mortgage-backed securities that are readily marketable. Management believes that the Company has adequate resources to fund all of its commitments.

The Bank may not declare or pay a cash dividend on any of its stock if the effect thereof would cause the Bank's regulatory capital to be reduced below (1) the amount required for the liquidation account established in connection with the Bank's mutual holding company reorganization and stock issuance, or (2) the regulatory capital requirements imposed by the Pennsylvania Department of Banking (the "Department") and the Federal Deposit Insurance Corporation ("FDIC").

Regulatory Capital Requirements. As a condition of deposit insurance, current FDIC regulations require that the Bank calculate and maintain a minimum regulatory capital level on a quarterly basis and satisfy such requirement at the calculation date and throughout the ensuing quarter.

At December 31, 1998, the Bank's Tier I risk-based and total risk-based capital ratios were 26.2% and 27.5%, respectively. Current regulations require Tier I risk-based capital of 6% and total risk - based capital of 10% risk-based assets to be considered well capitalized. The Bank's leverage ratio was 11.3% at December 31, 1998. Current regulations require a leveraged ratio 5% to be considered well capitalized.

Impact of Inflation and Changing Prices

The Company's financial statements and related data presented herein have been prepared in accordance with generally accepted accounting principles, which require the measurement of financial position and operating results in terms of historical dollars, without considering changes in the relative purchasing power of money over time due to inflation. Unlike industrial companies, virtually all of the assets and liabilities of a financial institution are monetary in nature. As a result, interest rates have a more significant impact on a financial institution's performance than the effects of general levels of inflation. Interest rates do not necessarily move in the same direction or with the same magnitude as the prices of goods and services.

Inflation can have a more direct impact on categories of non-interest expenses such as salaries and wages, supplies and employee benefit costs. These expenses normally fluctuate more in line with changes in the general price level and are very closely monitored by management for both the effects of inflation and increases related to such items as staffing levels, usage of supplies and occupancy costs.

Year 2000 Compliance

The following discussion of the implications of the year 2000 problem for the Bank, contains numerous forward looking statements based on inherently uncertain information. The cost of the project and the date on which the Bank plans to complete the internal year 2000 modifications are based on management's best estimates, which are derived utilizing a number of assumptions of future events including the availability of internal and external resources, third party modifications and other factors. However, there can be no guarantee that these statements will be achieved and actual results could differ. Moreover, although management believes it will be able to make the necessary modifications in advance, there can be no guarantee that failure to modify the systems would not have a material adverse effect on the Bank or the Company.

During fiscal 1998, the Company adopted a Year 2000 Compliance Plan (the "Plan") and established a Year 2000 Compliance Committee (the "Committee"). The objectives of the Plan and the Committee are to prepare the Company for the millennium. As recommended by the Federal Financial Institutions Examination Council, the Plan encompasses the following phases: Awareness, Assessment, Renovation, Validation and Implementation. These phases will enable the Company to identify risks, develop an action plan, perform adequate testing and complete certification that its processing systems

will be Year 2000 ready. Execution of the plan is currently on schedule. The Company is currently in Phase 4, Validation, (which includes testing of incremental changes to hardware and software, testing connections with third-party vendors and establishing controls to ensure timely completion of all hardware and software prior to final implementation.) Prioritization of the most critical applications has been addressed, along with contract and service agreements.

The primary operating software for the Company is obtained and maintained by an external provider of software (the "External Provider"). The Company has maintained ongoing contact with this vendor so that modification of the software is a top priority and has been completed. The Company has contacted all other material vendors and suppliers regarding their Year 2000 readiness. Each of these third parties has delivered written assurance to the Company that they expect to be Year 2000 compliant prior to the Year 2000. No contracts, written assurances, or oral assurances with the Bank's External Provider, material vendors, and suppliers include any type of remedy or penalty for breach of contract in the event that any of these parties are not year 2000 compliant. The Company has contacted material customers and non-information technology suppliers (i.e., utility systems, telephone systems and security systems) regarding their Year 2000 state of readiness. The only critical vendors that have not confirmed that they are Year 2000 compliant are the utility companies and some of our correspondent banks. The Company is unable to test the Year 2000 readiness of its significant suppliers of utilities and is relying on the utility companies' internal testing and representations to provide the required services that drive the Bank's data systems. The Validation phase is targeted for completion by March 31, 1999. The Implementation phase is to certify that systems are Year 2000 ready, along with assurances that any new systems are compliant on a going forward basis. The implementation phase is targeted for completion by June 30, 1999.

As a practical matter, individual mortgage loan, consumer loan and small commercial loan customers were not contacted regarding their Year 2000 readiness. It was deemed to be beyond the scope of our testing parameters to contact these borrowers. Further, most of these are individuals with adequate collateral for their loans.

The Company expects to incur internal staffing costs as well as consulting and other expenses related to testing and enhancements to prepare the systems for the Year 2000. The Company does not anticipate that the related costs will be material in any single year. In total, the Company estimates that it's cost for compliance will amount to approximately $155,000 over the two year period from 1998 - 1999. A significant portion of these costs are not likely to be incremental costs to the Company, but rather the redeployment of existing resources. As of December 31, 1998 the Company estimates that approximately $75,000 of these costs have been incurred. No assurance can be given that the Year 2000 Compliance Plan will be completed successfully by the Year 2000, in which event the Company could incur significant costs. The Company has completed testing of the software provided by the External provider and material third party providers. During the course of this testing, no material problems or exceptions were encountered, however, if the External Provider or a material third party provider is unable to resolve the potential problem in time, the Company would likely experience significant data processing delays, mistakes or failures. These delays, mistakes or failures could have a significant adverse impact on the financial statements of the Company.

The Bank is currently developing contingency plans to address the Year 2000 issues of the Bank which could negatively affect the Bank or necessitate transacting business manually. Among other things, failure of utility companies to provide necessary service, failure of the primary software and other third party providers is addressed in the plan. The Bank will attempt to monitor these uncertainties by continuing to request updates on all critical providers throughout the remainder of

1999. If the Bank identifies any concern related to any critical application, the contingency plans will be implemented immediately to assure continued service to the Bank's customers.

Despite the best efforts of management to address this issue, the vast number of external entities that have direct and indirect business relationships with the Bank, such as customers, vendors, payment system providers and other financial institutions, makes it impossible to assure that a failure to achieve compliance by one of these entities would not have a material impact on the operations of the Bank.

[LOGO]

REPORT OF INDEPENDENT AUDITORS

Board of Directors and Stockholders
PHS Bancorp, Inc.

We have audited the accompanying consolidated balance sheet of PHS Bancorp, Inc. and subsidiary as of December 31, 1998 and 1997, and the related consolidated statements of 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 Company'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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of PHS Bancorp, Inc. and subsidiary as of December 31, 1998 and 1997, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1998 in conformity with generally accepted accounting principles.

/s/ S.R. Snodgrass, A.C.

Wexford, PA
January 29, 1999

PHS BANCORP, INC.
CONSOLIDATED BALANCE SHEET

<TABLE>
<CAPTION>

	December 31, 1998	December 31, 1997
<S>	<C>	<C>
ASSETS		
Cash and amounts due from other institutions	$ 2,136,601	$ 2,388,632
Interest-bearing deposits with other institutions	9,332,219	3,307,604
Investment securities:		
Available for sale	25,197,294	24,252,738

	1998	1997
Held to maturity (market value $18,581,867 and $10,073,052)	18,145,662	10,014,815
Mortgage-backed securities:		
Available for sale	32,877,841	30,159,139
Held to maturity (market value $48,767,611 and $40,885,072)	48,287,244	40,233,666
Loans (net of allowance for loan losses of $1,287,496 and $1,394,084)	99,913,716	99,691,337
Accrued interest receivable	1,516,677	1,393,399
Premises and equipment	4,501,659	4,424,493
Federal Home Loan Bank stock	1,544,800	1,019,500
Other assets	798,957	849,960
TOTAL ASSETS	$ 244,252,670	$ 217,735,283
LIABILITIES		
Deposits	$ 181,112,564	$ 174,286,149
Advances from Federal Home Loan Bank	30,894,800	12,117,000
Other borrowings	1,387,618	1,115,765
Accrued interest payable and other liabilities	1,673,579	1,607,431
TOTAL LIABILITIES	215,068,561	189,126,345
STOCKHOLDERS' EQUITY		
Preferred stock, no par value; 2,000,000 shares authorized; none issued and outstanding	-	-
Common stock, par value $.10 per share; 8,000,000 shares authorized; 2,760,000 issued and outstanding	276,000	276,000
Additional paid-in capital	10,588,940	10,560,263
Retained earnings - substantially restricted	18,489,177	17,728,095
Net unrealized gain on securities	1,088,415	959,693
Unallocated shares held by Employee Stock Ownership Plan (ESOP)	(1,215,723)	(915,113)
Unallocated shares held by Restricted Stock Plan (RSP)	(42,700)	-
TOTAL STOCKHOLDERS' EQUITY	29,184,109	28,608,938
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 244,252,670	$ 217,735,283

</TABLE>

See accompanying notes to the consolidated financial statements.

