FORM 10-K

Annual report pursuant to section 13 and 15(d)

Filing Date: **1999-03-26** | Period of Report: **1998-12-31**
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LAKE ARIEL BANCORP INC
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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

[x] ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 [FEE REQUIRED]

For the fiscal year ended December 31, 1998

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

For the transition period from to

Commission file Number: 2-85306

LAKE ARIEL BANCORP, INC.
(Exact name of registrant as specified in its charter)

PENNSYLVANIA	23-2244948
(State of other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

Post Office Box 67, Route 191, Lake Ariel, Pennsylvania	18436
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (570) 698-5695

Securities registered pursuant to Section 12(b) of the Act: Not Applicable

Securities registered pursuant to Section 12(g) of the Act:
Common Stock, par value $.21 per share

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 past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No______

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 this Form 10-K or any amendment to this Form 10-K. [X]

The aggregate market value of the voting stock held by non-affiliates of the registrant based on average closing bid and asked prices: $42,015,693 at March 16, 1999.

As of March 16, 1999, the registrant had outstanding 4,838,386 shares of its common stock, par value $.21 per share.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Annual Report to shareholders of the registrant for the year ended December 31, 1998 and of the Proxy Statement for the 1999 Annual Meeting of Shareholders, are incorporated by reference in Part II of this Annual Report.

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LAKE ARIEL BANCORP, INC.
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Part I

Item 1. Business

General

Lake Ariel Bancorp, Inc. ("Bancorp"), a Pennsylvania business corporation, is a bank holding company, registered with and supervised by the Board of Governors of the Federal Reserve System (the "Federal Reserve Board"). Bancorp was organized on May 23, 1983, and commenced operations on November 26, 1983. Bancorp has one wholly-owned subsidiary, LA Bank, National Association (the "Bank"). Bancorp's business has consisted primarily of managing and supervising the Bank, and its principal source of income has been dividends paid by the Bank. At December 31, 1998, Bancorp had total consolidated assets, deposits and stockholders' equity of approximately $474.7 million, $312.7 million and $37.9 million, respectively.

The Bank was organized in 1910. The Bank is a national banking association that is a member of the Federal Reserve System and the deposits of which are insured by the Federal Deposit Insurance Corporation (the "FDIC") under the Bank Insurance Fund ("BIF"). The Bank has twenty-one (21) branch locations (four branches within Wayne County, ten branches within Lackawanna County, three branches within Pike County, two branches within Monroe County and two branches within Luzerne County), and a Financial Center (within Lackawanna County, Pennsylvania). The Bank is a full service commercial bank providing a wide range of services to individuals and small to medium sized businesses in its Northeastern Pennsylvania market area, including accepting time, demand, and savings deposits and making secured and unsecured commercial, real estate and consumer loans. The Bank has two subsidiaries, LA Lease, Inc., that engages in the leasing of personal property, and Ariel Financial Services, Inc., a newly formed business unit offering stocks, bonds, annuities and other insurance-related products.

Supervision and Regulation - Bancorp

Bancorp is subject to the jurisdiction of the Securities and Exchange Commission ("SEC") relating to the offering and sale of its securities.

Bancorp is currently subject to the SEC's rules and regulations relating to periodic reporting, insider trading reports and proxy solicitation materials in accordance with the Securities Exchange Act of 1934 (the "Exchange Act").

Bancorp is also subject to the provisions of the Bank Holding Company Act of 1956, as amended ("Bank Holding Company Act"), and to supervision by the Federal Reserve Board. The Bank Holding Company Act will require Bancorp to secure the prior approval of the Federal Reserve Board before it owns or controls, directly or indirectly, more than 5% of the voting shares of substantially all of the assets of any institution, including another bank. The Bank Holding Company Act prohibits acquisition by Bancorp of more than 5% of the voting shares of, or interest in, or substantially all of the assets of, any bank located outside Pennsylvania unless such an acquisition is specifically authorized by laws of the state in which such bank is located.

A bank holding company is prohibited from engaging in or acquiring direct or indirect control of more than 5% of the voting shares of any company engaged in non-banking activities unless the Federal Reserve Board, by order or regulation, has found such activities to be so closely related to banking or managing or controlling banks as to be a proper incident thereto. In making this determination, the Federal Reserve Board considers whether the performance of these activities by a bank holding company would offer benefits to the public that outweigh possible adverse effects.

The Bank Holding Company Act also prohibits acquisitions of control of a bank holding company, such as Bancorp, without prior notice to the Federal Reserve Board. Control is defined for this purpose as the power, directly or indirectly, to direct the management or policies of a bank holding company or to vote twenty-five percent (25%) (or ten percent (10%), if no other person or persons acting on concert, holds a greater percentage of the Common Stock) or more of Bancorp's Common Stock.

Bancorp is required to file an annual report with the Federal Reserve Board and any additional information that the Federal Reserve Board may require pursuant to the Bank Holding Company Act. The Federal Reserve Board may also make examinations of Bancorp and any or all of its subsidiaries. Subject to certain exceptions, a bank holding company and its subsidiaries are generally prohibited from engaging in certain tie-in arrangements in connection with any extension of credit or provision of credit or provision of any property or services. The so-called "Anti-tie-in" provisions state generally that a bank may not extend credit, lease, sell property or furnish any service to a customer on the condition that the customer provide additional credit or service to the bank, to its bank holding company or to any other subsidiary of its bank holding company or on the condition that the customer not obtain other credit or service from a competitor of the bank, its bank holding company or any subsidiary of its bank holding company.

Subsidiary banks of a bank holding company are subject to certain restrictions imposed by the Federal Reserve Act on any extensions of credit to the bank holding company or any of its subsidiaries, on investments in the stock or other securities of the bank holding company and on taking of such stock or securities as collateral for loans to any borrower.

Permitted Non-Banking Activities

The Federal Reserve Board permits bank holding companies or their subsidiaries to engage in nonbanking activities so closely related to banking or managing or controlling banks as to be a proper incident thereto. While the types of permissible activities are subject to change by the Federal Reserve Board, the principal nonbanking activities that presently may be conducted by a bank holding company or its subsidiary without prior approval of the Federal Reserve Board are:

(1) Extending credit and servicing loans. Making, acquiring, brokering, or servicing loans or other extensions of credit (including factoring, issuing letters of credit and accepting drafts) for the company's account or for the account of others.

(2) Activities related to extending credit. Any activity usual in connection with making, acquiring, brokering or servicing loans or other extensions of credit, as determined by the Federal Reserve Board. The Federal Reserve Board has determined that the following activities are usual in connection with making, acquiring, brokering or servicing loans or other extensions of credit:

> (i) Real estate and personal property appraising. Performing appraisals of real estate and tangible and intangible personal property, including securities.
>
> (ii) Arranging commercial real estate equity financing. Acting as intermediary for the financing of commercial or industrial income-producing real estate by arranging for the transfer of the title, control, and risk of such a real estate

project to one or more investors, if the bank holding company and its affiliates do not have an interest in, or participate in managing or developing, a real estate project for which it arranges equity financing, and do not promote or sponsor the development of the property.

