FORM 10KSB40

Annual and transition reports of small business issuers [Section 13 or 15(d), S-B Item 405]

Filing Date: **1999-03-26** | Period of Report: **1998-12-31**
SEC Accession No. 0000950152-99-002463

(HTML Version on secdatabase.com)

FILER

OHIO STATE BANCSHARES INC

CIK:**919644**| IRS No.: **341816546** | State of Incorp.:**OH** | Fiscal Year End: **1231**
Type: **10KSB40** | Act: **34** | File No.: **000-28648** | Film No.: **99574440**
SIC: **6022** State commercial banks

Mailing Address
111 S MAIN ST
MARION OH 43301

Business Address
111 S MAIN ST
P O BOX 1818
MARION OH 43301-1818
6143872265

U.S. SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-KSB

(Mark one)

[X] ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 1998

[ ] TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from ---------------- to ----------------

Commission File No. 0-28648

OHIO STATE BANCSHARES, INC.
(Name of small business issuer in its charter)

OHIO	34-1816546
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
111 South Main Street, Marion, Ohio	43302
(Address of principal executive offices)	(Zip code)

(740) 387-2265
(Issuer's telephone number)

Securities registered under Section 12(b) of the Exchange Act:

Title of each class	Name of each exchange on which registered
None	None

Securities registered under Section 12(g) of the Exchange Act:

Common Shares, $10.00 par value
(Title of class)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 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 [ ]

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B is not contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB. [X]

Issuer's revenue for the year ended December 31, 1998 was: $4,481,279

The aggregate market value of the Issuer's voting stock held by nonaffiliates of the Issuer as of March 5, 1999 based on the last trade price was $4,619,771.

At March 5, 1999, there were issued and outstanding 131,674 of the Issuer's Common Shares.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Issuer's Proxy Statement to be dated approximately March 24, 1999, are incorporated by reference into Item 9. Directors, Executive Officers, Promoters and Control Persons; Compliance with Section 16(a) of the Exchange Act; Item 10. Executive Compensation; Item 11. Security Ownership of Certain Beneficial Owners and Management; and Item 12. Certain Relationships and Related Transactions, of Part III.

Transitional Small Business Disclosure Form (check one):
Yes [ ] No [X]

<TABLE>

INDEX

FORM 10-KSB

</TABLE>

PART I

ITEM 1 - DESCRIPTION OF BUSINESS

BUSINESS

At the annual shareholders' meeting held on April 13, 1995, The Marion Bank's ("Bank") shareholders approved a plan of reorganization whereby they would exchange their shares of Bank stock for the common stock of Ohio State Bancshares, Inc. ("Corporation"). The Corporation received approval from the Board of Governors of the Federal Reserve System during early 1996 and the reorganization was consummated on May 16, 1996. The principal business of the Corporation is presently to operate the Bank, which is a wholly owned subsidiary and its principal asset. The Corporation and the main office of the Bank are located at 111 South Main Street, Marion, Ohio 43302. The Corporation's telephone number is (740) 387-2265.

Although wholly owned by the Corporation, the Bank functions as an independent community bank. The Bank was chartered as an Ohio banking corporation on March 24, 1988 and commenced operations on August 23, 1988. The Bank offers a full range of commercial banking services, including commercial loans, real estate loans and various types of consumer loans; checking, savings and time deposits; money market accounts; travelers checks; pre-approved overdraft protection; safe deposit boxes and other customary nondeposit banking services. The Bank is an agent for Mastercard and Visa credit cards and is a merchant depository for cardholder sales drafts. At the present time, the Bank does not have a trust department, but can provide access to this service through correspondent banks. The Bank is a member of 24-hour automated teller networks. It also offers two lanes of drive-up banking services at each banking location.

The nature of the Bank allows for full diversification of depositors and borrowers so it is not dependent upon a single or a few customers. Most of the Bank's deposits are attracted from individuals and business related sources. No material portion of the Bank's loans are concentrated within a single industry or group of related industries. The business of the Bank is somewhat seasonal in nature due to lending activities in the agricultural and automobile markets.

The Corporation is not aware of any exposure to material costs associated with environmental hazardous waste cleanup. Bank loan procedures require EPA studies be obtained by Bank management prior to approving any commercial real estate loan with such potential risk.

SUPERVISION AND REGULATION

REGULATION OF THE CORPORATION: The Corporation is a registered bank holding company organized under the laws of the State of Ohio. As such, the Corporation is subject to the laws of the State of Ohio and is under the jurisdiction of the Securities Act of 1933, as amended, and various Securities and Exchange Commission rules and regulations relating to the offering and sale of its securities. The Corporation is also subject to regulation under the Bank Holding Company Act of 1956 as amended. The Federal Reserve Board regulates bank holding companies and may examine or inspect the books and records of the Corporation and the Bank.

The Corporation is not aware of any current recommendations by regulatory authorities that, if they were to be implemented, would have a material effect on the Corporation.

(Continued)

REGULATION OF THE BANK: The Bank is chartered in the State of Ohio and regulated by the Ohio Department of Commerce, Division of Financial Institutions. Further, the Bank's depositors are insured by the Federal Deposit Insurance Corporation. These regulatory agencies have the authority to examine the books and records of the Bank, and the Bank is subject to their rules and regulations.

EMPLOYEES

As of December 31, 1998, the Bank employed 25 full-time and 6 part-time employees.

ITEM 2 - DESCRIPTION OF PROPERTY

The Bank's main office is located in downtown Marion, Ohio. The Bank opened a full service branch at 220 Richland Road, Marion, Ohio in December 1996. The branch provides a full range of financial services including two drive-thru lanes, a full service ATM machine and night deposit capabilities. The branch expanded the Bank into the eastern part of Marion to better serve its existing customers in that area. The Bank opened two Customer-Bank Communication Terminals (ATM sites) in Marion in 1995. The Bank owns all premises related to its main office and leases its new branch under an operating lease. All such premises are suitable for their intended use. Management believes all properties are in excellent condition and are adequately covered by insurance.

ITEM 3 - LEGAL PROCEEDINGS

Corporation management is aware of no pending or threatened litigation in which the Corporation or its subsidiary Bank faces potential loss or exposure which will materially affect the consolidated financial statements or involves a claim for damages exceeding ten percent of the assets of the Corporation.

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

No matters were submitted to a vote of security holders during the fourth quarter of the Corporation's fiscal year ended December 31, 1998.

PART II

ITEM 5 - MARKET FOR COMMON EQUITY AND RELATED SHAREHOLDER MATTERS

The common stock of the Corporation, and of the Bank preceding formation of the Corporation, trades infrequently and is not traded on any established securities market. Parties interested in buying or selling the Corporation's stock are generally referred to Community Banc Investments, New Concord, Ohio (CBI).

(Continued)

For 1998 and 1997, bid and ask quotations were obtained from CBI which makes a limited market in the Corporation's stock. The quotations are inter-dealer prices, without retail markup, markdown or commission and may not represent actual transactions.

<TABLE>
<CAPTION>

1998	Low Bid	High Bid	Low Ask	High Ask
1st Qtr.	$37.00	$39.00	$39.00	$41.00
2nd Qtr.	39.00	39.00	41.00	41.00
3rd Qtr.	41.00	43.00	43.00	45.00
4th Qtr.	43.00	45.00	45.00	47.00

</TABLE>

<TABLE>
<CAPTION>

1997	Low Bid	High Bid	Low Ask	High Ask
1st Qtr.	$34.50	$34.50	$36.50	$36.50
2nd Qtr.	34.50	35.50	36.50	37.50
3rd Qtr.	35.50	35.50	37.50	37.50

4th Qtr.	35.50	37.00	37.50	39.00

</TABLE>

Management does not have knowledge of the prices paid in all transactions and has not verified the accuracy of those prices that have been reported. Because of the lack of an established market for the Corporation's stock, these prices may not reflect the prices at which the stock would trade in an active market.

The Corporation has 500,000 authorized and 126,220 outstanding shares of common stock held by approximately 468 shareholders as of December 31, 1998. The Corporation paid cash dividends of $0.25 per share in June and December of 1998 and $0.20 per share in June and December of 1997, resulting in a total amount of $0.50 and $0.40 per share in 1998 and 1997.

The Corporation has filed a Registration Statement with the Securities and Exchange Commission to sell up to 24,800 shares of the Corporation's stock at $47.00 per share, including underwriting commissions of $2.00 per share. Shareholders with preemptive rights can purchase the stock at $45.00. The Corporation expects to receive $1,078,000 in net proceeds after deducting offering expenses from the sale of stock. As of December 31, 1998, the Corporation had issued 5,020 shares related to the stock offering.

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

In the following pages, management presents an analysis of Ohio State Bancshares, Inc.'s financial condition and results of operations as of and for the year ended December 31, 1998 as compared to the prior year. This discussion is designed to provide shareholders with a more comprehensive review of the operating results and financial position than could be obtained from an examination of the financial statements alone. This analysis should be read in conjunction with the consolidated financial statements and related footnotes and the selected financial data included elsewhere in this report.

(Continued)

When used in this Form 10-KSB or future filings by the Corporation with the Securities and Exchange Commission, in the Corporation's press releases or other public or shareholder communications, or in oral statements made with the approval of an authorized executive officer, the words or phrases "will likely result," "are expected to," "will continue," "is anticipated," "estimate," "project," "believe," or similar expressions are intended to identify "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. The Corporation wishes to caution readers not to place undue reliance on any such forward-looking statements, which speak only as of the date made, and to advise readers that various factors, including regional and national economic conditions, changes in levels of market interest rates, credit risks of lending activities and competitive and regulatory factors, could affect the Corporation's financial performance and could cause the Corporation's actual results for future periods to differ materially from those anticipated or projected. The Corporation does not undertake, and specifically disclaims, any obligation to publicly release the result of any revisions which may be made to any forward-looking statements to reflect occurrence of anticipated or unanticipated events or circumstances after the date of such statements.

The Corporation is not aware of any trends, events or uncertainties that will have or are reasonably likely to have a material effect on the liquidity, capital resources or operations except as discussed herein. In addition, the Corporation is not aware of any current recommendations by regulatory authorities that would have such effect if implemented.

RESULTS OF OPERATIONS

Net income for the Corporation was $425,000 in 1998, or $78,000 more than the

$347,000 earned in 1997. The reason for the increase in earnings for 1998 was primarily due to total interest income increasing $538,000 from 1997 to 1998 while interest expense increased only $244,000 over the same period. This $294,000 increase in net interest income was a result of the Corporation increasing its interest-earning asset to interest-bearing liability ratio from 115.67% for 1997 to 117.31% for 1998. The yield earned on the average assets of the Corporation decreased from 8.69% for the year ended December 31, 1997, to 8.48% for the year ended December 31, 1998. During the same period, the average cost of interest-bearing liabilities decreased only from 4.50% to 4.45%.