PHS BANCORP, INC.
CONSOLIDATED STATEMENT OF INCOME

<TABLE>
<CAPTION>

<S>	1998	1997	1996
INTEREST INCOME			
Loans	$ 8,377,792	$ 8,307,944	$ 7,920,535
Investment securities:			
Taxable	1,348,081	978,151	1,345,413
Exempt from federal income tax	991,341	1,252,465	1,318,764
Mortgage-backed securities	5,098,561	4,165,100	3,878,511
Interest-bearing deposits with other institutions	295,675	245,884	121,181
Total interest income	16,111,450	14,949,544	14,584,404
INTEREST EXPENSE			
Deposits	7,263,761	7,471,775	7,425,240
Advances from Federal Home Loan Bank	1,144,625	348,454	457,241
Other borrowings	114,173	36,452	-
Total interest expense	8,522,559	7,856,681	7,882,481
Net interest income	7,588,891	7,092,863	6,701,923
PROVISION FOR LOAN LOSSES	365,000	555,000	455,000

NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	7,223,891	6,537,863	6,246,923
NONINTEREST INCOME			
Service charges on deposit accounts	460,788	546,669	546,992
Investment securities gains, net	116,858	131,931	-
Gain on sale of loans, net	27,765	11,250	11,086
Rental income, net	89,898	85,416	84,660
Other income	218,700	162,171	137,953
Total noninterest income	914,009	937,437	780,691
NONINTEREST EXPENSE			
Compensation and employee benefits	3,372,162	2,881,255	2,557,717
Occupancy and equipment costs	1,039,833	838,664	755,904
Deposit insurance premium	105,362	112,453	1,401,966
Data processing costs	90,920	319,747	254,685
Other expenses	1,636,239	1,535,350	1,666,860
Total noninterest expense	6,244,516	5,687,469	6,637,132
Income before income taxes	1,893,384	1,787,831	390,482
Income taxes (benefit)	391,759	150,316	(318,515)
NET INCOME	$ 1,501,625	$ 1,637,515	$ 708,997
EARNINGS PER SHARE (Since inception July 10, 1997)			
Basic	$ 0.56	$ 0.33	N/A
Diluted	0.56	N/A	N/A

</TABLE>

See accompanying notes to the consolidated financial statements.

PHS BANCORP,INC.

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

<TABLE>
<CAPTION>

	Common Stock	Additional Paid-in Capital	Retained Earnings	Net Unrealized Gain (Loss) on Securities	Unallocated Shares Held by ESOP	Unallocated Shares Held by RSP	Total Stockholders' Equity	Comprehensive Income
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Balance, December 31, 1995	$ -	$ -	15,381,583	$1,261,147	$ -	-	$16,642,730	
Net income			708,997				708,997	$ 708,997
Other comprehensive income:								
Unrealized loss on available for sale securities				(707,060)			(707,060)	(707,060)
Comprehensive income								$ 1,937
Balance, December 31, 1996	-	-	16,090,580	554,087	-	-	16,644,667	
Net income			1,637,515				1,637,515	$1,637,515
Other comprehensive income:								
Unrealized gain on available for sale securities, net of reclassification adjustment				405,606			405,606	405,606
Comprehensive income								$2,043,121
Sale of common stock	276,000	11,551,733					11,827,733	
Capitalization of PHS Bancorp, M.H.C.		(1,000,000)					(1,000,000)	
Common shares acquired by ESOP					(1,043,625)		(1,043,625)	
ESOP shares released		8,530			128,512		137,042	
Balance, December 31, 1997	276,000	10,560,263	17,728,095	959,693	(915,113)	-	28,608,938	
Net income			1,501,625				1,501,625	$1,501,625
Other comprehensive income:								
Unrealized gain on available								

for sale securities, net of reclassification adjustment				128,722			128,722	128,722

Comprehensive income								$1,630,347
								=========
Cash dividends declared ($.26 per share)			(695,792)				(695,792)	
Common stock acquired by ESOP					(448,512)		(448,512)	
ESOP shares released		18,941			147,902		166,843	
Common stock acquired by RSP			(44,751)			(171,212)	(215,963)	
RSP shares released		9,736				128,512	138,248	
	--------	-----------	-----------	----------	------------	----------	----------	
Balance, December 31, 1998	$276,000	$ 10,588,940	18,489,177	$ 1,088,415	$ (1,215,723)	$ (42,700)	$29,184,109	
	========	===========	===========	==========	============	==========	==========	

	1998	1997	1996
Components of comprehensive income:			
Change in net unrealized gain (loss) on investments held for sale	$ 205,848	$ 492,680	$(707,060)
Realized gains included in net income, net of tax	(77,126)	(87,074)	-
Total	$ 128,722	$ 405,606	$(707,060)
	========	=========	========

</TABLE>

See accompanying notes to the consolidated financial statements.

PHS BANCORP, INC.

CONSOLIDATED STATEMENT OF CASH FLOWS

<TABLE>
<CAPTION>

	Year Ended December 31,		
	1998	1997	1996
<S>	<C>	<C>	<C>
OPERATING ACTIVITIES			
Net income	$ 1,501,625	$ 1,637,515	$ 708,997
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses	365,000	555,000	455,000
Provision for depreciation	502,955	329,039	275,348
Amortization of discounts, premiums, and loan origination fees	1,022,329	1,040,439	1,078,407
Investment securities gains, net	(116,858)	(131,931)	-
Gain on sale on loans, net	(27,765)	(11,250)	(11,086)
Decrease in loans held for sale	1,073,254	3,183	140,911
Decrease (increase) in accrued interest receivable	(123,278)	69,963	140,245
Increase (decrease) in accrued interest payable	46,377	(46,591)	36,120
Amortization of ESOP unearned compensation	166,843	137,042	-
Amortization of RSP unearned compensation	138,248	-	-
Other, net	(315,884)	4,383	(83,831)
Net cash provided by operating activities	4,232,846	3,586,792	2,740,111
INVESTING ACTIVITIES			
Investment and mortgage-backed securities available for sale:			
Proceeds from sales	2,259,493	6,617,750	-
Proceeds from maturities and principal repayments	8,009,594	6,291,492	10,666,964
Purchases	(13,617,911)	(14,081,142)	(5,993,106)
Investment and mortgage-backed securities held to maturity:			
Proceeds from maturities and principal repayments	18,718,865	10,983,348	11,106,134
Purchases	(35,098,662)	(19,452,555)	(9,379,524)
Increase in loans, net	(2,485,946)	(5,716,736)	(9,950,271)
Proceeds from sales of repossessed assets	306,784	671,650	28,246
Purchase of premises and equipment	(542,980)	(1,819,879)	(507,125)
Purchase of Federal Home Loan Bank Stock	(525,300)	(47,400)	(47,100)
Net cash used for investing activities	(22,976,063)	(16,553,472)	(4,075,782)
FINANCING ACTIVITIES			
Increase (decrease) in deposits, net	6,826,415	(1,638,896)	2,380,435
Proceeds from advances from Federal Home Loan Bank	20,377,800	4,017,000	700,000
Repayment of advances from Federal Home Loan Bank	(1,600,000)	-	-

Proceeds from other borrowings	271,853	1,115,765	-
Common stock acquired by ESOP	(448,512)	(1,043,625)	-
Common stock acquired by RSP	(215,963)	-	-
Cash dividends paid	(695,792)	-	-
Proceeds from sale of common stock	-	11,827,733	-
Capitalization of PHS Bancorp, M.H.C.	-	(1,000,000)	-
Net cash provided by financing activities	24,515,801	13,277,977	3,080,435
Increase in cash and cash equivalents	5,772,584	311,297	1,744,764
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	5,696,236	5,384,939	-
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 11,468,820	$ 5,696,236	$ 5,384,939

</TABLE>

See accompanying notes to the consolidated financial statements.

