FORM 10-K

Annual report pursuant to section 13 and 15(d)

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FILER

DROVERS BANCSHARES CORP

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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-K

(Mark One)
[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 (NO FEE REQUIRED)
For the Fiscal year ended December 31, 1998

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 (NO FEE REQUIRED)

Commission file number 0-10958

DROVERS BANCSHARES CORPORATION
(Exact name of registrant as specified in its charter)

PENNSYLVANIA	23-2209390
(State or other jurisdiction of incorporation or organization)	(IRS Employer ID)
30 SOUTH GEORGE STREET, YORK, PA	17401
(Address of principal executive office)	(Zip Code)

Registrant's telephone number, including area code (717) 843-1586

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

COMMON STOCK $3.33 PAR	NASDAQ
(Title of each class)	(Name of exchange on which registered)

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

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

The aggregate market value of the voting stock held by nonaffiliates of the registrant as of February 28, 1999 was $88,960,000. The number of shares of Drovers Bancshares Corporation Common Stock, $3.33 par value, outstanding at February 28, 1999 was 4,468,461.

DOCUMENTS INCORPORATED BY REFERENCE
Portions of the Annual Report for the year ended December 31, 1998 are incorporated by reference into Parts I, II and IV. Portions of the Proxy Statement for the annual shareholders meeting to be held May 27, 1999 incorporated by reference in Part III.
Drovers Bancshares Corporation and Subsidiaries
CONTENTS

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

This item is omitted since it is not applicable.

PART III

Additional information required by this item is contained on pages 4-9 of the Definitive Proxy Statement dated April 23, 1999.

Item 11. Executive Compensation

The information required by this item is contained on pages 7-12 of the Definitive Proxy Statement dated April 23, 1999.

Item 12. Security Ownership of Certain Beneficial Owners and Management

The information required by this item is contained on pages 3-6 of the Definitive Proxy Statement dated April 23, 1999.

Item 13. Certain Relationships and Related Transactions

The information required by this item is contained on pages 17 of the Definitive Proxy Statement dated April 23, 1999.

PART IV

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

A. Financial statements are incorporated by reference to pages 1-43 of the Corporation's 1998 Annual Report.

B. There were no filings on Form 8-K for the year ended December 31, 1998.

C. Listing of Exhibits.

Exhibit 3.1 - Articles of Incorporation and Bylaws. (incorporated by reference from Exhibit 3.1 of the Drovers Bancshares Corporation Form 10-K for the year ended December 31, 1997)

Exhibit 4 - Instruments Defining the Rights of Security Holders (incorporated by reference to Exhibit B to the Holding Company's Registration Statement on Form S-14, No. 2-77871 filed June 29, 1982, with the Securities and Exchange Commission)

CONTENTS

Page numbers of Annual Report to shareholders and Definitive Proxy Statement referenced in this document refer to hard copy only. See electronic copy of documents for corresponding page numbers.

Drovers Bancshares Corporation and Subsidiaries
ITEM 1. BUSINESS

GENERAL

Drovers Bancshares Corporation was organized on October 27, 1982, under Pennsylvania Business Corporation Law and held all the stock of Drovers Interim Bank, a Pennsylvania state-chartered bank established to effect the reorganization. The Interim Bank was then merged into The Drovers & Mechanics Bank and the Common Stock of the Interim Bank was converted into and exchanged on a share-for-share basis for Common Stock of Drovers Bancshares Corporation. The Management of The Drovers & Mechanics Bank formed Drovers Bancshares Corporation for greater flexibility in providing a wider variety of banking services and in engaging in nonbanking activities permitted under the Bank Holding Company Act of 1956, as amended.

The Drovers & Mechanics Bank is a wholly-owned subsidiary of Drovers Bancshares Corporation. The Bank is chartered pursuant to the laws of the Commonwealth of Pennsylvania and is subject to the supervision of the Banking Department of the Commonwealth and the Federal Deposit Insurance Corporation. The Drovers & Mechanics Bank was organized in 1883 as a national bank and became a state-chartered non-member of the Federal Reserve System on February 14, 1979.

The Bank offers a wide variety of banking and trust services to individuals and commercial customers in its service area. Personal banking services include checking accounts, savings and time accounts, certificates of deposit, personal and mortgage loans, home improvement loans, safe deposit services, estate planning and administration, personal trust management and discount brokerage services. Commercial banking services are provided to businesses, nonprofit organizations and local municipalities. These services include checking accounts, savings and time accounts, financing activities and corporate trust services in the areas of pension, profit sharing and employee benefit plans.

On December 31, 1998, the Bank employed 215 full-time equivalents throughout its offices. The Main Office of the Bank is located at 30 South George Street, York, Pennsylvania. A Research and Administrative Services Center and nine branches are located in the surrounding suburbs of York City. In addition, there are six out-of-town offices located in Shrewsbury, Emigsville, Hellam, York Haven, Dover and Red Lion, Pennsylvania. On January 4, 1999, a full-service bank office opened in Hellam Township, Pennsylvania. The Bank purchased land near Dillsburg, Pennsylvania in late 1998 with construction of a new branch office at the location to begin in early 1999. The Bank expects to open its first loan production office (LPO) in the first quarter of 1999. The office will be located in Cumberland County, near Harrisburg. This will be the Bank's first facility outside York County. The staff at the LPO will initially focus on commercial lending. Negotiations continue to purchase land in Newberrytown, Pennsylvania to establish a new branch office. The Bank also has ten remote service facilities located at the York Fairgrounds, York College of Pennsylvania and eight inside Shipley Stores, Inc. convenience stores.

In December 1993, the Bank purchased the office building attached to the Bank's main office. The five-story complex, known as 96 South George, provides for future growth and enables the Corporation to maintain its headquarters in downtown York. The accounting, corporate banking, and executive offices of the Bank are located on the fifth floor of 96 South George.

The Bank is the sole limited partner in four ventures to renovate and operate apartment buildings. The first building opened in 1994 with the second building opening in 1996. The third building opened in December 1998. The fourth building is scheduled to open in 1999. All four partnerships provide low income housing to qualified families. The investments are accounted for under the equity method of accounting. The combined carrying values of the investments at December 31, 1998 and 1997 were $5,385,000 and $2,292,000, respectively.

SUPERVISION AND REGULATION

Bank Holding Company Regulation

Drovers Bancshares Corporation ("the Company") is registered as a bank holding company and is subject to the regulations of the Board of Governors of the Federal Reserve System (the "Federal Reserve") under the Bank Holding Company Act of 1956, as amended ("BHCA"). Bank holding companies are required to file periodic reports with and are subject to examination by the Federal Reserve. The Federal Reserve has issued regulations under the BHCA that require a bank holding company to serve as a source of financial and managerial strength to its subsidiary banks. As a result, the Federal Reserve, pursuant to such regulations, may require the Company to stand ready to use its resources to provide adequate capital funds to the Bank during periods of financial stress or adversity.

Under the Federal Deposit Insurance Corporation Improvement Act of 1991 ("FDICIA"), a bank holding company is required to guarantee the compliance of any insured depository institution subsidiary that may become "undercapitalized" as defined by regulations) with the terms of any capital restoration plan filed by such subsidiary with its appropriate federal banking agency, up to specified limits.

Under the BHCA, the Federal Reserve has the authority to require a bank holding company to terminate any activity or relinquish control of a nonbank subsidiary (other than a nonbank subsidiary of a bank) upon the Federal Reserve's determination that such activity or control constitutes a serious risk to the financial soundness and stability of any bank subsidiary of the bank holding company.

The BHCA prohibits the Company from acquiring direct or indirect control of more than 5% of the outstanding shares of any class of voting stock or substantially all of the assets of any bank or merging or consolidating with another bank holding company without prior approval of the Federal Reserve. Such a transaction would also require approval of the Pennsylvania Department of Banking. Pennsylvania law permits Pennsylvania bank holding companies to control an unlimited number of banks.

Additionally, the BHCA prohibits the Company from engaging in or from acquiring ownership or control of more than 5% of the outstanding shares of any class of voting stock of any company engaged in a nonbanking business unless such business is determined by the Federal Reserve to be so closely related to banking as to be a proper incident thereto. The Federal Reserve can differentiate between nonbanking activities that are initiated by a bank holding company or subsidiary and activities that are acquired as a going concern. The BHCA does not place territorial restrictions on the activities of such nonbanking-related activities. The Company and its subsidiaries are prohibited from engaging in certain tie-in arrangements in connection with any extension of credit, lease or sale of property, or furnishing of services.

Federal Reserve approval may be required before the Company or its nonbank subsidiaries may begin to engage in any new activity and before acquiring a business.

Dividend Restrictions

The Company is a legal entity separate and distinct from the Bank and the Company's nonbank subsidiaries. The Company's revenues (on a parent company only basis) result almost entirely from dividends paid to the Company by its subsidiaries. The right of the Company and consequently the right of creditors and shareholders of the Company, to participate in any distribution of the assets or earnings of any subsidiary through the payment of such dividends or otherwise is necessarily subject to the prior claims of creditors

Dividend Restrictions, Continued

of the subsidiary (including depositors, in the case of the Bank), except to the extent that claims of the Company in its capacity as a creditor may be recognized.

Federal and state laws regulate the payment of dividends by the Company's subsidiaries. See "Supervision and Regulation - Regulation of the Bank" herein.

Further, it is the policy of the Federal Reserve that bank holding companies should pay dividends only out of current earnings. Federal banking regulators also have the authority to prohibit banks and bank holding companies from paying a dividend if they should deem such payment to be an unsafe or unsound practice.

Capital Adequacy

Bank holding companies are required to comply with the Federal Reserve's risk-based capital guidelines. The required minimum ratio of total capital to risk-weighted assets (including certain off-balance sheet activities, such as standby letters of credit) is 8%. At least half (4%) of the total capital is required to be "Tier 1 Capital," consisting principally of common shareholders' equity, noncumulative perpetual preferred stock, a limited amount of cumulative perpetual preferred stock, and minority interests in the equity accounts of consolidated subsidiaries, less certain intangible assets. The remainder ("Tier 2 capital") may consist of a limited amount of subordinated debt and intermediate-term preferred stock, certain hybrid capital instruments and other debt securities, perpetual preferred stock, and a limited amount of the general loan loss allowance. In addition to the risk-based capital guidelines, the Federal Reserve requires a bank holding company to maintain a minimum "leverage ratio." This requires a minimum level of Tier 1 capital (as determined under the risk-based capital rules) to average total consolidated assets of 3% for those bank holding companies that have the highest regulatory examination ratings and are not contemplating or experiencing significant growth or expansion. All other bank holding companies are expected to maintain a ratio of at least 1% to 2% above the stated minimum. Further, the Federal Reserve has indicated that it will consider a "tangible Tier 1 capital leverage ratio" deducting all intangibles and other indications of capital strength in evaluating proposals for expansion or new activities. The Federal Reserve has not advised the Company of any specific minimum leverage ratio applicable to the Company.

Pursuant to FDICIA, the federal banking agencies have specified, by regulation, the levels at which an insured institution is considered "well capitalized," "adequately capitalized," "undercapitalized," "significantly undercapitalized," or "critically undercapitalized." Under these regulations, an institution is considered "well capitalized" if it has a total risk-based capital ratio of 10% or greater, a Tier 1 risk-based capital ratio of 6% or greater, a leverage ratio of 5% or greater, and is not subject to any order or written directive to meet and maintain a specific capital level. The Company and the Bank, at December 31, 1998, qualify as "well capitalized" under these regulatory standards.

FDIC Insurance

The Bank is subject to FDIC deposit insurance assessments. The FDIC has adopted a risk-related premium assessment system for both the Bank Insurance Fund ("BIF") for banks and the Savings Association Insurance fund ("SAIF") for savings associations. Under this system, FDIC insurance premiums are assessed based on capital and supervisory measures.

FDIC Insurance, Continued

Under the risk-related premium assessment system, the FDIC, on a semiannual basis, assigns each institution to one of three capital groups (well capitalized, adequately capitalized, or undercapitalized) and further assigns such institution to one of three subgroups within a capital group corresponding to the FDIC's judgment of its strength based on supervisory evaluations, including examination reports, statistical analysis, and other information relevant to gauging the risk posed by the institution. Only institutions with a total risk-based capital to risk-adjusted assets ratio of 10% or greater, a Tier 1 capital to risk-adjusted assets ratio of 6% or greater, and a Tier 1 leverage ratio of 5% or greater, are assigned to the well-capitalized group.

On September 30, 1996, the President signed into law the Deposit Insurance Funds Act of 1996 to recapitalize the Savings Association Insurance Fund ("SAIF") administered by the Federal Deposit Insurance Corporation ("FDIC") and to provide for repayment of the FICO (Financial Institution Collateral Obligation) bonds issued by the United States Treasury Department. The FDIC levied a one-time special assessment of SAIF deposits equal to 65.7 cents per $100 of the SAIF-accessible deposit base as of March 31, 1995. During 1997, 1998 and 1999, the Bank Insurance Fund ("BIF") will pay $322 million of FICO debt service, and SAIF will pay $458 million. During 1997, 1998 and 1999, the average regular annual deposit insurance assessment is estimated to be about 1.29 cents per $100 of deposits for BIF deposits and 6.44 cents per $100 of deposits for SAIF deposits. Individual institution's assessments will continue to vary according to their capital and management ratings. As always, the FDIC will be able to raise the assessments as necessary to maintain the funds at their target capital ratios provided by law. After 1999, BIF and SAIF will share the FICO cost equally. Under current estimates, BIF and SAIF assessment bases would each be assessed at the rate of approximately 2.43 cents per $100 of deposits. The FICO bonds will mature in 2018-2019, ending the interest payment obligation.

Regulation of the Bank

The operations of the Bank are subject to federal and state statues applicable to banks chartered under the banking laws of the Commonwealth of Pennsylvania that are not members of the Federal Reserve System and to banks whose deposits are insured by the FDIC.

The FDIC, which has primary supervisory authority over the Bank, regularly examines banks in such areas as reserves, loans, investments, management practices, and other aspects of operations. These examinations are designed for the protection of the Bank's depositors rather than the Company's shareholders. The Bank must furnish annual and quarterly reports to the FDIC, which has the authority under the Financial Institutions Supervisory Act to prevent a state non-member bank from engaging in an unsafe or unsound practice in conducting its business.

Federal and state banking laws and regulations govern, among other things, the scope of a bank's business, the investments a bank may take, the reserves against deposits a bank must maintain, the types and terms of loans a bank may make and the collateral it may take, the activities of a bank with respect to mergers and consolidations, and the establishment of branches. Pennsylvania law permits statewide branching.

Recently, Pennsylvania enacted a law to permit State chartered financial institutions to sell insurance. This follows a United States Supreme Court decision in favor of nationwide insurance sales by banks and which also bars states from blocking insurance sales by national banks in towns with populations of no more than 5,000. Consequently, banks are allowed to sell insurance in Pennsylvania. The Office of the Comptroller of the Currency has

Regulation of the Bank, Continued

issued guidelines for national banks to sell insurance. The Bank has been licensed as an insurance agency within the State of Pennsylvania. The Bank presently sells fixed and variable rate annuity products and is evaluating its options regarding the sale of additional insurance products.

Under the Federal Deposit Insurance Act, as amended, the Bank is required to obtain the prior approval of the FDIC for the payment of dividends if the total of all dividends declared by the Bank in one year would exceed the Bank's net profits (as defined and interpreted by regulation) for the current year plus its retained net profits (as defined and interpreted by regulation) for the two preceding years, less any required transfers to surplus. In addition, the Bank may only pay dividends to the extent that its retained net profits (including the portion transferred to surplus) exceed statutory bad debts (as defined by regulation). Under FDICIA, any depository institution, including the Bank, is prohibited from paying any dividends, making other distributions or paying any management fees if, after such payment, it would fail to satisfy its minimum capital requirements.

A subsidiary bank of a bank holding company, such as the Bank, is subject to certain restrictions imposed by the Federal Reserve Act on any extensions of credit to the bank holding company or its subsidiaries, on investments in the stock or other securities of the bank holding company or its subsidiaries, and on taking such stock or securities as collateral for loans. The Federal Reserve Act and Federal Reserve regulations also place certain limitations and reporting requirements on extensions of credit by a bank to the principal shareholders of its parent holding company, among others, and to related interests of such principal shareholders. In addition, such legislation and regulations may affect the terms upon which any person becoming a principal shareholder of a holding company may obtain credit from banks with which the subsidiary bank maintains a correspondent relationship.

The Bank, and the banking industry in general, are affected by the monetary and fiscal policies of government agencies, including the Federal Reserve. Through open market securities transactions and changes in its discount rate and reserve requirements, the Board of Governors of the Federal Reserve exerts considerable influence over the cost and unavailability of funds for lending and investment.

As the Year 2000 approaches, regulation of both the Company and the Bank with respect to completing Year 2000 modifications is likely to increase. A brief discussion of the most recent federal banking agency pronouncements that affect the Company and/or the Bank follows.

In December 1997, the Federal Financial Institutions Examination Council ("FFIEC") issued an interagency statement. The statement indicates that senior management and the board of directors should be actively involved in managing the Company's and the Bank's Year 2000 compliance efforts. The statement also recommended that institutions obtain Year 2000 compliance certification from vendors followed by comprehensive internal testing. In addition, contingency plans should be developed for all vendors that service "mission critical" applications which are applications vital to the successful continuance of a core business activity. In addition, the Securities and Exchange Commission (the "SEC") adopted, effective August 4, 1998, an interpretive release providing guidance to public companies, such as the Company, with respect to making meaningful disclosure in it Management's Discussion and Analysis of Financial Condition under the heading "Year 2000 Disclosure".

COMPETITION

The financial services industry in the Company's service area is extremely competitive. The Company's competitors within its service area include multi-bank holding companies, with resources substantially greater than those of the Company. Many competitor financial institutions have legal lending limits substantially higher than the Bank's legal lending limit. In addition, the Bank competes with savings banks, savings and loan associations, credit unions, money market and other mutual funds, mortgage companies, leasing companies, finance companies, and other financial services companies that offer products and services similar to those offered by the Bank on competitive terms.

In September 1994, federal legislation was enacted that is expected to have a significant effect in restructuring the banking industry in the United States. See "Interstate Banking Legislation" herein. As a result, the Company expects the operating environment for Pennsylvania-based financial institutions to become increasingly competitive.

Additionally, the manner in which banking institutions conduct their operations may change materially as the activities increase in which bank holding companies and their banking and nonbanking subsidiaries are permitted to engage, and funding and investment alternatives continue to broaden, although the long-range effects of these changes cannot be predicted, with reasonable certainty, at this time. These changes most probably will further narrow the differences and intensify competition between and among commercial banks, thrift institutions, and other financial service companies. See "Proposed Legislation and Regulations" herein.

INTERSTATE BANKING LEGISLATION

In September 1994, the Riegle-Neal Interstate Banking and Branching Efficiency Act (the "Interstate Banking Act") was enacted. The Interstate Banking Act facilitates the interstate expansion and consolidation of banking organizations (i) by permitting bank holding companies that are adequately capitalized and adequately managed, beginning September 29, 1995, to acquire banks located in states outside their home states regardless of whether such acquisitions are authorized under the law of the host state; (ii) by permitting the interstate merger of banks after June 1, 1997, subject to the right of individual states to "opt in" or "opt out" of this authority before that date; (iii) by permitting banks to establish new branches on an interstate basis provided that such action is specifically authorized by the law of the host state; (iv) by permitting, beginning September 29, 1995, a bank to engage in certain agency relationships (i.e., to receive deposits, renew time deposits, close loans (but not including loan approvals or disbursements), service loans, and receive payments on loans and other obligations) as agent for any bank or thrift affiliate, whether the affiliate is located in the same state or a different state then the agent bank; and (v) by permitting foreign banks to establish, with approval of the regulators in the United States, branches outside their "home" states to the same extent that national or state banks located in the home state would be authorized to do so. One effect of this legislation will be to permit the Company to acquire banks and bank holding companies located in any state and to permit qualified banking organizations located in any state to acquire banks and bank holding companies located in Pennsylvania, irrespective of state law.

INTERSTATE BANKING LEGISLATION, Continued

Since 1995, the Pennsylvania Banking Code has authorized full interstate banking and branching under Pennsylvania law. Specifically, the legislation (i) eliminates the "reciprocity" requirement previously applicable to interstate commercial bank acquisitions by bank holding companies, (ii) authorized interstate bank mergers and reciprocal interstate branching into Pennsylvania by interstate banks, and (iii) permits Pennsylvania institutions to branch into other states with the prior approval of the Pennsylvania Department of Banking.

Overall, this federal and state legislation has, as was predicted, had the effect of increasing consolidation and competition and promoting geographic diversification in the banking industry.

PROPOSED LEGISLATION AND REGULATIONS

From time to time, various federal and state legislation is proposed that could result in additional regulation of, and restriction on, the business of the Company and the Bank, or otherwise change the business environment.

Management cannot predict whether any of this legislation, if enacted, will have a material effect on the business of the Company.

Drovers Bancshares Corporation and Subsidiaries
ITEM 2. PROPERTIES

The Corporation and Subsidiaries own in fee simple unencumbered the following land and buildings:

Main Office 30 S George Street York, PA 17401	Emigsville Office 2123 N George Street Emigsville, PA 17318
Research & Administrative Services Center 915 Indian Rock Dam Road York, PA 17403	Westgate Office 1500 Kenneth Road York, PA 17404
Richland Avenue Office 905 Indian Rock Dam Road York, PA 17403	Memory Lane Office 200 Memory Lane York, PA 17402
York Haven Office Landvale Street York Haven, PA 17370	Land in Dillsburg Tristan Drive Dillsburg, PA 17019

The Drovers & Mechanics Bank is the sole occupant of all land and buildings listed above.

The following property is pledged as collateral for a mortgage loan secured to purchase the property:

96 South George Office Building
96 South George Street
York, PA 17401

The five-story office building adjacent to the Main Office provides for future growth and enables the Corporation to maintain headquarters in downtown York. The accouting, corporate banking, and executive offices of The Drovers & Mechanics Bank are located on the fifth floor of the office building.

The following branch offices are leased:

Queensgate Office
Queensgate Shopping Center
York, PA 17403
$1,750.00 per month rental; lease expires October 1, 2000.

Dover Office
Dover Square, adjacent to Shipley Stores, Inc.
1 South Main Street
Dover, PA 17315
$4,800.00 per month rental; lease expires November 10, 2006, and is renewable for three five-year options.

South York Plaza Office
275 Pauline Drive
in the Giant Food Store
York, PA 17402
$2,917.00 per month rental; lease expires August 22, 2000, and is renewable for one five-year option.

Cape Horn Office
3140 Cape Horn Road
Red Lion, PA 17356
$2,625.00 per month land rental; lease expires March 1, 2012, and is renewable for six five-year options. Building owned by the Corporation.

West Manchester Office
1750 Loucks Road
in the Giant Food Store
York, PA 17404
$2,500.00 per month rental; lease expires March 1, 1999, and is renewable for two five-year options.