(iii) Check-guaranty services. Authorizing a subscribing merchant to accept personal checks tendered by the merchant's customers in payment for goods and services, and purchasing from the merchant validly authorized checks that are subsequently dishonored.

(iv) Collection agency services. Collecting overdue accounts receivable, either retail or commercial.

(v) Credit bureau services. Maintaining information related to the credit history of consumers and providing the information to a credit grantor who is considering a borrower's application for credit or who has extended credit to the borrower.

(vi) Asset management, servicing, and collection activities. Engaging under contract with a third party in asset management, servicing, and collection of assets of a type that an insured depository institution may originate and own, if the company does not engage in real property management or real estate brokerage services as part of these services.

(vii) Acquiring debt in default. Acquiring debt that is in default at the time of acquisition under certain conditions.

(viii) Real estate settlement servicing. Providing real estate settlement services.

(3) Leasing personal or real property. Leasing personal or real property or acting as agent, broker, or adviser in leasing such property under certain conditions.

(4) Operating nonbank depository institutions:

(i) Industrial banking. Owning, controlling, or operating an industrial bank, Morris Plan bank, or industrial loan company, so long as the institution is not a bank.

(ii) Operating savings association. Owning, controlling or operating a savings association, if the savings association engages only in deposit-taking activities, lending, and other activities that are permissible for bank holding companies.

(5) Trust company functions. Performing functions or activities that may be performed by a trust company (including activities of a fiduciary, agency, or custodial nature), in the manner authorized by federal or state law, so long as the company is not a bank for purposes of the Bank Holding Company Act.

(6) Financial and investment advisory activities. Acting as investment or financial advisor to any person, including (without, in any way, limiting the foregoing):

(i) Serving as investment adviser (as defined in section 2(a)(20) of the Investment Company Act of 1940, 15 U.S.C. 80a-2(a)(20)), to an investment company registered under that act, including sponsoring, organizing, and managing a closed-end investment company;

(ii) Furnishing general economic information and advice, general economic statistical forecasting services, and industry studies;

(iii) Providing advice in connection with mergers, acquisitions, divestitures, investments, joint ventures, leveraged buyouts, recapitalizations, capital structurings, financing transactions and similar transactions, and conducting financial feasibility studies;

(iv) Providing information, statistical forecasting, and advice with respect to any transaction in foreign exchange, swaps, and similar transactions, commodities, and any forward contract, option, future, option on a future, and similar instruments;

(v) Providing educational courses, and instructional materials to consumers on individual financial management matters;

and

(vi) Providing tax-planning and tax-preparation services to any person.

(7) Agency transactional services for customer investments:

(i) Securities brokerage. Providing securities brokerage services (including securities clearing and/or securities execution services on an exchange), whether alone or in combination with investment advisory services, and incidental activities (including related securities credit activities and custodial services), if the securities brokerage services are restricted to buying and selling securities solely as agent for the account of customers and do not include securities underwriting or dealing.

(ii) Riskless principal transactions. Buying and selling in the secondary market all types of securities on the order of customers as a "riskless principal" to the extent of engaging in a transaction in which the company, after receiving an order to buy (or sell) a security from a customer, purchases (or sells) the security for its own account to offset a contemporaneous sale to (or purchase from) the customer. This does not include:

(A) Selling bank-ineligible securities at the order of a customer that is the issuer of the securities, or selling bank-ineligible securities in any transaction where the company has a contractual agreement to place the securities as agent of the issuer; or

(B) Acting as a riskless principal in any transaction involving a bank-ineligible security for which the company or any of its affiliates acts as underwriter (during the period of the underwriting or for 30 days thereafter) or dealer.

(iii) Private placement services. Acting as agent for the private placement of securities in accordance with the requirements of the Securities Act of 1933 ("1933 Act") and the rules of the Securities and Exchange Commission, if the company engaged in the activity does not purchase or repurchase for its own account the securities being placed, or hold in inventory unsold portions of issues of these securities.

(iv) Futures commission merchant. Acting as a futures commission merchant ("FCM") for unaffiliated persons in the execution, clearance, or execution and clearance of any futures contract and option on a futures contract traded on an exchange in the United States or abroad under certain conditions.

(v) Other transactional services. Providing to customers as agent transactional services with respect to swaps and similar transactions.

(8) Investment transactions as principal:

(i) Underwriting and dealing in government obligations and money market instruments. Underwriting and dealing in obligations of the United States, general obligations of states and their political subdivisions, and other obligations that state member banks of the Federal Reserve System may be authorized to underwrite and deal in under 12 U.S.C. 24 and 335, including banker's acceptances and certificates of deposit, under the same limitations as would be applicable if the activity were performed by the bank holding company's subsidiary member banks or its subsidiary nonmember banks as if they were member banks.

(ii) Investing and trading activities. Engaging as principal in:

(A) Foreign exchange;

(B) Forward contracts, options, futures, options on futures, swaps, and similar contracts, whether traded on exchanges or not, based on any rate, price, financial asset (including gold, silver, platinum, palladium, copper, or any other metal approved by the Board), nonfinancial asset, or group of assets, other than a bank-ineligible security under certain conditions.

(C) Forward contracts, options, futures, options on futures, swaps, and similar contracts, whether traded on exchanges or not, based on an index of a rate, a price, or the value of any financial asset, nonfinancial asset, or group of assets, if the contract requires such settlement.

(iii) Buying and selling bullion, and related activities. Buying, selling and storing bars, rounds, bullion, and coins of gold, silver, platinum, palladium, copper, and any other metal approved by the Federal Reserve Board, for the company's own account and the account of others, and providing incidental services such as arranging for storage, safe custody, assaying, and shipment.

(9) Management consulting and counseling activities:

(i) Management consulting. Providing management consulting advice under certain conditions.

(ii) Employee benefits consulting services. Providing consulting services to employee benefit, compensation and insurance plans, including designing plans, assisting in the implementation of plans, providing administrative services to plans, and developing employee communication programs for plans.

(iii) Career counseling services. Providing career counseling services to:

(A) A financial organization and individuals currently employed by, or recently displaced from, a financial organization;

(B) Individuals who are seeking employment at a financial organization; and

(C) Individuals who are currently employed in or who seek positions in the finance, accounting, and audit departments of any company.

(10) Support services:

(i) Courier services. Providing courier services for:

(A) Checks, commercial papers, documents, and written instruments (excluding currency or bearer-type negotiable instruments) that are exchanged among banks and financial institutions; and

(B) Audit and accounting media of a banking or financial nature and other business records and documents used in processing such media.

(ii) Printing and selling MICR-encoded items. Printing and selling checks and related documents, including corporate image checks, cash tickets, voucher checks, deposit slips, savings withdrawal packages, and other forms that require Magnetic Ink Character Recognition ("MICR") encoding.