NET INTEREST INCOME

Net interest income is the amount of interest earned on loans, securities, and other investments that exceeds the interest cost of deposits and other borrowings. Net interest income is affected by the volume and composition of earning assets and interest-bearing liabilities, as well as indirectly affected by noninterest-bearing liabilities and shareholders' equity totals. Additionally, the market level of interest rates and the resultant competitive rate decisions made by management can impact net interest income. Interest rates charged on loans are affected principally by the demand for such loans, the supply of money available for lending purposes and competitive factors. These factors are, in turn, affected by general economic conditions and other factors beyond the Corporation's control, such as federal economic policies, the general supply of money in the economy, legislative tax policies, governmental budgetary matters and the actions of the Board of Governors of the Federal Reserve System.

Net interest income increased $294,000 from 1997 to 1998. The net interest margin, which is net interest income divided by average earning assets, decreased 12 basis points from 4.81% for 1997 to 4.69% for 1998. The margin decrease was the result of a declining net interest spread partially offset by increasing the ratio of average interest-earning assets to average interest-bearing liabilities from 115.67% for 1997 to 117.31% for 1998. The increase in volume of average interest-earning assets more than compensated for the decreased spread.

(Continued)

NET INTEREST INCOME (Continued)

Total interest income increased $538,000. However, the yield on earning assets decreased from 8.69% in 1997 to 8.48% in 1998. Loan demand continued to be strong for the first part of 1998 and then leveled off and was the primary reason for the increase in total interest income. Interest and fees on loans increased $501,000 from year-end 1997 to year-end 1998, due to an increase in the average balances of loans of $6,326,000 during the period. This 20.47% increase in average loan volumes more than offset the decrease in the average loan yield from 9.68% in 1997 to 9.38% in 1998. Interest on taxable securities declined $14,000. Interest on nontaxable securities increased $27,000 in 1998 as the Corporation increased its investments in nontaxable securities.

Total interest expense increased $244,000 in 1998. Average interest-bearing liabilities increased by $5,893,000. However, the rate paid on interest-bearing liabilities decreased by 5 basis points for 1997 compared to 1998. The primary reason for the decrease in the rate paid on interest-bearing liabilities was due to time deposits. The average rate paid on time deposits decreased from 5.80% in 1997 to 5.69% in 1998. Average time deposit balances increased to 60.44% of average interest-bearing liabilities in 1998, compared to 58.78% in 1997.

(Continued)

NET INTEREST INCOME (Continued)

The following tables further illustrate the impact on net interest income from changes in average balances and yields of the Corporation's assets and liabilities.

<TABLE>

AVERAGE BALANCE SHEETS AND ANALYSIS OF NET INTEREST INCOME FOR THE YEARS ENDED DECEMBER 31,

(in thousands except percentages)

<CAPTION>

	1998			1997		
	Average Balance	Average Yield or Rate Paid	Interest Earned or Paid	Average Balance	Average Yield or Rate Paid	Interest Earned or Paid
<S>	<C>	<C>	<C>	<C>	<C>	<C>
ASSETS:						
INTEREST-EARNING ASSETS:						
Interest-earning deposits	$ 41	6.72%	$ 3	$ 394	6.09%	$ 24
Federal funds sold	1,407	5.05	71	492	5.30	26
Taxable securities	8,549	5.70	486	8,488	5.85	500
Nontaxable securities	2,595	6.59	174	2,032	7.01	142
Loans	37,236	9.38	3,492	30,910	9.68	2,991
TOTAL INTEREST-EARNING ASSETS	49,828	8.48	4,226	42,316	8.69	3,683
NONINTEREST-EARNING ASSETS:						
Cash and due from banks	2,300			1,957		
Premises and equipment, net	835			883		
Other real estate owned and repossessions	42			39		
Accrued interest and other assets	489			685		
Less: Allowance for loan losses	(309)			(282)		
TOTAL NONINTEREST-EARNING ASSETS	3,357			3,282		
TOTAL ASSETS	$53,185			$45,598		
LIABILITIES AND SHAREHOLDERS EQUITY:						
INTEREST-BEARING LIABILITIES:						
Demand deposits	$ 7,408	2.02	150	$ 5,815	1.90	110
Savings deposits	9,346	2.95	276	8,618	2.91	251
Time deposits:						
Under $100,000	17,802	5.69	1,013	15,669	5.87	920
$100,000 and over	7,872	5.69	448	5,836	5.60	327
Other borrowings	48	6.28	3	645	5.95	38
TOTAL INTEREST-BEARING LIABILITIES	42,476	4.45	1,890	36,583	4.50	1,646
NONINTEREST-BEARING LIABILITIES:						
Demand deposits	6,453			5,178		
Accrued interest payable and other liabilities	448			454		
TOTAL NONINTEREST-BEARING LIABILITIES	6,901			5,632		
TOTAL LIABILITIES	49,377			42,215		
TOTAL SHAREHOLDERS' EQUITY	3,808			3,383		
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$53,185			$45,598		

NET INTEREST INCOME		$2,336		$2,037
		======		======
NET INTEREST SPREAD	4.03%		4.19%	
	====		====	
NET YIELD ON INTEREST EARNING ASSETS	4.69%		4.81%	
	====		====	

</TABLE>

(Continued)

NET INTEREST INCOME (Continued)

Yields and amounts earned on loans include loan costs, net of loan fees and late charges of $36,674 for the year ended December 31, 19998, and loans fees and late charges, net of loan costs of $9,074 for the year ended December 31, 1997. Nonaccruing loans are included in the daily average-loan amounts outstanding. Yields on nontaxable securities have been computed on a fully tax equivalent basis using a 34% tax rate. The historical amortized cost average balance of $8,537,000 for 1998 and $8,547,000 for 1997 was used to calculate yields for taxable securities. The average balance for securities represents the carrying value of securities. The net yield on interest-earning assets was computed by dividing net interest income by total interest-earning assets without the market value adjustment related to available-for-sale securities.

The following table presents the changes in the Corporation's interest income and interest expense resulting from changes in interest rates and changes in the volume of interest-earning assets and interest-bearing liabilities. Changes attributable to both rate and volume, which cannot be segregated, have been allocated in proportion to the changes due to rate and volume.

INTEREST RATES AND INTEREST DIFFERENTIAL

<TABLE>
<CAPTION>

	1998 Compared to 1997 Increase/(Decrease)			1997 Compared to 1996 Increase/(Decrease)		
	(In thousands)					
	Total Change	Change due to Volume	Change due to Rate	Total Change	Change due to Volume	Change due to Rate
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Interest-earning deposits	$(21)	$(24)	$ 3	$ (8)	$ (9)	$ 1
Federal funds sold	45	46	(1)	--	1	(1)
Taxable securities	(14)	(1)	(13)	(151)	(144)	(7)
Nontaxable securities (1)	32	38	(6)	24	23	1
Loans (2)	501	595	(94)	505	523	(18)
Total interest income	543	654	(111)	370	394	(24)
Deposits						
Demand deposits	40	32	8	10	11	(1)
Savings deposits	25	21	4	3	4	(1)
Time deposits less than $100,000	93	122	(29)	92	87	5
Time deposits greater than or equal to $100,000	121	116	5	(7)	(8)	1
Other borrowings	(35)	(37)	2	8	6	2
Total interest expense	244	254	(10)	106	100	6

Net interest income	$299	$400	$(101)	$ 264	$ 294	$(30)
	====	====	=====	=====	=====	====

</TABLE>

(1) Nontaxable income is adjusted to a fully tax equivalent basis using a 34% tax rate.

(2) Nonaccrual loan balances are included for purposes of computing the rate and volume effects although interest on these balances has been excluded.

(Continued)

ALLOWANCE AND PROVISION FOR LOAN LOSSES

The Corporation maintains an allowance for loan losses that management considers adequate to provide for probable credit losses in the loan portfolio. A grading system is utilized for the commercial loan portfolio. The Loan Review Committee of the Board reviews, on a quarterly basis, the status of all credit relationships of $100,000 or more excluding residential mortgages and assigns or reassigns judgmental grades based on a mathematical system. The grades indicate the risk level of the loans to the Corporation and loss allowances are, in part, established from this analysis. Management analyzes loans on an individual basis and classifies a loan as impaired when an analysis of the borrower's operating results and financial condition indicates that underlying cash flows are not adequate to meet the debt service requirements. Often this is associated with a delay or shortfall in payments of 60 days or more. Smaller-balance homogeneous loans are evaluated for impairment in total. Such loans include residential first mortgage loans secured by one- to four-family residences, residential construction loans, consumer automobile, home equity and credit card loans with balances less than $300,000. The Corporation evaluates the remaining loan portfolio and establishes loss allowances based on historical loan loss data, which the Corporation has been accumulating since its inception, as well as anticipated credit losses. At year-end 1998, the allowance had a balance of $360,093, or 0.96% of total loans, compared to $311,095, or 0.90% of total loans, at year-end 1997.

All loans charged-off during the year-ended December 31, 1998 were either installment or credit cards, with the majority of the installment charge-offs being related to indirect auto lending. Management is actively monitoring problem loans and has increased collection efforts to reduce charge-offs in future periods. In addition, management's goal is to increase other loan categories and become less dependent on indirect auto loans to grow the loan portfolio and diversify the risk of the portfolio. Management has also tightened underwriting standards to improve the quality of indirect loans in the portfolio. Should charge-offs continue, management will increase the provision for loan losses in order to maintain the allowance for loan losses at a level adequate to absorb probable losses in the loan portfolio.

The following table sets forth the amount of loans that were on nonaccrual status, were past due 90 days or more (in payment of interest or principal), or were impaired.

<TABLE>
<CAPTION>

	Nonaccrual, Past Due and Impaired Loans at December 31,	
	1998	1997
	(In thousands)	
<S>	<C>	<C>
Nonaccrual loans not included in impaired loans	$176	$ 35

Loans past due 90 days or more, excluding nonaccrual loan	73	184
Impaired loans (all also nonaccrual)	457	282
Total	$706	$501

</TABLE>

The Corporation's policy for placing loans on nonaccrual status is that the Corporation will not accrue interest income on loans (other than consumer loans) which are contractually past due as to principal or interest by 60 days, unless collection is assured.

ALLOWANCE AND PROVISION FOR LOAN LOSSES (Continued)

The following chart presents only those watchlist loans at December 31, 1998, which are not reported above as nonaccrual, delinquent or impaired. Watchlist loans include the majority of loans 90 days or more delinquent, all commercial loans with an internal loan grade of E (substandard) or less, and all nonaccrual loans unless the loans are well secured or in the process of collection. Additionally, loan officers may request a loan be added to the watchlist if they suspect payback problems may arise and feel the need for frequent reviews.

<TABLE>
<CAPTION>

Type of Loan:	Number of Loans	Watchlist Amount
Installment	24	$128,303
Commercial	1	49,994
	25	$178,297

</TABLE>

The following table shows activity in the allowance for loan losses and pertinent ratios during the years indicated.

<TABLE>
<CAPTION>

	1998	1997
	(in thousands)	
Allowance for loan losses:		
Balance at beginning of period	$ 311	$ 281
Loans charged off:		
Commercial	--	(9)
Real estate	--	--
Installment	(241)	(133)
Total loans charged off:	(241)	(142)
Recoveries of loans previously charged off:		
Commercial	1	1
Real estate	--	--
Installment	59	32
Total loan recoveries	60	33
Net loans charged off	(181)	(109)
Provision charged to operating expense	230	139

Balance at end of period	$ 360	$ 311
	=====	=====

Ratios:

Net loans charged off to average loans	0.49%	0.35%
Net loans charged off to total loans at end of period	0.48	0.32
Allowance for loan losses to average loans	0.97	1.00
Allowance for loan losses to total loans at end of period	0.96	0.90
Net loans charged off to allowance for loan losses at end of period	50.27	35.05
Net loans charged off to provision for loan losses	78.70	78.42
Allowance for loan losses to nonperforming loans (1)	51.01	62.11

</TABLE>

(1) Nonperforming loans consist of loans on nonaccrual, loans past due 90 days or more and still accruing interest, and impaired loans.