York Marketplace Office
2415 East Market Street
in the Giant Food Store
York, PA 17402
$2,500.00 per month rental; lease expires May 1, 1999, and is renewable for two five-year options.

Penvale Office

3183 Susquehanna Trail North
York, PA 17402
$7,000.00 per month rental; lease expires November 3, 2007, with a rent increase of $500.00 to $7,500.00 per month in the sixth year. The lease is renewable for three five-year options.

Shrewsbury Office
611 Shrewsbury Commons Avenue
Shrewsbury, PA 17361
$4,167.00 per month land rental; lease expires December 1, 2017, with rent increases each year. The land lease is renewable for four five-year options. Building owned by the Corporation.

Hellam Office
599 W. Market Street
Hellam, PA 17406
$3,500.00 per month land rental; lease expires October 10, 2007. The lease is renewable for three five-year options and contains a purchase option. Building owned by the Corporation.

Mt. Rose Avenue Office
1095 Mt. Rose Avenue
York, PA 17403
$20,000.00 per year land rental; lease expires January 1, 2001. Additionally, leased equipment with an annual lease amount of $45,840.00 is required to be paid by the Bank. This transaction has been classified as a capitalized lease.

Although the facilities currently owned or leased by the Corporation are sufficient for its operations, the Corporation may obtain additional space as required.

Construction of a new office in Dillsburg, Pennsylvania will begin in early 1999. The Corporation expects to open its first loan production office (LPO) near Harrisburg in the first quarter of 1999. The staff at the LPO will initially focus on commercial lending. This will be the Corporation's first facility outside York County. All construction costs related to these projects will be funded from operations.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

INVESTMENT PORTFOLIO

The following table sets forth the carrying amount of investment securities at the dates indicated:

<TABLE>
<CAPTION>

(In thousands)	1998	1997	1996
<S>	<C>	<C>	<C>

U.S. Government	$ 6,559	$ 10,519	$ 10,538
U.S. Agencies	106,927	126,769	90,348
Municipal	24,686	24,414	18,465
Corporate	4,666	486	500
Total debt securities	142,838	162,188	119,851
Equity securities	18,781	17,111	8,231
Total investment securities .	$161,619	$179,299	$128,082

</TABLE>

The following table sets forth the contractual maturities of debt securities classified as held-to-maturity at December 31, 1998:

<TABLE>
<CAPTION>

(In thousands)	ONE YR OR LESS	AFTER ONE TO FIVE YRS	AFTER FIVE TO TEN YRS	OVER TEN YRS	TOTAL
<S>	<C>	<C>	<C>	<C>	<C>
U.S. Government ..	$1,000	$1,485	$ 0	$ 0	$ 2,485
U.S. Agencies	0	1,678	6,292	6,878	14,848
Municipal	303	3,288	8,743	4,592	16,926
Total	$1,303	$6,451	$15,035	$11,470	$34,259

</TABLE>

The following table depicts the average weighted yields of the held-to-maturity investments by maturity at December 31, 1998:

<TABLE>
<CAPTION>

	ONE YR OR LESS	AFTER ONE TO FIVE YRS	AFTER FIVE TO TEN YRS	OVER TEN YRS	TOTAL
<S>	<C>	<C>	<C>	<C>	<C>
U.S. Government ..	7.00%	6.65%	0.00%	0.00%	6.79%
U.S. Agencies	0.00%	5.93%	7.34%	6.54%	6.81%
Municipal	7.93%	7.55%	5.40%	5.18%	5.80%
Total	7.22%	6.92%	6.21%	5.99%	6.31%

</TABLE>

INVESTMENT PORTFOLIO (continued)

The following table sets forth the contractual maturities of debt securities classified as available-for-sale at December 31, 1998:

<TABLE>
<CAPTION>

(In thousands)	ONE YR OR LESS	AFTER ONE TO FIVE YRS	AFTER FIVE TO TEN YRS	OVER TEN YRS	TOTAL
<S>	<C>	<C>	<C>	<C>	<C>
U.S. Government ..	$2,513	$1,561	$ 0	$ 0	$ 4,074
U.S. Agencies	0	4,310	8,781	78,988	92,079
Municipal	0	0	3,352	4,408	7,760
Other	0	0	480	4,186	4,666
Total	$2,513	$5,871	$12,613	$87,582	$108,579

</TABLE>

The following table depicts the average weighted yields of the available-for-sale investments by maturity at December 31, 1998:

<TABLE>
<CAPTION>

	ONE YR OR LESS	AFTER ONE TO FIVE YRS	AFTER FIVE TO TEN YRS	OVER TEN YRS	TOTAL
<S>	<C>	<C>	<C>	<C>	<C>
U.S. Government ..	6.47%	5.53%	0.00%	0.00%	6.11%
U.S. Agencies	0.00%	6.58%	7.04%	6.85%	6.86%
Municipal	0.00%	0.00%	5.17%	4.83%	4.98%
Other	0.00%	0.00%	6.22%	6.90%	6.83%
Total	6.47%	6.30%	6.51%	6.75%	6.69%

</TABLE>

The average yields are computed by dividing annual interest income, including the accretion of discounts and amortization of premiums, by the amortized cost of securities at December 31, 1998. The yield on Municipal investments has not been restated on a fully tax equivalent basis.

For additional information see Note 6 on pages 22-23 of the Corporation's 1998 Annual Report.

Drovers Bancshares Corporation and Subsidiaries
ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

LOAN DATA

Loans are comprised of the following:

<TABLE>
<CAPTION>

(In thousands)	YEAR ENDED DECEMBER 31, 1998	1997	1996	1995	1994
<S>	<C>	<C>	<C>	<C>	<C>
Domestic loans:					
Commercial, financial and industrial	$117,620	$ 80,588	$ 72,776	$ 66,798	$ 59,943
Real estate:					
Construction	13,523	12,105	8,908	5,910	7,163
Mortgage	227,914	188,775	167,751	141,565	120,392
Consumer	34,132	35,280	37,150	45,548	46,168
Leasing and other (net)	173	245	26	9	6
Total domestic loans	393,362	316,993	286,611	259,830	233,672
Foreign loans	0	0	0	0	0
Total domestic and Foreign loans	393,362	316,993	286,611	259,830	233,672
Unearned income	-3,253	-3,320	-3,494	-4,425	-4,297
Loans net of unearned	390,109	313,673	283,117	255,405	229,375
Reserve for loan losses	-3,912	-3,304	-3,130	-2,937	-2,638
Net loans	$386,197	$310,369	$279,987	$252,468	$226,737

</TABLE>

For additional information see Note 7 on page 23-24 of the Corporation's 1998 Annual Report.

Drovers Bancshares Corporation and Subsidiaries
ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

MATURITIES AND RATE SENSITIVITY OF THE LOAN PORTFOLIO
(EXCLUDING CONSUMER AND RESIDENTIAL REAL ESTATE LOANS)

The following table shows the amounts of loans (excluding consumer, Residential real estate and other loans) outstanding as of December 31, 1998 which, based on remaining scheduled repayments of principal, are due in the periods indicated:

<TABLE>
<CAPTION>

REMAINING MATURITIES (In thousands)	ONE YR OR LESS	AFTER ONE TO FIVE YRS	OVER FIVE YRS	TOTAL
<S>	<C>	<C>	<C>	<C>
Domestic loans:				
Commercial, financial and industrial .	$85,617	$ 22,579	$ 9,424	$117,620
Real estate construction	8,486	3,971	1,066	13,523
Foreign loans	0	0	0	0
Total	$94,103	$ 26,550	$ 10,490	$131,143
Rate sensitivity:				
Predetermined rate	$3,127	$ 20,380	$ 9,542	$ 33,049
Floating or adjustable rate	90,976	6,170	948	98,094
Total	$94,103	$ 26,550	$ 10,490	$131,143

</TABLE>

Drovers Bancshares Corporation has no set rollover policy. Many of our loans are made on a short-term basis with full intention of renewal at time of maturity. All loans, however, are reviewed on a continual basis for creditworthiness. Should a loan become questionable or approach problem loan status, it then undergoes a formal review process by all appropriate levels of authority.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

NONACCRUAL, RESTRUCTURED LOANS AND NONPERFORMING ASSETS

The following table shows loans on nonaccrual status or loans which have been restructured for the past five years:

<TABLE>
<CAPTION>

	PRINCIPAL AMOUNT AT YEAR END DECEMBER 31,				
(In thousands)	1998	1997	1996	1995	1994
<S>	<C>	<C>	<C>	<C>	<C>
Domestic:					
Nonaccrual loans	$1,435	$ 740	$ 615	$ 934	$ 416
90 days past due still accruing ..	7	33	0	9	6
Restructured loans	1,203	0	1,139	791	818
Foreign:					
Nonaccrual loans	0	0	0	0	0
90 days past due still accruing ..	0	0	0	0	0
Restructured loans	0	0	0	0	0
Total	$2,645	$ 773	$1,754	$1,734	$1,240

</TABLE>

Nonaccrual loans as a percentage of net loans at December 31, 1998 and 1997 were 0.37% and 0.24%, respectively. Restructured loans continued to consist of commercial loans to one party. Interest is recognized under the accrual method of accounting.

The Corporation held $1,748,000 of impaired loans at December 31, 1998. The recorded allowance in impaired loans was $150,000.

The following table presents the changes in the balance of other real estate over the past five years:

<TABLE>
<CAPTION>

(In thousands)	1998	1997	1996	1995	1994
<S>	<C>	<C>	<C>	<C>	<C>
Balance at beginning of year	$ 154	$ 803	$ 195	$ 0	$ 141
Assets acquired by foreclosure or repossession	277	211	822	300	0
Dispositions	-252	-827	-203	-106	-152
Other (net)	-31	-33	-11	1	11
Balance at end of year	$ 148	$ 154	$ 803	$ 195	$ 0

</TABLE>

Other real estate consists of assets which have been repossessed or acquired through workout situations on defaulted loans.

For additional information on nonperforming assets see Note 1 and Note 7 on pages 19-20 and 23-24, respectively, of the Corporation's 1998 Annual Report.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

<TABLE>
ANALYSIS OF RESERVE FOR LOAN LOSSES
<CAPTION>

	YEARS ENDED DECEMBER 31,				
(In thousands)	1998	1997	1996	1995	1994
<S>	<C>	<C>	<C>	<C>	<C>
Balance, January 1, ...	$ 3,304	$ 3,130	$ 2,937	$ 2,638	$ 2,332
Provision for loan losses	1,266	386	645	501	382
Charge-offs:					
Commercial, financial and industrial	522	0	25	31	19

Real estate - construction	0	0	0	0	0
Real estate - mortgage	0	0	215	45	0
Consumer	235	327	369	257	157
Total charge-offs	757	327	609	333	176
Recoveries:					
Commercial, financial and industrial	0	32	6	11	0
Real estate - construction	0	0	0	0	0
Real estate - mortgage	0	15	36	0	6
Consumer	99	68	115	120	94
Total recoveries	99	115	157	131	100
Net charge-offs	658	212	452	202	76
Balance, December 31, ...	$ 3,912	$ 3,304	$ 3,130	$ 2,937	$ 2,638
Ratio of net charge-offs to average loans outstanding	0.19%	0.07%	0.17%	0.08%	0.04%

</TABLE>

Drovers Bancshares Corporation manages the risk characteristics of its loan portfolio through various control processes. Risk is further controlled through the application of lending procedures such as the holding of adequate collateral, contractual guarantees, and compensating balances.

Management also considers the amount of recent and expected charge-offs, the loan portfolio mix and changes in the economy when determining the provision for loan losses. Management believes these procedures provide adequate assurance against losses and the level of the Reserve for Loan Losses is sufficient to meet any present or potential risks.

For additional information see Note 1 and Note 7 on pages 19-20 and 23-24, respectively, of the Corporation's 1998 Annual Report.

ALLOCATION OF RESERVE FOR LOAN LOSSES

The following table presents the amount of the reserve allocated to each of the loan categories and the percentage of total loans for the past five years:

(In thousands)	1998 Reserve Amount	1998 Percent Of Loans To Total Loans	1997 Reserve Amount	1997 Percent Of Loans To Total Loans	1996 Reserve Amount	1996 Percent of Loans to Total Loans
Commercial, financial and industrial	$2,644	30.2%	$ 977	25.6%	$ 657	25.7%
Real Estate:						
Construction	62	3.5%	44	3.9%	46	3.1%
Mortgage	401	58.4%	338	60.1%	321	59.1%
Consumer	128	7.9%	131	10.3%	123	12.1%
Leasing and other	0	0.0%	0	0.1%	0	0.0%
Unallocated	677	n/a	1,814	n/a	1,983	n/a
Total	$3,912	100.0%	$3,304	100.0%	$3,130	100.0%

(In thousands)	1995 Reserve Amount	1995 Percent Of Loans To Total Loans	1994 Reserve Amount	1994 Percent of Loans to Total Loans
Commercial, financial and industrial	$ 515	26.2%	$ 630	26.2%
Real Estate:				
Construction	16	2.3%	29	3.1%
Mortgage	327	55.3%	204	52.3%
Consumer	140	16.2%	120	18.4%
Leasing and other	0	0.0%	0	0.0%
Unallocated	1,939	n/a	1,655	n/a
Total	$2,937	100.0%	$2,638	100.0%

For additional information see Note 1 and Note 7 on pages 19-20 and 23-24, respectively, of the Corporation's 1998 Annual Report.

Drovers Bancshares Corporation and Subsidiaries
ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

DEPOSIT STRUCTURE

Maturities of time deposits of $100,000 or more outstanding at December 31, are summarized as follows:

(In thousands)	1998	1997	1996
Three months or less	$ 5,983	$ 4,675	$ 3,674
Over three months to six months	4,423	1,598	927
Over six months to twelve months	9,175	5,811	7,047
Over twelve months	7,456	8,340	6,354
Total	$27,037	$20,424	$18,002

SHORT-TERM BORROWINGS

Short-term borrowings are borrowed funds generally with an original maturity of one year or less. Securities sold under repurchase agreements and federal funds purchased mature in one day. Other short-term borrowings have a maturity of greater than one day.

(In thousands)	1998	1997	1996
Federal funds purchased and securities sold under repurchase agreements			
Balance at year-end	$23,325	$31,360	$15,254
Average amount outstanding	23,820	24,548	12,210
Maximum amount outstanding at any month-end	40,586	44,342	18,843
Average interest rate for the year	5.17%	5.25%	4.75%
Average interest rate on year-end balance	4.63%	6.16%	5.24%
Other short-term borrowings			
Balance at year-end	$ 0	$ 0	$ 0
Average amount outstanding	4,597	1,112	77
Maximum amount outstanding at any month-end	13,000	6,000	4,000
Average interest rate for the year	5.65%	5.71%	5.47%

Average interest rate on year-end balance	0.00%	0.00%	0.00%

</TABLE>

Drovers Bancshares Corporation and Subsidiaries
ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

QUARTERLY FINANCIAL DATA

<TABLE>
Unaudited 1998
<CAPTION>

(In thousands, Except per share data)	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER	TOTAL
<S>	<C>	<C>	<C>	<C>	<C>
Net interest income	$4,690	$4,735	$4,888	$4,942	$19,255
Provision for loan losses	239	229	179	619	1,266
Total noninterest income .	1,330	1,387	1,289	1,402	5,408
Total noninterest expense and income taxes	4,173	4,253	4,308	3,853	16,587
Net income	$1,608	$1,640	$1,690	$1,872	$6,810
PER SHARE DATA					
Net income	$0.36	$0.37	$0.38	$0.42	$ 1.53
Net income, assuming dilution	$0.36	$0.36	$0.37	$0.41	$ 1.51

</TABLE>

<TABLE>
1997
<CAPTION>

(In thousands, except per share data)	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER	TOTAL
<S>	<C>	<C>	<C>	<C>	<C>
Net interest income	$4,107	$4,181	$4,301	$4,424	$17,013
Provision for loan losses	120	66	120	80	386
Total noninterest income .	905	1,011	980	1,057	3,953
Total noninterest expense and income taxes	3,502	3,716	3,707	4,024	14,949

Net income	$1,390	$1,410	$1,454	$1,377	$ 5,631
PER SHARE DATA					
Net income	$0.31	$0.32	$0.33	$0.31	$ 1.27
Net income, assuming dilution	$0.31	$0.32	$0.33	$0.31	$ 1.26

</TABLE>

Data adjusted to reflect a 3 for 2 stock split issued in 1998 and a 5% stock dividend issued in 1997.

Drovers Bancshares Corporation and Subsidiaries

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

<TABLE>

INTEREST DIFFERENTIAL

<CAPTION>

(In thousands)	December 31, 1998 VOLUME	1998 RATE	1998 TOTAL	1997 VOLUME	1997 RATE	1997 TOTAL
<S>	<C>	<C>	<C>	<C>	<C>	<C>
INTEREST INCOME						
Increase (decrease) in:						
Money market investments and interest-bearing deposits with banks	$ -38	$ 9	$ -29	$ -90	$ 5	$ -85
Federal funds sold	0	0	0	0	0	0
Total money market investments ...	-38	9	-29	-90	5	-85
Investment securities						
Taxable investment securities ...	-130	-426	-556	3,035	185	3,220
Equity securities	290	-24	266	445	-14	431
Tax-exempt investment securities	71	-24	47	414	-56	358
Total investment securities	231	-474	-243	3,894	115	4,009
Total loans	5,318	-322	4,996	2,394	-106	2,288
Total interest income	5,511	-787	4,724	6,198	14	6,212

INTEREST EXPENSE

Increase (decrease) in:

Interest-bearing deposits						
Demand	41	-21	20	12	-8	4
Savings	668	111	779	964	520	1,484
Time	1,031	-100	931	1,662	172	1,834
Total interest-bearing deposits	1,740	-10	1,730	2,638	684	3,322
Borrowed funds						
Short-term borrowings	143	-5	138	705	64	769
Long-term borrowings	731	-117	614	406	-34	372
Total borrowed funds	874	-122	752	1,111	30	1,141
Total interest expense	2,614	-132	2,482	3,749	714	4,463
Increase in interest differential	$2,897	$-655	$2,242	$2,449	$-700	$1,749

</TABLE>

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

For additional information see Note 1 and Average Balances and Rates on pages 19-20 and 43, respectively, of the Corporation's 1998 Annual Report.

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The principal executive officers of Drovers Bancshares Corporation and its principal subsidiary, The Drovers & Mechanics Bank, as of January 1, 1999, are as follows:

Name: A. Richard Pugh Age: 58
Position and Office: Chairman of the Board, President, and Chief Executive Officer of Drovers Bancshares Corporation and The Drovers & Mechanics Bank. Mr. Pugh joined the organization in 1988, he was appointed President in 1990 and C.E.O. in 1994. He has extensive and diversified experience in bank management.

Name: George L.F. Guyer, Jr. Age: 65
Position and Office: Senior Vice President and Secretary of Drovers Bancshares Corporation and The Drovers & Mechanics Bank. Mr. Guyer joined the

organization in 1964. He served as Marketing Coordinator from 1972 to 1990. Mr. Guyer retired from his position effective January 1, 1999.

Name: Michael J. Groft Age: 43
Position and Office: Executive Vice President of Drovers Bancshares Corporation and Executive Vice President and Senior Lending Officer of The Drovers & Mechanics Bank. Mr. Groft joined the organization in March 1978. He has served in various loan officer positions since 1978.

Name: Debra A. Goodling Age: 40
Position and Office: Executive Vice President and Treasurer of Drovers Bancshares Corporation and Executive Vice President, Treasurer and Chief Financial Officer of The Drovers & Mechanics Bank. Ms. Goodling joined the organization in February 1977. She has served in various financial officer positions since 1981.

Name: Shawn A. Stine Age: 43
Position and Office: Executive Vice President and Senior Corporate Banking Officer of The Drovers & Mechanics Bank. Mr. Stine joined the organization in August 1991 in the position of Vice President and Senior Corporate Banking Officer.

Name: John D. Blecher Age: 37
Position and Office: Senior Vice President, Secretary and Assistant Treasurer of Drovers Bancshares Corporation and Senior Vice President, Secretary and Controller of The Drovers & Mechanics Bank. Mr. Blecher joined the organization in February 1987. He has served as Controller since 1989.

Additional information required for this item is contained on pages 4-8 of the Definitive Proxy Statement dated April 23, 1999.

PART IV. SIGNATURES

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

DROVERS BANCSHARES CORPORATION Date March 24, 1999
(Registrant)

By /S/ A. Richard Pugh
A. Richard Pugh, Chairman of the Board,
President and Chief Executive Officer

Pursuant to the requirement of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the registrant and in the capacities and on the date indicated.

_/S/ L. Doyle Ankrum_____________	__/S/ Robert L. Myers____________
L. Doyle Ankrum, Director	Robert L. Myers, Jr., Director
_/S/ J. Samuel Gregory___________	__/S/ Harlowe R. Prindle_________
J. Samuel Gregory, Director	Harlowe R. Prindle, Director
_/S/ Daniel E. Hess______________	_________________________________
Daniel E. Hess, Director	Basil A. Shorb, III, Director
_/S/ Geroge W. Hodges____________	__/S/ D. John Sparler, Jr._______
George W. Hodges, Director	D. John Sparler, Jr., Director
_/S/ Herbert D. Lavetan__________	_________________________________
Herbert D. Lavetan, Director	Gary A. Stewart, Director
_________________________________	_________________________________
Richard M. Linder, Director	Robert H. Stewart, Jr., Director
_/S/ David C. McIntosh __________	__/S/ Delaine A. Toerper ________
David C. McIntosh, Director	Delaine A. Toerper, Director
_________________________________	__/S/ James S. Wisotzkey ________
Frank Motter, Director	James S. Wisotzkey, Director
_/S/ Debra A. Goodling __________	_/S/ John D. Blecher_____________
Debra A. Goodling, Executive Vice President and Treasurer Principal Financial Officer	John D. Blecher, Senior Vice President, Secretary and Assistant Treasurer Principal Accounting Officer

EXHIBIT 23
DROVERS BANCSHARES CORPORATION AND SUBSIDIARIES

CONSENT OF INDEPENDENT AUDITORS'

We consent to the incorporation by reference in this Form 10-K of Drovers Bancshares Corporation and Subsidiaries of our report dated January 15, 1999, included in the 1998 Annual Report to Shareholders of Drovers Bancshares Corporation and Subsidiaries.

We also consent to the incorporation by reference in the Registration Statement on Form S-3 pertaining to the shelf registration of the Dividend Reinvestment and Stock Purchase Plan of Drovers Bancshares Corporation and Subsidiaries and the Registration Statement on Form S-8 pertaining to the Drovers Bancshares Corporation Incentive Stock Option Plan of our report dated January 15, 1999, with respect to the consolidated financial statements incorporated herein by reference.

/S/ Stambaugh Ness P.C.

York, Pennsylvania

March 24, 1999

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Exhibit 10(a)

AMENDED AND RESTATED
CHANGE OF CONTROL AGREEMENT

AGREEMENT made this 14th day of November, 1995, by and between DROVERS BANCSHARES CORPORATION and THE DROVERS & MECHANICS BANK, a Pennsylvania corporation and a Pennsylvania state chartered bank, respectively, each with offices in York, Pennsylvania, hereinafter collectively called "Company", and A. RICHARD PUGH, hereinafter called "Executive."