PHS BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of significant accounting and reporting policies applied in the presentation of the accompanying financial statements follows:

Nature of Operations and Basis of Presentation

PHS Bancorp, Inc. (the "Company") is a Pennsylvania corporation and is registered under the Bank Holding Company Act. The Company was organized to be the holding company of Peoples Home Savings Bank (the "Bank"). The Company's and the Bank's principal sources of revenue emanate from its investment, mortgage-backed securities, and mortgage and consumer loan portfolios as well as a variety of deposit services provided to its customers through nine locations. The Company is supervised by the Federal Reserve Board, while the Bank is a state-chartered savings bank supervised by the Federal Deposit Insurance Corporation and the Pennsylvania Department of Banking.

The consolidated financial statements of the Company include the accounts of Peoples Home Savings Bank and its wholly-owned subsidiary, HOMECO. Intercompany transactions have been eliminated in consolidation.

The accounting principles followed by the Company and the methods of applying these principles conform with generally accepted accounting principles and with general practice within the banking industry. In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the balance sheet date and related revenues and expenses for the period. Actual results could differ significantly from those estimates.

Investment and Mortgage-backed Securities

Investment and mortgage-backed securities are classified at the time of purchase, based upon management's intentions, as securities held to maturity or securities available for sale. Debt securities, including mortgage-backed securities, acquired with the intent and ability to hold to maturity are classified as held to maturity and are stated at cost and adjusted for amortization of premium and accretion of discount which are computed using a level yield method and recognized as adjustments of interest income. Certain other debt securities have been classified as available for sale to serve principally as a source of liquidity. Unrealized holding gains and losses on available for sale securities are reported as a separate component of stockholders' equity, net of tax, until realized. Realized securities gains and losses are computed using the specific identification method. Interest and dividends on investment securities are recognized as income when earned.

Common stock of the Federal Home Loan Bank ("FHLB") represents ownership in an institution which is wholly owned by other financial institutions. This equity security is accounted for at cost and reported separately on the accompanying consolidated balance sheet.

Loans

Loans are stated at the principal amount outstanding net of deferred loan fees and the allowance for loan losses. Interest income on loans is recognized on the accrual method. Accrual of interest on loans is generally discontinued when it is determined that a reasonable doubt exists as to the collectibility of principal, interest, or both. Loans are returned to accrual status when past due interest is collected, and the collection of principal is probable.

Loans (Continued)

Loan origination and commitment fees as well as certain direct loan origination costs are being deferred and the net amount amortized as an adjustment to the related loan's yield. These amounts are being amortized over the contractual lives of the related loans.

Qualifying education loans are being held for sale. These loans are being carried at cost since they are generally sold for face value and serviced by the Student Loan Marketing Association.

Allowance for Loan Losses

The allowance for loan losses represents the amount which management estimates is adequate to provide for potential losses in its loan portfolio. The allowance method is used in providing for loan losses. Accordingly, all loan losses are charged to the allowance and all recoveries are credited to it. The allowance for loan losses is established through a provision for loan losses charged to operations. The provision for loan losses is based on management's periodic evaluation of individual loans, economic factors, past loan loss experience, changes in the composition and volume of the portfolio, and other relevant factors. The estimates used in determining the adequacy of the allowance for loan losses, including the amounts and timing of future cash flows expected on impaired loans, are particularly susceptible to changes in the near term.

Impaired loans are commercial and commercial real estate loans for which it is probable the Company will not be able to collect all amounts due according to the contractual terms of the loan agreement. The Company individually evaluates such loans for impairment and does not aggregate loans by major risk classifications. The definition of "impaired loans" is not the same as the definition of "nonaccrual loans," although the two categories overlap. The Company may choose to place a loan on nonaccrual status due to payment delinquency or uncertain collectibility, while not classifying the loan as impaired if the loan is not a commercial or commercial real estate loan. Factors considered by management in determining impairment include payment status and collateral value. The amount of impairment for these types of impaired loans is determined by the difference between the present value of the expected cash flows related to the loan, using the original interest rate, and its recorded value, or as a practical expedient in the case of collateralized loans, the difference between the fair value of the collateral and the recorded amount of the loans. When foreclosure is probable, impairment is measured based on the fair value of the collateral.

Mortgage loans on one-to-four family properties and all consumer loans are large groups of smaller balance homogeneous loans and are measured for impairment collectively. Loans that experience insignificant payment delays, which are defined as 90 days or less, generally are not classified as impaired. Management determines the significance of payment delays on a case-by-case basis taking into consideration all circumstances surrounding the loan and the borrower including the length of the delay, the borrower's prior payment record, and the amount of shortfall in relation to the principal and interest owed.

Premises and Equipment

Premises and equipment are stated at cost less accumulated depreciation. Depreciation is calculated using the straight-line method over the useful lives of the related assets. Expenditures for maintenance and repairs are charged to operations as incurred. Costs of major additions and improvements are capitalized.

Real Estate Owned

Real estate acquired in settlement of loans is stated at the lower of the recorded investment in the property or its fair value minus estimated costs of sale. Prior to foreclosure the value of the underlying collateral is written down by a charge to the allowance for loan losses if necessary. Any subsequent write-downs are charged against operating expenses. Operating expenses of such properties, net of related income and losses on their disposition, are included in other expenses.

Income Taxes

The Company and its subsidiary file a consolidated federal income tax return. Deferred tax assets or liabilities are computed based on the difference between financial statement and the income tax basis of assets and liabilities using the enacted marginal tax rates. Deferred income tax expenses or benefits are based on the changes in the deferred tax asset or liability from period to period.

Earnings Per Share

Earnings per share computations for 1997 are based on net income since inception, July 10, 1997, amounting to $884,176. No earnings per share computation is applicable for the period ending 1996.

The Company provides dual presentation of Basic and Diluted earnings per share. Basic earnings per share utilizes net income as reported as the numerator, and the actual average shares outstanding as the denominator. Diluted earnings per share includes any dilutive effects of options, warrants, and convertible securities.

Employee Benefit Plans

The Bank sponsors a trusteed, deferred benefit pension plan covering all eligible employees. The Bank's funding policy is to make annual contributions, as needed, based upon the funding formula developed by the plan's actuary.

Stock Options

The Company maintains a stock option plan for the Directors, officers, and employees. The stock options typically have expiration terms of ten years subject to certain extensions and early terminations. The per share exercise price of a stock option shall be, at a minimum, equal to the fair value of a share of common stock on the date the option is granted. Because the exercise price of the Company's stock options equals the market price of the underlying stock on the date of grant, no compensation expense is recognized in the Company's financial statements. Pro forma net income and earnings per share are presented to reflect the impact of the stock option plan assuming compensation expense had been affected based on the fair value of the stock options granted under this plan.

Comprehensive Income

Effective January 1, 1998, the Company adopted Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income." In adopting Statement No. 130, the Company is required to present comprehensive income and its components in a full set of general purpose financial statements for all periods presented. The Company has elected to report the effects of Statement No. 130 as part of the Consolidated Statement of Changes in Stockholders' Equity.

Cash Flow Information

The Company has defined cash and cash equivalents as cash and amounts due from depository institutions and interest-bearing deposits with other institutions.