ALLOWANCE AND PROVISION FOR LOAN LOSSES (Continued)

The following schedule is a breakdown of the allowance for loan losses allocated by type of loan.

<TABLE>
<CAPTION>

	December 31, 1998 Allowance Amount	December 31, 1998 Percentage of Loans in Each Category to Total Loans	December 31, 1997 Allowance Amount	December 31, 1997 Percentage of Loans in Each Category to Total Loans
<S>	<C>	<C>	<C>	<C>
Commercial	$ 63,162	37.68%	$ 42,503	37.91%
Real Estate	2,839	9.53	2,646	9.60
Installment	225,778	51.11	143,736	50.72
Credit Cards	11,639	1.60	11,462	1.73
Other	--	0.08	14	0.04
Unallocated	56,675	N/A	110,734	N/A
	--------	------	--------	------
Total Allocation	$360,093	100.00%	$311,095	100.00%
	========	======	========	======

</TABLE>

NONINTEREST INCOME

Noninterest income increased from $239,000 in 1997 to $294,000 in 1998, a 23.01% increase. Noninterest income consists of fees on deposits and checking accounts, fees on other services and gains resulting from the sale of loans or securities. The increase over prior year is primarily due to ATM surcharge fees for noncustomers of the Bank and growth of the Corporation.

NONINTEREST EXPENSE

These expenses are broken into three major categories that include personnel expense, occupancy expense and other operating expenses. Noninterest expense to total assets decreased from 3.27% in 1997 to 2.91% in 1998. Personnel expense increased 12.03% from 1997 to 1998, as a result of normal salary increases and the hiring of additional personnel. Occupancy expenses increased from $341,000 in 1997 to $360,000 in 1998, a 5.57% increase. This was due primarily to repairs made at the Bank's main office. All other operating expenses increased 5.22% from $575,000 in 1997 to $605,000 in 1998 largely due to increased losses incurred on repossessed vehicles, increased franchise taxes due to higher capital levels at the Bank and increased director fees.

FINANCIAL CONDITION

TOTAL ASSETS

Total assets grew from $49,794,000 on December 31, 1997 to $60,740,000 on December 31, 1998, a 21.98% increase. The Corporation experienced strong growth during 1998 primarily due to changes in the local market conditions resulting from consolidation of financial institutions. The Corporation has obtained several new loan and deposit customers despite spending less money on advertising and, in certain circumstances, being less interest-rate competitive.

LOANS

Total net loans increased 8.29% from $34,418,000 on December 31, 1997 to $37,272,000 on December 31, 1998. Installment loans increased 8.98% from $17,474,000 in 1997 to $19,043,000 in 1998. Commercial loans increased from $13,059,000 on December 31, 1997 to $14,040,000 on December 31, 1998, a 7.51% increase during the period. The installment loan growth was due to obtaining an increased market share of the indirect automobile loan business in Marion, as well as strong demand in the local market. Commercial loan growth was primarily due to local economic factors.

The Corporation's loan portfolio consists primarily of commercial and agricultural loans, consumer loans (loans to individuals for household, family and other personal expenses) and real estate loans. These categories accounted for approximately 38%, 52%, and 10% of the Corporation's total loan portfolio on December 31, 1998, which is consistent with prior year. The Corporation's present policy regarding diversity in the loan portfolio is based on local economic conditions, competitive forces, supply of funds and indicators in order to optimize income. However, management would like to rely less on indirect auto loans in the future and increase the commercial and real estate portfolios as a result of the charge-offs experienced in consumer lending.

With certain exceptions, the Bank is permitted under applicable law to make loans to individual borrowers in aggregate amounts of up to 15% of the Bank's total capital. As of December 31, 1998, the lending limit for the Bank was approximately $618,000. The Bank sells participations in its loans where necessary to stay within legal lending limits.

The following is a schedule of contractual maturities of fixed and variable rate loans, rounded to the nearest thousand, as of December 31, 1998.

<TABLE>
<CAPTION>

	One Year or Less	One Through Five Years	After Five Years	Total
<S>	<C>	<C>	<C>	<C>
REAL ESTATE				
Fixed Rate	$ --	$ 94	$ --	$ 94
Variable Rate	1	94	3,360	3,455
Total Real Estate	1	188	3,360	3,549
COMMERCIAL				
Fixed Rate	1,019	100	--	1,119
Variable Rate	1,858	3,198	7,865	12,921
Total Commercial	2,877	3,298	7,865	14,040
INSTALLMENT				
Fixed Rate	336	17,136	1,212	18,684

Variable Rate	7	161	190	358
Total Installment	343	17,297	1,402	19,042
CREDIT CARDS				
Fixed Rate	331	--	--	331
Variable Rate	267	--	--	267
Total Credit Card	598	--	--	598
OTHER				
Fixed Rate	--	--	--	--
Variable Rate	28	--	--	28
Total Other	28	--	--	28
TOTAL ALL LOANS	$3,847	$20,783	$12,627	$37,257
FIXED RATE	$1,686	$17,330	$ 1,212	$20,228
VARIABLE	$2,161	$ 3,453	$11,415	$17,029

</TABLE>

SECURITIES

In order to maintain appropriate assets to meet the Corporation's liquidity and asset/liability management requirements, the Corporation purchases U.S. Treasury securities, U.S. government and federal agency securities, mortgage-backed securities, and state and municipal securities. Purchases of such securities, as well as sales of federal funds (short-term loans to other banks) and placement of funds in certificates of deposit with other financial institutions, are made as investments pending the utilization of funds for loans and other purposes.

The Corporation's policy is to stagger the maturities of its securities to meet the overall liquidity requirements of the Corporation. The Corporation has classified the majority of its securities portfolio as available for sale to provide flexibility should funding be required for loan demand.

During 1998, deposits increased $7,355,063 more than total loan balances increased. The deposit growth was steady throughout the year while most of the loan growth in 1998 occurred during the first part of the year and then leveled off. Securities were purchased primarily in the last half of 1998 with the funds received from the deposit growth after the loan demand softened. Because the Corporation's net operating loss carryforwards were fully utilized during 1995, management began purchasing municipal bonds and has increased this portion of the securities portfolio each year since. At year-end 1998, obligations of state and political subdivisions totaled $3,198,000.

United States Government securities may be pledged to meet security requirements imposed as a condition to receive the public funds. At December 31, 1998, the Corporation had $4,835,000 pledged to secure public deposits compared to $3,938,000 on December 31, 1997. The Corporation has no securities of an "issuer" where the aggregate carrying value of such securities exceeds ten percent of shareholders' equity.

The following tables summarize the amounts and distribution of the Corporation's securities held and the weighted average yields as of December 31, 1998 and 1997:

<TABLE>
<CAPTION>

	1998			1997		
	Amortized Cost	Fair Value	Average Yield	Amortized Cost	Fair Value	Average Yield

(Dollars in thousands)

AVAILABLE FOR SALE						
U.S. TREASURY						
Over 3 months through 12 months	$ 551	$ 555	5.93%	$ --	$ --	--%
Over 1 year through 5 years	897	918	5.62	650	654	5.98
TOTAL U.S. TREASURY	1,448	1,473	5.74	650	654	5.98
U.S. GOVERNMENT AND FEDERAL AGENCIES:						
3 months or less	500	500	4.95	--	--	--
Over 1 year through 5 years	2,005	2,018	6.04	502	504	6.20
TOTAL U.S. GOVERNMENT AND FEDERAL AGENCIES	2,505	2,518	5.82	502	504	6.20
MORTGAGE-BACKED SECURITIES	6,318	6,332	6.52	5,979	5,968	6.58
OTHER SECURITIES	236	236	6.64	223	223	6.19
TOTAL SECURITIES AVAILABLE FOR SALE	$10,507	$10,559	6.25%	$ 7,354	$ 7,349	6.49%

</TABLE>

SECURITIES (Continued)

	1998 Amortized Cost	1998 Fair Value	1998 Average Yield	1997 Amortized Cost	1997 Fair Value	1997 Average Yield
	(Dollars in thousands)					
HELD TO MATURITY						
U.S. GOVERNMENT AND FEDERAL AGENCIES:						
Over 3 months through 12 months	$ --	$ --	--%	$ 500	$ 492	6.05%
STATES AND MUNICIPALS						
Over 5 year through 10 years	960	1,013	5.53	135	141	5.60
Over 10 years	2,238	2,315	5.39	2,024	2,098	5.67
TOTAL STATES AND MUNICIPALS	3,198	3,328	5.43	2,159	2,239	5.66
TOTAL SECURITIES HELD TO MATURITY	$ 3,198	$ 3,328	5.43%	$ 2,659	$ 2,731	5.74%
CERTIFICATES OF DEPOSIT:						
3 months or less	$ --	$ --	--%	$ 99	$ 99	5.60%
Over 3 months through 12 months	--	--	--	100	100	6.80
TOTAL CERTIFICATES OF DEPOSIT	$ --	$ --	--%	$ 199	$ 199	6.20%

</TABLE>

The weighted average interest rates are based on coupon rates for securities purchased at par value and on effective interest rates considering amortization or accretion if the securities were purchased at a premium or discount. The weighted average yield on tax exempt obligations has not been determined on a tax equivalent basis. Other securities consist of Federal Home Loan Bank and Independent State Bank stock that bear no stated maturities and do not reflect principal prepayment assumptions. Available for sale yields are based on amortized cost balances.

DEPOSITS

Deposits are the Corporation's primary source of funds. The Corporation can obtain additional funds when needed through the overnight purchase of federal funds to meet occasional declines in deposits, to satisfy cash reserve requirements, or for other short-term liquidity needs. At times, when the Corporation has more funds than it needs for its reserve requirements or short-term liquidity needs, it increases its investment in securities, sells federal funds to other financial institutions or places funds in short-term certificates of deposit with other financial institutions, which is what occurred during the later part of 1998. The distribution of the Corporation's deposits in terms of maturity and applicable interest rates is a primary determinant of the Corporation's cost of funds and the relative stability of its supply of funds. The maximum rates of interest, which may be paid on deposits by banks, have, for most accounts, been removed. Thus, most accounts are not subject to interest rate limitations and, therefore, tend to reflect current market rates of interest available to depositors at a given time. At December 31, 1998, the aggregate amount of time, savings and interest-bearing demand deposits was 87.99% of total deposits. The Corporation does not have any foreign deposits, nor does it have any material concentration of deposits.