BACKGROUND

Executive is employed by Company as President and Chief Executive Officer. In consideration of Executive's past and future services, Company entered into a Change of Control Agreement with Executive on September 28, 1994 ("Prior Agreement") to provide Executive compensation and other benefits upon his termination of employment after a corporate change of control.

In consideration of the mutual covenants and agreements herein, and intending to be legally bound hereby, the parties agree to amend and restate the Prior Agreement as follows:

1. TERM - The term of this Agreement shall commence on the date hereof and end on the earliest to occur of the following:

(a) Executive's death;

(b) Executive's permanent disability resulting in his inability to fully perform or complete his duties as President and Chief Executive Officer for a period anticipated to exceed one hundred eighty 180) consecutive days, provided, however, that in the event Company maintains a long-term disability insurance plan on the date Executive becomes disabled, Executive's permanent disability shall be determined under the criteria of the insurance policy;

(c) Retirement at or after age sixty-five (65);

(d) The date five (5) years after a Change of Control as defined in Section 2;

(e) The date thirty-six (36) months after a Change of Control Termination as defined in Section 2.

(f) The date eighteen (18) months after the termination of Executive's employment if there is no Change of Control as defined in Section 2 in the interim.

However, if Executive's death, permanent disability or retirement, as defined above, occurs after a Change of Control Termination, this Agreement shall terminate on thirty-six (36) months after such Change of Control Termination.

2. CHANGE OF CONTROL TERMINATION - Change of Control Termination shall be deemed to have occurred if there is a Change of Control regarding either or both corporations constituting Company and, during the Employment Security Period, either of the following occurs: (i) Company terminates the employment of Executive other than for Good Cause; or (ii) Executive terminates his employment with Company following a Change in Control and for Good Reason.

(a) "Change of Control" with respect to the Drovers Bancshares Corporation or the Drovers & Mechanics Bank ("Target Company") shall mean the occurrence of any of the following:

(i) the change in the Board of Directors of Target Company, during any twenty-four (24) month period endingon or after the date of this Agreement, if the individuals whowere directors of Target Company at the beginning of the period cease during such period to constitute at least a majority of the Board of Directors;

(ii) the commencement of a tender offer or exchange offer by any entity, person or group (including any affiliates of such entity, person or group, by other than an affiliate of Company) for twenty-five percent (25%) or more of the outstanding voting power of all capital stock of Target Company;

(iii) the acquisition by any entity, person or group (including any affiliates of such entity, person or group) of beneficial ownership, as that term is defined in Rule 13d-3 under the Securities Exchange Act of 1934, of Target Company capital stock entitled to twenty-five percent (25%) or more of the outstanding voting power of all capital stock of Target Company;

(iv) the effective time of the merger, consolidation, division, share exchange, or any other transaction or a series of transactions outside the ordinary course of business ("Business Combination"), as a result of which the holders of the outstanding voting capital stock of Target Company immediately prior to such Business Combination, excluding any shareholder who is a party to the Business Combination (other than Company) or is such party' affiliate as defined in the Securities Exchange Act of 1934, hold less than seventy-five percent 75%) of the voting capital stock of the surviving or resulting corporation;

(v) the transfer of substantially all of the Target Company's assets other than to a wholly owned subsidiary of Target Company.

(b) "Employment Security Period" shall mean the period commencing eighteen (18) months prior to the Change of Control and ending five (5) years after the Change of Control.

(c) "Good Cause" shall mean the occurrence of one or more of the following events:

(i) Executive's willful engagement in gross misconduct that is materially injurious to Company;

(ii) excessive alcohol or drug abuse by Executive which continually and materially interferes with Executive's ability to perform his duties as President and Chief Executive Officer;

(iii) Executive's conviction or plea of nolo contendere of a crime involving fraud, misappropriation, embezzlement or other violation of the law of like nature or severity;

(iv) The voluntary filing or application by Executive for relief in bankruptcy or other moratorium law, or for the appointment of a receiver, trustee or liquidator, or the making by Executive of a general assignment of all his assets for the benefit of creditors, which is not dismissed within sixty days, unless any such action or event is attributable to a judgment rendered against the Executive arising out of his charitable or civic activities.

(v) Executive's willful failure to perform his duties as President and Chief Executive Officer in a manner generally consistent with his past service;

(d) "Good Reason" shall mean the occurrence of one or more of the following without Executive's prior written consent:

(i) an assignment to Executive of any duties materially inconsistent with his position as President and Chief Executive Officer;

(ii) a reduction in Executive's fixed salary or elimination of, or material adverse modification to any incentive or other supplemental currently taxable compensation plan, except any such reduction, elimination or modification that is applied generally to senior executive officers of Company;

(iii) a relocation of Executive's principal executive office outside of York County, Pennsylvania, or any requirement that Executive be based other than at Company's principal executive offices in York, Pennsylvania, except on a temporary basis in the ordinary course of business;

(v) termination or material adverse modification to any nonqualified deferred compensation plan in which Executive participates without substitution of comparable benefits, except any such

termination or modification that is applied generally to senior executive officers who had such benefits.

3. COMPENSATION AND BENEFITS - Upon a Change of Control Termination, Company shall provide Executive, in addition to any other rights or benefits to which Executive may be entitled by contract or under any policy or custom of Company, the following:

(a) For a term commencing with such termination and extending for three (3) years thereafter, Company shall pay Executive an annual compensation equal to Executive's highest compensation received in that calendar year included with the period commencing with the calendar year in which this Agreement is executed initially and extending to the calendar year in which termination occurs (annualized as necessary). For purposes of the foregoing, "compensation" shall be (i) salary without reduction for any contribution to (aa) cash or (ii) deferred arrangements under Section 401(k) of the Internal Revenue Code of 1986, as amended [or successor provision] and (bb) any nonqualified deferred compensation plan, plus (ii) non-deferred incentive compensation (collectively "Compensation"), and shall be payable in equal installments with such frequency as Company customarily pays its payroll. For purposes of this paragraph (a), Executive's Compensation will be reduced, beginning with the first month following his re-employment with another employer, by fifty percent (50%) of the Form W-2 income, with the new employer. Executive shall have no obligation to mitigate his damages by seeking employment following his termination of employment with Company.

(b) An amount equal to forty percent (40%) of his Compensation, payable in one lump sum at the time of termination, to compensate Executive for all expenses incurred by him in connection with any search for a new job and/or any relocation. Executive shall have no duty to demonstrate his need for, or to account for the use of, the disbursement of same.

(c) Company shall provide, at its expense, for the continuation in full force and effect for a period ending upon the earlier to occur of Executive's death or three (3) years following the Change of Control Termination, all health, dental, life insurance and disability plans, programs and arrangements in which Executive was entitled to participate immediately prior to such termination, provided that his continued participation is possible under the terms and provisions of such plans, programs and arrangements, and under the laws and regulations applicable thereto. If Executive's participation in any plan, program or arrangement is barred, Company shall use its best efforts to obtain and pay for, on Executive's behalf, individual insurance policies, plans, programs or arrangements which provide benefits equivalent to those which Executive is entitled to receive prior to the date of termination. However, Company may, at any time, deny Executive coverage under a health, dental, life insurance or disability plan, program or arrangement, to the extent such coverage is duplicate of coverage provided Executive by any subsequent employer. At the end of the period of coverage, to the extent permitted by the plans and programs, Executive shall have the option to have assigned to him, any assignable insurance policy owned by Company and relating specifically to him, including, without limitation, CNA-Continental

Assurance Company policy #3348167, #3363137 and #3393056 if then in force and owned by Company. Executive's right to continuation of health and medical coverage under the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended, shall commence at the end of the three (3) year period following the Change of Control Termination.

(d) Company shall provide, at its expense, for the continuation in full force and effect for a period ending upon the earlier to occur of Executive's death, retirement, or three (3) years following the Change of Control Termination, all pension, profit-sharing, savings, and nonqualified deferred compensation plan including the supplemental retirement income plan in which Executive was entitled to participate immediately prior to such termination, provided that his continued participation is possible under the terms and provisions of such plans, programs and arrangements, and under the laws and regulations applicable thereto. If Executive's participation in any plan, program or arrangement is barred, Executive shall be entitled to receive, upon a Change of Control Termination, a lump sum payable annually equal to the annual contribution, payments, credits or allocations Company would have provided him, to his account or on his behalf under such plan, program or arrangement had his participation and eligibility continued for the three (3) year period following termination.

(e) Executive may exercise stock options issued to him pursuant to (i) the Drovers Bancshares Incentive Stock Option Plan as adopted by the Board of Directors on August 28, 1985 and as herein modified ("Stock Option Plan"), and (ii) Drovers Bancshares Corporation 1995 Stock Option Plan ("1995 Plan"). Such stock options shall be exercisable fully, and closing shall occur, within ninety (90) days of the Change of Control Termination whether or not:

(i) A period of one (1) year has elapsed from the date of grant to the date of exercise, as required by Section 5, paragraph (c) of the Stock Option Plan, or any similar provision under the 1995 Plan.

(ii) Any installment exercise terms as stipulated by the Stock Option Plan's administrative committee ("Committee") and any agreement issued under Section 5, paragraph (c) of the plan has been satisfied, or any similar stipulation under the 1995 Plan.

(iii) The Committee has extended the option period upon Executive's termination pursuant to Section 5, paragraph (f) of the Stock Option Plan, or any similar Provision in the 1995 Plan. However, in no event shall Executive Exercise any stock option after the earlier of (i) ten (10) years from the date of grant, or (ii) the expiration of the option period as stipulated in an agreement issued under Section 5, paragraph (c) of the Stock Option Plan, or any similar provision in the 1995 Plan, as applicable to said option(s).

The Committee shall authorize this acceleration of Executive's stock options under the Stock Option Plan by executing on the date of this Agreement the Stock Option Acceleration Authorization attached hereto as Exhibit A. A similar acceleration occurs under Section 8 of the 1995 Plan.

4. RIGHT TO HEARING. In the event Company believes that a Good Cause for termination of Executive's employment may exist, Company shall provide Executive with written notice of its intention to terminate for Good Cause and the facts upon which Company bases such belief, which notice shall be given at least sixty (60) days prior to the proposed effective date for the termination. For such termination to be effective, Executive shall be provided with an opportunity within the said sixty (60) day period to be heard by the Board of Directors of Company. Thereafter, the Board may at its discretion elect to terminate Executive's employment by majority vote.

5. CONTINUANCE OF BENEFITS. If Executive has commenced receiving benefits hereunder, such benefits shall continue (subject however, to the specific terms and conditions applicable to each benefit as set forth herein), for the full term as provided in Section 3, above, notwithstanding that Executive subsequently dies, becomes permanently disabled, or retires at or after age sixty-five (65). Executive may, at any time and by written notice to Company in the form attached hereto as Exhibit B, name one or more beneficiaries of any such benefits in the event of his death; provided, however, that upon Executive's death, the distribution of Executive's benefits under a qualified pension plan shall be made in accordance with the terms, including any beneficiary designation provision, of such plan. A designation of beneficiary under this Agreement shall be effective on the date actually received by Company. If Executive fails to designate a beneficiary, or if no beneficiary survives Executive, the benefits provided herein shall be paid:

(a) to his surviving spouse;

(b) if there is no surviving spouse, to his living descendants per stirpes; or

(c) if there is neither a surviving spouse nor descendants, to his duly appointed and qualified executor or personal representative.

6. NO LIMITATION UPON PAYMENTS - The parties believe that the benefits payable under Section 3, above, represent reasonable compensation for personal services and as such no portion thereof constitutes an "excess parachute payment" as defined in Section 280G of the Internal Revenue Code of 1986, as amended (or successor provision). The parties acknowledge that, should any portion be so characterized, substantial adverse tax consequences would result to both the payor (no tax deduction) and to the payee (excise tax). Nonetheless, the parties intend that the amounts be paid in full as provided herein, notwithstanding any such characterization and tax consequence.

7. WITHHOLDING - Company may withhold from any benefits payable under this Agreement all federal, state, city or other taxes as shall be required pursuant to any law or governmental regulation or ruling.

8. SOURCE OF PAYMENT - All payments provided under this Agreement may be paid in cash from the general funds of the Company and no special or separate fund shall be required to be established. Executive shall have no right, title or interest whatever in or to any investment which Company may

make to fund its obligations hereunder. Nothing contained in this Agreement, and no action taken pursuant to its provisions, shall create or be construed to create a trust of any kind or a fiduciary relationship between Company and Executive or any other person.

9. RABBI TRUST - The Company is establishing contemporaneously herewith that rabbi trust attached hereto as Exhibit "C" ("Trust"), to which it is contributing an initial corpus of $100. In the event of a change of control as defined herein, the Company shall, in accordance with the terms of the Trust, contribute thereto the amount described in Section 1(e) thereof. Thereafter, amounts payable hereunder shall be paid first from the assets of such Trust and the income thereon. To the extent that the assets of the Trust and the income thereon are insufficient, Company shall pay Executive the amount due hereunder.

10. NONASSIGNABILITY - Neither this Agreement nor any right or interest hereunder shall, without Company's prior written consent, be subject to any sale, transfer, assignment, pledge, attachment, garnishment, or other alienation or encumbrance of any kind.

11. ATTACHMENT - Except as required by law, the right to receive payments under this Agreement shall not be subject to anticipation, sale, encumbrance, charge, levy, or similar process or assignment by operation of

law.

12. SUCCESSORS AND ASSIGNS - This Agreement shall inure to the benefit of and be binding upon any corporate or other successor of the Company which shall acquire, directly or indirectly, by merger, acquisition, consolidation, purchase, or otherwise, all or substantially all of the assets of the Company, and shall otherwise inure to the benefit of and be binding upon the parties hereto and their respective heirs, executors, administrators, successors and assigns. Nothing in the Agreement shall preclude Company from consolidating or merging into or with or transferring all or substantially all of its assets to another person, provided such other person shall assume this Agreement and all obligations of Company hereunder. Upon such a consolidation, merger, or transfer of assets and assumption, the term "Company" as used herein, shall mean such other person and this Agreement shall continue in full force and effect.

13. WAIVERS NOT TO BE CONTINUED - Any waiver by a party or any breach of this Agreement by another party shall not be construed as a continuing waiver or as a consent to any subsequent breach by the other party.

14. NOTICES - All notices, requests, demands and other communications hereunder shall be in writing and shall be deemed to have been duly given if delivered by hand or mailed by certified or registered mail, return receipt requested, with postage prepaid, to the following addresses or to such other address as either party may designate by like notice:

A. If to Executive, to: A. Richard Pugh
70 Walden Court
York, PA 17404-9730

B. If to Company, to: Drovers Bancshares Corporation
30 South George Street
York, PA 17401

and to such other or additional person or persons as either party shall have designated to the other party in writing by like notice.

15. ARBITRATION - Any claim or controversy arising out of or relating to this Agreement or any breach thereof shall be settled by arbitration. Any such arbitration shall take place in York, Pennsylvania, in accordance with the rules of the American Arbitration Association. Judgment upon the written award rendered by a majority of the arbitrators may be entered in the Court having jurisdiction thereof. The written decision of a majority of the arbitrators shall be valid, binding, final, and nonappealable.

16. MISCELLANEOUS -

(a) In the event that a party hereto wrongfully fails to perform its obligations hereunder as determined and evidenced by a final and nonappealable determination of a board of arbitration or court, as the case may be, such party shall thereupon be obligated to promptly pay and reimburse the other party hereto for its costs and expenses incurred (including attorney, accounting, actuary and other professional consultants) in enforcing its or his entitlements hereunder.

(b) Executive shall be under no obligation to execute a covenant against competition as a condition to receive any benefit otherwise payable hereunder.

(c) Upon request, Executive shall promptly provide Company with information regarding his subsequent employment as contemplated herein, including that described in Section 3 hereof.

(d) This Agreement constitutes the entire agreement between the parties with respect to the subject matter hereof, and supersedes and replaces all prior agreements between the parties. No amendment, waiver or termination of any of the provisions hereof shall be effective unless in writing and signed by the party against whom it is sought to be enforced. Any written amendment, waiver or termination hereof executed by Company and Executive shall be binding upon them and upon all other persons, without the necessity of securing the consent of any other person, and no person shall be deemed to be third-party beneficiary under this Agreement.

(e) This Agreement shall not limit or infringe upon the right of Company to terminate the employment of Executive at any time, nor upon the right of Executive to terminate his employment with Company, each subject however to the specific provisions hereof.

(f) "Person" as used in this Agreement means a natural person, joint venture, corporation, sole proprietorship, trust, estate, partnership, cooperative, association, non-profit organization or any other legal, cognizable entity.

(g) This Agreement may be executed in one or more counterparts, each of which shall be deemed an original, but all of which taken together shall constitute one and the same Agreement.

(h) Except as otherwise expressly set forth herein, no failure on the part of any party hereto to exercise and no delay in exercising any right, power or remedy hereunder shall

operate as a waiver thereof, nor shall any single or partial exercise of any right, power or remedy hereunder preclude any other or further exercise thereof or the exercise of any other right, power or remedy.

(i) The headings of the sections of this Agreement have been inserted for convenience of reference only and shall in no way restrict or modify any of the terms or provisions hereof.

(j) This Agreement shall be governed and construed and the legal relationships of the parties determined in accordance with the laws of the Commonwealth of Pennsylvania applicable to be performed in the Commonwealth of Pennsylvania.

(k) The obligation of Company hereunder shall be joint and several.

(l) In the event that a party hereto wrongfully fails to perform its obligations hereunder as determined by a final and nonappealable determination of a board of arbitrator or court, such party shall thereupon be obligated to promptly pay and reimburse the other party hereto for its costs and expenses incurred (including attorney, accounting, actuary and other profesional consultants) in enforcing its or his entitlements hereunder.

ATTEST:	COMPANY: DROVERS BANCSHARES CORPORATION
________________________________	By____
ATTEST:	THE DROVERS & MECHANICS BANK
________________________________	By____
WITNESS:	EXECUTIVE
________________________________	__________________________________(SEAL) A. Richard Pugh

EXHIBIT A

STOCK OPTION ACCELERATION AUTHORIZATION

Pursuant to Section 5(c) of the Drovers Bancshares Incentive Stock Option Plan ("Plan"), dated August 28, 1985, the Committee under said Plan hereby authorizes the acceleration of A. Richard Pugh's stock options under the Plan to the extent described in Section 3(e) of the Amended and Restated Change of Control Agreement by and between Drovers Bancshares Corporation, Drovers & Mechanics Bank, and A. Richard Pugh, dated ______________, 1995.

__________________________________ __________________________________

__________________________________ __________________________________

Dated: ___________________________

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EXHIBIT B

BENEFICIARY DESIGNATION FORM

I hereby designate the person(s) named below as beneficiary (or beneficiaries) to receive all amounts payable under the Amended and Restated Change of Control Agreement by and between Drovers Bancshares Corporation and Drovers & Mechanics Bank ("Company"), and A. Richard Pugh, dated ______________, 1995, which have not been paid at the date of my death.

Name of Beneficiary: Address:

I acknowledge that this Beneficiary Designation shall become effective on the date actually received by Company and shall render all prior Beneficiary Designations, if any, void.

WITNESS

___________________________________ ______________________________(SEAL)
A. Richard Pugh

Date received by Company:

____

COMPANY

____

Exhibit 10(b)

AMENDED AND RESTATED
THE DROVERS & MECHANICS BANK SUPPLEMENTAL PENSION PLAN
FOR A. RICHARD PUGH

In consideration of your services with The Drovers & Mechanics Bank ("Employer"), Employer adopted The Drovers & Mechanics Bank Supplemental Pension Plan for A. Richard Pugh dated September 28,1994 ("Prior Plan") for the purpose of providing you and/or your beneficiary pension benefits ("Supplemental Pension") and death benefits ("Supplemental Death Benefit") in addition to the annual salary and the pension and welfare benefits to which you and/or your beneficiary may be entitled under pension and welfare benefit plans, programs or arrangements of Employer or its affiliate(s). Employer hereby amends and restates said Prior Plan as follows:

1. DEFINITIONS. As used herein, the following words and phrases shall have the meanings described below:

1.1 "Actual Retirement Date" means the first day of the month following your retirement.

1.2 "Annual Salary" means your average annual compensation, including non-deferred incentive pay, without reduction for (i) any contribution to cash or deferred arrangements under Section 401(k) of the Internal Revenue Code of 1986, as amended (or successor provision) or (ii) any nonqualified deferred compensation plan, as reported for those three (3) full calendar years included within the five (5) full calendar years immediately preceding the calendar year of your Actual Retirement Date, in which your annual compensation was the greatest.

1.3 "Early Retirement Date" means the first day of the month following your sixty-second (62nd) birthday.

1.4 "Normal Retirement Date" means the first day of the month following your sixty-fifth (65th) birthday.

1.5 "Pension Plan" means The Drovers & Mechanics Pension Plan, as in effect from time to time.

1.6 "Supplemental Pension" means the projected pension hereunder at your Normal Retirement Date which when added to your then primary social security amount and your then projected pension from the Pension Plan will yield an annual benefit equal to the "Target Percentage" of your Annual Salary. The Target Percentage at Normal Retirement Date is 65% and at any other time is adjusted from 65% by use of the actuarial assumptions, methods and computational techniques then utilized by the Pension Plan ("Adjusted Target Percentage").

1.7 "Supplemental Death Benefit" means the death benefit as defined in Section 3.

2. SUPPLEMENTAL PENSION

2.1 Normal Retirement. If you retire on your Normal Retirement Date, Employer shall pay to you a Supplemental Pension in the form of a ten year term certain and life payout, or as otherwise selected by you under Section 4 hereof.

2.2 Early or Late Retirement. Except as provided to the contrary in Section 5.2 below, if you retire or otherwise terminate Employment prior to attaining age 62, no benefits shall be payable under this Plan. If you retire after having attained age 62 and other than on your Normal Retirement Date, Employer shall pay you, commencing at your Actual Retirement Date, a Supplemental Pension calculated using your Adjusted Target Percentage.

2.3 Notice. In the event of an early retirement, you shall provide Employer at least six months advance written notice of your Actual Retirement Date.

3. SUPPLEMENTAL DEATH BENEFIT. If, upon your death prior to Actual Retirement Date, your surviving spouse is entitled to receive a death benefit under the Pension Plan, your spouse shall receive a Supplemental Death Benefit hereunder, which shall be calculated in accordance with the provisions of the Pension Plan substituting, however, the Adjusted Target Percentage for the percentage specified in the Pension Plan, with the result then reduced by the Pension Plan death benefit and the social security benefit, and payable in the same manner as the Pension Plan benefit.

4. PAYMENT OPTIONS. Insofar as the Pension Plan permits the making of elections as to the mode of payment of benefits, such election by you will likewise apply with respect to the manner of payment and the amount of the Supplemental Pension, using the actuarial equivalency rules specified in the Pension Plan for optional forms of benefits.