(11) Insurance agency and underwriting:

(i) Credit insurance. Acting as principal, agent, or broker for insurance (including home mortgage redemption insurance) that is:

(A) Directly related to an extension of credit by the bank holding company or any of its subsidiaries; and

(B) Limited to ensuring the repayment of the outstanding balance due on the extension of credit in the event of the death, disability, or involuntary unemployment of the debtor.

(ii) Finance company subsidiary. Acting as agent or broker for insurance directly related to an extension of credit by a finance company that is a subsidiary of a bank holding company under certain conditions.

(iii) Insurance in small towns. Engaging in any insurance agency activity in a place where the bank holding company or a subsidiary of the bank holding company has a lending office and that:

(A) Has a population not exceeding 5,000 (as shown in the preceding decennial census); or

(B) Has inadequate insurance agency facilities, as determined by the Federal Reserve Board, after notice and opportunity for hearing.

(iv) Insurance-agency activities conducted on May 1, 1982. Under certain restrictions, engaging in any specific insurance-agency activity if the bank holding company, or subsidiary conducting the specific activity, conducted such activity on May 1, 1982, or received the Federal Reserve Board approval to conduct such activity on or before May 1, 1982.

(v) Supervision of retail insurance agents. Supervising on behalf of insurance underwriters the activities of retail insurance agents who sell:

(A) Fidelity insurance and property and casualty insurance on the real and personal property used in the operations of the bank holding company or its subsidiaries; and

(B) Group insurance that protects the employees of the bank holding company or its subsidiaries.

(vi) Small bank holding companies. Engaging in any insurance-agency activity if the bank holding company has total consolidated assets of $50 million or less.

(vii) Insurance-agency activities conducted before 1971. Engaging in any insurance-agency activity performed at any location in the United States directly or indirectly by a bank holding company that was engaged in insurance-agency activities prior to January 1, 1971, as a consequence of approval by the Federal Reserve Board prior to January 1, 1971.

(12) Community development activities:

(i) Financing and investment activities. Making equity and debt investments in corporations or projects designed primarily to promote community welfare, such as the economic rehabilitation and development of low-income areas by providing housing, services, or jobs for residents.

(ii) Advisory activities. Providing advisory and related services for programs designed primarily to promote community welfare.

(13) Money orders, savings bonds, and traveler's checks. The issuance and sale at retail of money orders and similar consumer-type payment instruments; the sale of U.S. savings bonds; and the issuance and sale of traveler's checks.

(14) Data processing. Providing data processing and data processing and data transmission services, facilities (including data processing and data transmission hardware, software, documentation, or operating personnel), data bases, advice, and access to such services, facilities, or data bases by any technological means under certain conditions.

Pennsylvania Banking Law

Under the Pennsylvania Banking Code of 1965, as amended (the "Code"), Bancorp is permitted to control an unlimited number of banks. However, Bancorp would be required, under the Bank Holding Company Act, to obtain the prior approval of the Federal Reserve Board before it could acquire all or substantially all of the assets of any bank, or acquire ownership or control of any voting shares of any bank other than the Bank, if, after such acquisition, it would own or control more than five percent (5%) of the voting shares of such bank.

Interstate Banking and Branching

The Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 (the "Interstate Banking Law"), amended various federal banking laws to provide for nationwide interstate banking, interstate bank mergers and interstate branching. The interstate banking provisions allow for the acquisition by a bank holding company of a bank located in another state.

Interstate bank mergers and branch purchase and assumption transactions were allowed effective June 1, 1997; however, states may "opt-out" of the merger and purchase and assumption provisions by enacting a law which specifically prohibits such interstate transactions. States could, in the alternative, enact legislation to allow interstate merger and purchase and assumption transactions prior to June 1, 1997. States could also enact legislation to allow for de novo interstate branching of out-of-state banks. In July 1995, Pennsylvania adopted "opt-in" legislation which allows such transactions.

Legislation and Regulatory Changes

From time to time, legislation is enacted which has the effect of increasing the cost of doing business, limiting or expanding permissible activities or affecting the competitive balance between banks and other financial institutions. Proposals to change the laws and regulations governing the operations and taxation of banks, bank holding companies and other financial institutions are frequently made in Congress, and before various bank regulatory agencies. No prediction can be made as to the likelihood of any major changes or the impact such changes might have on Bancorp and its subsidiary bank. Certain changes of potential significance to Bancorp which have been enacted or promulgated, as the case may be, by Congress or various regulatory agencies, respectively, are discussed below.

Financial Institutions Reform, Recovery and Enforcement Act of 1989 ("FIRREA")

On August 9, 1989, major reform and financing legislation, i.e., FIRREA, was enacted into law in order to restructure the regulation of the thrift industry, to address the financial condition of the Federal Savings and Loan Insurance Corporation and to enhance the supervisory and enforcement powers of the Federal bank and thrift regulatory agencies. The Office of the Comptroller of the Currency ("OCC"), as the primary Federal regulator of the Bank, is primarily responsible for supervision of the Bank. The OCC and FDIC have far greater flexibility to impose supervisory agreements on an institution that fails to comply with its regulatory requirements, particularly with respect to the capital requirements. Possible enforcement actions include the imposition of a capital plan, termination of deposit insurance and removal or temporary suspension of an officer, director or other institution-affiliated party.

Under FIRREA, civil penalties are classified into three levels, with amounts increasing with the severity of the violation. The first tier provides for civil penalties of up to $5,000 per day for any violation of law or regulation. A civil penalty of up to $25,000 per day may be assessed if more than a minimal loss or a pattern of misconduct is involved. Finally, a civil penalty of up to $1.0 million per day may be assessed for knowingly or recklessly causing a substantial loss to an institution or taking action that results in a substantial pecuniary gain or other benefit. Criminal penalties are increased to $1.0 million per violation, up to $5.0 million for continuing violations or for the actual amount of gain or loss. These monetary penalties may be combined with prison sentences for up to five years.

Federal Deposit Insurance Corporation Improvement Act of 1991 ("FDICIA")

General. The FDICIA reformed a variety of bank regulatory laws. Certain of these provisions are discussed below.

Examinations and Audits. Annual full-scope, on-site examinations are required for all FDIC-insured institutions with assets of $500 million or more. For bank holding companies with $500 million or more in assets, the independent accountants of such companies shall attest to the accuracy of management's report. Such accountants shall also monitor management's compliance with governing laws and regulations. Such companies are also required to select an independent audit committee composed of outside directors who are independent of management, to review with management and the independent accountants the reports that must be submitted to the appropriate bank regulatory agencies. If the independent accountants resign or are dismissed, written notification must be given to the FDIC and to the appropriate federal and state bank regulatory agency.