DEPOSITS (Continued)

Total deposits increased from $45,909,000 on December 31, 1997 to $56,079,000 on December 31, 1998, a 22.13% increase. The major reason for this substantial increase in deposits was due to consolidation of financial institutions in the Corporation's market area which resulted in many new customers opening deposits at the Bank. This occurred despite spending less money on advertising during 1998 and, in certain instances, being less interest-rate competitive on products. Noninterest-bearing demand accounts declined from $7,012,000 on December 31, 1997 to $6,732,000 on December 31, 1998. Interest-bearing demand deposits increased $5,190,000, or 76.98%, from $6,742,000 at year-end 1997 to $11,931,000 at year-end 1998. Savings account balances increased 4.08% from $9,229,000 on December 31, 1997 to $9,606,000 on December 31, 1998. Certificates of deposit increased from $22,926,000 at the end of 1997 to $27,800,000 at the end of 1998, a 21.26% increase.

ASSET/LIABILITY MANAGEMENT

Asset/liability management includes GAP measurement that determines, over various time periods, interest-earning assets and interest-bearing liabilities which are due to reprice at current market rates. A financial institution will have a negative interest rate sensitivity GAP for a given period of time if the amount of its interest-bearing liabilities maturing or repricing within that period is greater than the total of the interest-earning assets maturing or repricing within the same period. When interest rates increase, financial institutions with a negative interest rate sensitivity GAP will be more likely to experience increases in the cost of their liabilities faster than the corresponding yields generated by their earning assets. Following the same concept, as interest rates decrease, the cost of funds of financial institutions with a negative interest-rate sensitivity GAP usually will decrease more rapidly than the yields on the earning assets. As a general rule, the same changes in interest rates will usually have the opposite effect on financial institutions structured with a positive interest-rate sensitivity GAP.

Interest rate sensitivity varies with various types of interest-earning assets and interest-bearing liabilities. Overnight federal funds on which the rates change daily and loans, which are tied to variable indices, differ markedly from long-term securities and fixed-rate loans. Time deposits over $100,000 and money market certificates are more interest rate sensitive than passbook savings accounts. The shorter-term interest rate sensitivities are critical to reasonable measurement of interest rate sensitivity GAP.

The following table presents the amounts of interest-earning assets and interest-bearing liabilities outstanding at December 31, 1998, which are scheduled to reprice or mature in each of the indicated time periods. Except as noted, the amount of assets and liabilities that reprice or mature during a particular period were calculated in relation to the actual contractual terms of the asset or liability. The table, however, does not necessarily indicate the impact of general interest rate changes on the Corporation's net interest income in part because the repricing of certain categories of assets and liabilities is subject to competition and other factors beyond the control of the Corporation. Because of this limitation, certain assets and liabilities depicted as maturing or repricing within a specific period may in fact mature or reprice at other times and at different volumes.

ASSET/LIABILITY MANAGEMENT (Continued)

Interest Rate Sensitivity Gap as of December 31, 1998 (in thousands)

<TABLE>
<CAPTION>

<S>	0-3 Months <C>	3-12 Months <C>	One Through Five Years <C>	Over Five Years <C>	Total <C>
Assets					
Loans (1)	$14,071	$ 6,498	$16,528	$ 160	$37,257
Securities (1)	3,640	2,004	2,936	5,177	13,757
Federal funds sold	5,242	--	--	--	5,242
Rate sensitive assets (RSA)	22,953	8,502	19,464	5,337	56,256
Liabilities					
Interest-bearing demand (2)	11,931	--	--	--	11,931
Savings (2)	9,606	--	--	--	9,606
Time deposits	5,112	14,289	8,399	--	27,800
Rate sensitive liabilities (RSL)	26,649	14,289	8,399	--	49,337
Period GAP (3)	$(3,696)	$(5,787)	$11,065	$ 5,337	$ 6,919
Cumulative GAP	$(3,696)	$(9,483)	$ 1,582	$ 6,919	
Percentage of RSA	(6.57)%	(16.86)%	2.81%	12.30%	

</TABLE>

(1) Loans and mortgage-backed securities are assumed to adjust based on their contractual terms, with no assumptions as to prepayments. Securities also include Federal Home Loan Bank stock and Independent State Bank stock that have no stated maturities and have been included in the over five years category.

(2) Management has included these accounts in the 0-3 month or less time horizon based on past experience with rate adjustments on these accounts.

(3) GAP is defined as rate sensitive assets less rate sensitive liabilities and may be expressed in dollars or as a percentage.

CAPITAL RESOURCES

Shareholders' equity totaled $4,191,000 on December 31, 1998, compared to $3,563,000 on December 31, 1997. At December 31, 1998 and December 31, 1997, the ratio of shareholders' equity to assets was 6.90% and 7.16%.

The Corporation has filed a Registration Statement with the Securities and Exchange Commission to sell up to 24,800 shares of the Corporation's stock at $47.00 per share, including underwriting commissions of $2.00 per share. Shareholders with preemptive rights can purchase the stock at $45.00. The Corporation expects to receive $1,078,000 in net proceeds after deducting offering expenses from the sale of stock. As of December 31, 1998, the Corporation had issued 5,020 shares related to the stock offering.

Under "Prompt Corrective Action" regulations, the FDIC has defined five categories of capitalization (well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically under capitalized). The Bank meets the "well capitalized" definition which requires a total risk-based capital ratio of at least 10%, a Tier 1 risk-based ratio of at least 6%, and a leverage ratio of at least 5% and the absence of any written agreement, order, or directive from a regulatory agency. "Well-capitalized" status affords the Bank the ability to operate with the greatest flexibility under current laws and regulations. The Bank was categorized as "well-capitalized" at December 31, 1998 and 1997.

LIQUIDITY

Liquidity management focuses on the Corporation's ability to have funds available to meet the loan and depository transaction needs of its customers and the Corporation's other financial commitments. Cash and cash equivalent assets (which include deposits the Corporation maintains at other banks, federal funds sold and other short-term investments) totaled $8,015,000 at year-end 1998 and $3,726,000 at year-end 1997. These assets provide the primary source of funds for loan demand and deposit balance fluctuations. Additional sources of liquidity are securities classified as available for sale, access to Federal Home Loan Bank advances, as the Bank is a member of the Federal Home Loan Bank of Cincinnati, and agreements with correspondent banks for buying and selling Federal Funds. The fair value of securities classified as available for sale was $10,559,000 and $7,350,000 as of December 31, 1998 and December 31, 1997.

An additional measure of liquidity is the amount of loans carried in relation to total deposits. Lower ratios can indicate greater liquidity. Management's goal is to maintain a loan to deposit ratio of approximately 75%, or great enough to maximize the earnings potential of the Corporation while maintaining adequate liquidity levels. The Corporation's loan to deposit ratio on December 31, 1998 was 66.47%, down from 74.92% on December 31, 1997. For a detailed analysis of Corporation's sources and uses of cash, refer to the Consolidated Statements of Cash Flows.

IMPACT OF INFLATION

The Corporation's balance sheet is typical of financial institutions and reflects a net positive monetary position whereby monetary assets exceed monetary liabilities. Monetary assets and liabilities are those which can be converted to a fixed number of dollars and include cash assets, securities, loans, money market instruments, deposits and borrowed funds.

During periods of inflation, a net positive monetary position may result in an overall decline in purchasing power of an entity. No clear evidence exists of a relationship between the purchasing power of an entity's net positive monetary position and its future earnings. Moreover, the Corporation's ability to preserve the purchasing power of its net positive monetary position will be partly influenced by the effectiveness of its asset/liability management program. Management does not believe that the affect of inflation on its nonmonetary assets (primarily bank premises and equipment) is material as such assets are not held for resale and significant disposals are not anticipated.

YEAR 2000

The Bank's lending and deposit activities are almost entirely dependent on computer systems which process and record transactions. In addition to its basic operating activities, the Corporation's facilities and infrastructure, such as security systems and communications equipment, are dependent to varying degrees on computer systems. Management is aware of the potential Year 2000 (Y2K) related problems that may affect the computers that control or operate the Corporation's operating systems, facilities and infrastructure. The Corporation's strategy and operating plan is to achieve operating readiness to ensure that its customers are provided uninterrupted services and the Corporation is able to comply with all applicable consumer protection statutes as they relate to Y2K compliance.

Management began evaluating the potential impact of Y2K in the fall of 1997. Every technology system utilized by the Bank was inventoried and graded as either "mission critical" or "nonmission critical." Mission critical systems are those critical to providing acceptable customer service, critical to maintaining customer records and those which would have an impact on the Bank's liquidity should they fail.

YEAR 2000 (Continued)

The following systems were identified as "mission critical" by management. A description on the current status of these systems is listed below.

1. IBM a/s 400 mainframe computer

2. Proof and Item Capture equipment

3. Jack Henry (JHA) 20/20 software

4. Fedline

5. Equifax Debit-Credit card processing system

6. EDS-MAC ATM processing system

7. Bank security system

IBM a/s 400 MAINFRAME COMPUTER

The Bank upgraded its mainframe computer in September 1998 for capacity reasons. The upgrade also enables the computer to handle the additional memory requirements of windows-based Y2K compliant JHA operating software that the Bank is installing in April 1999.

PROOF AND ITEM CAPTURE EQUIPMENT

The Bank uses a Lundy MRS 90 reader-sorter which has been upgraded (memory expansion) to operate in conjunction with JHA 20/20 software. NCR Proof Machines are used to encode entry information. Y2K date chips have been installed in that equipment. Identical Proof and Capture equipment has been tested and certified as Y2K compliant by JHA and JHA user groups for use with JHA 20/20 software.

JHA 20/20 SOFTWARE

All JHA software has been vendor certified Y2K compliant since September 1998. Test results for 20/20 software are being certified by the Bank at this time. The Bank's decision to change to JHA 20/20 operating software was more to increase operating efficiency and account capacity rather than a Y2K compliance issue. JHA has been a leader in the industry and has designed its testing and certification procedures for all its software products to conform to FDIC and other industry regulatory standards.

FEDLINE

Fedline is the operating software utilized to process transactions and communicate with the Federal Reserve Bank. These activities include wire transfers, ACH transactions and Tax Payments. The Bank concluded Y2K testing with the Federal Reserve in February 1999, and those results have been certified as Y2K compliant.

EQUIFAX DEBIT-CREDIT CARD SYSTEM

The Bank uses Equifax Corporation to process debit and credit card transactions through the Visa network. Equifax is testing the network with Visa and Master Card to certify Y2K compliance. Direct testing with individual banks should be completed by June 1999.

EDS-MAC ATM CARD PROCESSING

ATM card transactions and point of sale card purchases are performed through the EDS-MAC network. EDS, like Equifax, is testing its network with Visa, Master Card and other ATM processors. Individual bank testing is scheduled for the first half of 1999. The Personal Computer System for ATM card maintenance has been upgraded to EDS specifications and is scheduled for testing on March 13, 1999.

BANK SECURITY SYSTEMS

All security systems for the Bank has been certified Y2K compliant by the vendors from which the products have been purchased.

OTHER NONMISSION CRITICAL SYSTEMS

The Bank has utilized the same due diligence which was used on mission critical systems on all information technology systems used in the Bank. A new windows based teller system was installed in August 1998 to upgrade that area to Y2K compliance. All personal computers used by the Bank have been upgraded and tested to ensure they are Y2K compliant. All software products utilized in the Bank's daily operations have been certified Y2K compliant or replaced.