5. TRUST. The Employer is establishing contemporaneously herewith that trust attached hereto as Exhibit "A" ("Trust"), to which it is contributing an initial corpus of $100. In the event of a change of control as defined in that Amended and Restated Change of Control Agreement dated   , 1995, by and between the parties hereto, the Employer shall, in accordance with the terms of the Trust, contribute thereto the amount described in Section 1(e) thereof. Thereafter, amounts payable hereunder shall be paid first from the assets of such Trust and the income thereon. To the extent that the assets of the Trust and the income thereon are insufficient, Employer shall pay Executive the amount due hereunder.

6. AMENDMENT AND TERMINATION. This Plan may be terminated, amended or modified by Employer, provided however:

6.1 No such amendment shall reduce the Supplemental Pension and/or the Supplemental Death Benefit which (a) has commenced prior to the effective date of such amendment, modification or termination or (b) would be payable if you had attained age 62 and had retired on the day immediately prior to such effective date, provided however, the benefit so determined shall not commence until you actually attain age 62 and if you die in the interim, the benefit shall be the death benefit determined in accordance with the provisions hereof.

6.2 In the event of a Change of Control, this Plan may not be amended to reduce the Supplemental Pension and/or the Supplemental Death Benefit and may not be terminated during the Employment Security Period and the benefits shall continue to accrue thereunder in accordance with the provisions of the Change of Control Agreement and hereof. The terms "Change of Control", "Employment Security Period" and "Change of Control Termination" shall have the meaning provided under the Amended and Restated Change of Control Agreement by and between Drovers Bancshares Corporation, Drovers & Mechanics Bank, and A. Richard Pugh, dated,______________, 1995. If you suffer a Change of Control Termination prior to attaining Early Retirement Date, you shall receive a Supplemental Pension commencing at Early Retirement Date based on your Adjusted Target Percentage and your Annual Salary as defined in Section 1.2 above determined as of the date of your Change of Control Termination rather than Actual Retirement Date. Benefits so calculated shall commence on your Early Retirement Date rather than your Actual Retirement Date.

7. MISCELLANEOUS

7.1 In the event that a party hereto wrongfully fails to perform its obligations hereunder as determined by a final and nonappealable determination of a board of arbitrator or court, such party shall thereupon be obligated to promptly pay and reimburse the other party hereto for its costs and expenses incurred (including attorney, accounting, actuary and other professional consultants) in enforcing its or his entitlements hereunder.

7.2 Nothing herein (a) shall be deemed to exclude you from any compensation, pension, stock option, incentive pay or other benefits to which you otherwise are or might become entitled to as an employee of Employer, or (b) shall be construed as conferring on you the right to continue in the employ of Employer.

7.3 Any amounts payable hereunder shall not be deemed salary or other compensation to you for the purposes of computing benefits to which you may be entitled under the Pension Plan or any other plan, program or arrangement of Employer for the benefit of its employees.

7.4 The rights and obligations hereunder shall be binding on you and your beneficiary and on the successor and assigns of Employer.

7.5 Employer shall be responsible for the general operation and administration of this Plan.

7.6 This Plan shall be unfunded and no provision shall at any time be made with respect to segregating any assets of Employer for payment of any benefits hereunder. No person will have any interest in any assets of Employer by reason of the right to receive a benefit hereunder. You, your surviving spouse, and any other beneficiary, will have only the rights of a general unsecured creditor of Employer with respect to any rights hereunder.

7.7 The rights and interests hereunder shall not, unless with Employer's prior written consent, be subject to any sale, transfer, assignment, pledge, attachment, garnishment, or other alienation or encumbrance of any kind.

7.8 Except as required by law, the right to receive payments hereunder shall not be subject to anticipation, sale, encumbrance, charge, levy, or similar process or assignment by operation of law.

7.9 The headings of the sections of this Plan have been inserted for convenience of reference only and shall in no way restrict or modify any of the terms or provisions hereof.

7.10 This Plan shall be administered and construed in accordance with the laws of the Commonwealth of Pennsylvania.

IN WITNESS WHEREOF, Employer has caused this Plan to be executed this_____________day of __________________, 1995.

ATTEST: EMPLOYER:
THE DROVERS & MECHANICS BANK

______________________________ By____________________________________

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FIRST AMENDMENT TO
THE DROVERS AND MECHANICS BANK
SUPPLEMENTAL PENSION PLAN FOR
A. RICHARD PUGH (AMENDED AND RESTATED)

By this Agreement, the undersigned hereby amend that Amended and Restated Supplemental Pension Plan dated November 14, 1995 ("Plan"), effective as of January 1, 1996.

1. Section 4 of the Plan is hereby amended and restated in its entirety to read as follows:

> "4. Payment Options. Insofar as the Pension Plan permits the making of elections as to the mode of payment of benefits, such election by you will likewise apply with respect to the manner of payment and the amount of the Supplemental Pension, using the actuarial equivalency rules specified in the Pension Plan for optional forms of benefits, provided however and the foregoing to the contrary notwithstanding, there shall be no option hereunder for payment of benefits in a lump sum."

2. In all other respects, the Agreement as herein modified shall remain in full force and effect.

IN WITNESS WHEREOF, and intending to be legally bound hereby, the parties have set their hands and seals this 19th day of January, 1996, effective for all purposes as of January 1, 1996.

EMPLOYER:

ATTEST: THE DROVERS & MECHANICS BANK

By_____________________________

George L. F. Guyer, Jr.
Senior Vice President and
Secretary

Richard M. Linder
Chairman of the Board

WITNESS:

____

EMPLOYEE:

(SEAL)

A. Richard Pugh

Exhibit 10(c)

CHANGE OF CONTROL AGREEMENT

AGREEMENT made this ____ day of December, 1998, by and between DROVERS BANCSHARES CORPORATION and THE DROVERS & MECHANICS BANK, a Pennsylvania corporation and a Pennsylvania state chartered bank, respectively, each with offices in York, Pennsylvania, hereinafter collectively called "Company", and "Named Executive Vice President", hereinafter called "Executive."

BACKGROUND

Executive is employed by Company as an Executive Vice President. In consideration of Executive's past and future services, Company wishes to enter into a Change of Control Agreement with Executive to provide Executive compensation and other benefits in the event of his or her termination of employment after a corporate change of control.

In consideration of the mutual covenants and agreements herein, and Intending to be legally bound hereby, the parties agree as follows:

1. TERM - The term of this Agreement shall commence on the date hereof and end on the earliest to occur of the following:

(a) Executive's death;

(b) Executive's permanent disability resulting in his inability to fully perform or complete his or her duties as Executive Vice President for a period anticipated to exceed one hundred eighty (180) consecutive days, provided, however, that in the event Company maintains a long-term disability insurance plan on the date Executive becomes disabled, Executive's permanent disability shall be determined under the criteria of the insurance policy;

(c) Retirement at or after age sixty-five (65);

(d) The date two (2) years after a Change of Control as defined in Section 2;

(e) The date eighteen (18) months after a Change of Control Termination as defined in Section 2.

(f) The date twelve (12) months after the termination of Executive's employment if there is no Change of Control as defined in Section 2 in the interim.

However, if Executive's death, permanent disability or retirement, as defined above, occurs after a Change of Control Termination, this Agreement shall terminate on eighteen (18) months after such Change of Control Termination.

2. CHANGE OF CONTROL TERMINATION - Change of Control Termination shall be deemed to have occurred if there is a Change of Control regarding either or both corporations constituting Company and, during the Employment Security Period, either of the following occurs: (i) Company terminates the employment of Executive other than for Good Cause; or (ii) Executive terminates his or her employment with Company following a Change in Control and for Good Reason.
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(a) "Change of Control" with respect to the Drovers Bancshares Corporation or the Drovers & Mechanics Bank ("Target Company") shall mean the occurrence of any of the following:

(i) the change in the Board of Directors of Target Company, during any twenty-four (24) month period ending on or after the date of this Agreement, if the individuals who were directors of Target Company at the beginning of the period cease during such period to constitute at least a majority of the Board of Directors;

(ii) the commencement of a tender offer or exchange offer by any entity, person or group (including any affiliates of such entity, person or group, by other than an affiliate of Company) for twenty-five percent (25%) or more of the outstanding voting power of all capital stock of Target Company;

(iii) the acquisition by any entity, person or group (including any affiliates of such entity, person or group) of beneficial ownership, as that term is defined in Rule 13d-3 under the Securities Exchange Act of 1934, of Target Company capital stock entitled to twenty-five percent (25%) or more of the outstanding voting power of all capital stock of Target Company;

(iv) the effective time of the merger, consolidation, division, share exchange, or any other transaction or a series of transactions outside the ordinary course of business ("Business Combination"), as a result of which the holders of the outstanding voting capital stock of Target Company immediately prior to such Business Combination, excluding any shareholder who is a party to the Business Combination (other than Company) or is such party' affiliate as defined in the Securities Exchange Act of 1934, hold less than seventy-five percent (75%) of the voting capital stock of the surviving or resulting corporation;

(v) the transfer of substantially all of the Target Company's assets other than to a wholly owned subsidiary of Target Company.

(b) "Employment Security Period" shall mean the period commencing twelve (12) months prior to the Change of Control and ending two (2) years after the Change of Control.

(c) "Good Cause" shall mean the occurrence of one or more of the following events:

(i) Executive's willful engagement in gross misconduct that is materially injurious to Company;

(ii) excessive alcohol or drug abuse by Executive which continually and materially interferes with Executive's ability to perform his duties as Executive Vice President;

(iii) Executive's conviction or plea of nolo contendere of a crime involving fraud, misappropriation,

embezzlement or other violation of the law of like nature or severity;

(iv) The voluntary filing or application by Executive for relief in bankruptcy or other moratorium law, or for the appointment of a receiver, trustee or liquidator, or the making by Executive of a general assignment of all his or her assets for the benefit of creditors, which is not dismissed within sixty days, unless any such action or event is attributable to a judgment rendered against the Executive arising out of his or her charitable or civic activities.

(v) Executive's willful failure to perform his or her duties as Executive Vice President in a manner generally consistent with his or her past service;

(d) "Good Reason" shall mean the occurrence of one or more of the following without Executive's prior written consent:

(i) an assignment to Executive of any duties materially inconsistent with his or her position as Executive Vice President;

(ii) a reduction in Executive's fixed salary or elimination of, or material adverse modification to any incentive or other supplemental currently taxable compensation plan, except any such reduction, elimination or modification that is applied generally to senior executive officers of Company;

(iii) a relocation of Executive's principal executive office outside of York County, Pennsylvania, or any requirement that Executive be based other than at Company's principal executive offices in York, Pennsylvania, except on a temporary basis in the ordinary course of business;

(iv) a termination or material adverse modification to any nonqualified deferred compensation plan in which Executive participates without substitution of comparable benefits, except any such termination or modification that is applied generally to senior executive officers who had such benefits.

3. COMPENSATION AND BENEFITS - Upon a Change of Control Termination, Company shall provide Executive, in addition to any other rights or benefits to which Executive may be entitled by contract or under any policy or custom of Company, the following:

(a) For a term commencing with such termination and extending for eighteen (18) months thereafter, Company shall pay Executive an annual compensation equal to Executive's highest compensation received in that calendar year included with the period commencing with the calendar year in which this Agreement is executed initially and extending to the calendar year in which termination occurs (annualized as necessary). For purposes of the foregoing, "compensation" shall be (i) salary without reduction for any contribution to (aa) cash or deferred arrangements under Section 401(k) of the Internal Revenue Code of 1986, as amended [or successor provision] and (bb) any

nonqualified deferred compensation plan, plus (ii) non-deferred incentive compensation (collectively "Compensation"), and shall be payable in equal installments with such frequency as Company customarily pays its payroll. For purposes of this paragraph (a), Executive's Compensation will be reduced, beginning with the first month following his re-employment with another employer, by fifty percent (50%) of the Form W-2 income, with the new employer. Executive shall have no obligation to mitigate his or her damages by seeking employment following his or her termination of employment with Company.

(b) Company shall provide, at its expense, for the continuation in full force and effect for a period ending upon the earlier to occur of Executive's death or eighteen (18) months following the Change of Control Termination, all health, dental, life insurance and disability plans, programs and arrangements in which Executive was entitled to participate immediately prior to such termination, provided that his or her continued participation is possible under the terms and provisions of such plans, programs and arrangements, and under the laws and regulations applicable thereto. If Executive's participation in any plan, program or arrangement is barred, Company shall use its reasonable best efforts to obtain and pay for, on Executive's behalf, individual insurance policies, plans, programs or arrangements which provide benefits equivalent to those which Executive is entitled to receive prior to the date of termination. However, Company may, at any time, deny Executive coverage under a health, dental, life insurance or disability plan, program or arrangement, to the extent such coverage is duplicate of coverage provided Executive by any subsequent employer. At the end of the period of coverage, to the extent permitted by the plans and programs, Executive shall have the option to have assigned to him or her, any assignable insurance policy owned by Company and relating specifically to him or her. Executive's right to continuation of health and medical coverage under the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended, shall commence at the end of the eighteen (18) month period following the Change of Control Termination.

(c) Company shall provide, at its expense, for the continuation in full force and effect for a period ending upon the earlier to occur of Executive's death, retirement, or eighteen (18) months following the Change of Control Termination, all pension, profit-sharing, savings, and nonqualified deferred compensation plan including the supplemental retirement income plan in which Executive was entitled to participate immediately prior to such termination, provided that his or her continued participation is possible under the terms and provisions of such plans, programs and arrangements, and under the laws and regulations applicable thereto. If Executive's participation in any plan, program or arrangement is barred, Executive shall be entitled to receive, upon a Change of Control Termination, a lump sum payable annually equal to the annual contribution, payments, credits or allocations Company would have provided him or her, to his or her account or on his or her behalf under such plan, program or arrangement had his or her participation and eligibility continued for the eighteen (18) month period following termination.

(d) Executive may exercise stock options issued to him or her pursuant to (i) the Drovers Bancshares Incentive Stock Option Plan as adopted by the Board of Directors on August 28, 1985 and as herein modified ("Stock Option Plan"), and (ii) Drovers Bancshares Corporation 1995 Stock Option Plan ("1995 Plan"). Such stock options shall be exercisable fully, and closing shall occur, within ninety (90) days of the Change of Control Termination whether or not:

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(i) A period of one (1) year has elapsed from the date of grant to the date of exercise, as required by Section 5, paragraph (c) of the Stock Option Plan, or any similar provision under the 1995 Plan.

(ii) Any installment exercise terms as stipulated by the Stock Option Plan's administrative committee ("Committee") and any agreement issued under Section 5, paragraph (c) of the plan has been satisfied, or any similar stipulation under the 1995 Plan.

(iii) The Committee has extended the option period upon Executive's termination pursuant to Section 5, paragraph (f) of the Stock Option Plan, or any similar provision in the 1995 Plan. However, in no event shall Executive exercise any stock option after the earlier of (i) ten (10) years from the date of grant, or (ii) the expiration of the option period as stipulated in an agreement issued under Section 5, paragraph (c) of the Stock Option Plan, or any similar provision in the 1995 Plan, as applicable to said option(s).

The Committee shall authorize this acceleration of Executive's stock options under the Stock Option Plan by executing on the date of this Agreement the Stock Option Acceleration Authorization attached hereto as Exhibit A. A similar acceleration occurs under Section 8 of the 1995 Plan.

4. RIGHT TO HEARING - In the event Company believes that a Good Cause for termination of Executive's employment may exist, Company shall provide Executive with written notice of its intention to terminate for Good Cause and the facts upon which Company bases such belief, which notice shall be given at least sixty (60) days prior to the proposed effective date for the termination. For such termination to be effective, Executive shall be provided with an opportunity within the said sixty (60) day period to be heard by the Board of Directors of Company. Thereafter, the Board may at its discretion elect to terminate Executive's employment by majority vote.

5. CONTINUANCE OF BENEFITS - If Executive has commenced receiving benefits hereunder, such benefits shall continue (subject however, to the specific terms and conditions applicable to each benefit as set forth herein), for the full term as provided in Section 3, above, notwithstanding that Executive subsequently dies, becomes permanently disabled, or retires at or after age sixty-five (65). Executive may, at any time and by written notice to Company in the form attached hereto as Exhibit B, name one or more beneficiaries of any such benefits in the event of his or her death; provided,

however, that upon Executive's death, the distribution of Executive's benefits under a qualified pension plan shall be made in accordance with the terms, including any beneficiary designation provision, of such plan. A designation of beneficiary under this Agreement shall be effective on the date actually received by Company. If Executive fails to designate a beneficiary, or if no beneficiary survives Executive, the benefits provided herein shall be paid:

(a) to his or her surviving spouse;

(b) if there is no surviving spouse, to his or her living descendants per stirpes; or

(c) if there is neither a surviving spouse nor descendants, to his or her duly appointed and qualified executor or personal representative.

6. NO LIMITATION UPON PAYMENTS - The parties believe that the benefits payable under Section 3, above, represent reasonable compensation for personal services and as such no portion thereof constitutes an "excess parachute payment" as defined in Section 280G of the Internal Revenue Code of 1986, as amended (or successor provision). The parties acknowledge that, should any portion be so characterized, substantial adverse tax consequences would result to both the payor (no tax deduction) and to the payee (excise tax). Nonetheless, the parties intend that the amounts be paid in full as provided herein, notwithstanding any such characterization and tax consequence.

7. WITHHOLDING - Company may withhold from any benefits payable under this Agreement all federal, state, city or other taxes as shall be required pursuant to any law or governmental regulation or ruling.

8. SOURCE OF PAYMENT - All payments provided under this Agreement may be paid in cash from the general funds of the Company and no special or separate fund shall be required to be established. Executive shall have no right, title or interest whatever in or to any investment which Company may make to fund its obligations hereunder. Nothing contained in this Agreement, and no action taken pursuant to its provisions, shall create or be construed to create a trust of any kind or a fiduciary relationship between Company and Executive or any other person.

9. RABBI TRUST - The Company has established a rabbi trust at Hershey Trust Company. In the event of a change of control as defined herein, the Company shall, in accordance with the terms of the Trust, contribute thereto the amount described in Section 1(e) thereof. Thereafter, amounts payable hereunder shall be paid first from the assets of such Trust and the income thereon. To the extent that the assets of the Trust and the income thereon are insufficient, Company shall pay Executive the amount due hereunder.

10. NONASSIGNABILITY - Neither this Agreement nor any right or interest hereunder shall, without Company's prior written consent, be subject to any sale, transfer, assignment, pledge, attachment, garnishment, or other alienation or encumbrance of any kind.

11. ATTACHMENT - Except as required by law, the right to receive payments under this Agreement shall not be subject to anticipation, sale, encumbrance, charge, levy, or similar process or assignment by operation of law.

12. SUCCESSORS AND ASSIGNS - This Agreement shall inure to the benefit of and be binding upon any corporate or other successor of the Company which shall acquire, directly or indirectly, by merger, acquisition, consolidation, purchase, or otherwise, all or substantially all of the assets of the Company, and shall otherwise inure to the benefit of and be binding upon the parties hereto and their respective heirs, executors, administrators, successors and assigns. Nothing in the Agreement shall preclude Company from consolidating or merging into or with or transferring all or substantially all of its assets to another person, provided such other person shall assume this Agreement and all obligations of Company hereunder. Upon such a consolidation, merger, or transfer of assets and assumption, the term "Company" as used herein, shall mean such other person and this Agreement shall continue in full force and effect.

13. WAIVERS NOT TO BE CONTINUED - Any waiver by a party or any breach of this Agreement by another party shall not be construed as a continuing waiver or as a consent to any subsequent breach by the other party.

14. NOTICES - All notices, requests, demands and other communications hereunder shall be in writing and shall be deemed to have been duly given if delivered by hand or mailed by certified or registered mail, return receipt requested, with postage prepaid, to the following addresses or to such other address as either party may designate by like notice:

A. If to Executive, to: "Named Executive Vice President"

B. If to Company, to: Drovers Bancshares Corporation
30 South George Street
York, PA 17401

and to such other or additional person or persons as either party shall have designated to the other party in writing by like notice.

15. ARBITRATION - Any claim or controversy arising out of or relating to this Agreement or any breach thereof shall be settled by arbitration. Any such arbitration shall take place in York, Pennsylvania, in accordance with the rules of the American Arbitration Association. Judgment upon the written award rendered by a majority of the arbitrators may be entered in the Court having jurisdiction thereof. The written decision of a majority of the arbitrators shall be valid, binding, final, and nonappealable.

16. MISCELLANEOUS -

(a) In the event that a party hereto wrongfully fails to perform its obligations hereunder as determined and evidenced by a final and nonappealable determination of a board of arbitration or court, as the case may be, such party shall thereupon be obligated to promptly pay and reimburse the other party hereto for its costs and expenses incurred (including attorney, accounting, actuary and other professional consultants) in enforcing its or his entitlements hereunder.

(b) Executive shall be under no obligation to execute a covenant against competition as a condition to receive any benefit otherwise payable hereunder.

(c) Upon request, Executive shall promptly provide Company with information regarding his subsequent employment as contemplated herein, including that described in Section 3 hereof.

(d) This Agreement constitutes the entire agreement between the parties with respect to the subject matter hereof, and supersedes and replaces all prior agreements between the parties. No amendment, waiver or termination of any of the provisions hereof shall be effective unless in writing and signed by the party against whom it is sought to be enforced. Any written amendment, waiver or termination hereof executed by Company and Executive shall be binding upon them and upon all other persons, without the necessity of securing the consent of any other person, and no person shall be deemed to be third-party beneficiary under this Agreement.

(e) This Agreement shall not limit or infringe upon the right of Company to terminate the employment of Executive at any time, nor upon the right of Executive to terminate his or her employment with Company, each subject however to the specific provisions hereof.

(f) "Person" as used in this Agreement means a natural person, joint venture, corporation, sole proprietorship, trust, estate, partnership, cooperative, association, non-profit organization or any other legal, cognizable entity.

(g) This Agreement may be executed in one or more counterparts, each of which shall be deemed an original, but all of which taken together shall constitute one and the same Agreement.

(h) Except as otherwise expressly set forth herein, no failure on the part of any party hereto to exercise and no delay in exercising any right, power or remedy hereunder shall operate as a waiver thereof, nor shall any single or partial exercise of any right, power or remedy hereunder preclude any other or further exercise thereof or the exercise of any other right, power or remedy.

(i) The headings of the sections of this Agreement have been inserted for convenience of reference only and shall in no way restrict or modify any of the terms or provisions hereof.

(j) This Agreement shall be governed and construed and the legal relationships of the parties determined in accordance with the laws of the Commonwealth of Pennsylvania applicable to contracts executed and to be performed in the Commonwealth of Pennsylvania.

(k) The obligation of Company hereunder shall be joint and several.

(l) In the event that a party hereto wrongfully fails to perform its obligations hereunder as determined by a final and nonappealable determination of a board of arbitrator or court, such party shall thereupon be obligated to promptly pay and reimburse the other party hereto for its costs and expenses incurred (including attorney, accounting, actuary and other professional consultants) in enforcing its or his entitlements hereunder.