Prompt Corrective Action. In order to reduce losses to the deposit insurance funds, the FDICIA established a format to more closely monitor FDIC-insured institutions and to enable prompt corrective action by the appropriate federal supervisory agency if an institution begins to experience any difficulty. The FDICIA established five "Capital" categories. They are: (1) well-capitalized; (2) adequately capitalized; (3) undercapitalized; (4) significantly undercapitalized; and (5) critically undercapitalized. The overall goal of these new capital measures is to impose more scrutiny and operational restrictions on depository institutions as they descend the capital categories from well capitalized to critically undercapitalized.

The FDIC, the OCC, the Federal Reserve Board and the Office of Thrift Supervision have issued jointly final regulations relating to these capital categories and prompt corrective action. These capital measures for prompt corrective action are defined as follows:

A "well-capitalized" institution would be one that has at least a 10% total risk-based capital ratio, a 6% or greater Tier I risk-based capital ratio, a 5% or greater Tier I leverage capital ratio, and is not subject to any written order or final directive by the FDIC to meet and maintain a specific capital level.

An "adequately capitalized" institution would be one that meets the required minimum capital levels, but does not meet the definition of a "well-capitalized" institution. The existing capital rules generally require banks to maintain a Tier I leverage capital ratio of at least 4% and an 8% or greater total risk-based capital ratio. Since the risk-based standards also require at least half of the total risk-based capital requirement to be in the form of Tier I capital, this also will mean that an institution would need to maintain at least a 4% Tier I risk-based capital ratio. Thus, an institution would need to meet each of the required minimum capital levels in order to be deemed "adequately capitalized."

An "undercapitalized" institution would fail to meet one or more of the required minimum capital levels for an "adequately capitalized" institution. An "undercapitalized" institution must file a capital restoration plan and is automatically subject to restrictions on dividends, management fees and asset growth. In addition, the institution is prohibited from making acquisitions, opening new branches or engaging in new lines of business without the prior approval of its primary federal regulator. A number of other discretionary restrictions also may be imposed on a case-by-case basis, and harsher restrictions that otherwise would apply to "significantly undercapitalized" institutions may be imposed on an "undercapitalized" institution that fails to file or implement an acceptable capital restoration plan.

A "significantly undercapitalized" institution would have a total risk-based capital ratio of less than 6%, a Tier I risk-based capital ratio of less than 3%, or a Tier I leverage capital ratio of less than 3%, as the case may be. Institutions in this category would be subject to all the restrictions that apply to "undercapitalized" institutions. Certain other mandatory prohibitions also would apply, such as restrictions against the payment of bonuses or raises to senior executive officers without the prior approval of the institution's primary federal regulator. A number of other restrictions may be imposed.

A "critically undercapitalized" institution would be one with a tangible equity (Tier I capital) ratio of 2% or less. In addition to the same restrictions and prohibitions that apply to "undercapitalized" and "significantly undercapitalized" institutions, the FDIC's rule implementing this provision of FDICIA also addresses certain other provisions for which the FDIC has been accorded responsibility as the insurer of depository institutions.

At a minimum, any institution that becomes "critically undercapitalized" is prohibited from taking the following actions without the prior written approval of its primary federal supervisory agency: engaging in any material transactions other than in the usual course of business; extending credit for highly leveraged transactions ("HLTs"); amending its charter or bylaws; making any material changes in accounting methods; engaging in certain transactions with affiliates; paying excessive compensation or bonuses; and paying interest on liabilities exceeding the prevailing rates in the institution's market area. In addition, a "critically undercapitalized" institution is prohibited from paying interest or principal on its subordinated debt and is subject to being placed in conservatorship or receivership if its tangible equity capital level is not increased within certain mandated time frames.

At any time, an institution's primary federal supervisory agency may reclassify it into a lower capital category. All institutions are prohibited from declaring any dividends, making any other capital distribution, or paying a management fee if it would result in downward movement into any of the three undercapitalized categories. The FDICIA provides an exception to this requirement for stock redemptions that do not lower an institution's capital and would improve its financial condition, if the appropriate federal supervisory agency has consulted with the FDIC and approved the redemption.

The regulation requires institutions to notify the FDIC following any material event that would cause such institution to be placed in a lower category. Additionally, the FDIC monitors capital levels through call reports and examination reports.

Real Estate Lending Standards. Pursuant to the FDICIA, the OCC and other federal banking agencies adopted real estate lending guidelines which would set loan-to-value ("LTV") ratios for different types of real estate loans. A LTV ratio is generally defined as the total loan amount divided by the appraised value of the property at the time the loan is originated. If the institution does not hold a first lien position, the total loan amount would be combined with the amount of all senior liens when calculating the ratio. In addition to establishing the LTV ratios, the guidelines require all real estate loans to be based upon proper loan documentation and a recent appraisal of the property.

Bank Enterprise Act of 1991. Within the overall FDICIA is a separate subtitle called the "Bank Enterprise Act of 1991." The purpose of this Act is to encourage banking institutions to establish "basic transaction services for consumers" or so-called "lifeline accounts." The FDIC assessment rate is reduced for all lifeline depository accounts. This Act establishes ten (10) factors which are the minimum requirements to qualify as a lifeline depository account. Some of these factors relate to minimum opening and balance amounts, minimum number of monthly withdrawals, the absence of discriminatory practices against low-income individuals and minimum service charges and fees. Moreover, the Housing and Community Development Act of 1972 requires that the FDIC's risk-based assessment system include provisions regarding life-line accounts. Assessment rates applicable to life-line accounts are to be established by FDIC rule.

Truth in Savings Act. The FDICIA also contains the Truth in Savings Act ("TSA"). The Federal Reserve Board has adopted regulations ("Regulation DD") under the TSA. The purpose of TSA is to require the clear and uniform disclosure of the rates of interest which are payable on deposit accounts by depository institutions and the fees that are assessable against deposit accounts, so that consumers can make a meaningful comparison between the competing claims of banks with regard to deposit accounts and products. In addition to disclosures to be provided when a customer establishes a deposit account, TSA requires the depository institution to include, in a clear and conspicuous manner, the following information with each periodic statement of a deposit account: (1) the annual percentage yield earned; (2) the amount of interest earned; (3) the amount of any fees and charges imposed; and (4) the number of days in the reporting period. TSA allows for civil lawsuits to be initiated by customers if the depository institution violates any provision or regulation under TSA.

FDIC Insurance Assessments

The FDIC has implemented a risk-related premium schedule for all insured depository institutions that results in the assessment of premiums based on capital and supervisory measures.

Under the risk-related premium schedule, the FDIC, on a semiannual basis, assigns each institution to one of three capital groups (well capitalized, adequately capitalized or under capitalized) and further assigns such institution to one of three subgroups within a capital group corresponding to the FDIC's judgment of the institution's 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 capital to risk-adjusted assets ratio of 10.0% or greater, a Tier 1 capital to risk-adjusted assets ratio of 6.0% or greater and a Tier 1 leverage ratio of 5.0% or greater, are assigned to the well-capitalized group.