CUSTOMER EVALUATION AND NOTIFICATION

The Bank has reviewed all loans with balances of over $50,000 to assess whether those customers have any significant risk because of Y2K failure that would impact their ability to repay those loans. Two mailings have been sent to those customers with follow-up planned in June 1999. At this time, the Bank does not have any loan customers that they consider high risk for a Y2K related failure. The Bank has also been sending mailers to all deposit customers informing them of the Y2K risk and the steps that the Bank is taking to prepare us for Y2K. We also have detailed information in our lobbies regarding the overall status of the banking industry.

Y2K COSTS

The Bank incurred direct costs of approximately $80,000 in 1998 relating to Y2K issues. These were primarily costs associated with upgrading personal computers and the new teller system. In 1999, the Bank expects additional costs of about $15,000 relating to Y2K expenses. The Bank has also incurred $125,000 in indirect expenses upgrading the capacity of the computer mainframe and changing to JHA 20/20 operating software.

YEAR 2000 (Continued)

MANAGEMENT'S CURRENT FORECAST AND LIQUIDITY ISSUES

Management is confident that its internal systems will not be significantly affected by Y2K. Management does anticipate that some problems may occur with customer's systems and with their suppliers and customers. This could create slower collection of receivables by the Bank's customers and result in an increase of demand for line of credit loans or a decrease in checking and savings account balances for the Bank. The Bank plans to maintain higher than average levels of liquidity in the second half of 1999 and into the year 2000 to offset that risk.

ANTICIPATED IMPACT OF RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" requires companies to record derivatives on the balance sheet as assets or liabilities, measured at fair value. Gains or losses resulting from changers in the values of those derivatives would be accounted for depending on the use of the derivative and whether it qualifies for hedge accounting. The key criterion for hedge accounting is that the hedging relationship must be highly effective in achieving offsetting changes in fair value or cash flows. SFAS No. 133 does not allow hedging of a security which is classified as held to maturity. Upon adoption of SFAS No. 133, companies may reclassify any security from held to maturity to available for sale if they wish to be able to hedge the security in the future. SFAS No. 133 is effective for fiscal years beginning after June 15, 1999, with early adoption encouraged for any fiscal quarter beginning July 1, 1998 or later, with no retroactive application. Management does not expect the adoption of SFAS No. 133 to have a significant impact on the Corporation's financial statements.

SFAS No. 134, "Accounting for Mortgage-Backed Securities Retained After the Securitization of Mortgage Loans Held for Sale by a Mortgage Banking Enterprise" changes the way companies involved in mortgage banking account for certain securities and other interests they retain after securitizing mortgage loans that were held for sale. SFAS No. 134 allows any retained mortgage-backed securities after a securitization of mortgage loans held for sale to be classified based on holding intent in accordance with SFAS No. 115, except in cases where the retained mortgage-backed security is committed to be sold before or during the securitization process in which case it must be classified as trading. Previously, all retained mortgage-backed securities were required to be classified as trading. SFAS No. 134 is effective as of January 1, 1999, and is not expected to have a significant impact on the Corporation's financial statements.

ITEM 7 - FINANCIAL STATEMENTS

REPORT OF INDEPENDENT AUDITORS

Board of Directors and Shareholders
Ohio State Bancshares, Inc.
Marion, Ohio

We have audited the accompanying consolidated balance sheets of Ohio State Bancshares, Inc. as of December 31, 1998 and 1997, and the related consolidated statements of income, changes in shareholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that 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 financial position of Ohio State Bancshares, Inc. as of December 31, 1998 and 1997, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

Crowe, Chizek and Company LLP

Columbus, Ohio
January 29, 1999

<TABLE>

OHIO STATE BANCSHARES, INC.
CONSOLIDATED BALANCE SHEETS
December 31, 1998 and 1997

<CAPTION>

<S>	1998 <C>	1997 <C>
ASSETS		
Cash and due from banks	$ 2,773,195	$ 2,669,486
Federal funds sold	5,242,000	1,057,000
Cash and cash equivalents	8,015,195	3,726,486
Interest-earning deposits	--	199,000
Securities available for sale	10,559,019	7,349,595
Securities held to maturity (fair value 1998 - $3,328,403, 1997 - $2,731,413)	3,198,042	2,659,045
Loans, net	37,271,773	34,417,950
Premises and equipment, net	896,769	837,187
Other real estate owned and repossessions	59,682	18,598
Accrued interest receivable	382,488	341,961
Other assets	356,638	244,048
	$60,739,606	$49,793,870

LIABILITIES AND SHAREHOLDERS' EQUITY
Liabilities

Deposits		
Noninterest-bearing	$ 6,732,194	$ 7,012,228
Interest-bearing	49,336,879	38,896,495
Total	56,069,073	45,908,723
Accrued interest payable	252,157	218,240
Other liabilities	227,167	104,092
Total liabilities	56,548,397	46,231,055
Shareholders' equity		
Common stock, $10.00 par value, 500,000 shares authorized; 1998 -126,220 shares issued and outstanding, 1997 - 121,200 shares issued and outstanding	1,262,200	1,212,000
Additional paid-in capital	2,006,927	1,831,227
Retained earnings	887,700	523,078
Accumulated other comprehensive income	34,382	(3,490)
Total shareholders' equity	4,191,209	3,562,815
	$60,739,606	$49,793,870

</TABLE>

See accompanying notes to consolidated financial statements.

<TABLE>

OHIO STATE BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF INCOME
Years ended December 31, 1998 and 1997

<CAPTION>

<S>	1998 <C>	1997 <C>
INTEREST INCOME		
Loans, including fees	$3,492,030	$2,990,629
Taxable securities	486,372	500,162
Nontaxable securities	135,318	108,687
Federal funds sold	71,060	26,056
Certificates of deposit	2,762	23,629
Total interest income	4,187,542	3,649,163
INTEREST EXPENSE		
Deposits	1,887,304	1,607,988
Other borrowings	3,021	38,333
Total interest expense	1,890,325	1,646,321
NET INTEREST INCOME	2,297,217	2,002,842
Provision for loan losses	230,000	139,000
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	2,067,217	1,863,842
NONINTEREST INCOME		
Fees for customer services	268,073	217,801
Net gains on sales of securities available for sale	--	151
Other	25,664	20,676
Total noninterest income	293,737	238,628
NONINTEREST EXPENSE		

Salaries and employee benefits	800,027	714,146
Occupancy	360,499	340,659
Office supplies	93,370	91,661
FDIC and state assessments	17,431	15,397
Professional fees	56,297	52,792
Advertising and public relations	46,161	54,790
Taxes, other than income	57,680	47,618
Loss on other real estate owned and repossessions	47,000	36,000
Credit card processing	51,115	54,174
Director fees	49,200	31,650
Insurance	26,718	26,472
Other	160,146	164,336
Total noninterest expense	1,765,644	1,629,695
INCOME BEFORE INCOME TAXES	595,310	472,775
Income tax expense	170,088	126,079
NET INCOME	$ 425,222	$ 346,696
BASIC AND DILUTED EARNINGS PER SHARE	$ 3.51	$ 2.86
WEIGHTED AVERAGE SHARES OUTSTANDING, BASIC AND DILUTED	121,242	121,200

</TABLE>

See accompanying notes to consolidated financial statements.

<TABLE>

OHIO STATE BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
Years ended December 31, 1998 and 1997

<CAPTION>

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total Shareholders' Equity
<S>	<C>	<C>	<C>	<C>	<C>
Balance, January 1, 1997	$1,212,000	$1,831,227	$224,862	$(42,109)	$3,225,980
Comprehensive income:					
Net income			346,696		346,696
Change in net unrealized gain (loss) on securities available for sale, net of reclassification and tax effects				38,619	38,619
Total comprehensive income					385,315
Cash dividends declared ($0.40 per share)			(48,480)		(48,480)
Balance, December 31, 1997	1,212,000	1,831,227	523,078	(3,490)	3,562,815
Comprehensive income:					

Net income			425,222		425,222
Change in net unrealized gain (loss) on securities available for sale, net of reclassification and tax effects				37,872	37,872

Total comprehensive income					463,094
Proceeds from sale of 5,020 shares of common stock	50,200	175,700			225,900
Cash dividends declared ($0.50 per share)			(60,600)		(60,600)
	----------	----------	--------	--------	----------
Balance, December 31, 1998	$1,262,200	$2,006,927	$887,700	$ 34,382	$4,191,209
	==========	==========	========	========	==========

</TABLE>

See accompanying notes to consolidated financial statements.

<TABLE>

OHIO STATE BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended December 31, 1998 and 1997

<CAPTION>

<S>	1998 <C>	1997 <C>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 425,222	$ 346,696
Adjustment to reconcile net income to net cash from operating activities:		
Depreciation and amortization	118,540	135,413
Net amortization of securities	32,710	23,129
Provision for loan losses	230,000	139,000
Deferred taxes	33,260	64,509
Net realized gains on sale of securities	--	(151)
Loss on other real estate owned and repossessions	47,000	36,000
FHLB stock dividends	(13,100)	(11,300)
Net changes in:		
Deferred loan costs	(97,534)	(137,210)
Interest receivable	(40,527)	5,619
Interest payable	33,917	(18,558)
Other assets and liabilities	(42,285)	(108,380)
	-----------	-----------
Net cash from operating activities	727,203	474,767
CASH FLOWS FROM INVESTING ACTIVITIES		
Securities available for sale:		
Sales	--	1,819,921
Maturities, prepayments and calls	2,337,212	1,489,820
Purchases	(5,503,568)	(2,517,733)
Securities held to maturity:		
Maturities, prepayments and calls	725,000	100,000
Purchases	(1,269,293)	(135,000)
Net change in interest-earning deposits in other banks	199,000	300,000
Loan originations and payments, net	(3,284,718)	(6,952,804)
Additions to premises and equipment	(178,122)	(58,031)
Proceeds from sale of other real estate owned and repossessions	210,345	126,235
	-----------	-----------

Net cash from investing activities	(6,764,144)	(5,827,592)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net change in deposits	10,160,350	6,439,753
Cash dividends paid	(60,600)	(48,480)
Net proceeds from sale of stock	225,900	--
Net cash from financing activities	10,325,650	6,391,273
NET CHANGE IN CASH AND CASH EQUIVALENTS	4,288,709	1,038,448
BEGINNING CASH AND CASH EQUIVALENTS	3,726,486	2,688,038
ENDING CASH AND CASH EQUIVALENTS	$ 8,015,195	$ 3,726,486
SUPPLEMENTAL CASH FLOW INFORMATION:		
Interest paid	$ 1,856,408	$ 1,664,879
Income taxes paid	72,000	5,000
SUPPLEMENTAL NONCASH DISCLOSURES:		
Transfers from loans to other real estate owned and repossessions	$ 298,429	$ 128,053

</TABLE>

See accompanying notes to consolidated financial statements.

OHIO STATE BANCSHARES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 1998 and 1997

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation: The consolidated financial statements include the accounts of Ohio State Bancshares, Inc. ("OSB") and its wholly-owned subsidiary, The Marion Bank ("Bank"), together referred to as the Corporation. Intercompany transactions and balances are eliminated in consolidation.