This Agreement replaces that Change of Control Agreement entered into by and among them on August 31, 1998; therefore, that Agreement is hereby revoked.

ATTEST:	COMPANY: DROVERS BANCSHARES CORPORATION
______________________________	By_____________________________________
ATTEST:	THE DROVERS & MECHANICS BANK
______________________________	By_____________________________________
WITNESS:	EXECUTIVE
______________________________	________________________________(SEAL) "Named Executive Vice President"

EXHIBIT A

STOCK OPTION ACCELERATION AUTHORIZATION

Pursuant to Section 5(c) of the Drovers Bancshares Incentive Stock Option Plan ("Plan"), dated August 28, 1985, the Committee under said Plan hereby authorizes the acceleration of "Named Executive Vice President"'s stock options under the Plan to the extent described in Section 3(e) of the Change of Control Agreement by and between Drovers Bancshares Corporation, Drovers & Mechanics Bank, and "Named Executive Vice President", dated December __, 1998.

______________________________	______________________________
Robert L. Myers, Jr.	Frank Motter
______________________________	______________________________
Harlowe R. Prindle	George W. Hodges

Dated: ________________________

EXHIBIT B

BENEFICIARY DESIGNATION FORM

I hereby designate the person(s) named below as beneficiary (or beneficiaries) to receive all amounts payable under the Change of Control Agreement by and between Drovers Bancshares Corporation and Drovers & Mechanics Bank ("Company"), and "Named Executive Vice President", dated December ___, 1998, which have not been paid at the date of my death.

Name of Beneficiary: Address:

I acknowledge that this Beneficiary Designation shall become effective on the date actually received by Company and shall render all prior Beneficiary Designations, if any, void.

WITNESS

__________________________________ _____________________________(SEAL)
"Named Executive Vice President"

Date received by Company:

____

COMPANY

____

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</TABLE>

EXHIBIT 13

Drovers Bancshares Corporation and Subsidiaries

CONTENTS

Cross Reference for electronic filing/hard copy

Drovers Bancshares Corporation and Subsidiaries

<TABLE>
CONSOLIDATED FINANCIAL HIGHLIGHTS
<CAPTION>
(All dollar amounts presented in thousands, except per share data)

	1998	1997	% Change
FINANCIAL POSITION AT DECEMBER 31,			
<S>	<C>	<C>	<C>
Assets	$597,793	$524,892	13.89%
Net loans	386,197	310,369	24.43%
Deposits	457,672	402,086	13.82%
Shareholders' equity	48,193	43,470	10.86%
RESULTS FOR THE YEAR			
Interest income	$ 40,991	$ 36,267	13.03%

Interest expense	21,736	19,254	12.89%
Net interest income	19,255	17,013	13.18%
Net income	6,810	5,631	20.94%
FINANCIAL RATIOS			
Return on average assets	1.22%	1.15%	6.09%
Return on average shareholders' equity ..	14.69%	13.88%	5.84%
PER SHARE DATA*			
Net income	$ 1.53	$ 1.27	20.47%
Net income, assuming dilution	$ 1.51	$ 1.26	19.84%
Cash dividends	$ 0.46	$ 0.39	17.95%
Book value (year-end)	$ 10.79	$ 9.79	10.21%
Weighted average shares outstanding	4,455,385	4,426,635	0.65%
Number of shareholders	1,476	1,420	3.94%
INVESTMENT SERVICES AND TRUST DIVISION			
Fair value of trust assets administered .	$252,121	$217,005	16.18%

</TABLE>

* Per share data adjusted to reflect a three-for-two stock split issued in 1998 and a 5% stock dividend issued in 1997.

Drovers Bancshares Corporation and Subsidiaries
CONSOLIDATED FINANCIAL HIGHLIGHTS

COMMON STOCK MARKET PRICES AND DIVIDENDS

The Corporation's common stock trades on The NASDAQ Stock Market under the symbol DROV. Before June 2, 1998, the stock traded on the over-the-counter market by several brokers. The quarterly year-to-date average shares outstanding and quarterly high and low prices were as follows:

<TABLE>
<CAPTION>

1998	High**	Low**	Shares*	Cash Dividends Paid*
<S>	<C>	<C>	<C>	<C>
March 31	$26.17	$22.50	4,445,700	$0.10
June 30	32.50	25.17	4,446,690	0.12
September 30	32.00	25.88	4,451,370	0.12
December 31	27.00	24.38	4,455,385	0.12
1997				
March 31...	$15.56	$13.17	4,424,459	$0.10
June 30	15.23	13.81	4,424,459	0.10
September 30	18.58	15.08	4,424,462	0.10
December 31	23.83	18.48	4,426,635	0.10

</TABLE>

* Per share data adjusted to reflect a three-for-two stock split issued in 1998 and a 5% stock dividend issued in 1997.

**Per share data adjusted for the three-for-two stock split issued in 1998.

High and low sales prices before July 1, 1998, provided by Bloomberg Business News.

Drovers Bancshares Corporation and Subsidiaries

<TABLE>
CONSOLIDATED STATEMENTS OF CONDITION
<CAPTION>

	December 31,	
(in thousands)	1998	1997
<S>	<C>	<C>
ASSETS		
Cash and due from banks	$ 24,145	$ 14,549
Money market investments	479	379
Investment securities (fair value $162,556 and $180,245).	161,619	179,299
Loans (net of unearned income of $3,253 and $3,320)	390,109	313,673
Reserve for loan losses	3,912	3,304
Net loans	386,197	310,369
Bank premises and equipment	15,901	13,864
Other assets	9,452	6,432
TOTAL ASSETS	$597,793	$524,892
LIABILITIES		
Deposits:		
Noninterest-bearing	$ 55,339	$ 41,973
Interest-bearing	402,333	360,113
Total deposits	457,672	402,086
Federal funds purchased and securities sold		
Under agreements to repurchase	23,325	31,360
Other borrowings	62,830	43,558
Other liabilities	5,773	4,418
TOTAL LIABILITIES	549,600	481,422
SHAREHOLDERS' EQUITY		
Common stock ($3.33 par value)15,000,000 shares		
Authorized; issued and outstanding-4,468,461		
Shares in 1998 and 2,961,127 in 1997	14,881	14,806
Additional paid-in capital	18,891	18,664
Retained earnings	13,173	8,407
Accumulated other comprehensive income	1,248	1,593
TOTAL SHAREHOLDERS' EQUITY	48,193	43,470
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$597,793	$524,892

</TABLE>

See notes to consolidated financial statements.

Drovers Bancshares Corporation and Subsidiaries

<TABLE>
CONSOLIDATED STATEMENTS OF INCOME
<CAPTION>

	Years Ended December 31,		
(in thousands, except per share data)	1998	1997	1996
<S>	<C>	<C>	<C>
INTEREST INCOME			
Interest and fees on loans	$30,483	$25,487	$23,199
Interest on deposits with banks	41	70	155
Interest and dividends on investment securities:			
Taxable investment securities	8,156	8,712	5,492
Equity securities	1,033	767	336
Tax-exempt investment securities	1,278	1,231	873
Total interest income	40,991	36,267	30,055
INTEREST EXPENSE			
Interest on deposits	17,374	15,644	12,322
Federal funds purchased and securities sold under agreements to repurchase................	1,491	1,353	584
Interest on borrowed funds	2,871	2,257	1,885
Total interest expense	21,736	19,254	14,791
Net interest income	19,255	17,013	15,264
Provision for loan losses	1,266	386	645
Net interest income after provision for loan losses	17,989	16,627	14,619
OTHER INCOME			
Investment services and trust income	1,295	1,105	1,020
Service charges on deposit accounts	1,692	1,293	1,199
Securities gains	262	197	196
Net gains on loan sales	1,044	491	390
Equity in losses of real estate ventures.........	-104	-81	-137
Other	1,219	948	696
Total other income	5,408	3,953	3,364
OTHER EXPENSES			
Salaries and employee benefits	8,006	7,597	6,818
Occupancy and premises	1,246	917	827
Furniture and equipment	1,365	1,111	896
Marketing	645	441	627
Net cost of operation of other real estate	56	53	26
Supplies	535	443	442
Other taxes	375	331	325
Other...	3,003	2,341	2,089
Total other expenses	15,231	13,234	12,050
Income before income taxes......................	8,166	7,346	5,933
Applicable income taxes	1,356	1,715	1,084
NET INCOME	$ 6,810	$ 5,631	$ 4,849
PER SHARE DATA			
NET INCOME	$ 1.53	$ 1.27	$ 1.10
NET INCOME, assuming dilution	$ 1.51	$ 1.26	$ 1.09

</TABLE>

See notes to consolidated financial statements.

Drovers Bancshares Corporation and Subsidiaries

<TABLE>

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

<CAPTION>

(in thousands)	Years Ended December 31, 1998	1997	1996
<S>	<C>	<C>	<C>
Net income	$6,810	$5,631	$4,849
Other comprehensive income:			
Unrealized gains (losses) on securities arising during period	-260	2,049	-48
Reclassification adjustment for gains included in net income	-262	-196	-185
Other comprehensive income (loss) before taxes .	-522	1,853	-233
Income taxes (benefits) related to other Comprehensive income (loss)	-177	630	-79
Other comprehensive income (loss)..............	-345	1,223	-154
COMPREHENSIVE INCOME	$6,465	$6,854	$4,695

</TABLE>

<TABLE>

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

<CAPTION>

(in thousands, except number of shares)	Shares	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income
<S>	<C>	<C>	<C>	<C>	<C>
BALANCE, JANUARY 1, 1996	2,240,775	$11,204	$14,657	$ 8,536	$ 524
Net income				4,849	
Cash dividends				-1,606	
25% stock dividend issued	561,919	2,810		-2,810	
Shares issued	6,486	32	50		
Change in unrealized holding gains (losses) on securities, net of reclassification adjustment					-154
BALANCE, DECEMBER 31, 1996	2,809,180	$14,046	$14,707	$ 8,969	$ 370
Net income				5,631	
Cash dividends				-1,707	
5% stock dividend issued	140,710	704	3,782	-4,486	
Shares issued	11,237	56	175		
Change in unrealized holding gains (losses) on securities, net of reclassification adjustment					1,223
BALANCE, DECEMBER 31, 1997	2,961,127	$14,806	$18,664	$ 8,407	$1,593
Net income				6,810	
Cash dividends				-2,050	
Three-for-two stock split	1,482,821	-17		6	
Shares issued	24,513	92	227		
Change in unrealized holding gains (losses) on securities, net of reclassification adjustment					-345
BALANCE, DECEMBER 31, 1998	4,468,461	$14,881	$18,891	$13,173	$1,248

</TABLE>

See notes to consolidated financial statements.

Drovers Bancshares Corporation and Subsidiaries
<TABLE>
CONSOLIDATED STATEMENTS OF CASH FLOWS
<CAPTION>

(in thousands)	Years Ended December 31, 1998	1997	1996
<S>	<C>	<C>	<C>
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$6,810	$5,631	$4,849
Adjustments to reconcile net income to net cash from operating activities:			
Depreciation and amortization	1,638	1,342	1,179
Net (accretion) amortization of investment security (discounts) premiums	363	-178	3
Provision for loan losses	1,266	386	645
Gain on calls of investment securities held-to-maturity	0	-1	-11
Gain on sale of investment securities available-for-sale	-262	-196	-185
(Gain) loss on sale of fixed assets	11	-50	-46
Gain on sale of loans	-1,044	-491	-390
(Gain) loss on sale of other real estate	-14	33	2
Net deferred loan fees	-814	-559	-290
Equity in losses of real estate ventures	104	81	137
(Increase) decrease in interest/dividend receivable	30	-703	-142
(Increase) decrease in other assets	318	-338	-1,007
Increase in interest payable	525	589	101
Increase (decrease) in other liabilities	-109	140	-83
Loans originated for sale	-63,734	-29,794	-23,370
Proceeds from sale of loans	65,179	30,673	24,028
Increase in other noncash items	45	1	9
Net cash provided by operating activities	10,312	6,566	5,429
CASH FLOWS FROM INVESTING ACTIVITIES:			
Proceeds from sales and maturities of investment securities held-to-maturity	8,488	5,584	5,756
Proceeds from sales and maturities of investment securities available-for-sale	41,377	31,619	26,931
Purchases of investment securities held-to-maturity	0	-19,763	-5,292
Purchases of investment securities available-for-sale	-32,810	-66,429	-63,694
Net increase in loans	-77,321	-30,946	-28,316
Capital expenditures	-3,477	-1,111	-1,300
Proceeds from sale of fixed assets	6	78	108
Net (purchase) return of investment in real estate ventures	-2,209	18	0
Proceeds from sale of other real estate	252	827	203
Net cash used in investing activities	-65,694	-80,123	-65,604
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net increase in demand deposits and savings	35,074	18,827	32,648
Net increase in certificates of deposit	20,508	23,072	20,898
Net increase (decrease) in federal funds purchased and repurchase agreements	-8,035	16,106	7,952
Payments made for capital leases	-40	-35	-30
Net increase (decrease) in other borrowings	19,312	14,208	-758
Proceeds from issuance of common stock	309	231	83
Dividends paid	-2,050	-1,707	-1,606
Net cash provided by financing activities	65,078	70,702	59,187
NET INCREASE (DECREASE) IN CASH & CASH EQUIVALENTS.	9,696	-2,855	-988
CASH & CASH EQUIVALENTS AT JANUARY 1,	14,928	17,783	18,771
CASH & CASH EQUIVALENTS AT DECEMBER 31,	$24,624	$14,928	$17,783

</TABLE>
See notes to consolidated financial statements.
(All amounts presented in the tables are in thousands, except per share data)

Drovers Bancshares Corporation and Subsidiaries
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Drovers Bancshares Corporation is a one bank holding company with a principal subsidiary, The Drovers & Mechanics Bank. The Bank offers a wide variety of banking and trust services to individuals and commercial customers. The accounting and reporting policies followed by Drovers Bancshares Corporation and its subsidiaries conform with generally accepted accounting principles (GAAP) and general practice within the banking industry.

BASIS OF PRESENTATION:
The consolidated financial statements include the accounts of all subsidiaries, including The Drovers & Mechanics Bank, 96 South George Street, Inc. and Drovers Realty Company. All significant intercompany accounts and transactions have been eliminated in consolidation. Income and expenses are recorded on the accrual basis of accounting except for trust and certain other fees which are recorded principally on the cash basis, which does not differ materially from the accrual basis. Production costs of advertising are expensed when advertising begins.

USE OF ESTIMATES:

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

STATEMENTS OF CASH FLOWS:
For purposes of reporting cash flows, cash and cash equivalents include cash and money market investments.

INVESTMENT SECURITIES:
Investments in debt securities which the Corporation has the positive intent and ability to hold to maturity are classified as held-to-maturity. These securities are accounted for at amortized cost. Other securities are classified as available-for-sale. Differences between the amortized cost and fair value are considered an unrealized holding gain or loss and are shown net of taxes in Shareholders' Equity. The Corporation classified no securities as trading at December 31, 1998 or 1997. Such securities would be bought principally for the purpose of selling them in the near term. Management reassesses the appropriateness of the classifications each quarter. The Corporation calculates amortization and accretion using the straight-line method on most of the investments and the effective interest method on some of the investments. The amortization and accretion recognized on the straight-line method does not differ materially from the interest method. Security gains and losses are determined using the specific identification method.

COMPREHENSIVE INCOME:
The Corporation adopted Statement of Financial Accounting Standards No. 131, "Reporting Comprehensive Income," as of January 1, 1998. Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale securities, are reported as a separate component of the equity section of the balance sheet. Such items, along with net income, are also components of comprehensive income. The adoption of this Statement had no effect on the Corporation's net income or shareholders' equity.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)

LOANS:
Loans are stated at the principal amount outstanding, net of deferred loan fees and costs. Loan origination and commitment fees and related direct costs are deferred and amortized to income over the term of the respective loan and loan commitment period as a yield adjustment.

Loans held-for-sale primarily consist of residential mortgages and are carried at the lower of aggregate cost or fair value. Fair value is estimated on an individual loan basis using quoted market prices. Gains and losses on residential mortgages held-for-sale are included in other income.

Interest on commercial and real estate mortgage loans is accrued and credited to operations based upon the principal amount outstanding. Interest on consumer loans is recognized on the accrual basis using the actuarial method or simple interest method.

NONPERFORMING ASSETS:
Nonperforming assets are comprised of loans for which the accrual of interest has been discontinued due to a serious weakening of the borrower's financial condition. In addition, nonperforming assets include other real estate received in foreclosure and loans modified in troubled debt restructurings.

Loans are generally placed on a nonaccrual basis when principal or interest is past due 90 days or more and when, in the opinion of management, full collection of principal or interest is unlikely. At the time a loan is placed on nonaccrual status, the accrual of interest is discontinued. Income on such loans is then recognized only to the extent of cash received. When prospects of recovery of the loan principal have significantly diminished, the loan is charged against the reserve for loan losses and any subsequent recoveries are credited to the reserve account.

The basis in other real estate is carried at the lower of fair market value less costs to liquidate or the carrying value of the related loan at the time of acquisition.

RESERVE FOR LOAN LOSSES:
The reserve for loan losses is based on management's evaluation of the loan portfolio and reflects an amount which, in management's opinion, is adequate to absorb losses in the existing portfolio. Additions are made to the reserve through periodic provisions, which are charged to expense. Management evaluates the adequacy of its loan loss reserve on a quarterly basis. The impact of economic conditions on the creditworthiness of borrowers is considered, as well as loan loss experience and changes in the composition and volume of the loan portfolio. These and other factors are considered in assessing the overall adequacy of the reserve. Significant change in the estimate could result in a material change to net income.

Impaired loans are accounted for in accordance with Statement of Financial Accounting Standards No. 114, "Accounting by Creditors for Impairment of a Loan," as amended by SFAS No. 118. Under this Statement, the allowance for credit losses related to loans that are identified for evaluation is based on discounted cash flows using the loan's initial effective interest rate or the fair value of collateral for certain collateral-dependent loans. Loans are deemed impaired when it is probable that the Corporation will be unable to collect all amounts due in accordance with the terms of the loan agreement. Loans are identified as impaired through various means including a formal loan review process, quarterly review of loan loss reserve adequacy, past due listings and watch lists. Statement No. 114 excludes large groups of smaller-balance homogeneous loans that are collectively evaluated for impairment.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)

LOAN SERVICING RIGHTS:

The Corporation uses Statement of Financial Accounting Standards No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities" to account for purchased and originated loan servicing rights. This Statement is effective for transactions entered into after December 31, 1996 and is required to be applied prospectively. This Statement superseded Statement No. 122, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities."

The Corporation allocates the total cost of loans originated or purchased between loans and servicing rights based on the relative fair value of each. The loan servicing rights are amortized, using the straight-line method, over the period of estimated servicing income. For purposes of evaluating and measuring impairment, the Corporation stratifies the loan servicing rights based on original term and date of origination and uses quoted market prices to estimate fair value. The Corporation did not have a valuation allowance associated with the loan servicing rights as of December 31, 1998 or 1997.

PREMISES AND EQUIPMENT:

Premises and equipment are stated at cost less accumulated depreciation and amortization. Depreciation, computed on the straight-line method, is charged to operations based on the following range of lives: buildings - 20 to 60 years and equipment - 3 to 20 years. Leasehold improvements are amortized over the terms of the respective leases or the estimated useful lives of the improvements, whichever is shorter. Maintenance, repairs and minor replacements are expensed as incurred. Gains and losses on dispositions are reflected in current operations.

TRUST ASSETS:

Assets held by the Corporation's subsidiary in fiduciary or agency capacity for customers are not included in the consolidated financial statements, as such items are not assets of the Corporation or its subsidiaries.

INCOME TAXES:

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities due to changes in tax rates is recognized in income in the period that includes the enactment date.

PER SHARE DATA:

Earnings per common share is calculated by dividing net income by the weighted average number of shares of common stock outstanding during each period. Earnings per common share, assuming dilution, gives effect to all dilutive potential common shares outstanding during each period.

NOTE 2 - CASH AND DUE FROM BANKS

The subsidiary Bank of the Corporation maintains average reserve balances to comply with Federal Reserve Bank guidelines. Reserve balances are based on outstanding deposits and consist primarily of vault cash. These reserves were $4,521,000 and $3,167,000 at December 31, 1998 and 1997, respectively. Average required reserves during 1998 and 1997 were $3,948,000 and $5,567,000, respectively.

NOTE 3 - FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET RISK

The Corporation is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit, standby letters of credit and financial guarantees. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the statement of financial condition. The amounts of those instruments reflect the extent of involvement the Corporation has in particular classes of financial instruments.

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

<TABLE>
<CAPTION>

<S>	1998 <C>	1997 <C>
Commitments to extend credit (legally binding)	$112,495	$80,762
Standby letters of credit and financial guarantees	$ 8,712	$ 7,252

</TABLE>

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Corporation evaluates each customer's creditworthiness on a case by case basis. The amount of collateral obtained, if deemed necessary by the Corporation upon extension of credit, is based on management's credit evaluation of the counter party. Collateral held varies but may include accounts receivable, inventory, property, plant and equipment and income-producing commercial properties.

Standby letters of credit and financial guarantees are conditional commitments issued by the Corporation to guarantee the performance of a customer to a third party. Most guarantees extend for one year. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Corporation holds collateral supporting those commitments when collateral is deemed necessary.

NOTE 4 - CONTINGENT LIABILITIES AND RESTRICTIONS ON DIVIDENDS

In the normal course of business, there are various legal proceedings pending against the Corporation. Management considers that the aggregate liabilities, if any, arising from such actions would not have a material adverse effect on the consolidated financial position of the Corporation.

The Drovers & Mechanics Bank is a Pennsylvania state-chartered bank and must comply with the State's banking code. Under the code, cash dividends may be declared and paid only out of accumulated net earnings. In addition, surplus (additional paid-in capital) cannot be reduced by the payment of a dividend.

NOTE 5 - CONCENTRATION OF CREDIT RISK

The Corporation maintains sixteen branch offices. All are located in York County, Pennsylvania. The Corporation grants credit to customers, substantially all of whom are local residents. The Corporation emphasizes diversification of credit risk among industries and borrowers. Concentrations of credit risk can exist in relation to certain groups. A group concentration arises when a number of customers have economic characteristics that could similarly affect their ability to repay obligations due to changes in economic or other conditions.

Drovers Bancshares Corporation and Subsidiaries
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, (continued)

NOTE 5 - CONCENTRATION OF CREDIT RISK, (continued)
Although the Corporation has a diversified loan portfolio, it grants loans to a number of local auto dealers and to their closely-held real estate companies. Loans to the auto dealers are used mainly to fund new and used car inventories and leasing receivables. Loans to the closely-held real estate companies are used primarily to fund land leases to the auto dealers. The Corporation generally retains auto titles or first mortgages as collateral. Other collateral may be obtained based on the loan purpose or management's credit evaluation.