For the years ended December 31, 1998, 1997, and 1996, the Company made cash payments for interest of $8,476,182, $7,903,272, and $7,846,361, respectively. The Company also made cash payments for income taxes of $358,000, $198,100, and $20,000, respectively, during these same periods.

Pending Accounting Pronouncements

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities." The Statement provides accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, by requiring the recognition of those items as assets or liabilities in the statement of financial position, recorded at fair value. Statement No. 133 precludes a held-to-maturity security from being designated as a hedged item; however, at the date of initial application of this Statement, an entity is permitted to transfer any held-to-maturity security into the available-for-sale or trading categories. The unrealized holding gain or loss on such transferred securities shall be reported consistent with the requirements of Statement No. 115, "Accounting for Certain Investments in Debt and Equity Securities." Such transfers do not raise an issue regarding an entity's intent to hold other debt securities to maturity in the future. This Statement applies prospectively for all fiscal quarters of all years beginning after June 15, 1999. Earlier adoption is permitted for any fiscal quarter that begins after the issue date of this Statement.

In March 1998, the Accounting Standards Executive Committee issued Statement of Position (SOP) 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use." This SOP, which is effective for fiscal years beginning after December 15, 1998, provides guidance on accounting for the costs of computer software developed or obtained for internal use and provides guidance for determining whether computer software is for internal use. The Company will adopt SOP 98-1 in the first quarter of 1999 and does not believe the effect of adoption will be material.

Reclassification

Certain items in the prior year financial statements have been reclassified to conform to the current year presentation. Such reclassifications did not affect net income.

2. EARNINGS PER SHARE

The following table sets forth the computation of Basic and Diluted earnings per share. There were no convertible securities which would affect the numerator in calculating Basic and Diluted earnings per share; therefore, net income as presented on the Consolidated Statement of Income will be used as the numerator. The following table sets forth a reconciliation of the denominator of the Basic and Diluted earnings per share computation.

	1998
Denominator:	
Denominator for Basic earnings per share - weighted-average shares	2,686,537
Employee stock options	12,560
Denominator for Diluted earnings per share - adjusted weighted-average assumed conversions	2,699,097

3. INVESTMENT SECURITIES

The amortized cost and estimated market value of investment securities are summarized as follows:
<TABLE>
<CAPTION>

	1998			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
Available for Sale				
<S>	<C>	<C>	<C>	<C>
U.S. Treasury securities	$ 8,991,872	$ 140,278	$ --	$ 9,132,150
Obligations of state and political subdivisions	15,235,785	727,594	--	15,963,379
Real estate mortgage investment conduits	101,619	146	--	101,765

Total	$ 24,329,276	$ 868,018	$ --	$ 25,197,294

</TABLE>

<TABLE>
<CAPTION>

<S>	1997 Amortized Cost <C>	Gross Unrealized Gains <C>	Gross Unrealized Losses <C>	Estimated Market Value <C>
Available for Sale				
U.S. Treasury securities	$ 5,994,936	$ 91,914	$ --	$ 6,086,850
Obligations of state and political subdivisions	16,869,675	728,913	--	17,598,588
Real estate mortgage investment conduits	508,252	9,933	--	518,185
Corporation obligations	46,701	2,414	--	49,115
Total	$ 23,419,564	$ 833,174	$ --	$ 24,252,738

</TABLE>

3. INVESTMENT SECURITIES (Continued)
<TABLE>
<CAPTION>

<S>	1998 Amortized Cost <C>	Gross Unrealized Gains <C>	Gross Unrealized Losses <C>	Estimated Market Value <C>
Held to Maturity				
U.S. Government agency securities	$ 13,927,031	$ 393,549	$ --	$ 14,320,580
Obligations of states and political subdivisions	1,237,521	42,656	--	1,280,177
Corporate obligations	2,981,110	--	--	2,981,110
Total	$ 18,145,662	$ 436,205	$ --	$ 18,581,867

</TABLE>

<TABLE>
<CAPTION>

<S>	1997 Amortized Cost <C>	Gross Unrealized Gains <C>	Gross Unrealized Losses <C>	Estimated Market Value <C>
Held to Maturity				
U.S. Government agency securities	$ 6,998,462	$ 22,158	$ --	$ 7,020,620
Obligations of states and political subdivisions	2,016,738	29,094	--	2,045,832
Corporate obligations	999,615	6,985	--	1,006,600
Total	$ 10,014,815	$ 58,237	$ --	$ 10,073,052

</TABLE>

The amortized cost and estimated market value of debt securities at December 31, 1998, by contractual maturity, are shown below.
<TABLE>
<CAPTION>

	Available for Sale		Held to Maturity	
<S>	Amortized Cost <C>	Estimated Market Value <C>	Amortized Cost <C>	Estimated Market Value <C>
Due in one year or less	$ 4,998,109	$ 5,072,170	$ 3,981,025	$ 3,982,980
Due after one year through				

five years	9,408,350	9,737,684	7,597,332	7,635,530
Due after five years through ten years	986,503	1,085,255	3,022,721	3,240,653
Due after ten years	8,936,314	9,302,185	3,544,584	3,722,704
Total	$ 24,329,276	$ 25,197,294	$ 18,145,662	$ 18,581,867

</TABLE>

3. INVESTMENT SECURITIES (Continued)

The following is a summary of proceeds received, gross gains, and gross losses realized on the sale of investment securities available for sale for the years ended December 31:

	1998	1997	1996
Proceeds from sales	$ 2,259,493	$ 6,617,750	$ --
Gross gains	116,858	243,484	--
Gross losses	--	111,553	--

4. MORTGAGE-BACKED SECURITIES

The amortized cost and estimated market value of mortgage-backed securities are summarized as follows:

<TABLE>
<CAPTION>

	1998			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
<S>	<C>	<C>	<C>	<C>
Available for Sale				
Government National Mortgage Association securities	$ 32,068,134	$ 785,420	$ (5,608)	$ 32,847,946
Federal Home Loan Mortgage Corporation securities	28,610	1,285	--	29,895
Total	$ 32,096,744	$ 786,705	$ (5,608)	$ 32,877,841

</TABLE>
<TABLE>
<CAPTION>

	1997			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
<S>	<C>	<C>	<C>	<C>
Available for Sale				
Government National Mortgage Association securities	$ 29,455,297	$ 646,707	$ (25,694)	$ 30,076,310
Federal Home Loan Mortgage Corporation securities	82,937	1,347	(1,455)	82,829
Total	$ 29,538,234	$ 648,054	$ (27,149)	$ 30,159,139

</TABLE>

4. MORTGAGE-BACKED SECURITIES (Continued)
<TABLE>
<CAPTION>

	1998			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
<S>	<C>	<C>	<C>	<C>
Held to Maturity				
Government National Mortgage Association securities	$ 37,495,485	$ 316,725	$ (42,889)	$ 37,769,321
Federal Home Loan Mortgage Corporation securities	5,576,332	142,611	--	5,718,943
Federal National Mortgage Association securities	5,215,427	70,430	(6,510)	5,279,347
Total	$ 48,287,244	$ 529,766	$ (49,399)	$ 48,767,611

</TABLE>

<TABLE>
<CAPTION>

	1997			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
<S>	<C>	<C>	<C>	<C>
Held to Maturity				
Government National Mortgage Association securities	$ 22,544,957	$ 161,710	$ --	$ 22,706,667
Federal Home Loan Mortgage Corporation securities	8,779,192	202,321	--	8,981,513
Federal National Mortgage Association securities	8,909,517	287,375	--	9,196,892
Total	$ 40,233,666	$ 651,406	$ --	$ 40,885,072

</TABLE>

The amortized cost and estimated market value of mortgage-backed securities at December 31, 1998, by contractual maturity, are shown below. Expected maturities of securities could differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without prepayment penalties. <TABLE> <CAPTION>