Nature of Operations: The Corporation provides financial services through its main and branch office in Marion, Ohio. Its primary deposit products are checking, savings, and term certificate accounts, and its primary lending products are residential mortgage, commercial, and installment loans. Substantially all loans are secured by specific items of collateral including business assets, consumer assets and real estate. Commercial loans are expected to be repaid from cash flow from operations of businesses. Real estate loans are secured by both residential and commercial real estate. The Corporation is primarily organized to operate in the banking industry. Substantially all revenues and services are derived from banking products and services in Marion County and contiguous counties.

Use of Estimates: To prepare financial statements in conformity with generally accepted accounting principles, management makes estimates and assumptions based on available information. These estimates and assumptions affect the amounts reported in the financial statements and the disclosures provided, and future results could differ. The allowance for loan losses, fair values of financial instruments and the status of contingencies are particularly subject to change.

Cash Flow Reporting: Cash and cash equivalents include cash, deposits with other financial institutions under 90 days and federal funds sold. Net cash flows are reported for loan and deposit transactions, interest-bearing time deposits with other financial institutions and short-term borrowings with maturities of 90 days or less.

Securities: Securities are classified as held to maturity and carried at amortized cost when management has the positive intent and ability to hold them to maturity. Securities are classified as available for sale when they might be sold before maturity. Securities available for sale are carried at fair value, with unrealized holding gains and losses reported in other comprehensive income.

Interest income includes amortization of purchase premium or discount. Gains and losses on sales are based on the amortized cost of the security sold. Securities are written down to fair value when a decline in fair value is not temporary.

Loans: Loans are reported at the principal balance outstanding, net of deferred loan fees and costs and the allowance for loan losses.

Interest income is reported on the interest method and includes amortization of net deferred loan fees and costs over the loan term. Interest income is not reported when full loan repayment is in doubt, typically when the loan is impaired or payments are past due over 60 days. Payments received on such loans are reported as principal reductions.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Allowance for Loan Losses: The allowance for loan losses is a valuation allowance for probable credit losses, increased by the provision for loan losses and decreased by charge-offs less recoveries. Management estimates the allowance balance required based on past loan loss experience, known and inherent risks in the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, economic conditions and other factors. Allocations of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in management's judgment, should be charged-off.

A loan is impaired when full payment under the loan terms is not expected. Impairment is evaluated in total for smaller-balance loans of similar nature such as residential mortgage, consumer and credit card loans, and on an individual basis for other loans. If a loan is impaired, a portion of the allowance is allocated so that the loan is reported, net, at the present value of estimated future cash flows using the loan's existing rate or at the fair value of collateral if repayment is expected solely from the collateral.

Premises and Equipment: Premises and equipment are stated at cost less accumulated depreciation. Depreciation is calculated generally on the straight-line method over asset useful lives. Maintenance and repairs are expensed and major improvements are capitalized.

Foreclosed Assets: Assets acquired through or instead of loan foreclosure are initially recorded at fair value when acquired, establishing a new cost basis. If fair value declines, a valuation allowance is recorded through expense. Costs after acquisition are expensed.

Long-term Assets: These assets are reviewed for impairment when events indicate their carrying amount may not be recoverable from future undiscounted cash flows. If impaired, the assets are recorded at discounted amounts.

Income Taxes: Income tax expense is the total of the current year income tax due or refundable and the change in deferred tax assets and liabilities. Deferred tax assets and liabilities are the expected future tax amounts for the temporary differences between the carrying amounts and tax basis of assets and liabilities, computed using enacted tax rates. A valuation allowance, if needed, reduces deferred tax assets to the amount expected to be realized.

Fair Values of Financial Instruments: Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed in a separate note. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect the estimates

Dividend Restriction: Banking regulations require maintaining certain capital levels and may limit the amount of dividends paid by the Bank to OSB or by OSB to shareholders.

Earnings Per Common Share: Basic earnings per common share is net income divided by the weighted average number of common shares outstanding during the period. Diluted earnings per share is not currently applicable since the Corporation has no common stock equivalents.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Comprehensive Income: Comprehensive income consists of net income and other comprehensive income. Other comprehensive income includes unrealized gains and losses on securities available for sale which are also recognized as a separate component of equity. The accounting standard that requires reporting comprehensive income first applies for 1998, with prior information restated to be comparable.

Reclassifications: Certain reclassifications have been made to the 1997 financial statements to be comparable to the 1998 presentation.

NOTE 2 - SECURITIES

Year-end securities are as follows.

<TABLE>
<CAPTION>

	1998			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<S>	<C>	<C>	<C>	<C>
AVAILABLE FOR SALE				
U.S. Treasury	$ 1,447,568	$ 25,044	$ --	$ 1,472,612
U.S. government and federal agencies	2,505,097	13,053	295	2,517,855
Mortgage-backed	6,318,020	43,127	28,835	6,332,312
Total debt securities	10,270,685	81,224	29,130	10,322,779
Other securities	236,240	--	--	236,240

Total	$10,506,925	$ 81,224	$29,130	$10,559,019
HELD TO MATURITY				
State and municipal	$ 3,198,042	$130,361	$ --	$ 3,328,403

(Continued)

NOTE 2 - SECURITIES (Continued)

	1997			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
AVAILABLE FOR SALE				
U.S. Treasury	$ 650,291	$ 3,897	$ --	$ 654,188
U.S. government and federal agencies	502,203	1,772	--	503,975
Mortgage-backed	5,979,249	11,438	22,395	5,968,292
Total debt securities	7,131,743	17,107	22,395	7,126,455
Other securities	223,140	--	--	223,140
Total	$7,354,883	$17,107	$22,395	$7,349,595
HELD TO MATURITY				
U.S. government and federal agencies	$ 500,000	$ --	$ 8,410	$ 491,590
State and municipal	2,159,045	80,778	--	2,239,823
Total	$2,659,045	$80,778	$ 8,410	$2,731,413

Sales of available for sales securities were as follows:

	1998	1997
Proceeds	$--	$1,819,921
Gross gains	--	946
Gross losses	--	795

Contractual maturities of securities at year-end 1998 were as follows. Securities not due at a single maturity date, primarily mortgage-backed securities, are shown separately.

	Available-for-sale securities		Held to maturity securities	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$ 1,049,964	$ 1,054,896	$ --	$ --
Due from one to five years	2,902,701	2,935,571	--	--
Due from five to ten years	--	--	959,662	1,013,519
Due after ten years	--	--	2,238,380	2,314,884
Mortgage-backed	6,318,020	6,332,312	--	--
Other securities	236,240	236,240	--	--
	$10,506,925	$10,559,019	$3,198,042	$3,328,403

Securities with carrying values of $4,835,000 and $3,938,000 at December 31, 1998 and 1997 were pledged to secure public deposits and for other purposes.

(Continued)

NOTE 3 - LOANS

Year-end loans were as follows.

	1998	1997
Commercial	$14,039,906	$13,059,019
Installment	19,042,541	17,474,294
Real estate	3,548,885	3,307,311
Credit card	597,650	595,324
Other	27,583	15,330
	37,256,565	34,451,278
Net deferred loan costs	375,301	277,767
Allowance for loan losses	(360,093)	(311,095)
	$37,271,773	$34,417,950

Activity in the allowance for loan losses was as follows:

	1998	1997
Beginning balance	$ 311,095	$ 281,142

Loans charged off	(240,942)	(141,854)
Recoveries of previous charge-offs	59,940	32,807
Provision for loan losses	230,000	139,000
Ending balance	$ 360,093	$ 311,095

</TABLE>

Impaired loans were as follows.

<TABLE>
<CAPTION>

<S>	1998 <C>	1997 <C>
Year-end loans with no allocated allowance for loan losses	$ --	$ --
Year-end loans with allocated allowance for loan losses	457,464	282,000
Total	$457,464	$282,000
Amount of the allowance allocated	$ 45,746	$ 32,000
Loans past due over 90 days still on accrual	$ 72,810	$183,983
Loans on nonaccrual	633,094	316,880
Average of impaired loans during the year	409,540	87,916
Interest income recognized during impairment	36,728	1,700
Cash-basis interest income recognized	36,728	1,700

</TABLE>

All impaired loans are also included in nonaccrual loans.

(Continued)

NOTE 4 - PREMISES AND EQUIPMENT

Year-end premises and equipment were as follows.

<TABLE>
<CAPTION>

<S>	1998 <C>	1997 <C>
Land	$ 115,875	$ 115,875
Premises	442,064	416,479
Equipment	1,462,981	1,317,423
Building and leasehold improvements	130,455	123,476
Total cost	2,151,375	1,973,253
Less accumulated depreciation	(1,254,606)	(1,136,066)
	$ 896,769	$ 837,187

</TABLE>

The Bank's branch facility is leased under an operating lease. The lease term is for twenty years. At the conclusion of the fifth, tenth and fifteenth years of the lease, the rent shall be adjusted by 50% of the cumulative increase in the Consumer Price Index over the previous five years with a minimum of 5% increase and a maximum of 10% increase for any one five-year period. The Corporation also leased space for one of its automated teller machines under an operating lease. The lease expired November 1, 1998, and was not renewed. Total rental expense was $52,748 in 1998 and $40,148 in 1997.

Rental commitments under noncancelable operating leases were:

1999	$ 38,748
2000	38,748
2001	38,883
2002	40,685
2003	40,685
Thereafter	557,091
	$754,840

NOTE 5 - DEPOSITS

Year-end interest-bearing deposits were as follows.

	1998	1997
Demand	$11,931,417	$ 6,741,609
Savings	9,605,660	9,229,034
Time:		
In denominations under $100,000	18,730,867	16,065,307
In denominations of $100,000 or more	9,068,935	6,860,545
Total interest-bearing deposits	$49,336,879	$38,896,495

NOTE 5 - DEPOSITS (Continued)

Scheduled maturities of time deposits were as follows.

1999	$19,400,341
2000	7,413,654
2001	814,113

2002	171,694
	$27,799,802

Year-end stated maturities of certificates of deposit of $100,000 or more were as follows.

	1998	1997
Three months or less	$1,306,557	$1,250,714
Three through six months	3,689,750	2,299,909
Six through twelve months	2,326,759	2,230,282
Over twelve months	1,745,869	1,079,640
	$9,068,935	$6,860,545

NOTE 6 - BORROWINGS

Federal funds purchased and a line of credit from the Federal Home Loan Bank of Cincinnati are financing arrangements used by the Corporation. Information concerning borrowings was as follows.

	1998	1997
Maximum month-end balance during the year	$809,000	$1,981,000
Average balance during the year	48,121	644,561
Average interest rate during the year	6.28%	5.95%

The Corporation's maximum line of credit with the Federal Home Loan Bank was $3,916,000 and $3,652,000 at December 31, 1998 and 1997. No borrowings were outstanding on this line of credit at December 31, 1998 or 1997. Advances under the agreement are collateralized by a blanket pledge of the Bank's real estate mortgage loan portfolio and Federal Home Loan Bank stock.

NOTE 7 - EMPLOYEE BENEFITS

The Corporation provides a profit sharing plan that covers substantially all employees. Eligible employees may contribute up to 15% of their compensation subject to a maximum statutory limitation. The Corporation matches 50% of all employee contributions not to exceed 8% of the participant's base compensation. In addition, the Corporation may make an additional discretionary contribution allocated to all eligible participants based on compensation. Contributions by the Corporation were $15,800 and $9,900 for the years ended December 31, 1998 and 1997.