Over the last two years, FDIC insurance assessments have seen several changes for both BIF and SAIF institutions. The most recent change occurred on September 30, 1996, when the President signed into law a bill designed to remedy the disparity between BIF and SAIF deposit premiums. The first part of the bill called for the SAIF to be capitalized by a one-time assessment on all SAIF insured deposits held as of March 31, 1995. This assessment, which was 65.7 cents per $100 in deposits, raised approximately $4.7 billion to bring the SAIF up to is required 1.25 reserve ratio. This special assessment, paid on November 30, 1996, had no effect on the Bank. The second part of the bill remedied the future anticipated shortfall with respect to the payment of FICO interest. For 1997 through 1999, the banking industry will help pay the FICO interest payments at an assessment rate that is one-fifth the rate paid by thrifts. The FICO assessment on BIF insured deposits is 1.29 cents per $100 in deposits; for SAIF insured deposits it is 6.44 cents per $100 in deposits. Beginning January 1, 2000, the FICO interest payments will be paid pro-rata by banks and thrifts based on deposits. At December 31, 1998, the FICO interest assessment paid by the Bank was approximately $34,000. The Bank has not been required to pay any FDIC insurance assessments since the fourth quarter of 1996 because BIF has met its statutorily required ratios and the Bank is categorized as "well capitalized."

Regulatory Capital Requirements

The following table presents Bancorp's consolidated capital ratios at December 31, 1998.

	(In Thousands)
Tier I Capital...	$ 35,587
Tier II Capital..	2,360
Total Capital..	$ 37,947
Adjusted Total Average Assets....................................	$461,050
Total Adjusted Risk-Weighted Assets(1)...........................	$253,820
Tier I Risk-Based Capital Ratio(2)................................	14.02%
Required Tier I Risk-Based Capital Ratio..........................	4.00%
Excess Tier I Risk-Based Capital Ratio............................	10.02%
Total Risk-Based Capital Ratio(3)....................	14.95%
Required Total Risk-Based Capital Ratio...........................	8.00%
Excess Total Risk-Based Capital Ratio.............................	6.95%
Tier I Leverage Ratio(4)..	7.72%
Required Tier I Leverage Ratio....................................	4.00%
Excess Tier I Leverage Ratio......................................	3.72%

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(1) Includes off-balance sheet items at credit-equivalent values less intangible assets.

(2) Tier I Risk-Based Capital Ratio is defined as the ratio of Tier I Capital to Total Adjusted Risk-Weighted Assets.

(3) Total Risk-Based Capital Ratio is defined as the ratio of Tier I and Tier II Capital to Total Adjusted Risk-Weighted Assets.

(4) Tier I Leverage Ratio is defined as the ratio of Tier I Capital to Adjusted Total Average Assets.

Bancorp's ability to maintain the required levels of capital is substantially dependent upon the success of Bancorp's capital and business plans; the impact of future economic events on Bancorp's loan customers; and Bancorp's ability to manage its interest rate risk and investment portfolio and control its growth and other operating expenses.

Effect of Government Monetary Policies

The earnings of Bancorp are and will be affected by domestic economic conditions and the monetary and fiscal policies of the United States government and its agencies.

The monetary policies of the Federal Reserve Board have had, and will likely continue to have, an important impact on the operating results of commercial banks through its power to implement national monetary policy in order, among other things, to curb inflation or combat a recession. The Federal Reserve Board has a major effect upon the levels of bank loans, investments and deposits through its open market operations in United States government securities and through its regulations of, among other things, the discount rate on borrowings of member banks and the reserve requirements against member bank deposits. It is not possible to predict the nature and impact of future changes in monetary and fiscal policies.

History and Business - Bank

The Bank's legal headquarters are located on Route 191, Lake Ariel, Pennsylvania.

As of December 31, 1998, the Bank had total assets of $474.3 million, total shareholders' equity of $37.6 million and total deposits and other liabilities of $436.7 million.

The Bank engages in a full-service commercial banking business, including accepting time and demand deposits, and making secured and unsecured commercial and consumer loans. The Bank's business is not seasonal in nature. Its deposits are insured by the FDIC to the extent provided by law.

At December 31, 1998, the Bank had 147 full-time employees and 40 part-time employees. The Bank is not a party to any collective bargaining agreement.

Market Area

The Bank competes actively with other area commercial banks and savings and loan associations, many of which are larger than the Bank, as well as with major regional banking and financial institutions headquartered in Wilkes-Barre and Scranton, Pennsylvania. The Bank's major competitors in its market area are, in alphabetical order: Community Bank & Trust Co.; Fidelity Deposit & Discount Bank; First Liberty Bank and Trust; First National Community Bank; First Union Corporation, Charlotte, North Carolina; Penn Security Bank and Trust Company; Pioneer American Bank, N.A.; PNC Bank, N.A.; and Wayne Bank. The Bank is generally competitive with all competing financial institutions in its service area with respect to interest rates paid on time and savings deposits, service charges on deposit accounts and interest rates charged on loans.

Supervision and Regulation - Bank

The operations of the Bank are subject to federal and state statutes applicable to banks chartered under the banking laws of the United States, to members of the Federal Reserve System and to banks whose deposits are insured by the FDIC. Bank operations are also subject to regulations of the OCC, the Federal Reserve Board and the FDIC.

The primary supervisory authority of the Bank is the OCC, that regularly examines the Bank. The OCC has the authority under the Financial Institutions Supervisory Act to prevent a national 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 make, the reserves against deposits a bank must maintain, loans a bank makes and collateral it takes, the activities of a bank with respect to mergers and consolidations and the establishment of branches. All banks in Pennsylvania are permitted to maintain branch offices in any county of the state. Branches of national banks may be established only after approval by the OCC. The OCC is required to grant approval only if it finds that there is a need for banking services or facilities such as are contemplated by the proposed branch. The OCC may disapprove the application if the bank does not have the capital and surplus deemed necessary by the OCC, or if the application relates to the establishment of a branch in a county contiguous to the county in which the applicant's principal place of business is located, and another banking institution that has its principal place of business in the county in which the proposed branch would be located, has in good faith, notified the OCC of its intention to establish a branch in the same municipal location in which the proposed branch would be located.

Multi-bank holding companies are permitted in Pennsylvania within certain limitations. See sections entitled "Pennsylvania Banking Law" and "Interstate Banking and Branching."

A subsidiary bank of a bank holding company 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 Board regulations also place certain limitations and reporting requirements on extensions of credit by a bank to 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.

Federal law also prohibits acquisitions of control of a bank holding company without prior notice to certain federal bank regulators. Control is defined for this purpose as the power, directly or indirectly, to influence the management or policies of the bank or bank holding company or to vote twenty-five percent (25%) or more of any class of voting securities of the bank holding company.

From time to time, various types of federal and state legislation have been proposed that could result in additional regulations of, and restrictions on, the business of the Bank. It cannot be predicted whether any such legislation will be adopted or how such legislation would affect the business of the Bank. As a consequence of the extensive regulation of commercial banking activities in the United States, the Bank's business is particularly susceptible to being affected by federal legislation and regulations that may increase the costs of doing business.