The total credit exposure related to loans to auto dealers and their closely-held real estate companies was as follows:
<TABLE>
<CAPTION>

	1998	1997

Principal balance	$35,835	$19,620
Available credit	14,628	5,518
Total credit exposure	$50,463	$25,138

NOTE 6 - MONEY MARKET INVESTMENTS AND INVESTMENT SECURITIES

Money market investments are stated at cost, which approximates fair value. Money market investments as of December 31, 1998 and 1997 were $479,000 and $379,000, respectively. All money market investments were in the form of interest-bearing deposits with other financial institutions.

The amortized cost and estimated fair value of investment securities classified as held-to-maturity as of December 31, 1998 were as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ 8,476	$139	$ 0	$ 8,615
Obligations of states and political subdivisions	16,926	697	0	17,623
Mortgage-backed securities and collateralized mortgage obligations	8,857	124	23	8,958
Total investment securities	$34,259	$960	$ 23	$35,196

The amortized cost and estimated fair value of investment securities classified as available-for-sale as of December 31, 1998 were as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. Treasury securities and Obligations of U.S. government Corporations and agencies	$ 7,014	$ 105	$ 0	$ 7,119
Obligations of states and political Subdivisions	7,541	243	24	7,760
Corporate obligations	4,726	21	81	4,666
Mortgage-backed securities and collateralized mortgage obligations	88,304	973	243	89,034
Total debt securities	107,585	1,342	348	108,579
Equity securities	17,884	930	33	18,781
Total investment securities	$125,469	$2,272	$381	$127,360

Drovers Bancshares Corporation and Subsidiaries
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, (continued)

NOTE 6 - MONEY MARKET INVESTMENTS AND INVESTMENT SECURITIES, (continued)
The amortized cost and estimated fair value of debt securities at December 31, 1998, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because some issuers have the right to call or prepay obligations with or without call or prepayment penalties.

	Held-to-Maturity Amortized Cost	Held-to-Maturity Estimated Fair Value	Available-for-Sale Amortized Cost	Available-for-Sale Estimated Fair Value
Due in one year or less	$ 1,303	$ 1,311	$ 2,500	$ 2,513
Due after one year through five years..	4,773	5,016	2,514	2,568
Due after five years through ten years.	14,734	15,142	5,726	5,870
Due after ten years	4,592	4,769	8,541	8,594
	25,402	26,238	19,281	19,545
Mortgage-backed securities and collateralized mortgage obligations	8,857	8,958	88,304	89,034
Total debt securities	$34,259	$35,196	$107,585	$108,579

The amortized cost and estimated fair value of investment securities classified as held-to-maturity as of December 31, 1997 were as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ 10,469	$ 153	$ 0	$ 10,622
Obligations of states and political subdivisions	18,318	707	0	19,025
Mortgage-backed securities and				

collateralized mortgage obligations	13,965	165	79	14,051
Total investment securities	$ 42,752	$ 1,025	$ 79	$ 43,698

</TABLE>

The amortized cost and estimated fair value of investment securities classified as available-for-sale as of December 31, 1997 were as follows:

<TABLE>
<CAPTION>

<S>	Amortized Cost <C>	Gross Unrealized Gains <C>	Gross Unrealized Losses <C>	Estimated Fair Value <C>
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ 18,003	$ 109	$ 5	$ 18,107
Obligations of states and political subdivisions	5,898	198	0	6,096
Corporate obligations.............	500	0	14	486
Mortgage-backed securities and collateralized mortgage obligations	93,729	1,047	29	94,747
Total debt securities	118,130	1,354	48	119,436
Equity securities	16,004	1,107	0	17,111
Total investment securities	$134,134	$ 2,461	$ 48	$ 136,547

</TABLE>

Drovers Bancshares Corporation and Subsidiaries
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, (continued)
NOTE 6 - MONEY MARKET INVESTMENTS AND INVESTMENT SECURITIES, (continued)
Proceeds from sales of investment securities classified as available-for-sale during 1998, 1997 and 1996 were $471,000, $6,818,000 and $14,560,000, respectively. Gross realized gains during 1998, 1997 and 1996 were $262,000 $196,000 and $293,000, respectively. Gross realized losses during 1998, 1997 and 1996 were $0, $0 and $108,000, respectively.

No held-to-maturity investment securities were sold during 1998, 1997 or 1996, however, gains were recognized on securities with call options exercised by the issuer. Realized gains were $0, $1,000 and $11,000 in 1998, 1997 and 1996, respectively.

At December 31, 1998 and 1997, assets with a carrying value of $40,686,000 and $42,895,000, respectively, were pledged as required or permitted by law to secure certain public and trust deposits and repurchase agreements. The aggregate book value of debt securities from a single issuer did not exceed 10% of stockholders' equity at December 31, 1998 or 1997.

NOTE 7 - LOANS AND RESERVE FOR LOAN LOSSES
Loans were comprised of the following as of December 31:
<TABLE>
<CAPTION>

	1998	1997
<S>	<C>	<C>
Commercial, financial and industrial loans.....	$117,997	$ 80,636
Real estate mortgage loans:		
Real estate construction-related	13,523	12,105
Real estate mortgage loans secured by 1 to 4 family residential properties	126,542	107,797
Other real estate	100,585	80,462
Total real estate mortgage loans	240,650	200,364
Consumer loans:		
Monthly payment	30,498	30,952
Other revolving credit	791	1,476
Total consumer loans	31,289	32,428
Other	173	245
Total loans	$390,109	$313,673

</TABLE>
Changes in the reserve for loan losses for the years ended December 31, were as follows:
<TABLE>
<CAPTION>

	1998	1997	1996
<S>	<C>	<C>	<C>
Balance, beginning of year	$3,304	$3,130	$2,937
Provision for loan losses	1,266	386	645
Loans charged-off:			
Commercial, financial and industrial.	522	0	25
Real estate	0	0	215
Consumer	235	327	369
Total loans charged-off	757	327	609
Recoveries:			
Commercial, financial and industrial.	0	32	6
Real estate	0	15	36
Consumer	99	68	115
Total recoveries	99	115	157
Balance, end of year	$3,912	$3,304	$3,130

</TABLE>

NOTE 7 - LOANS AND RESERVE FOR LOAN LOSSES, (continued)
Nonaccrual loans were $1,435,000, $740,000 and $615,000 at December 31, 1998, 1997 and 1996, respectively. If interest due on all nonaccrual loans had been accrued at the original contract rates, it is estimated that income before taxes would have been greater by $60,000, $56,000 and $37,000 at December 31, 1998, 1997 and 1996, respectively. Accruing loans which were contractually past due 90 days or more were $7,000, $33,000 and $0 at December 31, 1998, 1997 and 1996, respectively.

The total recorded investment in impaired loans was $1,748,000 and $1,314,000 at December 31, 1998 and 1997, respectively. Loans classified as impaired as a result of troubled debt restructurings which are in compliance with modified terms recognize interest under the accrual method of accounting. Interest on all other impaired loans is recognized on the accrual method of accounting until principal or interest is past due 90 days or more and when full principal or interest is unlikely. At that time the loans are placed on nonaccrual status. The average recorded investment in impaired loans during 1998, 1997 and 1996 was $1,672,000, $2,456,000, and $1,764,000, respectively. The Corporation recognized interest income on impaired loans of $123,000 in 1998, $233,000 in 1997, and $193,000 in 1996. Interest income recognized on a cash basis would have been $122,000 in 1998, $206,000 in 1997, and $214,000 in 1996. The recorded reserve for impaired loans as of December 31, 1998 and 1997 was $150,000 and $0, respectively.

The Corporation's banking subsidiary has granted loans to officers, directors and their associates. Related party loans are made on substantially the same terms, including rates and collateral, as those prevailing at the time for comparable transactions with unrelated parties and do not represent more than a normal risk of collection. The aggregate dollar amounts of the loans were $18,119,000 and $9,192,000 at December 31, 1998 and 1997, respectively. During 1998, $31,475,000 of new loans were made to related parties and repayments totaled $22,548,000.

Residential mortgage loans with a book value of $3,179,000 and $2,940,000 were committed for sale and awaiting settlement at December 31, 1998 and 1997, respectively. The cumulative market value exceeded the book value of these loans. Total loans serviced were $106,647,000, $100,355,000 and $93,327,000 at December 31, 1998, 1997 and 1996, respectively.

NOTE 8 - PREMISES AND EQUIPMENT
Premises and equipment were comprised of the following as of December 31:
<TABLE>
<CAPTION>

	1998	1997
<S>	<C>	<C>
Land and land improvements	$1,464	$1,109
Buildings	11,423	10,894
Capitalized leased premises and equipment	442	442
Furniture and equipment	12,288	10,503
Construction in process	704	0
	26,321	22,948
Less accumulated depreciation	10,420	9,084
Total bank premises and equipment	$15,901	$13,864

</TABLE>
Provisions for depreciation charged to operating expenses were $1,423,000, $1,226,000 and $1,110,000 for 1998, 1997 and 1996, respectively. As of December 31, 1998, construction in process was primarily related to the Hellam branch, which opened in January, 1999.

NOTE 9 - LOAN SERVICING RIGHTS
Changes in loan servicing rights for the years ended December 31, were as follows:
<TABLE>
<CAPTION>

	1998	1997
<S>	<C>	<C>
Balance, beginning of year.............................	$297	$158
Servicing rights recognized	389	197

Servicing rights amortized	154	58
Balance, end of year..................................	$532	$297
Fair value, end of year...............................	$812	$443

</TABLE>

NOTE 10 - INVESTMENT IN REAL ESTATE VENTURES

The Drovers & Mechanics Bank, a wholly-owned subsidiary of Drovers Bancshares Corporation, is a limited partner in four ventures to renovate and operate apartment buildings. The first building opened in 1994. The second opened in March, 1996. The third opened in December, 1998. The fourth is scheduled to be opened in 1999. All four partnerships provide low-income housing to qualified families. The investments are accounted for under the equity method of accounting. The combined carrying values of the investments at December 31, 1998 and 1997 were $5,385,000 and $2,292,000, respectively.

NOTE 11 - TIME DEPOSITS

At December 31, 1998 and 1997, time deposits of $100,000 or more aggregated $27,037,000 and $20,424,000, respectively. Interest expense on these time deposits amounted to approximately $1,390,000 in 1998, $1,258,000 in 1997 and $1,010,000 in 1996. The amount of total time deposits maturing in the years ended December 31, 1999 through 2003 are as follows: $157,431,000; $44,756,000; $8,699,000; $6,334,000 and $3,510,000, respectively.

NOTE 12 - OTHER BORROWINGS AND LEASE COMMITMENTS

<TABLE>
<CAPTION>

<S>	1998 <C>	1997 <C>
Notes payable to FHLB Pittsburgh:		
Due 1998, 5.43% - 6.72%	$ 0	$ 3,500
Due 1998, variable	0	10,000
Due 2000, 6.01%	100	100
Due 2000, variable	4,000	4,000
Due 2002, 5.48% - 5.60%, convertible quarterly after 1998.	20,000	20,000
Due 2003, 6.40%	400	400
Due 2003, 5.13%, convertible quarterly after 2000	8,000	0
Due 2005, 5.24%, convertible quarterly after 2001	5,000	0
Due 2008, 4.86% - 4.94%, convertible quarterly after 1999.	15,000	0
Due 2008, 5.15%, convertible in 2005	5,000	0
Due 2015, 3.75%, amortizing	372	378
Note payable to First Union:		
Due 2003, 6.53%	4,805	4,987
	62,677	43,365
Capital lease obligations	153	193
	$62,830	$43,558

</TABLE>

NOTE 12 - OTHER BORROWINGS AND LEASE COMMITMENTS, (continued)

The Federal Home Loan Bank of Pittsburgh (FHLB) notes payable are secured by FHLB stock, deposits held by the FHLB and other mortgage collateral. The fair value of the FHLB stock as of December 31, 1998 and 1997 was $6,716,000 and $5,533,000, respectively. The interest rates on the variable notes reprice quarterly or more frequently and are based on LIBOR or prime. Borrowings at a fixed rate until after a specified date are Convertible Select borrowings. These borrowings include a put option if the FHLB elects to convert the debt to a variable interest rate. The Corporation also maintains a credit line with the FHLB secured by the same collateral. The unused credit line totaled $92,056,000 at December 31, 1998. The First Union note payable is secured by a mortgage on the 96 South George Street office building. The note is payable in monthly installments based on a twenty-year amortization. The amounts of notes payable and capital leases maturing in the years ended December 31, 1999 through 2003 are as follows: $246,000; $4,365,000; $266,000; $20,252,000 and $12,369,000, respectively.

At December 31, 1998 and 1997, the Corporation and its subsidiaries were obligated under noncancelable leases for premises and equipment. The terms include various renewal options and provide for rental increases based upon predetermined factors. The Hellam land lease contains a purchase option.

The rental expense under such leases amounted to $390,000 in 1998, $270,000 in 1997 and $164,000 in 1996.

Future minimum rental payments under capital leases and noncancelable operating leases with terms of one year or more at December 31, 1998 were:

	Capital Leases	Operating Leases
1999	$ 65	$ 422
2000	65	376
2001	45	338
2002	11	342
2003	0	348
Thereafter	0	1,766
Total future minimum rental payments	186	$3,592
Less interest	33	
Present value of minimum rental payments	$153	

NOTE 13 - ESTIMATED FAIR VALUE OF FINANCIAL INSTRUMENTS

The estimated fair value amounts have been determined by the Corporation using available market information and appropriate valuation methodologies. However, considerable judgment is required to interpret market data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Corporation could realize in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

The information presented is based on pertinent information available to management as of December 31, 1998 and 1997. Although management is not aware of any factors that would significantly affect the estimated fair value amounts, such amounts have not been comprehensively revalued since that time and current estimated fair value of these financial instruments may have changed significantly.

NOTE 13 - ESTIMATED FAIR VALUE OF FINANCIAL INSTRUMENTS, (continued)

	1998		1997	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
FINANCIAL ASSETS:				
Cash and short-term investments.	$ 24,624	$ 24,624	$ 14,928	$ 14,928
Investment securities	161,619	162,556	179,299	180,245
Net loans	386,197	389,433	310,369	312,637
Interest receivable	2,830	2,830	2,860	2,860
FINANCIAL LIABILITIES:				
Demand and savings deposits	228,029	228,029	193,319	193,319
Time deposits	229,643	230,673	208,767	208,125
Federal funds purchased and securities sold under agreement to repurchase	23,325	23,325	31,360	31,360
Notes payable	62,677	60,286	43,365	42,916
Interest payable	3,548	3,548	3,023	3,023

The following methods and assumptions were used to estimate fair value of each class of financial instrument for which it is practicable to estimate that value: For short-term instruments, the carrying amount is a reasonable estimate of fair value. The fair value of investment securities is based on quoted market prices, dealer quotes and prices obtained from independent pricing services. For floating rate loans which experienced no significant change in credit risk and for deposits with floating interest rates it is presumed that estimated fair values generally approximate the carrying amount. The fair value of fixed rate loans and time deposits is estimated based on present values using applicable risk-adjusted spreads to the U.S. Treasury curve to approximate current rates offered for loans and deposits of similar maturities. Management believes that the risk factor embedded in the currently offered rates results in a fair valuation of the loan portfolio. The primary risks are credit risk and prepayment risk. Rates currently available to the Corporation for debt with similar terms and remaining maturities are used to estimate fair value of other borrowings.

There is no material difference between the notional amount and the estimated fair value of off-balance sheet items which total $121,207,000. Off-balance sheet items are primarily comprised of unfunded loan commitments, which are generally priced at market at the time of funding.

NOTE 14 - INCOME TAXES
Total income tax expense for the years ended December 31, was allocated as follows:
<TABLE>
<CAPTION>

	1998	1997	1996
<S>	<C>	<C>	<C>
Income from continuing operations	$1,356	$1,715	$1,084
Shareholders' equity, for other comprehensive income	-177	630	-79
Total income tax expense	$1,179	$2,345	$1,005

</TABLE>

NOTE 14 - INCOME TAXES, (continued)
Income tax expense attributable to other comprehensive income consists of the following at December 31:
<TABLE>
<CAPTION>

	1998	1997	1996
<S>	<C>	<C>	<C>
Unrealized gains (losses) on securities arising during the period	$ -88	$697	$-13
Reclassification adjustment for gains (losses) included in net income	-89	-67	-66
Income taxes (benefits) related to other Comprehensive income	$-177	$630	$-79

</TABLE>

Income tax expense attributable to income from continuing operations consists of the following at December 31:
<TABLE>
<CAPTION>

	1998	1997	1996
<S>	<C>	<C>	<C>
Currently payable	$1,447	$1,656	$1,145
Deferred expense (benefit)..................	-91	59	-61
Income tax expense	$1,356	$1,715	$1,084

</TABLE>

For the years ended December 31, the income tax expense attributable to income from continuing operations differed from the tax expense computed by applying the Federal statutory rate to pretax earnings. The reasons for the differences were as follows:
<TABLE>
<CAPTION>

	1998	1997	1996
<S>	<C>	<C>	<C>
Income before income tax	$8,166	$7,346	$5,933
Tax at federal income tax rate	$2,776	$2,498	$2,017
Differences resulting from:			
Effect of tax-exempt income	-391	-343	-256
Historic and low income tax credits.	-808	-279	-633
Effect of dividend income	-246	-183	-80
Excess provision for loan losses ...	236	59	66
Other items, net	-211	-37	-30
Applicable income tax	$1,356	$1,715	$1,084

</TABLE>

The significant components of deferred income tax expense (benefit) attributable to income from continuing operations for the years ended December 31, were as follows:

	1998	1997	1996
Excess provision for loan losses	$-236	$-59	$-66
Alternative minimum tax credit carryforward.	0	0	-133
Other items, net	145	118	138
	$ -91	$ 59	$-61

NOTE 14 - INCOME TAXES, (continued)

The tax effects of temporary differences that give rise to significant portions of deferred tax assets and deferred tax liabilities at December 31, 1998 and 1997 are presented below:

	1998	1997
Deferred tax assets:		
Allowance for loan losses	$1,067	$ 831
Pension	155	183
Other	70	70
Total gross deferred tax assets	1,292	1,084
Deferred tax liabilities:		
Bank premises and equipment	381	427
Unrealized holding gains on available-for-sale securities	643	821
Other	388	229
Total gross deferred tax liabilities	1,412	1,477
Net deferred tax liabilities	$ -120	$ -393

Federal income taxes on security gains were $89,000, $67,000 and $66,000 in 1998, 1997 and 1996, respectively.

Management believes the deferred tax assets are realizable since the Corporation has had a long history of strong earnings and has a carryback potential exceeding the deferred tax asset. Management is not aware of any evidence that would preclude the Corporation from ultimately realizing these assets.

NOTE 15 - NET INCOME PER SHARE

Per share information is computed based on the weighted average number of shares of stock outstanding during each year, giving retroactive effect to a three-for-two stock split in 1998, a 5% stock dividend issued in 1997 and a 25% stock dividend issued 1996. Net income per share and net income per share, assuming dilution, were calculated as follows:

	1998	1997	1996
Net income	$6,810	$5,631	$4,849
Average shares outstanding	4,455	4,427	4,421
Effect of dilutive securities:			
Stock options	67	40	21
Average shares outstanding, assuming dilution	4,522	4,467	4,442
Net income per share	$ 1.53	$ 1.27	$ 1.10
Net income per share, assuming dilution .	$ 1.51	$ 1.26	$ 1.09

</TABLE>

Drovers Bancshares Corporation and Subsidiaries
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, (continued)

NOTE 16 - COMMON STOCK
The Corporation issued the following stock dividends including a three-for-two stock split during 1998:

<TABLE>
<CAPTION>

<S>	1998 <C>	1997 <C>
Percentage	50%	5%
Record date	5-08-98	11-14-97
Payable date	5-29-98	11-28-97

</TABLE>

NOTE 17 - CASH FLOW DISCLOSURES
The Corporation paid interest and income taxes of $21,211,000 and $1,670,000 in 1998, $18,667,000 and $1,570,000 in 1997 and $14,689,000 and $1,250,000 in 1996, respectively. Transfers from loans to other real estate as a result of foreclosure were $277,000, $211,000 and $822,000 in 1998, 1997 and 1996, respectively.

NOTE 18 - RETIREMENT PLAN
The Corporation and its subsidiaries have a noncontributory pension plan covering all eligible employees. The plan provides retirement benefits which are a function of both the years of service and the highest level of compensation during any consecutive five-year period of the last ten years before retirement. It is the Corporation's policy to fund the plan sufficiently to meet the minimum funding requirements set forth in the Employee Retirement Income Security Act, plus such additional amounts as the Corporation determines to be appropriate from time to time. Pension expense was $161,000 in 1998, $139,000 in 1997 and $164,000 in 1996. The Corporation also has two nonqualified supplemental retirement plans covering the present and former chairmen of the board. The plans are based on a targeted wage replacement percentage and are unfunded.

The following table sets forth the plan's funded status and amounts recognized in the Corporation's consolidated financial statements at December 31:
<TABLE>
<CAPTION>

<S>	1998 <C>	1997 <C>
Change in benefit obligation:		
Benefit obligation at January 1,	$-3,026	$-2,365
Service cost	-257	-208
Interest cost	-219	-183
Benefits paid	176	84
Actuarial loss	-177	-354
Benefit obligation at December 31,	$-3,503	$-3,026
Change in plan assets:		
Fair value of plan assets at January 1,	$ 3,370	$ 2,554
Employer contributions	312	242
Actual return on assets	199	658
Benefits paid	-176	-84
Fair value of plan assets at December 31,	$ 3,705	$ 3,370
Funded status	$ 202	$ 344
Unrecognized net transition asset	-128	-141
Unrecognized prior service cost	9	10
Unrecognized net gain	-17	-297
Prepaid (accrued) pension cost	$ 66	$ -84

</TABLE>
21

Drovers Bancshares Corporation and Subsidiaries
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, (continued)
NOTE 18 - RETIREMENT PLAN, (continued)
The net periodic benefit cost included the following:

	1998	1997	1996
Service cost	$257	$208	$258
Interest cost	219	183	227
Expected return on plan assets	-303	-240	-309
Amortization of net transition asset	-13	-13	-13
Amortization of prior service cost	1	1	1
Net periodic benefit cost	$161	$139	$164

The following weighted average assumptions were used for the plan:
<TABLE>
<CAPTION>

	1998	1997	1996
Discount rate	7.0%	7.3%	7.8%
Rate of increase in salary levels	4.0%	5.0%	5.0%
Long-term rate of return on plan assets	9.0%	9.0%	9.0%

Plan assets are invested in mutual funds which consist of corporate and government bonds and domestic and foreign equity securities.

The Corporation has a 401(k) Salary Deferral Plan. This plan covers all eligible employees who elect to contribute to the plan. An eligible employee is anyone over the age of 21 who has completed one year of service. Effective January 1, 1998, the Corporation's contribution equals 50% of the employee's contribution up to a maximum of 6% of annual salary. In 1997 and 1996, the Corporation's contribution equalled 25% of the employee's contribution up to a maximum of 6% of annual salary. The annual expense included in salaries and employee benefits amounted to $112,000, $47,000 and $42,000 in 1998, 1997 and 1996, respectively.