	Available for Sale		Held to Maturity	
	Amortized Cost	Estimated Market Value	Amortized Cost	Estimated Market Value
<S>	<C>	<C>	<C>	<C>
Due in one year or less	$ --	$ --	$ --	$ --
Due after one year through five years	28,442	29,109	--	--
Due after five years through ten years	624,934	632,391	--	--
Due after ten years	31,443,368	32,216,341	48,287,244	48,767,611
Total	$ 32,096,744	$ 32,877,841	$ 48,287,244	$ 48,767,611

</TABLE>

5. LOANS

Loans consist of the following:

	1998	1997
Mortgage loans:		
1 - 4 family units	$ 49,084,140	$ 45,107,966
Multi-family units	554,241	217,167
Construction	325,823	303,943
Commercial real estate	940,708	1,378,309
	50,904,912	47,007,385
Commercial loans	3,617,244	2,465,075

Consumer:		
Consumer credit line	5,288,136	5,467,558
Automobile	36,617,849	39,569,376
Education loans held for sale		1,075,321
	2,067	
Other	3,988,179	4,782,834
	45,896,231	50,895,089
Less:		
Loans in process	219,313	370,328
Deferred loan costs, net	(1,002,138)	(1,088,200)
Allowance for loan losses	1,287,496	1,394,084
	504,671	676,212
Total	$ 99,913,716	$ 99,691,337

Total nonaccrual loans and the related interest for the years ended December 31 are as follows. In management's opinion, these loans did not meet the definition of impaired loans.

<TABLE>
<CAPTION>

<S>	1998 <C>	1997 <C>	1996 <C>
Principal outstanding	$ 391,503	$ 805,334	$ 1,152,694
Contractual interest due	47,158	84,913	59,051
Interest income recognized	28,562	50,069	55,866

</TABLE>

Activity in the allowance for loan losses for the years ended December 31, is as follows:

<TABLE>
<CAPTION>

<S>	1998 <C>	1997 <C>	1996 <C>
Balance, January 1,	$ 1,394,084	$ 1,433,776	$ 1,274,430
Add:			
Provisions charged to operations	365,000	555,000	455,000
Loan recoveries	54,993	57,390	12,039
Less loans charged off	526,581	652,082	307,693
Balance, December 31,	$ 1,287,496	$ 1,394,084	$ 1,433,776

</TABLE>

5. LOANS (Continued)

The Company's loan portfolio is predominantly made up of one-to-four family first mortgage loans and consumer loans in the Beaver and Lawrence County areas. These loans have been granted in compliance with regulatory guidelines relating to collateral requirements and credit policies. Although the Company has a diversified loan portfolio at December 31, 1998 and 1997, loans outstanding to individuals and businesses are dependent upon the local conditions in its immediate trade area.

6. ACCRUED INTEREST RECEIVABLE

Accrued interest receivable consists of the following:

<TABLE>
<CAPTION>

<S>	1998 <C>	1997 <C>
Interest-bearing deposits with other institutions	$ 24,267	$ 27,065
Investment securities	506,975	363,458
Mortgage-backed securities	486,528	483,515
Loans	498,907	519,361

Total	$ 1,516,677	$ 1,393,399

</TABLE>

7. PREMISES AND EQUIPMENT

Premises and equipment consist of the following:

<TABLE>
<CAPTION>

<S>	1998 <C>	1997 <C>
Land	$ 515,726	$ 515,726
Office buildings	4,034,469	3,932,253
Furniture, fixtures, and equipment	2,790,626	2,330,172
Leasehold improvements	405,798	405,798
	7,746,619	7,183,949
Less accumulated depreciation and amortization	3,244,960	2,759,456
Total	$ 4,501,659	$ 4,424,493

</TABLE>

Depreciation expense for the years ended December 31, 1998, 1997, and 1996 was $502,955, $329,039, and $275,348, respectively.

8. DEPOSITS

Comparative details of deposit accounts follow:

<TABLE>
<CAPTION>

	1998		1997	
<S>	Amount <C>	Percent of Portfolio <C>	Amount <C>	Percent of Portfolio <C>
NOW accounts	$ 25,853,525	14.3 %	$ 22,262,362	12.7 %
Money market demand accounts	25,130,858	13.9	21,569,797	12.4
Savings accounts	27,601,326	15.2	28,733,040	16.5
	78,585,709	43.4	72,565,199	41.6
Time certificates of deposit:				
2.01% - 4.00%	6,056,411	3.3	--	--
4.01% - 6.00%	79,039,874	43.7	81,983,671	47.0
6.01% - 8.00%	17,430,570	9.6	19,444,833	11.2
8.01% - 10.00%	--	--	292,446	0.2
	102,526,855	56.6	101,720,950	58.4
Total	$ 181,112,564	100.0 %	$ 174,286,149	100.0 %

</TABLE>

Time deposits include certificates of deposit in denominations of $100,000 or more. Such deposits aggregated $9,153,519 and $7,882,872 at December 31, 1998 and 1997, respectively, with maturities as follows:

Within three months	$ 818,266
Beyond three but within six months	1,281,887
Beyond six but within twelve months	879,455
Beyond one year	6,173,911
Total	$ 9,153,519

Interest expense by deposit category for the years ended December 31, is as follows:

<TABLE>
<CAPTION>

<S>	1998 <C>	1997 <C>	1996 <C>
Savings accounts	$ 636,965	$ 769,805	$ 825,444

NOW and money market deposit accounts	954,283	752,198	289,685
Time certificates of deposit	5,672,513	5,949,772	6,310,111
Total	$ 7,263,761	$ 7,471,775	$ 7,425,240

</TABLE>

9. ADVANCES FROM FEDERAL HOME LOAN BANK

The following table sets forth information concerning both short and long-term advances from FHLB:

<TABLE>
<CAPTION>

	Year Ended December 31, 1998	1997
<S>	<C>	<C>
Balance at year end	$ 30,894,800	$ 12,117,000
Average balance outstanding	19,434,945	6,131,000
Maximum month-end balance	30,894,800	12,117,000
Weighted-average rate at year end	5.59%	6.11%
Weighted-average rate during the year	5.89%	5.69%

</TABLE>

The scheduled maturities of advances outstanding are as follows:

<TABLE>
<CAPTION>

	1998		1997	
Year Ending December 31,	Amount	Weighted-average Rate	Amount	Weighted-average Rate
<S>	<C>	<C>	<C>	<C>
1999	$ 2,600,000	5.98 %	$ 1,600,000	5.75 %
2000	4,600,000	5.90	2,600,000	5.98
2001	2,000,000	5.77	3,600,000	6.10
2002	3,317,000	5.99	1,000,000	6.32
2003 and thereafter	18,377,800	5.37	3,317,000	5.99
Total	$ 30,894,800	5.59 %	$ 12,117,000	6.11 %

</TABLE>

FHLB stock and certain first mortgage loans with a value in excess of 120 percent of outstanding advances are pledged to secure such borrowings.

10. OTHER BORROWINGS

Other borrowings at December 31, 1998 and 1997 include a loan from a third party to purchase shares for the Employee Stock Ownership Plan as well as a loan to finance an equipment lease. The outstanding balances of the ESOP loan and equipment lease were $1,224,994 and $162,624 at December 31, 1998, respectively, and $912,592 and $203,173 at December 31, 1997, respectively. Terms associated with the ESOP loan call for a term of ten years at a rate of 8.00 percent with principal payments in an amount equal to one-tenth the original principal amount of the loan payable on the last day of December. As security for the repayment of the loan, the Bank is required to pledge and deliver the unallocated shares acquired by the Bank through the use of proceeds. Terms for the equipment loan call for a five-year term at a rate of 4.90 percent with equal monthly payments.

11. SAVINGS ASSOCIATION INSURANCE FUND RECAPITALIZATION

On September 30, 1996, the President signed into law legislation which included, among other things, recapitalization of the Savings Association Insurance Fund ("SAIF") of the Federal Deposit Insurance Corporation by a one-time charge to SAIF-insured institutions of 65.7 basis points per one hundred dollars of insurable deposits. The surcharge expense to the Bank amounted to $1,106,055 and is reflected in the consolidated statement of income for the year ended December 31, 1996.