Under the Federal Deposit Insurance Act, the OCC possesses the power to prohibit institutions regulated by it (such as the Bank) from engaging in any activity that would be an unsafe and unsound banking practice and in violation of the law. Moreover, the Financial Institutions and Interest Rate Control Act of 1987 ("FIRA") generally expands the circumstances under which officers or directors of a bank may be removed by the institution's federal supervisory agency; restricts lending by a bank to its executive officers, directors, principal shareholders or related interests thereof; restricts management personnel of a bank from serving as directors in other management positions with certain depository institutions whose assets exceed a specified amount or which have an office within a specified geographic area; and restricts management personnel from borrowing from another institution that has a correspondent relationship with their bank. Additionally, FIRA requires that no person may acquire control of a bank unless the appropriate federal supervisory agency has been given 60-days prior written notice and within that time has not disapproved the acquisition or extended the period for disapproval.

Under the Bank Secrecy Act ("BSA"), the Bank is required to report to the Internal Revenue Service currency transactions of more than $10,000 or multiple transactions of which the Bank is aware in any one day that aggregate in excess of $10,000. Civil and criminal penalties are provided under the BSA for failure to file a required report, for failure to supply information required by the BSA or for filing a false or fraudulent report.

The Garn-St Germain Depository Institutions Act of 1982 ("1982 Act"), removes certain restrictions on the lending powers and liberalizes the depository abilities of the Bank. The 1982 Act also amends FIRA (see above) by eliminating certain statutory limits on lending of a bank to its executive officers, directors, principal shareholders or related interests thereof and by relaxing certain reporting requirements. However, the 1982 Act strengthened FIRA provisions respecting management interlocks and correspondent bank relationships by management personnel.

Community Reinvestment Act

The Community Reinvestment Act of 1977, as amended (the "CRA"), and the regulations promulgated to implement the CRA are designed to create a system for bank regulatory agencies to evaluate a depository institution's record in meeting the credit needs of its community. Until May 1995, a depository institution was evaluated for CRA compliance based upon 12 assessment factors.

The CRA regulations were completely revised as of May 4, 1995, to establish new performance-based standards for use in examining a depository institution's compliance with the CRA (the "revised CRA regulations"). The revised CRA regulations establish new tests for evaluating both small and large depository institutions' investment in the community. A "small bank" is defined as a bank which has total assets of less than $250 million and is independent or is an affiliate of a holding company with less than $1 billion in assets. Pursuant to the revised CRA regulations, a depository institution which qualifies as a "small bank" will be examined under a streamlined procedure which emphasizes lending activities. The streamlined examination procedures for a small bank became effective on January 1, 1996.

A large retail institution is one which does not meet the "small bank" definition, above. A large retail institution can be evaluated under one of two tests: (1) a three-part test evaluating the institution's lending, service and investment performance; or (2) a "strategic plan" designed by the institution with community involvement and approved by the appropriate federal bank regulator. A large institution must choose one of these options prior to July 1997, but may opt to be examined under one of these two options prior to that time. Effective January 1, 1996, a large retail institution that opts to be examined pursuant to a strategic plan may submit its strategic plan to the bank regulators for approval.

In addition, the revised CRA regulations include separate rules regarding the manner in which "wholesale banks" and "limited purpose banks" will be evaluated for compliance.

The new CRA regulations were phased in over a two-year period, beginning July 1, 1995, with a final effective date of July 1, 1997. Until the applicable test was phased in, institutions were examined under the prior CRA regulations.

On December 27, 1995, the federal banking regulators issued a joint final rule containing technical amendments to the revised CRA regulations. Specifically, the recent technical amendments clarify the various effective dates in the revised CRA regulations, correct certain cross references and state that once an institution becomes subject to the requirements of the revised CRA regulations, it must comply with all aspects of the revised CRA regulations, regardless of the effective date of certain provisions. Similarly, once an institution is subject to the revised CRA regulations, the prior CRA regulations do not apply to that institution.

For the purposes of the revised CRA regulations, the Bank is deemed to be a large depository institution, based upon financial information as of December 31, 1998. The Bank had a CRA Compliance examination in 1998 and received a "satisfactory" rating. The Bank was evaluated for CRA compliance using the three-part, performance-based test.

Concentration

Bancorp and the Bank are not dependent for deposits nor exposed by loan concentrations to a single customer or to a small group of customers the loss of any one or more of which would have a materially adverse effect on the financial condition of Bancorp or the Bank.

Business - LA Lease, Inc.

The principal office of LA Lease, Inc. is located at Route 191, Lake Ariel, Pennsylvania 18436 (the Lake Ariel branch of the Bank).

As of December 31, 1998, LA Lease, Inc. had total assets of $5.7 million, total shareholders' equity of $93 thousand and other liabilities of $5.6 million.

LA Lease, Inc. provides financing to consumers and businesses in the form of vehicle and equipment leases. The business of LA Lease, Inc. is not seasonal in nature.

Business - Ariel Financial Services, Inc.

The principal office of Ariel Financial Services, Inc. is located at Route 191, Lake Ariel, Pennsylvania 18436 (the Lake Ariel branch of the Bank).

This subsidiary of LA Bank was incorporated on July 11, 1997, to deliver non-depository investment and annuity products to the customers of LA Bank. As of December 31, 1998, Ariel Financial Services, Inc. had no material assets or liabilities.

Item 2. Properties

Bancorp owns or leases no properties, except through the Bank. The following is selective information about the Bank's properties:

<TABLE>
<CAPTION>

Property	Location	Type of Ownership	Approximate Square Footage	Use
<S>	<C>	<C>	<C>	<C>
1	Route 191 Lake Ariel, PA	Own	3,000	Banking Services and Main Office
2	Route 191 Newfoundland, PA	Own	1,800	Greene-Dreher Branch
3	Routes 191 and 590 Hamlin, PA	Own	2,900	Hamlin Corners Branch
4	Routes 247 and 348 Lake Ariel, PA	Own	2,400	Mt. Cobb Branch
5	Route 5 Scranton-Carbondale Highway Eynon, PA	Own	2,800	Eynon Branch
6	Keyser Avenue Scranton, PA	Own	3,000	Keyser Valley Branch
7	The Mall at Steamtown Lackawanna Avenue Scranton, PA	Lease	1,867	Steamtown Branch
8	East Grove Street and South Abington Road Clarks Green, PA	Own	3,000	Clarks Green Branch
9	Route 6 Ames Shopping Plaza Carbondale, PA	Lease	5,535	Carbondale Branch
10	Routes 6 and 209 Milford, PA	Own	11,000	Milford Township Branch
11	Route 739 Lords Valley Shopping Plaza Lords Valley, PA	Lease	1,250	Lords Valley Branch
12	214 W. Harford Street Milford, PA	Own	10,350	Milford Branch
13	Route 390-Barrett Township Mountainhome, PA	Own	3,700	Mountainhome Branch