NOTE 19 - STOCK OPTION PLANS

The Corporation has an incentive stock option plan (option plan) and an employee stock purchase plan (ESPP). A committee of the Corporation's Board of Directors administers the option plan and, at its discretion, grants options to eligible key employees. The option price is the fair value of shares on the day granted. No options may be exercised after ten years. The options vest as follows: 50% on day of grant; 50% one year following grant date. Under the current option plan, 111,440 options have been authorized and not yet granted. The following shares and average options prices have been adjusted for subsequent stock splits and dividends:

	1998		1997		1996	
	Stock Options	Exercise Price	Stock Options	Exercise Price	Stock Options	Exercise Price
Balance at January 1, ...	135	$11.77	105	$10.87	96	$ 9.74
Granted	24	25.00	38	14.29	37	13.08
Exercised	26	10.02	8	11.98	28	9.96
Forfeited	2	18.80	0	--	0	--
Balance at December 31, ...	131	$14.38	135	$11.77	105	$10.87
Exercisable at December, 31 .	120	$13.41	116	$11.36	87	$10.39

NOTE 19 - STOCK OPTION PLANS, (continued)

The following options were outstanding at December 31, 1998:

	Options Outstanding	Exercise Price	Remaining Life	Options Exercisable
Issued 1990	4	$ 6.42	1.9 years	4
Issued 1994	9	11.16	5.9	9
Issued 1995	31	10.27	6.3	31
Issued 1996	32	13.08	7.3	32
Issued 1997	33	14.29	8.3	33
Issued 1998	22	25.00	9.1	11
	131	$14.38	7.4 years	120

The weighted average grant-date fair value of options granted during 1998, 1997 and 1996 was $9.98, $5.28 and $6.21, respectively. The Corporation uses the Black-Scholes Option Pricing Model to calculate the grant-date fair value. The following significant assumptions were used:

	1998	1997	1996
Risk free interest rate	5.6%	6.9%	6.5%
Expected life	8.2 years	9.0 years	9.5 years

Expected volatility	15.4%	12.7%	14.0%
Expected dividends	1.6%	2.4%	2.7%

</TABLE>

The Corporation adopted the ESPP in 1997. The ESPP allows eligible employees to purchase stock in the Corporation at 85% of the lesser of the fair value of the stock on the date of grant or on the date of exercise. Under the terms of the ESPP, 3,718 and 2,049 shares were purchased in 1998 and 1997, respectively. As of December 31, 1998, 236,250 options have been reserved for future issuances under the ESPP.

The Corporation applies APB Opinion 25 and related interpretations in accounting for its plans. Accordingly, no compensation cost has been recognized for its stock option plans. Had compensation cost for the Corporation's stock option plans been determined based on the fair value at the grant dates for awards consistent with the method of SFAS No. 123, "Accounting for Stock-Based Compensation," the Corporation's net income and earnings per share would have been reduced to the pro forma amounts indicated below:

<TABLE>
<CAPTION>

	1998	1997	1996
<S>	<C>	<C>	<C>
Net Income			
As reported....................................	$6,810	$5,631	$4,849
Pro forma......................................	$6,630	$5,489	$4,731
Earnings per share			
As reported....................................	$ 1.53	$ 1.27	$ 1.10
Pro forma......................................	$ 1.49	$ 1.24	$ 1.07
Earnings per share, assuming dilution			
As reported....................................	$ 1.51	$ 1.26	$ 1.09
Pro forma......................................	$ 1.47	$ 1.23	$ 1.07

</TABLE>

NOTE 20 - BUSINESS SEGMENTS

The Corporation conducts business in the Banking industry and offers a wide variety of banking and trust services to individuals and commercial customers. As of December 31, 1998 and 1997, the Corporation does use discreet financial information on any segments that meet the reporting requirements of Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information." All revenues for the years ended December 31, 1998, 1997, and 1996 were derived from sources within the United States and no revenues from a single customer amounted to 10% or more of the Corporation's annual revenues.

Drovers Bancshares Corporation and Subsidiaries
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, (continued)

NOTE 21 - PARENT CORPORATION FINANCIAL STATEMENTS

STATEMENTS OF CONDITION	December 31, 1998	1997
ASSETS		
Cash	$ 101	$ 410
Investments in and advances to subsidiaries:		
The Drovers & Mechanics Bank	45,642	41,055
Drovers Realty Company	733	745
Other assets	1,851	1,490
TOTAL ASSETS	$48,327	$43,700
LIABILITIES AND SHAREHOLDERS' EQUITY		
Other liabilities	$ 134	$ 230
Total shareholders' equity	48,193	43,470
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$48,327	$43,700

STATEMENTS OF INCOME	Years Ended December 31, 1998	1997	1996
INCOME			
Dividends from subsidiaries	$2,050	$2,227	$1,644
Other income	302	95	21
Total income	2,352	2,322	1,665
OPERATING EXPENSES			
Other	246	148	147
Total operating expenses	246	148	147
Income before income taxes	2,106	2,174	1,518
Applicable income taxes (benefit)	9	-23	-47
Income before undistributed earnings of subsidiaries	2,097	2,197	1,565
Undistributed earnings of subsidiaries:			
The Drovers & Mechanics Bank	4,725	3,437	3,282
Drovers Realty Company	-12	-3	2
NET INCOME	$6,810	$5,631	$4,849

Drovers Bancshares Corporation and Subsidiaries
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, (continued):

NOTE 21 - PARENT CORPORATION FINANCIAL STATEMENTS, (continued)

<TABLE>
<CAPTION>

STATEMENTS OF CASH FLOWS	Years Ended December 31, 1998	1997	1996
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$6,810	$5,631	$4,849
Undistributed earnings of subsidiaries	-4,713	-3,434	-3,284
Gain on sale of investment securities available-for-sale	-262	-74	-5
Increase in other assets	61	-78	-1
Net cash provided by operating activities	1,896	2,045	1,559
CASH FLOWS FROM INVESTING ACTIVITIES:			
Payments (receipts) from intercompany account	-19	42	-12
Purchases of investment securities available-for-sale	-916	-401	-55
Proceeds from sales of investment securities available-for-sale	471	180	49
Net cash provided by (used in) investing activities	-464	-179	-18
CASH FLOWS FROM FINANCING ACTIVITIES:			
Issuance of stock	309	231	83
Dividends paid	-2,050	-1,707	-1,606
Net cash used in financing activities	-1,741	-1,476	-1,523
NET INCREASE (DECREASE) IN CASH	-309	390	18
CASH AT JANUARY 1,	410	20	2
CASH AT DECEMBER 31,	$ 101	$ 410	$ 20

</TABLE>

Drovers Bancshares Corporation and Subsidiaries
Independent Auditors' Report

Board of Directors and Shareholders
Drovers Bancshares Corporation

We have audited the accompanying consolidated statements of condition of Drovers Bancshares Corporation and subsidiaries as of December 31, 1998 and 1997, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 1998. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audits provide a reasonable basis for our opinion.

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

Stambaugh . Ness, P.C.

York, Pennsylvania
January 15, 1999

Drovers Bancshares Corporation and Subsidiaries
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The purpose of this discussion is to focus on information about Drovers Bancshares Corporation, its financial condition and results of operations not otherwise apparent in the consolidated financial statements of this Annual Report. The reader of this Annual Report should make reference to those statements and other selected financial data presented elsewhere in the report to fully understand the following discussion and analysis.

RESULTS OF OPERATIONS

The consolidated earnings of Drovers Bancshares Corporation are derived primarily from the operations of its wholly-owned subsidiaries: The Drovers & Mechanics Bank and Drovers Realty Company. Drovers Bancshares Corporation is a bank holding company. The Drovers & Mechanics Bank is a Pennsylvania state-chartered, FDIC insured bank. The Bank has one wholly-owned subsidiary, 96 South George Street, Inc. The Bank subsidiary's primary asset is an office building attached to the Bank's main office, which houses its corporate headquarters. Drovers Realty Company has various real estate holdings, including ground and building leases. It rents the real estate to the Bank for use as branch offices.

FINANCIAL SUMMARY

The Corporation recorded net income of $6,810,000 in 1998 and $5,631,000 in 1997. The return on average assets (ROA) and return on average equity (ROE) in 1998 were 1.22% and 14.69%, respectively. This compares to an ROA and ROE in 1997 of 1.15% and 13.88%, respectively.

NET INTEREST INCOME

Net interest income represents the difference between interest income and interest expense. Net interest income is a measurement of how well management balances the Corporation's interest rate sensitive assets and liabilities while maintaining adequate interest margins. Net interest income rose 13.2% or $2,242,000 in 1998, after advancing 11.5% or $1,749,000 in 1997.

	Years Ended December 31,			Increase(Decrease)		
(in thousands)	1998	1997	1996	98/97	97/96	96/95
Total interest income ..	$40,991	$36,267	$30,055	13.0%	20.7%	7.1%
Total interest expense .	21,736	19,254	14,791	12.9%	30.2%	9.3%
Net interest income	$19,255	$17,013	$15,264	13.2%	11.5%	5.1%

The Corporation's largest category of earning assets consists of loans to businesses and individuals. The majority of earning assets are supported by interest-bearing commercial and consumer deposits and other borrowings. In addition to interest-bearing funds, assets are also supported by noninterest-bearing funds including demand deposits and shareholders' equity. Changes in net interest income are determined by variations in the volume and mix of assets and liabilities as well as their relative sensitivity to interest rate movements. Increased volume drove the increases in net interest income for 1998 and 1997.

The following table depicts the changes in rate and volume components of net interest income:

	1998 over 1997			1997 over 1996		
	Total	Change due to		Total	Change due to	
(in thousands)	Change	Rate	Volume	Change	Rate	Volume
Total interest income ..	$4,724	$-787	$5,511	$6,212	$ 14	$6,198
Total interest expense .	2,482	-132	2,614	4,463	714	3,749
Net interest income	$2,242	$-655	$2,897	$1,749	$-700	2,449

Drovers Bancshares Corporation and Subsidiaries
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS, (continued)

NET INTEREST INCOME,(continued)

There are two performance measures that indicate how successful a bank is in managing its asset and liability structure. The first, net interest spread, is the average rate earned on earning assets less the average rate paid on interest-bearing funds. The second, net interest margin, incorporates both the net interest spread and margin on earning assets financed by noninterest-bearing funds. The following table illustrates the net interest spread and the net interest margin:

<TABLE>
<CAPTION>

(in thousands)	1998 Average Balance	Rate	1997 Average Balance	Rate
Earning assets	$524,729	7.81%	$458,752	7.91%
Financed by:				
Interest-bearing funds	$463,520	4.69%	$408,069	4.72%
Noninterest-bearing funds	61,209	--	50,683	--
Total	$524,729	4.14%	$458,752	4.20%
Net interest income	$ 19,255		$ 17,013	
Net interest spread		3.12%		3.19%
Net interest income margin		3.67%		3.71%

</TABLE>

The average spread and margin declined 0.07% and 0.04%, respectively, in 1998. The average yield on earning assets fell 0.10%. This was partially offset by a 0.03% decline in the yield on interest-bearing funds.

The Corporation increased holdings in investment securities throughout 1997. This strategy generated net interest income used to offset the costs of an expanding branch office network. The increased holdings in lesser yielding investment securities, however, resulted in a narrower spread and margin, which bottomed out in the fourth quarter of 1997. The fourth quarter margin was 3.56%.

The Corporation experienced extraordinary loan demand in 1998. The combination of a strong local economy, low interest rates and customer dissatisfaction with large bank mergers caused the demand. This resulted in strong loan growth accounting for nearly all of the increase in interest-bearing assets. This change in mix of higher yielding loans compared to investment securities caused the margin to increase throughout most of 1998.

In the fourth quarter of 1998, the Federal Reserve reduced short-term interest rates by lowering the "discount rate." The Corporation is asset sensitive, with more interest-earning assets that reprice when short-term interest rates change than interest-bearing liabilities. The decrease in short-term interest rates caused the margin to decline to 3.61% in the fourth quarter of 1998.

PROVISION FOR LOAN LOSSES

The provision for loan losses was $1,266,000, $386,000 and $645,000 for 1998, 1997 and 1996, respectively. As described in the summary of significant accounting policies, management analyzes the loan portfolio and the reserve for loan losses each quarter. The analysis estimates loan losses and determines the required provision. The analysis considers many factors including charge-off history, loan quality and loan growth. Net charge-offs for 1998, 1997 and 1996 were $658,000, $212,000 and $452,000, respectively. As a percentage of average loans, net charge-offs were 0.18%, 0.07% and 0.17% in 1998, 1997 and 1996, respectively. Nonaccrual loans as a percentage of total loans at December 31, 1998, 1997 and 1996 were 0.37%, 0.24% and 0.22%, respectively. Loans grew $76,436,000, $30,556,000 and $27,712,000 in 1998, 1997 and 1996, respectively. The reserve for loan losses as a percentage of loans at December 31, 1998, 1997 and 1996 was 1.00%, 1.05% and 1.11%, respectively. An increase in net charge-offs, nonaccrual loans and total loans caused management to increase the 1998 provision. Management believes the present reserve is adequate to absorb losses in the existing portfolio. A significant degradation of loan quality; however, could require a change in estimated losses and cause a material change in net income.

<TABLE>
OTHER INCOME
<CAPTION>

	Years Ended December 31,			Increase(Decrease)		
(in thousands)	1998	1997	1996	98/97	97/96	96/95
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Investment services and trust income	$1,295	$1,105	$1,020	17.2%	8.3%	10.4%
Service charges on deposit accounts	1,692	1,293	1,199	30.9%	7.8%	22.1%
Securities gains	262	197	196	33.0%	0.5%	84.9%
Net gains on loan sales	1,044	491	390	112.6%	25.9%	40.3%
Equity in losses of real estate ventures...	-104	-81	-137	28.4%	-40.9%	114.1%
Other	1,219	948	696	28.6%	36.2%	13.9%
Total other income	$5,408	$3,953	$3,364	36.8%	17.5%	18.6%

</TABLE>

Noninterest income was $5,408,000 in 1998, an increase of $1,455,000 from 1997 The 1997 noninterest income was $3,953,000, an increase of $589,000 over the 1996 level of $3,364,000.

Income from the financial services and trust division increased $190,000, or 17.2%, in 1998. The fair value of investments managed by the division was $252,121,000 at the end of 1998, an increase of 16.2% over the prior year. The division experienced strong growth in the trust services area, including employee benefits, personal trust and in investment management accounts. Overall increases in the equity markets the past three years helped boost the value of assets managed and the related fee income.

Service charges on deposit accounts increased $399,000, or 30.9%, in 1998. The Corporation engaged a consulting group in the fourth quarter of 1997. They completed an analysis of various products and processes that sought ways to enhance productivity by reducing expenses and improving noninterest income. Most of the increase in deposit service charges was a direct result of implementing their recommendations. Fees from business checking accounts grew in 1997 due to growth in business deposits. In April 1996, the Corporation raised automatic teller machine (ATM) transaction fees, which helped, increase deposit service charges throughout 1998 and 1997.

Net gains from investment securities sales were $262,000 in 1998. The Corporation liquidated some of its community bank stock portfolio accounting for most of the gains. A similar liquidation in late 1997 accounted for $74,000 in gains. The other gains in 1997 and in 1996 came from investment portfolio restructuring used to increase interest income and decrease overall asset sensitivity.

OTHER INCOME, (continued)
Net gains on loan sales result mostly from the sale of residential mortgages. Low interest rates, a strong economy and a mild winter pushed gains to record levels in 1998. Mortgage loans sold were $60,817,000, $30,321,000 and $23,814,000 in 1998, 1997 and 1996, respectively. When the Corporation sells loans and retains servicing, it recognizes a servicing asset. This recognition increases the loan sale gains. Mortgage servicing rights recognized and included in loan sale gains were $361,000, $197,000 and $176,000 in 1998, 1997 and 1996, respectively. The Corporation sold a small credit card portfolio in 1998 for a gain of $43,000. The sale of commercial loan participations in 1998 totaled $3,682,000. This generated a $28,000 gain from capitalizing the loan servicing rights.

The Corporation recognized a $104,000 loss during 1998 from its equity investments in four real estate limited partnerships. The partnerships were formed to renovate properties for lease as low-income housing apartments. The first two partnerships opened in 1994 and 1996. Both remain fully occupied. The third partnership opened its first of two buildings in late 1998. Apartment rent-up has exceeded projections. Construction has begun on the building owned by the fourth partnership and is expected to open in 1999. The Corporation receives substantial financial benefits from these investments in the form of historic and low-income tax credits.

Other income increased $271,000, or 28.6%, in 1998. The Corporation offers ATM and debit cards, charges surcharges for non-customers using our ATM machines and provides electronic interchange services for various merchants. The fees associated with these various electronic transactions have steadily increased. In 1998, these fees increased $157,000 and provided most of the growth in other income. The ATM surcharge generated $180,000 in fees in 1997, its first year of implementation. Loan servicing income continues to provide a steady source of other income. Total mortgage loans serviced were $106,647,000, $100,355,000 and $93,327,000 at the end of 1998, 1997 and 1996, respectively.

<TABLE>
OTHER EXPENSES
<CAPTION>

	Years Ended December 31,			Increase(Decrease)		
(in thousands)	1998	1997	1996	98/97	97/96	96/95
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Salaries and employee benefits .	$ 8,006	$ 7,597	$ 6,818	5.4%	11.4%	6.1%
Occupancy and premises	1,246	917	827	35.9%	10.9%	3.6%
Furniture and equipment	1,365	1,111	896	22.9%	24.0%	22.1%
Marketing	645	441	627	46.3%	-29.7%	61.2%
Net cost of operation of other real estate	56	53	26	5.7%	103.8%	766.7%
Supplies........................	535	443	442	20.8%	0.2%	27.7%
Other taxes	375	331	325	13.3%	1.8%	10.5%
Other	3,003	2,341	2,089	28.3%	12.1%	1.0%
Total other expenses	$15,231	$13,234	$12,050	15.1%	9.8%	9.0%

</TABLE>

Other expenses include all expenses except interest, provision for loan losses and income taxes. In 1998, total other expenses increased $1,997,000, or 15.1%.

Salaries and employee benefits are the most significant noninterest expense category, representing 52.6% of total other expenses for 1998. In 1998, salaries and employee benefits increased $409,000, or 5.4%. Enhancing productivity was a focal point of the recent consulting engagement. Full-time equivalent staffing levels were 215 at the end of 1998 compared to 209 in 1997 and 193 in 1996. The Corporation maintains two incentive compensation plans. Both plans require minimum earnings targets before incentives are paid. The

Corporation paid incentives of $511,000, $391,000 and $234,000 in 1998, 1997 and 1996, respectively.

OTHER EXPENSES, (continued)

Occupancy and premises expense increased $329,000, or 35.9%, during 1998. Two branch offices opened in late 1997 caused most of this year's increase. Lease payments for the new Hellam office, opened in January 1999, began in the fourth quarter. The Corporation accelerated the depreciation expense on a branch office scheduled for relocation within a grocery store. This resulted in an additional $56,000 in expense. Occupancy and premises expense includes the lease revenues less operating expenses of the 96 South George Street office building for office space not occupied by the Corporation. This resulted in a reduction of total occupancy and premises expense of $17,000, $111,000 and $134,000 in 1998, 1997 and 1996, respectively. The positive impact to occupancy and premises expense has declined due to an increase in space occupied by the Corporation and its subsidiaries.

Furniture and equipment expense increased $254,000, or 22.9%, in 1998. Personal computer and Year 2000 software upgrades contributed to the increase. Depreciation expense rose due to the equipment purchased for the new branch offices. Costs associated with a mainframe and ATM network upgrade and the depreciation expense related to the Dover branch office caused the 1997 increase. The Corporation installed a wide area computer network and renovated office space in two buildings in the fourth quarter of 1995. The full impact of the depreciation from these capital expenditures occurred in 1996.

Marketing expense grew $204,000, or 46.3%, during 1998. The Corporation conducted an extensive image and branding campaign. The campaign focused on the Corporation's community bank image and commitment to the markets it serves. A subsidiary of the Corporation, The Drovers & Mechanics Bank, celebrated its 115th anniversary in June.

The net cost of operating other real estate was $56,000 in 1998 compared to $53,000 in 1997 and $26,000 in 1996. Other real estate held was $148,000, $154,000 and $803,000 in 1998, 1997 and 1996, respectively.

Other expenses increased $662,000, or 28.3%, in 1998. Professional services increased $146,000 mainly due to consulting services discussed previously. Total costs for consulting services were about $270,000, well below the savings received from implementing their recommendations. In addition, the Corporation commissioned an organizational sales assessment. As a result, extensive sales and sales management training will begin in 1999. The training will help sustain growth and high performance. Amortization of loan servicing rights increased $96,000 in 1998 due to an increase in residential mortgage loan refinancings. Data processing expenses increased $106,000 caused by the expansion of our ATM network. Higher consulting and data processing expenses contributed to the 1997 increase. Legal fees and checking account benefits purchased from a third party caused the increase in 1996.

TAXATION

The Corporation seeks to minimize its tax liability by investing in low-income housing partnerships that provide tax credits, purchasing tax-free municipal bonds and purchasing equity investments eligible for partially tax-free dividends. The effective tax rate was 16.6% in 1998, 23.3% in 1997 and 18.3% in 1996. Tax credits received were $807,000, $279,000 and $633,000 in 1998, 1997 and 1996, respectively. Average municipal bonds were $23,546,000, $22,207,000 and $14,746,000 in 1998, 1997 and 1996, respectively. Average equity securities were $18,212,000 in 1998, $13,114,000 in 1997 and $5,503,000 in 1996. The effective tax rate fluctuates mainly from the level of tax credits received. The Corporation increased its holdings in tax advantaged investments to help offset increasing taxable income. Projected tax credits are $789,000 in 1999, $595,000 per year in 2000 through 2003 and $2,168,000 thereafter.

Drovers Bancshares Corporation and Subsidiaries
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS, (continued)

FORWARD OUTLOOK

The Financial Accounting Standards Board issued Statement of Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities." The Statement establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities. The Standard becomes effective for fiscal years beginning after June 15, 1999. The Corporation has not completed its assessment of the impact, if any, to earnings from applying this Standard.

The Corporation purchased land near Dillsburg, Pennsylvania in late 1998. Construction of the new branch office will begin in early 1999. The Corporation expects to open its first loan production office (LPO) in the first quarter of 1999. The office will be located in Cumberland County, near Harrisburg. This will be the Corporation's first facility outside York County. The staff at the LPO will initially focus on commercial lending. Negotiations continue to purchase land in Newberrytown, Pennsylvania to establish a new branch office. Total capital expenditures are projected to be $4,000,000 during 1999. All capital expenditures will be funded from operations.

YEAR 2000 ISSUE

The following contains forward-looking statements which involve risks and uncertainties. The actual impact on the Corporation of the Year 2000 issue could materially differ from that which is anticipated in the forward-looking statements as a result of certain factors identified below.