12. INCOME TAXES

The provision (benefit) for income taxes for the years ended December 31 consists of:

	1998	1997	1996
Currently payable (refundable):			
Federal	$ 310,802	$ 199,605	$ (93,820)
State	67,568	88,663	(6,172)
	378,370	288,268	(99,992)
Deferred	13,389	(137,952)	(218,523)
Total	$ 391,759	$ 150,316	$ (318,515)

Income taxes applicable to investment securities gains were $48,613 in 1998 and $54,883 in 1997. There were no investment securities gains in 1996.

The tax effects of deductible and taxable temporary differences that gave rise to significant portions of the net deferred tax assets and liabilities at December 31, are as follows:

	1998	1997
Deferred tax assets:		
Allowance for loan losses	$ 437,749	$ 473,989
Premises and equipment	30,498	38,973
Accrued employee benefits	228,870	213,500
Alternative minimum tax credit	293,367	265,001
Other	26,233	38,643
Total gross deferred tax assets	1,016,717	1,030,106
Deferred tax liabilities:		
Net unrealized gain on securities	560,699	494,387
Total gross deferred tax liabilities	560,699	494,387
Net deferred tax assets	$ 456,018	$ 535,719

No valuation allowance was established at December 31, 1998 and 1997 in view of certain tax strategies coupled with the anticipated future taxable income as evidenced by the Company's earnings potential.

12. INCOME TAXES (Continued)

The following is a reconciliation between the actual provision for income taxes and the amount of income taxes which would have been provided at statutory rates for the years ended December 31: <TABLE> <CAPTION>

	1998		1997		1996	
	Amount	% of Pre-tax Income	Amount	% of Pre-tax Income	Amount	% of Pre-tax Income
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Provision at statutory rate	$ 643,751	34.0 %	$ 607,863	34.0 %	$ 132,764	34.0 %
State income tax expense, net of federal tax benefit	44,595	2.4	58,518	3.3	--	--
Tax-exempt interest	(335,448)	(17.7)	(427,556)	(23.9)	(442,080)	(113.2)
Other, net	38,861	2.0	(88,509)	(5.0)	(9,199)	(2.4)
Actual expense (benefit) and effective rate	$ 391,759	20.7 %	$ 150,316	8.4 %	$ (318,515)	(81.6) %

</TABLE>

On August 20, 1996, the Small Business Jobs Protections Act (the "Act") was signed into law. The Act eliminated the percentage of taxable income bad debt deduction for thrift institutions for tax years beginning after December 31, 1995. The Act provides that bad debt reserves accumulated prior to 1988 be exempt from recapture. Bad debt reserves accumulated after 1987 are subject to recapture. The Company has accumulated no additional bad debt reserves since

1987.

The Bank is subject to the Pennsylvania Mutual Thrift Institutions Tax which is calculated at 11.5 percent of earnings based on generally accepted accounting principles with certain adjustments.

13. EMPLOYEE BENEFITS

Pension Plan

The Bank sponsors a trusteed, defined benefit pension plan covering all eligible Bank employees and officers. The plan calls for benefits to be paid to eligible employees at retirement based primarily upon years of service and compensation rates near retirement. The Bank's funding policy is to make annual contributions, if needed, based upon the funding formula developed by the plan's actuary.

13. EMPLOYEE BENEFITS (Continued)

Pension Plan (Continued)

The following table sets forth the change in plan assets and benefit obligation at December 31:
<TABLE>
<CAPTION>

<S>	1998 <C>	1997 <C>
Plan assets at fair value, beginning of year	$ 2,988,963	$ 2,745,332
Actual return on plan assets	211,831	200,430
Employer contribution	200,732	115,612
Benefits paid	(72,692)	(72,411)
Plan assets at fair value, end of year	3,328,834	2,988,963
Benefit obligation, beginning of year	3,422,049	2,773,809
Service cost	181,425	136,776
Interest cost	249,500	200,998
Amendments	135,483	382,877
Benefits paid	(72,692)	(72,411)
Benefit obligation, end of year	3,915,765	3,422,049
Funded status	(586,931)	(433,086)
Transition adjustment	(221,629)	(242,443)
Unrecognized net loss from past experience different from that assumed	645,435	494,504
Accrued pension liability	$ (163,125)	$ (181,025)

</TABLE>

The plan assets are invested primarily in bonds, stocks, and mortgages under the control of the plan's trustees as of December 31, 1998.

Assumptions used in determining net periodic pension cost are as follows:

	1998	1997	1996
Discount rate	6.50%	7.00%	7.00%
Expected return on plan assets	8.00%	8.00%	8.00%
Rate of compensation increase	5.00%	5.00%	5.00%

The plan utilizes the straight-line method of amortization for unrecognized gains and losses.

Net periodic pension cost includes the following components:
<TABLE>
<CAPTION>

<S>	1998 <C>	1997 <C>	1996 <C>
Service cost of the current period	$ 181,425	$ 136,776	$ 134,419
Interest cost on projected benefit obligation	249,500	200,998	193,221
Actual return on plan assets	(211,831)	(200,430)	(192,589)
Net amortization and deferral	(36,262)	(36,876)	(35,343)

Net periodic pension cost	$ 182,832	$ 100,468	$ 99.708

</TABLE>

13. EMPLOYEE BENEFITS (Continued)

Supplemental Retirement Plans

Board of Directors

The Bank maintains a Directors' Consultation and Retirement Plan to provide post-retirement payments over a ten-year period to non-officer members of the Board of Directors who have completed twenty or more years of service. The plan was amended on November 6, 1996, to provide post-retirement payments to members who have completed fifteen or more years of service. Expenses for the years ended December 31, 1998, 1997, and 1996 amounted to $75,699, $57,000, and $222,861, respectively, and are included as a component of other operating expenses.

President

The Bank maintains a Supplemental Retirement Plan for the President of the Bank for the purpose of providing the President with supplemental post-retirement benefits for life in addition to those provided under the Bank's pension plan for all eligible employees. Expenses for the years ended December 31, 1998, 1997, and 1996, amounted to $34,400, $12,100, and $13,950, respectively, and are included as a component of compensation and employee benefits.

Profit Sharing Plan

The Bank maintains a profit sharing plan covering all employees. Contributions to the plan are made annually at the discretion of the Board of Directors. Contributions for the years ended December 31, 1998, 1997 and 1996, amounted to $67,052, $61,556, and $52,370, respectively.

Stock Option Plan

On October 22, 1998, the Board of Directors approved and stockholders ratified the formation of a stock option plan. The plan will provide for granting incentive stock options and nonstatutory stock options for executive officers and nonemployee Directors of the Company. A total of 124,200 shares of authorized but unissued common stock are reserved for issuance under the plan, which expires ten years from the date of shareholder ratification. The per share exercise price of an option granted will not be less than the fair value of a share of common stock on the date the option is granted. The options granted on October 22, 1998 are currently available for exercise.

13. EMPLOYEE BENEFITS (Continued)

Stock Option Plan (Continued)

No compensation expense has been recognized with respect to the options granted under the stock option plan. Had compensation expense been determined on the basis of fair value, net income and earnings per share would have been reduced as follows:

	1998
Net income:	
As reported	$ 1,501,625
Pro forma	$ 1,323,801

Basic earnings per share:	
As reported	$ 0.56
Pro forma	$ 0.49
Diluted earnings per share:	
As reported	$ 0.56
Pro forma	$ 0.49

The following table presents share data related to the stock option plan:

Shares Under Option	1998	Weighted-Average Exercise Price
Outstanding, January 1,	--	--
Granted	124,200	$ 11.81
Exercised	--	--
Forfeited	--	--
Outstanding, December 31,	124,200	$ 11.81

Employee Stock Ownership Plan (ESOP)

The Company has an ESOP for the benefit of employees who meet the eligibility requirements which include having completed one year of service with the Company or its subsidiaries and attained age 21. The ESOP trust purchased 96,000 shares of common stock since the date of conversion with proceeds from a loan from an independent third party. The Company makes cash payments to the independent third party on an annual basis.