14	409 Lackawanna Avenue	Lease	670	Scranton Branch

	Scranton, PA			
15	Commerce Boulevard Suite 1 Dickson City, PA	Lease	500	Dickson City Branch
16	Old Willow Avenue Suite 100 Honesdale, PA	Lease	500	Honesdale Branch
17	South Main Street Taylor, PA	Own	4,850	Taylor Branch
18	Route 611 Tannersville, PA	Lease	2,200	Tannersville Branch
19	Public Square Wilkes-Barre, PA	Lease	1,500	Public Square Branch
20	Meadow Avenue Scranton, PA	Own	2,200	East Mountain Branch
21	Wyoming Avenue Kingston, PA	Lease	2,250	Kingston Branch
22	409 Lackawanna Avenue Suite 201 Scranton, PA	Lease	20,800	Financial Center
23	Keyser Avenue Scranton, PA	Own	7,500	Commercial Rental Property

For information with respect to obligations for lease rentals, refer to Note 5 of the Notes to Consolidated Financial Statements in Bancorp's Annual Report filed at Exhibit 13 hereto and is incorporated in its entirety by reference. The branches that are under lease have customary commercial lease options to extend the terms of the applicable lease.

It is management's opinion that the facilities currently utilized are suitable and adequate for current and immediate future purposes.

Item 3. Legal Proceedings

General

The nature of Bancorp's and the Bank's business generates a certain amount of litigation involving matters arising in the ordinary course of business. However, in the opinion of management of Bancorp and the Bank, there are no proceedings pending to which Bancorp and the Bank are a party or to which their property is subject, which, if determined adversely to Bancorp and the Bank, would be material in relation to Bancorp's and the Bank's undivided profits or financial condition, nor are there any proceedings pending other than ordinary routine litigation incident to the business of Bancorp and the Bank. In addition, no material proceedings are pending or are known to be threatened or contemplated against Bancorp and the Bank by government authorities or others.

Environmental Issues

There are several federal and state statutes that govern the obligations of financial institutions with respect to environmental issues. Besides being responsible under such statutes for its own conduct, a bank also may be held liable under certain circumstances for actions of borrowers or other third parties on properties that collateralize loans held by the bank. Such potential liability may far exceed the original amount of the loan made by the bank. Currently, the Bank is not a party to any pending legal proceedings under any environmental statue nor is the Bank aware of any circumstances that may give rise to liability of them under any such statute.

Part II

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

The Company's common stock has been listed on the Nasdaq National Market since November 21, 1997, and was previously listed on the Nasdaq Small-Cap Market since December 9, 1993. "The Nasdaq Stock Market" or "Nasdaq" is a highly-regulated electronic securities market comprised of competing Market Makers whose trading is supported by a communications network linking them to quotation dissemination, trade reporting, and order execution systems. This market also provides specialized automation services for screen-based negotiations of transactions, on-line comparison of transactions, and a range of informational services tailored to the needs of the securities industry, investors and issuers. The Nasdaq Stock Market consists of two distinct market tiers: the Nasdaq National Market(R) and the Nasdaq SmallCap MarketsSM. The Nasdaq Stock Market is operated by the Nasdaq Stock Market, Inc., a wholly-owned subsidiary of the National Association of Securities Dealers, Inc. The Nasdaq National Market symbol for the Company's common stock is "LABN." At December 31, 1998, the total number of holders of record of the common stock was approximately 1400.

The table below presents the high and low bid prices reported for the Common Stock and the cash dividends declared on such Common Stock for the periods indicated. The range of high and low prices is based on trade prices reported on the Nasdaq National Market for 1998 year and fourth quarter of 1997. The range of high and low prices for the first three quarters of 1997 and 1996 year is based on trade prices reported on the Nasdaq Small-Cap Market. Market quotations reflect inter-dealer prices, without retail mark-up, mark-down, or commission, and may not necessarily reflect actual transactions. On December 31, 1998, the closing price of share of Common Stock on the Nasdaq National Market was $12.375. All prices and dividends have been restated to reflect the 5% stock dividends paid in October 1998, 1997 and 1996, and the two-for-one stock split effective on November 10, 1997.

Year	Quarter	High	Low	Dividends Declared
1998	4th	$13.25	$11.75	$0.13
	3rd	16.00	11.43	0.10
	2nd	16.19	14.88	0.09
	1st	16.55	14.76	0.09
1997	4th	$20.95	$13.24	$0.13
	3rd	13.38	9.05	0.09
	2nd	9.29	9.05	0.08
	1st	10.76	9.29	0.08
1996	4th	$11.57	$7.19	$0.11
	3rd	7.81	6.86	0.08
	2nd	7.24	6.14	0.08
	1st	7.33	6.38	0.08

As of March 16, 1999, Bancorp had approximately 1,472 shareholders of record.

Since 1983, Bancorp has paid cash dividends. It is the present intention of Bancorp's Board of Directors to continue the dividend payment policy, although the payment of future dividends must necessarily depend upon earnings, financial condition, appropriate restrictions under applicable law and other factors relevant at the time the Board of Directors considers any declaration of dividends. Cash available for the payment of dividends must initially come from dividends paid by the Bank to Bancorp. Therefore, the restrictions on the Bank's dividend payments are directly applicable to Bancorp.

Dividend Restrictions on the Bank

The OCC has issued rules governing the payment of dividends by national banks. Consequently, the Bank (which is subject to these rules) may not pay dividends from capital (unimpaired common and preferred stock outstanding) but only from retained earnings after deducting losses and bad debts therefrom. "Bad debts" are defined as matured obligations in which interest is past due and unpaid for ninety (90) days, but do not include well-secured obligations that are in the process of collection.

Previously, the Bank was permitted to add the balances in its allowance for possible credit and lease losses in determining retained earnings, but the OCC's new regulations prohibit that practice. However, to the extent that (1) the Bank has capital surplus in an amount in excess of common capital and (2) if the Bank can prove that such surplus resulted from prior period earnings, the Bank, upon approval of the OCC, may transfer earned surplus to retained earnings and thereby increase its dividend paying capacity.

If, however, the Bank has insufficient retained earnings to pay a dividend, the OCC's regulations allow the Bank to reduce its capital to a specified level and to pay dividends upon receipt of the approval of the OCC as well as that of the holders of two thirds of the outstanding shares of the Common Stock.

The Bank is allowed to pay dividends no more frequently than quarterly. Moreover, the Bank must obtain the OCC's approval before paying a dividend if the total of all dividends declared by the Bank in any calendar year would exceed the total of (1) the Bank's net profits for that year plus (2) its retained net profits for the immediately preceding two years less (3) any required transfers to surplus or a fund for the retirement of preferred stock.