The Year 2000 issue ("Y2K") is the result of computer programs being written using two digits rather than four to define the applicable year. It is anticipated that some systems may recognize a date using "00" as the year "1900" rather than "2000". This could result in system failures, miscalculations and disruptions of normal business operations including, among other things, a temporary inability to process transactions, send statements or engage in similar day-to-day business activities.

Corporation's State of Readiness

The Corporation relies heavily on various internal information technology (IT) and non-information technology (Non-IT) systems and third parties. In order to prepare for the Year 2000 issue, the Corporation adopted the Federal Financial Institutions Examination Council's (FFIEC) five step plan, which includes awareness, assessment, remediation, testing and implementation. As part of the assessment step, the Corporation identified all IT and Non-IT systems, as well as all significant third party relationships. The Corporation tested all IT and Non-IT systems identified as critical. A small number of systems were found to be noncompliant. As of December 31, 1998, remediation, testing and implementation of all mission critical systems was complete. The Corporation continues to assess all new systems and significant upgrades to existing systems.

The Corporation implemented a vigorous vendor management program. As part of the program, Year 2000 certification information was requested from all material third parties. Based on the responses received and information gathered, the Corporation has not identified any material third parties with Year 2000 issues that would interrupt normal business operations. The Corporation is also addressing the impact, if any, the century date change may have on its credit risk.

Costs of Year 2000

The costs to remediate the Corporation's IT and Non-IT systems have been minor and are expected to total less than $100,000. As of December 31, 1998, $65,000 has been expended on Year 2000 costs. The Corporation does not expect the amounts required to be expensed over the next 12 months to have a material effect on the financial position or results of operations. However, if compliance is not achieved in a timely manner by the Corporation or any of its significant related third parties, be it a supplier of services or customer, the Y2K issue could possibly have a material effect on the Corporation's operations and financial position.

YEAR 2000 ISSUE, (continued)
Risks of Year 2000

At present, the Corporation believes its progress in remedying the critical systems and monitoring its third parties' Y2K readiness is on target. The Y2K computer problem creates risk for the Corporation from unforeseen problems in its own computer systems and from third party vendors' computer systems which interface with the Corporation's computer applications. Failure of third party systems relative to the Y2K issue could have a material impact on the Corporation's ability to conduct business.

Contingency Plans
At the present time, the Corporation is not aware of any reasonably likely scenarios that would materially disrupt business operations. The Corporation recognizes the need to develop contingency plans to address situations that could arise despite a low probability of occurrence. The Corporation has adopted the FFIEC four step plan: organizational planning, business impact analysis, development of plan and validation. The organizational planning phase has been completed and a thorough business impact analysis is under way. Contingency plans are being developed and will be tested throughout the process. The Corporation expects to complete contingency planning by June 30, 1999, but will continue updating and testing the plan throughout the year.

LIQUIDITY
The primary purpose of asset/liability management is to maintain adequate liquidity and a desired balance between interest sensitive assets and liabilities. Liquidity management focuses on the ability to meet the cash flow requirements of customers wanting to withdraw or borrow funds for their personal or business needs. Interest rate sensitivity management focuses on consistent growth of net interest income in times of fluctuating interest rates. The management of liquidity and interest rate sensitivity must be coordinated since decisions involving one may influence the other.

Liquidity needs may be met by either reducing assets or increasing liabilities. Sources of asset liquidity include short-term investments, maturing and repaying loans and monthly cash flows from mortgage-backed securities and collateralized mortgage obligations. The loan portfolio provides an additional source of liquidity due to the Corporation's participation in the secondary mortgage market. In addition to monthly cash flows from certain investment securities, the Corporation designates a substantial portion of its investment portfolio as available-for-sale. At December 31, 1998, this segment totaled $127,360,000, or 78.8% of the investment portfolio.

Liquidity needs may be met by attracting deposits with competitive rates, using repurchase agreements, buying federal funds or utilizing the facilities of the Federal Reserve or the Federal Home Loan Bank of Pittsburgh. The Corporation maintains informal borrowing arrangements with several correspondent banks to purchase overnight federal funds. A formal arrangement with the Federal Home Loan Bank allows the Corporation to borrow short and intermediate advances up to approximately 80% of its investment in assets secured by one to four family residential real estate. The maximum borrowings under this agreement at December 31, 1998 were $161,128,000, of which $69,072,000, or 42.9%, was borrowed. The ability to renew funding sources depends on the financial institution's strength, asset portfolio, diversity of depositors and types of deposit instruments offered.

LIQUIDITY, (continued)

Liquidity can be further analyzed by using the Statement of Cash Flows. Cash and cash equivalents increased $9,696,000 during 1998. Cash used in investing activities was $65,694,000 primarily as a result of a $77,321,000 increase in net loans offset by a $17,055,000 decline in investment securities. Funds were also required for $3,477,000 of capital expenditures and $2,209,000 for investments in real estate partnerships. Cash provided by financing activities was $65,078,000. Deposits provided most of the cash. Demand and Savings deposits increased $35,074,000 and certificates of deposit increased $20,508,000. A net increase in short-term and long-term borrowings provided an additional $11,237,000. Operating activities provided the remaining cash flows of $10,312,000. The significant components of operating activities are net income, the add-back of noncash expenses like depreciation and provision for loan losses and the net cash provided from the origination and sale of mortgage loans generated for sale.

INTEREST RATE SENSITIVITY MANAGEMENT

The Corporation's primary market risk is the risk of changes in net interest income caused by changes in interest rates. Interest rate sensitivity management focuses on minimizing interest rate risk. Management measures ongoing interest rate risk through monthly "gap" reports and quarterly computer simulations of net interest income. A "gap" report measures the net dollar exposure to changes in interest rates, at a given time, for various repricing periods. Results can sometimes be misleading since many interest-bearing liabilities are not as sensitive to interest rate movements as the repriceable assets which they help fund. A better measure of interest rate risk is simulations which project net interest income in rising, falling and stable interest rate cycles. The simulation results indicate the Corporation is asset sensitive. If interest rates fell for a sustained time period, net interest income would decline. This is mainly due to the relative insensitivity in a downward rate environment of many interest-bearing deposit liabilities. Management has taken steps to mitigate this risk by increasing holdings of variable rate borrowings, restructuring the investment portfolio to include more fixed rate securities and decreasing holdings of adjustable rate mortgages. In addition, the Corporation successfully introduced a new savings product in 1996 tied directly to short-term money market rates. The present interest rate risk is within tolerance limits established by management.

INTEREST RATE SENSITIVITY MANAGEMENT, (continued)

The table below provides information about the Corporation's financial instruments sensitive to changes in interest rates. The table presents principal cash flows and related weighted average interest rates by expected maturity dates. Weighted average variable rates are based on implied forward rates in the yield curve at December 31, 1998.

<TABLE>
<CAPTION>

(in thousands)	Fair Value	Balance	1999	2000	2001	2002	2003	Over 5 Years
Cash............	$ 24,145	$ 24,145	$ 24,145	$ 0	$ 0	$ 0	$ 0	$ 0
Average rate.		0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Investments:								
Fixed rate.....	132,823	130,097	40,359	23,566	14,664	7,024	2,891	41,593
Average rate.		6.16%	6.64%	6.67%	6.21%	5.95%	6.93%	5.39%
Variable rate..	30,212	30,110	12,939	8,500	2,901	579	712	4,479
Average rate.		6.25%	6.27%	6.19%	6.09%	6.31%	7.38%	6.26%
Loans:								
Fixed rate.....	180,787	181,078	38,033	23,843	24,103	16,426	11,723	66,950
Average rate.		7.68%	6.69%	8.36%	8.35%	8.16%	8.15%	7.54%
Variable rate..	208,646	209,031	48,024	17,390	10,929	13,463	10,078	109,147
Average rate.		8.31%	8.01%	8.34%	8.33%	8.48%	8.27%	7.99%
Deposits:								
Fixed rate.....	280,872	282,420	161,500	51,393	15,230	12,977	10,146	31,174
Average rate.		4.45%	5.24%	4.89%	3.13%	3.00%	1.88%	1.73%
Variable rate..	175,252	175,252	20,644	19,638	18,856	18,856	18,856	78,402
Average rate.		2.71%	2.86%	2.78%	2.71%	2.71%	2.71%	2.66%
Other borrowings:								
Fixed rate.....	56,286	58,677	199	311	225	20,241	12,369	25,332
Average rate.		5.34%	6.43%	6.29%	6.43%	5.54%	5.62%	5.01%
Variable rate..	27,325	27,325	23,325	4,000	0	0	0	0
Average rate.		4.92%	4.78%	5.70%	0.00%	0.00%	0.00%	0.00%

</TABLE>

Investment securities are shown at amortized cost. The table includes prepayment assumptions for asset backed investments based on current prepayment estimates. Prepayment rates of 18%, 19% and 19% were used for fixed rate consumer installment loans, fixed rate residential mortgages and adjustable rate mortgages, respectively. Core deposit decay rates of 5%-12% were used based on historical experience, which allocated substantial amounts into the over-five-year category. Unfunded loan commitments comprise most of the Corporation's off-balance sheet items. These commitments are either short-term or are priced at market at the time of funding. Market risk is minimal and, therefore, these items are not shown in the table.

Considerable judgment is necessary to develop these estimates. The use of different assumptions could materially change the estimated cash flows. Changes in prepayment speeds, market interest rates or rates offered by the Corporation could materially change the actual cash flows received.

Effective asset/liability management also considers the effects of changing market prices on investment values. As a financial institution, a large portion of the Corporation's assets are monetary in nature and subject to an increase/decrease in purchasing power during periods of deflation/inflation. The gain/loss in purchasing power on these assets is primarily affected by the degree of change in their interest rate spread relationships and, accordingly, is a function of the level and magnitude of interest rate movements. Minimizing the effects of inflation on investment values is necessary in the management of interest rate risk.

CAPITAL

Total shareholders' equity increased $4,723,000, or 10.9%, in 1998. Equity, before the impact of accumulated other comprehensive income, increased $5,068,000, or 12.1%. Newly generated capital can result from both internal and external sources. The majority of the Corporation's capital is generated internally. A measure of internal capital generation is the percentage of return on average equity times the percentage of earnings retained. The return on average equity was 14.7% for 1998 and 13.9% for 1997. Total cash dividends declared in 1998 represented 30.1% of net income, as compared to 30.3% in 1997. The resulting internal capital growth percentage was 10.3% in 1998 and 9.7% in 1997. The percentage of average shareholders' equity to average total assets was 8.3% in 1998 and in 1997, indicative of a strong capital base. All of the above calculations involving average equity included an average gain on available-for-sale investment securities of $1,641,000 in 1998 and $558,000 in 1997.

The Federal Reserve Board implemented risk-based capital guidelines for bank holding companies in 1989. The guidelines establish a systematic framework making capital requirements more sensitive to differences in risk structure among banking organizations. The regulations require banking organizations to maintain capital equivalent to 8.0% of risk weighted assets, at least half of which must be common equity. Capital is divided into two tiers. Tier 1 capital includes common stock, additional paid-in capital and retained earnings. Tier 2 includes the allowance for loan losses, up to a maximum of 1.25% of risk adjusted assets. In addition to the risk-based capital requirements, regulations require a minimum leverage ratio of 3.0% to 5.0%, depending on the strength of the organization. The leverage ratio divides Tier 1 capital by total assets.

The following table shows the Corporation exceeds all minimum capital adequacy standards:

<TABLE>
<CAPTION>

(in thousands)	December 31, 1998	December 31, 1997
Tier 1 Capital	$ 46,891	$ 41,877
Tier 2 Capital	4,315	3,304
Total risk-based capital	$ 51,206	$ 45,181
Risk-adjusted on-balance sheet assets	$400,895	$332,434
Risk-adjusted off-balance sheet exposure	14,180	12,491
Total risk-adjusted assets	$415,075	$344,925
Ratios:		
Tier 1 risk-based capital ratio	11.3%	12.1%
Minimum required for December 31,	4.0%	4.0%
Total risk-based capital ratio	12.3%	13.1%
Minimum required for December 31,	8.0%	8.0%
Tier 1 leverage ratio	8.1%	8.0%
Minimum required for December 31,	4.0%	4.0%

</TABLE>

FINANCIAL CONDITION

The Corporation functions as a financial intermediary and, therefore, its financial condition and progress may be examined in terms of trends in its sources and uses of funds. The following comparison of average daily balances indicates how the Corporation has generated and employed its funds:

<TABLE>
<CAPTION>

(in thousands)	1998 Average Balance	1998 Increase (Decrease)	%	1997 Average Balance	1997 Increase (Decrease)	%	1996 Average Balance
Funding uses:							
Money market investments	$ 653	$ -601	-47.9%	$ 1,254	$-1,621	-56.4%	$ 2,875
Investment securities	169,069	4,578	2.8%	164,491	60,010	57.4%	104,481
Loans	355,007	62,000	21.2%	293,007	27,474	10.3%	265,533
Total interest-earning assets	524,729	65,977	14.4%	458,752	85,863	23.0%	372,889
Noninterest-earning assets	34,443	1,958	6.0%	32,485	753	2.4%	31,732
Total uses	$559,172	$67,935	13.8%	$491,237	$86,616	21.4%	$404,621
Funding sources:							
Demand deposits	$ 45,935	$ 3,349	7.9%	$ 42,586	$1,140	2.8%	$ 41,446
Savings deposits	119,555	18,243	18.0%	101,312	27,010	36.4%	74,302
Time deposits	218,759	18,136	9.0%	200,623	28,997	16.9%	171,626
Short-term borrowings	28,418	2,758	10.7%	25,660	13,373	108.8%	12,287
Long-term borrowings	50,853	12,965	34.2%	37,888	6,852	22.1%	31,036
Total interest-bearing liabilities	463,520	55,451	13.6%	408,069	77,372	23.4%	330,697
Demand deposits	41,752	4,677	12.6%	37,075	3,821	11.5%	33,254
Other liabilities	7,550	2,013	36.4%	5,537	1,296	30.6%	4,241
Shareholders' equity	46,350	5,794	14.3%	40,556	4,127	11.3%	36,429
Total sources	$559,172	$67,935	13.8%	$491,237	$86,616	21.4%	$404,621

</TABLE>

Total average assets were $559,172,000, representing a $67,935,000, or 13.8%, increase from 1997. Loans accounted for nearly all the growth, increasing $62,000,000, or 21.2%. Commercial and residential mortgage lending provided most of the growth in loans.

Total deposits grew $44,405,000, or 11.6%, in 1998. This funded 65.4% of the asset growth. The popular Indexed Money Fund provided most of the growth in savings deposits, which grew $18,243,000. Certificate of deposit balances continued to grow, increasing time deposits $18,136,000. Average short- and long-term borrowings increased $15,723,000. Additional borrowings at the Federal Home Loan Bank accounted for most of the increase.

Drovers Bancshares Corporation
<TABLE>
ELEVEN YEAR SUMMARY OF SELECTED FINANCIAL INFORMATION
<CAPTION>

(dollar amounts in thousands, except per share data)	1998	1997	1996	1995	1994
BALANCE SHEET DATA AT DECEMBER 31,					
<S>	<C>	<C>	<C>	<C>	<C>
Assets	$597,793	$524,892	$446,713	$382,791	$352,287
Investment securities	161,619	179,299	128,082	91,823	94,359
Net loans	386,197	310,369	279,987	252,468	226,737
Deposits	457,672	402,086	360,204	306,653	283,173
Shareholders' equity	48,193	43,470	38,092	34,921	29,724
Total average assets	559,172	491,237	404,621	369,785	339,649
Total average shareholders' equity	46,350	40,556	36,429	32,823	29,538
INCOME DATA					
Interest income	$ 40,991	$ 36,267	$ 30,055	$ 28,053	$ 23,300
Interest expense	21,736	19,254	14,791	13,529	10,406
Net interest income	19,255	17,013	15,264	14,524	12,894
Provision for loan losses	1,266	386	645	501	382
Net interest income after provision for loan losses	17,989	16,627	14,619	14,023	12,512
Other income	5,408	3,953	3,364	2,837	2,457
Other expenses	15,231	13,234	12,050	11,058	10,355
Income taxes	1,356	1,715	1,084	1,521	845
Income before cumulative effect of change in accounting for income taxes	6,810	5,631	4,849	4,281	3,769
Cumulative effect of change in accounting for income taxes	0	0	0	0	0
Net income	6,810	5,631	4,849	4,281	3,769
Dividends paid	2,050	1,707	1,606	1,407	1,156
RATIOS					
Return on average assets	1.22%	1.15%	1.20%	1.16%	1.11%
Return on average equity	14.69%	13.88%	13.31%	13.04%	12.76%
Equity to assets (year-end)	8.06%	8.28%	8.53%	9.12%	8.44%
Net loans to deposits (year-end)	84.38%	77.19%	77.73%	82.33%	80.07%
Dividend payout	30.10%	30.31%	33.12%	32.87%	30.67%
PER SHARE DATA*					
Net income	$ 1.53	$ 1.27	$ 1.10	$ 0.97	$ 0.86
Net income, assuming dilution	1.51	1.26	1.09	0.97	0.86
Cash dividends	0.46	0.39	0.36	0.32	0.26
Book value (year-end)	10.79	9.79	8.61	7.92	6.75
Weighted average number of shares outstanding	4,455,385	4,426,635	4,420,899	4,411,382	4,379,013
Stock dividends and stock splits paid ...	50%	5%	25%	7%	25%

</TABLE>

* Per share figures are based on weighted average shares outstanding for the respective years as restated after giving effect to stock dividends.

Drovers Bancshares Corporation
<TABLE>
ELEVEN YEAR SUMMARY OF SELECTED FINANCIAL INFORMATION, (Continued)
<CAPTION>

(dollar amounts in thousands, except per share data)	1993	1992	1991	1990	1989	1988
<S>	<C>	<C>	<C>	<C>	<C>	<C>
BALANCE SHEET DATA AT DECEMBER 31,						
Assets	$320,851	$308,319	$276,537	$253,324	$240,886	$236,007
Investment securities	85,836	99,011	86,054	66,222	63,682	68,556
Net loans	206,614	181,056	166,691	164,063	150,880	137,094
Deposits	265,917	256,806	243,717	227,916	216,532	213,249
Shareholders' equity	29,249	25,554	23,377	21,715	20,321	19,042
Total average assets	315,138	288,792	266,000	247,502	234,210	223,991
Total average shareholders' equity	27,379	24,570	22,507	21,085	20,152	18,641
INCOME DATA						
Interest income	$ 22,445	$ 22,490	$ 23,651	$ 23,290	$ 21,829	$ 19,608
Interest expense	10,246	11,363	13,561	14,106	13,334	11,814
Net interest income	12,199	11,127	10,090	9,184	8,495	7,794
Provision for loan losses	447	552	568	416	365	0
Net interest income after provision for loan losses	11,752	10,575	9,522	8,768	8,130	7,794
Other income	2,651	2,216	1,715	1,381	1,243	1,115
Other expenses	9,866	8,877	7,966	7,366	6,895	6,632
Income taxes	1,026	717	608	487	326	275

Income before cumulative effect of change in accounting for income taxes	3,511	3,197	2,663	2,296	2,152	2,002
Cumulative effect of change in accounting for income taxes	352	0	0	0	0	0
Net income	3,863	3,197	2,663	2,296	2,152	2,002
Dividends paid	1,080	1,019	1,003	930	875	776
RATIOS						
Return on average assets	1.23%	1.11%	1.00%	0.93%	0.92%	0.89%
Return on average equity	14.11%	13.01%	11.83%	10.89%	10.68%	10.74%
Equity to assets (year-end)	9.12%	8.29%	8.45%	8.57%	8.44%	8.07%
Net loans to deposits (year-end)	77.70%	70.50%	68.40%	71.98%	69.68%	64.29%
Dividend payout	27.96%	31.87%	37.66%	40.51%	40.66%	38.76%
PER SHARE DATA*						
Net income	$ 0.89	$ 0.74	$ 0.61	$ 0.53	$ 0.50	$ 0.46
Net income, assuming dilution...........	0.88	0.73	0.61	0.53	0.49	0.46
Cash dividends	0.25	0.24	0.23	0.21	0.20	0.18
Book value (year-end)	6.72	5.89	5.39	5.01	4.69	4.40
Weighted average number of shares outstanding	4,344,798	4,335,777	4,333,854	4,332,925	4,331,122	4,329,810
Stock dividends declared	5%	0%	0%	50%	5%	5%

</TABLE>

* Per share figures are based on weighted average shares outstanding for the respective years as restated after giving effect to stock dividends.

Drovers Bancshares Corporation and Subsidiaries

<TABLE>

AVERAGE BALANCES AND RATES

<CAPTION>

		1998			1997			1996	
(in thousands)	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
ASSETS									
Interest-earning assets:									
Interest-bearing deposits with banks	$ 653	$ 41	6.28%	$ 1,254	$ 70	5.58%	$ 2,875	$ 155	5.39%
Taxable investment securities	127,311	8,156	6.41%	129,170	8,712	6.74%	84,232	5,492	6.52%
Equity securities	18,212	1,033	5.67%	13,114	767	5.85%	5,503	336	6.11%
Tax-exempt investment securities	23,546	1,278	5.43%	22,207	1,231	5.54%	14,746	873	5.92%
Loans	355,007	30,483	8.59%	293,007	25,487	8.70%	265,533	23,199	8.74%
TOTAL	524,729	$40,991	7.81%	458,752	$36,267	7.91%	372,889	$30,055	8.06%
Noninterest-earning assets	34,443			32,485			31,732		
TOTAL ASSETS	$559,172			$491,237			$404,621		
LIABILITIES AND SHAREHOLDERS' EQUITY									
Interest-bearing liabilities:									
Demand deposits	$ 45,935	$ 534	1.16%	$ 42,586	$ 514	1.21%	$ 41,446	$510	1.23%
Savings deposits	119,555	4,379	3.66%	101,312	3,600	3.55%	74,302	2,116	2.85%
Time deposits	218,759	12,461	5.70%	200,623	11,530	5.75%	171,626	9,696	5.65%
Short-term borrowings	28,418	1,491	5.25%	25,660	1,353	5.27%	12,287	584	4.75%
Long-term borrowings	50,853	2,871	5.65%	37,888	2,257	5.96%	31,036	1,885	6.07%
TOTAL	463,520	$21,736	4.69%	408,069	$19,254	4.72%	330,697	$14,791	4.47%
Noninterest-bearing liabilities:									
Demand deposits	41,752			37,075			33,254		
Other liabilities	7,550			5,537			4,241		
Shareholders' equity	46,350			40,556			36,429		
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$559,172			$491,237			$404,621		
NET INTEREST SPREAD			3.12%			3.19%			3.59%
INTEREST EXPENSE AS A PERCENT OF EARNING ASSETS			4.14%			4.20%			3.97%
NET INTEREST INCOME MARGIN		$19,255	3.67%		$17,013	3.71%		$15,264	4.09%

</TABLE>

Average nonaccrual loans included in average loans for 1998, 1997 and 1996 were $797,000, $680,000 and $2,167,000, respectively. Loan fees included in interest income were $1,202,000, $483,000 and $356,000 in 1998, 1997 and 1996, respectively.