13. EMPLOYEE BENEFITS (Continued)

Employee Stock Ownership Plan (ESOP) (Continued)

As the debt is repaid, shares are released from the collateral and allocated to qualified employees based on the proportion of debt service paid in the year. The shares pledged as collateral are reported as unallocated ESOP shares in the consolidated balance sheet. As shares are released from collateral, the Company reports compensation expense equal to the current market price of the shares, and the shares become outstanding for earnings per share computations.

	1998	1997
Allocated shares	8,940	--
Shares released for allocation	9,600	8,940
Unreleased shares	77,460	63,660
Total ESOP shares	96,000	72,600
Fair value of unreleased shares	$ 1,094,123	$ 1,201,583

Restricted Stock Plan (RSP)

In 1998, the Board of Directors adopted a RSP for directors, officers, and employees which was approved by stockholders at a special meeting held on October 22, 1998. The objective of this plan is to enable the Company and the Bank to retain its corporate officers, key employees, and directors who have the experience and ability necessary to manage these entities. Directors, officers, and key employees who are selected by members of a Board-appointed committee are eligible to receive benefits under the RSP. The non-employee directors of the Company and the Bank serve as trustees for the RSP, and have the responsibility to invest all funds contributed by the Bank to the Trust created for the RSP.

In December 1998, the Trust purchased, with funds contributed by the Bank, 14,888 shares of the common stock of the Company, of which 3,726 shares were issued to directors, 7,449 shares were issued to officers, and 3,713 shares remained unissued as of December 31, 1998. Directors, officers, and key employees who terminate their association with the Company shall forfeit the right to any shares which were awarded but not earned.

The Company granted a total of 49,680 shares of common stock on October 22, 1998, of which 11,175 shares became immediately vested under the plan with the remaining shares vesting over a four-year period for directors and five years for officers and employees beginning, October 22, 1999. A total of 11,175 shares were vested as of December 31, 1998. The RSP shares purchased initially will be excluded from stockholders' equity. The Company recognizes compensation expense in the amount of fair value of the common stock at the grant date, pro rata, over the years during which the shares are payable and recorded as an addition to the stockholders' equity. Net compensation expense attributable to the RSPs amounted to $128,512 for the year ended December 31, 1998.

14. COMMITMENTS

In the normal course of business, there are outstanding commitments and contingent liabilities, such as commitments to extend credit, financial guarantees, and letters of credit, which are not reflected in the accompanying financial statements. The Company does not anticipate any losses as a result of these transactions. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated balance sheet. The contract or notional amounts of those instruments reflect the extent of involvement the Company has in the particular classes of financial instruments.

These commitments represent financial instruments with off-balance sheet risk. Outstanding commitments for the years ended December 31, are as follows:

	1998	1997
Fixed rate commitments	$ 13,791,721	$ 8,747,460
Variable rate commitments	6,135,362	6,025,107
Total	$ 19,927,083	$ 14,772,567

The range of interest rate residential mortgage loan commitments was 6.125 percent to 7.125 percent at December 31, 1998, and 7.00 percent to 9.74 percent at December 31, 1997.

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 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.

15. REGULATORY MATTERS

Loans

Federal law prevents the Company from borrowing from the Bank unless the loans are secured by specific collateral. Further, such secured loans are limited in amount to ten percent of the Bank's common stock and capital surplus.

Dividend Restrictions

The Bank is subject to legal limitations on the amount of dividends that can be paid to the Company. The Pennsylvania Banking Code restricts the availability of surplus for dividend purposes. At December 31, 1998 surplus funds of $10,588,940 were not available for dividends.

16. REGULATORY CAPITAL REQUIREMENTS

The Company and the Bank are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly additional discretionary actions by the regulators that, if undertaken, could have a direct material effect on the Company's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and the Bank must meet specific capital guidelines that involve quantitative measures of the entities' assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The Company's and the Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, Risk-weightings, and other factors.

16. REGULATORY CAPITAL REQUIREMENTS (Continued)

Quantitative measures established by the regulation to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios of Total and Tier I capital (as defined in the regulations) to Risk-weighted assets (as defined), and of Tier I capital to average assets (as defined). Management believes, as of December 31, 1998, the Company and the Bank meet all capital adequacy requirements to which they are subject.

As of December 31, 1998, the most recent notification from the Federal Reserve Board has categorized the Company as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized the Company and the Bank must maintain minimum Total Risk-based, Tier I Risk-based, and Tier I Leverage ratios at least 100 to 200 basis points above those ratios set forth in the table. There have been no conditions or events since that notification that management believes have changed their category.

The following table reflects the Company's capital ratios and minimum requirements at December 31. The Bank's capital ratios are substantially the same as the Company's.
<TABLE>
<CAPTION>

	1998		1997	
	Amount	Ratio	Amount	Ratio
Total Capital (to Risk-weighted Assets)				
<S>	<C>	<C>	<C>	<C>
Actual	$ 29,383,190	27.46 %	$ 28,922,333	28.43 %
For Capital Adequacy Purposes	8,266,640	8.00	8,138,080	8.00
To Be Well Capitalized	10,358,300	10.00	10,172,600	10.00
Tier I Capital (to Risk-weighted Assets)				
Actual	$ 28,095,694	26.21 %	$ 27,649,245	27.18 %
For Capital Adequacy Purposes	4,143,320	4.00	4,069,040	4.00
To Be Well Capitalized	6,214,980	6.00	6,103,560	6.00
Tier I Capital (to Average Assets)				
Actual	$ 28,095,694	11.31 %	$ 27,649,245	13.11 %
For Capital Adequacy Purposes	9,606,960	4.00	8,434,440	4.00
To Be Well Capitalized	12,008,700	5.00	10,543,050	5.00

</TABLE>

Prior to the enactment of the Small Business Job Protection Act discussed in Note 12, the Bank accumulated approximately $2,485,000 of retained earnings at December 31, 1996, which would represent allocations of income to bad debt deductions for tax purposes only. Since there is no amount that represents the accumulated bad debt reserves prior to 1988, no provision for federal income tax has been made for such amount. If any portion of this amount is used other than to absorb loan losses (which is not anticipated), the amount will be subject to federal income tax at the current corporate rate.

17. FAIR VALUE DISCLOSURE

The estimated fair values of the Bank's financial instruments are as follows:

<TABLE>
<CAPTION>

	1998		1997	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<S>	<C>	<C>	<C>	<C>
Financial assets:				
Cash and amounts due from other institutions	$ 2,136,601	$ 2,136,601	$ 2,388,632	$ 2,388,632
Interest-bearing deposits with other institutions	9,332,219	9,332,219	3,307,604	3,307,604
Investment securities:				
Available for sale	25,197,294	25,197,294	24,252,738	24,252,738
Held to maturity	18,145,662	18,581,867	10,014,815	10,073,052
Mortgage-backed securities:				
Available for sale	32,877,841	32,877,841	30,159,139	30,159,139
Held to maturity	48,287,244	48,767,611	40,233,666	40,885,072
Loans, net	99,913,716	101,427,098	99,691,337	98,624,000
Federal Home Loan Bank stock	1,544,800	1,544,800	1,019,500	1,019,500
Accrued interest receivable	1,516,677	1,516,677	1,393,399	1,393,399
Total	$ 238,952,054	$ 241,382,008	$ 212,460,830	$ 212,103,136
Financial liabilities:				
Deposits	$ 181,112,564	$ 184,038,666	$ 174,286,149	$ 175,317,717
Advances from Federal Home Loan Bank	30,894,800	31,521,246	12,117,000	12,154,280
Other borrowings	1,387,618	1,415,754	1,115,765	1,119,720
Advances from borrowers for taxes and insurance	558,052	558,052	540,283	540,283
Accrued interest payable	289,748	289,748	243,371	243,371
Total	$ 214,242,782	$ 217,823,466	$ 188,302,568	$ 189,375,371

</TABLE>

Fair value is defined as the amount at which a financial instrument could be exchanged in a current transaction between willing parties other than in a forced or liquidation sale. If a quoted market price is available for a financial instrument, the estimated fair value would be calculated based upon the market price per trading unit of the instrument.