(Continued)

NOTE 8 - INCOME TAXES

Income tax expense was as follows.

	1998	1997
Current	$ 136,828	$ 61,570
Deferred	33,260	64,509
	$ 170,088	$ 126,079

Year-end deferred tax assets and liabilities were due to the following.

	1998	1997
Deferred tax assets		
Allowance for loan losses	$ 78,934	$ 68,190
Alternative minimum tax credit	--	6,761
Leases	813	2,412
Unrealized loss on securities available for sale	--	1,798
Total deferred tax assets	79,747	79,161
Deferred tax liabilities		
Depreciation	(32,906)	(32,338)
Accrual to cash conversion	(165,460)	(135,197)
Unrealized gain on securities available for sale	(17,712)	--
FHLB stock dividend	(17,170)	(12,716)
Other	(1,697)	(1,338)
Total deferred tax liabilities	(234,945)	(181,589)
Net deferred tax liability	$(155,198)	$(102,428)

Effective tax rates differ from federal statutory rates applied to financial statement income due to the following.

	1998	1997
Federal statutory rate times financial statement income	$ 202,405	$ 160,744
Effect of:		
Tax exempt interest	(38,289)	(31,932)
Other, net	5,972	(2,733)
Total	$ 170,088	$ 126,079
Effective tax rate %	28.6%	26.7%

</TABLE>

(Continued)

NOTE 9 - RELATED PARTIES

Loans to principal officers, directors, and their affiliates in 1998 were as follows.

<TABLE>

<S>	<C>
Beginning balance	$1,004,793
New loans	145,973
Effect of changes in related parties	(9,465)
Repayments	(504,126)
Ending balance	$ 637,175

</TABLE>

Deposits from principal officers, directors, and their affiliates at year-end 1998 were $ 8,112,184.

NOTE 10 - COMMITMENTS, OFF-BALANCE SHEET RISK AND CONTINGENCIES

Various contingent liabilities are not reflected in the financial statements, including claims and legal actions arising in the ordinary course of business. In the opinion of management, after consultation with legal counsel, the ultimate disposition of these matters is not expected to have a material affect on the financial condition or results of operations.

Some financial instruments are used in the normal course of business to meet the financing needs of customers and to reduce exposure to interest rate changes. These financial instruments include commitments to extend credit, standby letters of credit and financial guarantees. These involve, to varying degrees, credit and interest-rate risk in excess of the amounts reported in the financial statements.

Exposure to credit loss if the other party does not perform is represented by the contractual amount for commitments to extend credit, standby letters of credit and financial guarantees written. The same credit policies are used for commitments and conditional obligations as are used for loans.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the commitment. 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 used, the total commitments do not necessarily represent future cash requirements. Standby letters of credit and financial guarantees written are conditional commitments to guarantee a customer's performance to a third party.

Commitments to extend credit, primarily in the form of undisbursed portions of approved lines of credit, are principally variable rate commitments. The interest rates on these commitments ranged from 7.25% to 10.50% at year-end 1998 and 6.2% to 11.5% at year-end 1997. Outstanding commitments for credit cards had rates ranging from 12.0% to 17.9% at year-end 1998 and 1997. Of the total outstanding balances on credit cards year-end 1998, 55% were fixed rate and 45% were variable rate and at year-end 1997, 59% were fixed rate and 41% were variable rate.

(Continued)

NOTE 10 - COMMITMENTS, OFF-BALANCE SHEET RISK AND CONTINGENCIES (Continued)

Year-end contractual amounts of financial instruments with off-balance-sheet risk were as follows:

	1998	1997
Commitments to extend credit	$2,156,000	$3,272,000
Credit card arrangements	1,256,000	1,203,000
Letters of credit	20,000	--

At year-end 1998 and 1997, reserves of $425,000 and $370,000 were required as deposits with the Federal Reserve or as cash on hand. These reserves do not earn interest.

Included in cash and cash equivalents at year-end 1998 and 1997 was approximately $6,999,000 and $2,952,000 on deposit with the Independent State Bank of Ohio.

NOTE 11 - FAIR VALUES OF FINANCIAL INSTRUMENTS

Financial instruments at year-end were as follows:

	1998		1997	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets				
Cash and cash equivalents	$ 8,015,195	$ 8,015,195	$ 3,726,486	$ 3,726,486
Interest-earning deposits	--	--	199,000	199,445
Securities available for sale	10,559,019	10,559,019	7,349,595	7,349,595
Securities held to maturity	3,198,042	3,328,403	2,659,045	2,731,413
Loans, net	37,271,773	37,833,567	34,417,950	34,325,067
Accrued interest receivable	382,488	382,488	341,961	341,961
Financial liabilities				
Demand and savings deposits	(28,269,271)	(28,269,271)	(22,982,871)	(22,982,871)
Time deposits	(27,799,802)	(28,018,308)	(22,925,852)	(23,035,701)
Accrued interest payable	(252,157)	(252,157)	(218,240)	(218,240)

The estimated fair value approximates the carrying amount for all items except those described below. Estimated fair value for securities is based on quoted market values for the individual securities or for equivalent securities. Estimated fair value for fixed-rate loans is based on the rates charged at year-end for new loans with similar maturities, applied until the loan is assumed to reprice or be paid. Estimated fair value for time deposits is based on the rates paid at year-end for new deposits applied until maturity. Estimated fair value for other financial instruments and off-balance-sheet loan commitments are considered nominal.

(Continued)

NOTE 12 - CAPITAL REQUIREMENTS AND RESTRICTIONS ON RETAINED EARNINGS

Banks and bank holding companies are subject to regulatory capital requirements administered by federal banking agencies. Capital adequacy guidelines and, additionally for banks, prompt corrective action regulations involve quantitative measures of assets, liabilities and certain off-balance-sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgements by regulators. Failure to meet capital requirements can initiate regulatory action.

The prompt corrective action regulations provide five classifications: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized, although these terms are not used to represent overall financial condition. If adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as is asset growth and expansion, and capital restoration plans are required.

At year-end 1998 and 1997, the Bank was categorized as well capitalized. No conditions or events have occurred subsequent to the latest notification by regulators that management believes would have changed the Bank's category. Actual capital levels for the Bank and minimum required were:

<TABLE>
<CAPTION>

	Actual		Minimum Required For Capital Adequacy Purposes		Minimum Required To Be Well Capitalized Under Prompt Corrective Action Regulations	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(Dollars in thousands)			
<S>	<C>	<C>	<C>	<C>	<C>	<C>
1998						
Total capital (to risk weighted assets)	$4,480	10.7%	$3,361	8.0%	$4,201	10.0%
Tier 1 capital (to risk weighted assets)	4,120	9.8	1,680	4.0	2,520	6.0
Tier 1 capital (to average assets)	4,120	7.1	2,316	4.0	2,895	5.0
1997						
Total capital (to risk weighted assets)	$3,822	10.2%	$2,998	8.0%	$3,747	10.0%
Tier 1 capital (to risk weighted assets)	3,541	9.5	1,499	4.0	2,248	6.0
Tier 1 capital (to average assets)	3,541	7.3	1,933	4.0	2,416	5.0

</TABLE>

OSB's primary source of funds with which to pay dividends is dividends received from the Bank. The payment of dividends by the Bank to OSB is subject to restrictions by its regulatory agency. These restrictions generally limit dividends to current and prior two years retained earnings as defined by the regulations. In addition, dividends may not reduce capital levels below the minimum regulatory requirements disclosed above. Under the most restrictive dividend limitations described, approximately $279,000 is available to pay dividends to OSB to maintain the well-capitalized status at year-end.

(Continued)

NOTE 12 - CAPITAL REQUIREMENTS AND RESTRICTIONS ON RETAINED EARNINGS (Continued)

The Corporation has filed a Registration Statement with the Securities and Exchange Commission to sell up to 24,800 shares of the Corporation's stock at $47.00 per share, including underwriting commissions of $2.00 per share. Shareholders with preemptive rights can purchase the stock at $45.00. The Corporation expects to receive $1,078,000 in net proceeds after deducting offering expenses from the sale of stock. As of December 31, 1998, the Corporation had sold and issued 5,020 shares related to the stock offering.

NOTE 13 - OTHER COMPREHENSIVE INCOME

Other comprehensive income components and related taxes were as follows.

	1998	1997
Unrealized holding gains and losses on available-for-sale securities	$57,382	$58,664
Reclassification adjustments for (gains) and losses later recognized in income	--	(151)
Net unrealized gains and losses	57,382	58,513
Tax effect	19,510	19,894
Other comprehensive income	$37,872	$38,619

NOTE 14 - PARENT COMPANY CONDENSED FINANCIAL STATEMENTS

Condensed parent company only financial statements for OSB follows.

CONDENSED BALANCE SHEETS
December 31, 1998 and 1997

	1998	1997
Assets:		
Cash and cash equivalents	$ 2,164	$ 4,061

Investment in bank subsidiary	4,154,155	3,518,402
Organizational costs, net	24,060	34,016
Other assets	10,830	6,336
Total assets	$4,191,209	$3,562,815
Shareholders' equity	$4,191,209	$3,562,815

</TABLE>

(Continued)

OHIO STATE BANCSHARES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 1998 and 1997

NOTE 14 - PARENT COMPANY CONDENSED FINANCIAL STATEMENTS (Continued)

<TABLE>

CONDENSED STATEMENTS OF INCOME
Years ended December 31, 1998 and 1997

<CAPTION>

<S>	1998 <C>	1997 <C>
Dividends from bank subsidiary	$ 62,000	$ 52,240
Total expense	13,271	13,884
Income before income tax and undistributed subsidiary income	48,729	38,356
Income tax benefit	4,512	4,721
Equity in undistributed subsidiary income	371,981	303,619
Net income	$425,222	$346,696

</TABLE>

<TABLE>

CONDENSED STATEMENT OF CASH FLOWS
Years ended December 31, 1998 and 1997

<CAPTION>

<S>	1998 <C>	1997 <C>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 425,222	$ 346,696
Adjustments:		
Equity in undistributed subsidiary income	(371,981)	(303,619)
Change in other assets	(4,494)	(961)
Amortization	9,956	9,956
Net cash from operating activities	58,703	52,072
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividends paid	(60,600)	(48,480)
Net cash from financing activities	(60,600)	(48,480)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(1,897)	3,592

BEGINNING CASH AND CASH EQUIVALENTS	4,061	469
ENDING CASH AND CASH EQUIVALENTS	$ 2,164	$ 4,061

</TABLE>

ITEM 8 - CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

No changes in or disagreements with the Corporation's independent accountants on accounting and financial disclosure have occurred during the two most recent fiscal years.

PART III

ITEM 9 - DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS; COMPLIANCE WITH SECTION 16(A) OF THE EXCHANGE ACT

Information concerning Directors and Executive Officers of the Corporation appears on pages 3 and 4 under the captions Continuing Directors and Nominees in the Corporation's Definitive Proxy Statement dated March 24, 1999 for the Annual Meeting of Shareholders to be held on April 15, 1999, and is incorporated herein by reference.