If no readily available market exists, the fair value estimates for financial instruments are based upon management's judgment regarding current economic conditions, interest rate risk, expected cash flows, future estimated losses, and other factors as determined through various option pricing formulas or simulation modeling. As many of these assumptions result from judgments made by management based upon estimates which are inherently uncertain, the resulting estimated values may not be indicative of the amount realizable in the sale of a particular financial instrument. In addition, changes in the assumptions on which the estimated values are based may have a significant impact on the resulting estimated values.

As certain assets and liabilities, such as deferred tax assets, premises and equipment, and many other operational elements of the Company, are not considered financial instruments but have value, this estimated fair value of financial instruments would not represent the full market value of the Company.

The Company employed simulation modeling in determining the estimated fair value of financial instruments for which quoted market prices were not available based upon the following assumptions:

Cash and Amounts Due from Depository Institutions, Interest-bearing Deposits with Other Institutions, Accrued Interest Receivable, Advance Payments by Borrowers for Taxes and Insurance, and Accrued Interest Payable

The fair value approximates the current book value.

Investment Securities, Mortgage-backed Securities, and Federal Home Loan Bank Stock

The fair value of securities held as investments, mortgage-backed securities, and securities available for sale is equal to the available quoted market price.

If no quoted market price is available, fair value is estimated using the quoted market price for similar securities. Since the FHLB stock is not actively traded on a secondary market and held exclusively by member financial institutions, the estimated fair market value approximates the carrying amount.

Loans, Deposits, Advances from the FHLB, and Other Borrowings

The estimated fair values for loans are estimated by discounting contractual cash flows and adjusting for prepayment estimates. Discount rates are based upon rates generally charged for such loans with similar characteristics. Demand, savings, and money market deposit accounts are valued at the amount payable on demand as of year end. Fair values for time deposits and advances from the FHLB are estimated using a discounted cash flow calculation that applies contractual costs currently being offered in the existing portfolio to current market rates being offered for deposits and notes of similar remaining maturities.

Commitments to Extend Credit

These financial instruments are generally not subject to sale, and estimated fair values are not readily available. The carrying value, represented by the net deferred fee arising from the unrecognized commitment, and the fair value, determined by discounting the remaining contractual fee over the term of the commitment using fees currently charged to enter into similar agreements with similar credit risk, are not considered material for disclosure. The contractual amounts of unfunded commitments are presented in Note 14.

18. CORPORATE REORGANIZATION AND STOCK ISSUANCE

On July 10, 1997, the Bank adopted a plan of reorganization into a Pennsylvania-chartered mutual holding company. The Bank received the approval of the Federal Reserve, the Department of Banking, and the FDIC for transactions contemplated by the plan of reorganization, which authorized the Bank to offer stock in one or more public stock offerings up to a maximum of 49.9 percent of the issued and outstanding shares of its common stock. As a result of the offering in July 1997, PHS Bancorp, M.H.C. (mutual holding company) received 1,518,000 shares (55 percent) of the Bank stock. Also as a result of the stock offering, the Bank received gross proceeds of $12,420,000. Expenses associated with the offering totaled $592,267, resulting in net capital additions to the Bank of $11,827,733. The Bank recorded common stock at par of $276,000 and additional paid-in capital of $11,551,733 from the stock issuance.

18. CORPORATE REORGANIZATION AND STOCK ISSUANCE (Continued)

On May 21, 1998, the Bank adopted an Agreement and Plan of Reorganization (the "Plan") whereby the Bank would form the Company, an intermediate stock holding company under Pennsylvania law. The Plan received stockholder approval as of October 22, 1998 and subsequently received all regulatory approvals. The reorganization was completed on November 9, 1998. Upon completion of the reorganization, the Bank became a wholly-owned subsidiary of the Company and the Company became a majority-owned subsidiary of the M.H.C. The common stock of the Company replaces the Bank's stock.

19. PARENT COMPANY

The following are condensed financial statements for the parent company.

CONDENSED BALANCE SHEET

	1998
ASSETS	
Cash and due from banks	$ 978,101
Investment in subsidiary bank	28,240,812
Other assets	52,326
TOTAL ASSETS	$ 29,271,239
LIABILITIES AND STOCKHOLDERS' EQUITY	
Other liabilities	$ 87,130
Stockholders' equity	29,184,109
TOTAL LIABILITIES AND	

STOCKHOLDERS' EQUITY	$ 29,271,239

CONDENSED STATEMENT OF INCOME

	For the Period of November 9, 1998 to December 31, 1998
INCOME	
Interest income	$ 287
EXPENSES	1,914
Loss before equity in undistributed net income of subsidiary	(1,627)
Equity in undistributed net income of subsidiary	213,869
NET INCOME	$ 212,242

19. PARENT COMPANY (Continued)

CONDENSED STATEMENT OF CASH FLOWS

	For the Period of November 9, 1998 to December 31, 1998
OPERATING ACTIVITIES	
Net income	$ 212,242
Adjustments to reconcile net income to net cash provided by operating activities:	
Equity in undistributed net income of subsidiary	(213,869)
Other, net	24,477
Net cash provided by operating activities	22,850
FINANCING ACTIVITIES	
Purchase of RSP shares	(44,749)
Capitalization of the Company	1,000,000
Net cash provided by financing activities	955,251
Increase in cash	978,101
CASH AT BEGINNING OF PERIOD	--
CASH AT END OF PERIOD	$ 978,101

PEOPLE HOMES SAVINGS BANK
OFFICE LOCATIONS

Administrative Office and Loan Center
744 Shenango Road
Beaver Falls, Pennsylvania 15010
(412) 846-7300

[MAP TO BE INSERTED]

<TABLE>
<CAPTION>

<S>	<C>
Board of Directors	Executive Officers
Douglas K. Brooks	James P. Wetzel, Jr.
Emlyn Charles	President and Chief Executive Officer
John C. Kelly	Richard E. Canonge
Earl F. Klear	Vice President Finance, Chief Financial
Howard B. Lenox	Officer and Treasurer
John M. Rowse	John M. Rowse
James P. Wetzel, Jr.	Secretary
	David E. Ault
	Vice President-Community Banking and
	Assistant Secretary
	Paul W. Jewell
	Vice President-Human Resources and
	Business Development
	Joseph R. Pollock III
	Vice President-Lending
Corporate Counsel:	Independent Auditors:
George A. Verlihay	S.R. Snodgrass, A.C.
2521 Darlington Road	101 Bradford Road
Beaver Falls, Pennsylvania 15010	Wexford, Pennsylvania 15090
Special Counsel:	Transfer Agent and Registrar:
Malizia, Spidi, Sloane & Fisch, P.C.	Registrar and Transfer Company
One Franklin Square	70 Commerce Drive
1301 K Street, N.W., Suite 700 East	Cranford, New Jersey 07016-3572
Washington, D.C. 20005	(800) 456-0596

</TABLE>

The Company's Annual Report for the Year Ended December 31, 1998 filed with the Securities Exchange Commission on Form 10-K without exhibits is available without charge upon written request. For a copy of the Form 10-K or any other investor information, please write the Secretary of the Bank at 744 Shenango Road, Beaver Falls, Pennsylvania 15010. Copies of any exhibits to the Form 10-K are available at cost.

The Annual Meeting of Stockholders will be held on April 22, 1999 at 9.00 a.m. at the Beaver Valley Country Club, Patterson Heights, Beaver Falls, PA 15010.

EXHIBIT 23

CONSENT OF INDEPENDENT AUDITORS

We consent to the incorporation by reference in this Registration Statement of PHS Bancorp, Inc. on Form S-8 of our report dated January 29, 1999 appearing in the Annual Report on Form 10-K of PHS Bancorp, Inc. for the year ended December 31, 1998.

/s/ S. R. Snodgrass, A.C.

S.R. Snodgrass, A.C.

Wexford, PA
March 16, 1999

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE ANNUAL REPORT ON FORM 10-K AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL INFORMATION.

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