ITEM 10 - EXECUTIVE COMPENSATION

Information concerning executive compensation appears on pages 6 and 7 under the captions Executive Compensation and Other Information in the Corporation's Definitive Proxy Statement dated March 24, 1999 for the Annual Meeting of Shareholders to be held on April 15, 1999, and is incorporated herein by reference.

ITEM 11 - SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Information concerning security ownership of certain beneficial owners and management is contained on pages 3 and 4 under the captions Continuing Directors and Nominees in the Corporation's Definitive Proxy Statement dated March 24, 1999 for the Annual Meeting of Shareholders to be held on April 15, 1999, and is incorporated herein by reference.

ITEM 12 - CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Information concerning certain relationships and related transactions is contained on page 8 under the caption Certain Transactions in the Corporation's Definitive Proxy Statement dated March 24, 1999 for the Annual Meeting of Shareholders to be held on April 15, 1999 and is incorporated herein by reference.

(Continued)

ITEM 13 - EXHIBITS LIST AND REPORTS ON FORM 8-K

(a) EXHIBITS

<TABLE>
<CAPTION>

Regulation S-B Exhibit Number	Description of Document	Reference to Prior Filing	Exhibit Number Attached Hereto
<S>	<C>	<C>	
3.1	Amended Articles of Incorporation of the Corporation	*	1
3.2	Code of Regulations of the Corporation	*	2
4	Form of Shares Certificate of Common Shares	*	3
10.1	Lease Agreement Between Henney and Cooper, Inc. and The Marion Bank for Branch on Richland Road in Marion, Ohio	**	4
10.2	Executive Indexed Salary Continuation Plan Agreement for President	**	5
10.3	Executive Indexed Salary Continuation Plan Agreement for Executive Officers	**	6
20	Proxy Statement for the 1998 Annual Meeting of the Shareholders	****	7
21	Subsidiaries of the Registrant	**	8
27	Financial Data Schedule	***	9
99	Safe Harbor under the Private Securities Litigation Reform Act of 1995	***	10

</TABLE>

* Indicates documents which have been previously filed as part of the Issuer's Registration Statement Under the Securities Act of 1933 on Form S-4 (file number 33-75866) dated April 18, 1994 and amended and declared effective April 16, 1996. All of such previously filed documents are hereby incorporated by reference in accordance with Item 601 of Regulation S-B. Such documents are available to shareholders without charge upon request.

** Indicates documents which have been previously filed as part of the Corporation's Annual Report on Form 10-KSB in prior years. All of such previously filed documents are hereby incorporated by reference. Such documents are available to shareholders without charge upon request.

*** The indicated exhibit has been filed as separate pages of the 1998 Form 10-KSB and is available to shareholders upon request.

**** The indicated exhibit was separately filed by the Corporation and such document is incorporated herein by reference.

(b) REPORTS ON FORM 8-K

No reports on Form 8-K were filed during the last quarter of the period covered by this report.

SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

OHIO STATE BANCSHARES, INC.

March 18, 1999	By: /s/GARY E. PENDLETON
Date	Gary E. Pendleton, President

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of registrant and in the capacities indicated on March 8, 1999.

Signatures	Signatures
/s/GARY E. PENDLETON	/s/LLOYD L. JOHNSTON
Gary E. Pendleton President and Chief Executive Officer Director	Lloyd L. Johnston
/s/WILLIAM H. HARRIS	/s/F. WINTON LACKEY
William H. Harris Executive Vice President and Cashier Director	F. Winton Lackey
/s/FRED K. WHITE	/s/THURMAN R. MATHEWS
Fred K. White Director, Chairman of the Board	Thurman R. Mathews Director
/s/SAMUEL J. BIRNBAUM	/s/PETER B. MILLER
Samuel J. Birnbaum Director	Peter B. Miller Director
/s/LOIS J. FISHER	/s/JOHN OWENS
Lois J. Fisher Director	John Owens Director
/s/THEODORE L. GRAHAM	
Theodore L. Graham Director	

OHIO STATE BANCSHARES, INC.
EXHIBIT NO. 99

SAFE HARBOR UNDER THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

The Private Securities Litigation Reform Act of 1995 (the "Act") provides a "safe harbor" for forward-looking statements to encourage companies to provide prospective information about their companies, so long as those statements are identified as forward-looking and are accompanied by meaningful cautionary statements identifying important factors that could cause actual results to differ materially from those discussed in the statement. Ohio State Bancshares, Inc. ("Corporation") desires to take advantage of the "safe harbor" provisions of the Act. Certain information, particularly information regarding future economic performance and finances and plans and objectives of management, contained or incorporated by reference in the Corporation's Annual Report on Form 10-KSB for the year ended December 31, 1998 is forward-looking. In some cases, information regarding certain important factors that could cause actual results of operations or outcomes of other events to differ materially from any such forward-looking statement appear together with such statement. In addition, forward-looking statements are subject to other risks and uncertainties affecting the financial institutions industry, including, but not limited to, the following:

Interest Rate Risk

The Corporation's operating results are dependent to a significant degree on its net interest income, which is the difference between interest income from loans, securities and other interest-earning assets and interest expense on deposits, borrowings and other interest-bearing liabilities. The interest income and interest expense of the Corporation change as the interest rates on interest-earning assets and interest-bearing liabilities change. Interest rates may change because of general economic conditions, the policies of various regulatory authorities and other factors beyond the Corporation's control. In a rising interest rate environment, loans tend to prepay slowly and new loans at higher rates increase slowly, while interest paid on deposits increases rapidly because the terms to maturity of deposits tend to be shorter than the terms to maturity or prepayment of loans. Such differences in the adjustment of interest rates on assets and liabilities may negatively affect the Corporation's income.

Adequacy of the Allowance for Loan Losses

The Corporation maintains an allowance for loan losses based upon a number of relevant factors, including, but not limited to, trends in the level of nonperforming and classified loans, current and anticipated economic conditions in the primary lending area, past loss experience, possible losses arising from specific problem loans and changes in the composition of the loan portfolio. While the Board of Directors of the Corporation believes that it uses the best information available to determine the allowance for loan losses, unforeseen market conditions could result in material adjustments, and net earnings could be significantly adversely affected if circumstances differ substantially from the assumptions used in making the final determination.

Loans secured by one- to four-family residential real estate are generally considered to involve less risk of loss than other loans in the portfolio due, in part, to the effects of general economic conditions. The repayment of commercial loans generally depends upon the cash flow from the operation of the business or property, which may be negatively affected by national and local economic conditions. The risk of default on installment and credit card loans increases during periods of recession, high unemployment and other adverse economic conditions. When consumers have trouble paying their bills, they are more

likely to pay mortgage loans than consumer loans. In addition, the collateral securing such loans, if any, may decrease in value more rapidly than the outstanding balance of the loan.

Competition

The Marion Bank ("Bank") competes for deposits with other commercial banks, savings associations and credit unions and issuers of commercial paper and other securities, such as shares in money market mutual funds. The primary factors in competing for deposits are interest rates and convenience of office location. In making loans, the Bank competes with other, commercial banks, savings associations, consumer finance companies, credit unions, leasing companies, mortgage companies and other lenders. Competition is affected by, among other things, the general availability of lendable funds, general and local economic conditions, current interest rate levels and other factors which are not readily predictable. The size of financial institutions competing with the Bank is likely to increase as a result of changes in statutes and regulations eliminating various restrictions on interstate and inter-industry branching and acquisitions. Such increased competition may have an adverse effect upon the Corporation.

Legislation and Regulation that may Adversely Affect the Corporation Earnings

As a state-chartered financial institution, the Bank is subject to extensive regulation by the Ohio Division of Financial Institutions and the Federal Deposit Insurance Corporation (the "FDIC") and is periodically examined by such regulatory agencies to test compliance with various regulatory requirements. As a bank holding company, the Corporation is also subject to regulation and examination by the Board of Governors of the Federal Reserve System. Such supervision and regulation of the Bank and the Corporation are intended primarily for the protection of depositors and not for the maximization of shareholder value and may affect the ability of the Corporation to engage in various business activities. The assessments, filing fees and other costs associated with reports, examinations and other regulatory matters are significant and may have an adverse effect on the Corporation's net earnings.

The FDIC is authorized to establish separate annual assessment rates for deposit insurance of members of the Bank Insurance fund (the "BIF") and the Savings Association Insurance Fund (the "SAIF"). The FDIC has established a risk-based assessment system for both SAIF and BIF members. Under such system, assessments may vary depending on the risk the institution poses to its deposit insurance fund. Such risk level is determined by reference to the institution's capital level and the FDIC's level of supervisory concern about the institution.

<TABLE> <S> <C>

<ARTICLE> 9
<LEGEND>
THE SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CONSOLIDATED BALANCE SHEET AND THE CONSOLIDATED STATEMENT OF INCOME FILED AS PART OF THE ANNUAL REPORT ON FORM 10-K AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.
</LEGEND>
<MULTIPLIER> 1,000

<S>	<C>	
<PERIOD-TYPE>	12-MOS	
<FISCAL-YEAR-END>		DEC-31-1998
<PERIOD-START>		JAN-01-1998
<PERIOD-END>		DEC-31-1998
<CASH>		2,773
<INT-BEARING-DEPOSITS>		0
<FED-FUNDS-SOLD>		5,242
<TRADING-ASSETS>		0
<INVESTMENTS-HELD-FOR-SALE>		10,559
<INVESTMENTS-CARRYING>		3,198
<INVESTMENTS-MARKET>		3,328
<LOANS>		37,272
<ALLOWANCE>		360
<TOTAL-ASSETS>		60,740
<DEPOSITS>		56,069
<SHORT-TERM>		0
<LIABILITIES-OTHER>		480
<LONG-TERM>		0
<PREFERRED-MANDATORY>		0
<PREFERRED>		0
<COMMON>		1,262
<OTHER-SE>		2,929
<TOTAL-LIABILITIES-AND-EQUITY>		60,740
<INTEREST-LOAN>		3,492
<INTEREST-INVEST>		621
<INTEREST-OTHER>		74
<INTEREST-TOTAL>		4,187
<INTEREST-DEPOSIT>		1,887
<INTEREST-EXPENSE>		1,890
<INTEREST-INCOME-NET>		2,297
<LOAN-LOSSES>		230
<SECURITIES-GAINS>		0
<EXPENSE-OTHER>		1,766
<INCOME-PRETAX>		595
<INCOME-PRE-EXTRAORDINARY>		425
<EXTRAORDINARY>		0
<CHANGES>		0

<NET-INCOME> 425
<EPS-PRIMARY> 3.51
<EPS-DILUTED> 3.51
<YIELD-ACTUAL> 4.69
<LOANS-NON> 633
<LOANS-PAST> 73
<LOANS-TROUBLED> 0
<LOANS-PROBLEM> 178
<ALLOWANCE-OPEN> 311
<CHARGE-OFFS> 241
<RECOVERIES> 60
<ALLOWANCE-CLOSE> 360
<ALLOWANCE-DOMESTIC> 360
<ALLOWANCE-FOREIGN> 0
<ALLOWANCE-UNALLOCATED> 57

</TABLE>