The Bank may not pay any dividends on its capital stock during the period in which it may be in default in the payment of its assessment for deposit insurance premium due to the FDIC, nor may it pay dividends on Common Stock until any cumulative dividends on the Bank's preferred stock (if any) have been paid in full. The Bank has never been in default in the payments of its assessments to the FDIC; and, moreover, the Bank has no outstanding preferred stock. In addition, under the Federal Deposit Insurance Act, dividends cannot be declared and paid if the OCC obtains a cease and desist order because such payment would constitute an unsafe and unsound banking practice. As of December 31, 1998, there was $3.9 million in unrestricted retained earnings and net income available at the Bank that could be paid as a dividend to Bancorp under the current OCC regulations.

Dividend Restrictions on Bancorp

Under the Pennsylvania Business Corporation Law of 1988, as amended (the `BCL'), Bancorp may not pay a dividend if, after giving effect thereto, either (a) Bancorp would be unable to pay its debts as they become due in the usual course of business or (b) Bancorp's total assets would be less than its total liabilities. The determination of total assets and liabilities may be based upon: (i) financial statements prepared on the basis of generally accepted accounting principles; (ii) financial statements that are prepared on the basis of other accounting practices and principles that are reasonable under the circumstances; or (iii) a fair valuation or other method that is reasonable under the circumstances.

Item 6. Selected Financial Data

The information called for by this item is filed at Exhibit 99A hereto and is incorporated in its entirety by reference under this Item 6.

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

The caption "Management's Discussion and Analysis" contained in excerpts from Bancorp's Annual Report (beginning at page 21 thereto) filed at Exhibit 13 hereto is incorporated in its entirety by reference under this Item 7.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

The caption "Interest Rate Risk Management" contained in the "Management's Discussion and Analysis" section of Bancorp's Annual Report (beginning at page 28 thereto) filed at Exhibit 13 hereto is incorporated in its entirety by reference under this Item 7A.

Item 8. Financial Statements and Supplementary Data

Bancorp's Consolidated Financial Statements and notes thereto contained in excerpts from Bancorp's Annual Report (beginning at page 36 thereto) filed at Exhibit 13 hereto are incorporated in their entirety by reference under this Item 8.

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

Bancorp changed its independent certifying accountants for the year ending December 31, 1999. The information concerning such change can be found on Bancorp's Form 8-K, filed with the Securities and Exchange Commission on January 15, 1999 (No. 2-85306), and hereby incorporated by reference into this Item 9.

Part III

Item 10. Directors and Executive Officers of the Registrant

The captions "Board of Directors" and "Stock Ownership" contained in Bancorp's Proxy Statement (at pages 2 and 5 thereof, respectively) filed at Exhibit 99B hereto is incorporated in their entirety by reference under this Item 10.

Principal Officers of the Corporation

The following table sets forth selected information about the principal officers of the Corporation, each of whom is selected by the Board of Directors and each of whom holds office at the discretion of the Board of Directors:

</TABLE>
<TABLE>
X
<CAPTION>

Name	Office/Position with Corporation	Held Since	Corporation Employee Since	Number of Shares Owned	Age as of March 16, 1999
<S>	<C>	<C>	<C>	<C>	<C>
Bruce D. Howe	President	1983	(2)	389,428	67
John G. Martines	Chief Executive Officer	1983	(3)	221,199	52
Donald E. Chapman	Secretary	1983	(2)	132,790	62
Louis M. Martarano	Vice President and Assistant Secretary	1989	(3)	87,479	48
Joseph J. Earyes	Vice President and Treasurer	1995	(3)	44,426	42

<FN>

----
(1) See notes under Item 12 "Security Ownership of Certain Beneficial Owners and Management" for shareholdings of these officers.
(2) Messrs. Howe and Chapman are not employees of the Corporation.
(3) Messrs. Martines, Martarano, and Earyes are full-time salaried employees of the Bank.
</FN>
</TABLE>

Principal Officers of the Bank

The following table sets forth selected information about the principal officers of the Bank, each of whom is elected by the Board of Directors of the Bank and each of whom holds office at the discretion of the Board of Directors of the Bank:

<TABLE>
<CAPTION>

Name	Office/Position with Bank	Held Since	Bank Employee Since	Number of Shares Owned	Age as of March 16,1999
<S>	<C>	<C>	<C>	<C>	<C>
Bruce D. Howe	Chairman of the Board	1986	(1)	389,428	67
John G. Martines	President and CEO	1986	1979	221,199	52
Louis M. Martarano	Executive Vice President and Chief Operating Officer	1990	1981	87,479	48
Joseph J. Earyes	Executive Vice President and Chief Financial Officer	1995	1995	44,426	42
Donald E. Chapman	Secretary	1983	(1)	132,790	62

<FN>

(1) Mr. Howe and Mr. Chapman are not employees of the Bank.
(2) See notes under Item 12 "Security Ownership of Certain Beneficial Owners and Management" for shareholdings of these officers.
</FN>
</TABLE>

Item 11. Executive Compensation

The caption "Execution Compensation" contained in Bancorp's Proxy Statement (at page 6 thereof) filed at Exhibit 99B hereto is incorporated by its entirety by reference under this Item 11.

Item 12. Security Ownership of Certain Beneficial Owners and Management

The caption "Stock Ownership" contained in Bancorp's Proxy Statement (at page 5 thereof) filed at Exhibit 99B hereto is incorporated by its entirety by reference under this Item 12.

Item 13. Certain Relationships and Related Transactions

The caption "Other Information" contained in Bancorp's Proxy Statement (at page 13 thereof) filed at Exhibit 99B hereto is incorporated by its entirety by reference under this Item 13.

Item 14. Exhibits and Reports on Form 8-K

(a) Exhibits required by Item 601 of Regulation S-K:

Exhibit Number Referred to Item 601 of Regulation S-K	Description of Exhibit
2	None.
3A	Amended Articles of Incorporation of Bancorp filed at Exhibit 3A on March 25, 1988 and March 24, 1993, to Forms 10-K for the fiscal year ended December 31, 1987 (No. 2-85306), and 10-KSB for the period ended December 31, 1992 (No. 2-85306), respectively, and hereby incorporated by reference. Photocopy of the Articles of Amendment of Bancorp, dated August 18, 1993, to effect, among other things, a 3-for-1 stock split, filed at Exhibit 3A on September 3, 1993, to Form S-1 (No. 33-68470) and hereby incorporated by reference.
3B	Amended By-laws of Bancorp filed on March 25, 1988, at Exhibit 3B, to Form 10-K for the fiscal year ended December 31, 1987 (No. 2-85306), and hereby incorporated by reference.
4	None.
9	None.
10A	Photocopy of the Executive Employment Agreement dated September 1, 1993, among Bancorp, the Bank and John G. Martines, the Chief Executive Officer of Bancorp and President of the Bank, filed at Exhibit 10A on September 3, 1993, to Form S-1 (No. 33-68470), and hereby incorporated by reference.
10B	Photocopy of the Executive Employment Agreement dated September 1, 1993, among Bancorp, the Bank and Louis M. Martarano, Vice President of Bancorp and Senior Vice President of the Bank, filed at Exhibit 10B on September 3, 1993, to Form S-1 (No. 33-68470), and hereby incorporated by reference.
10C	Copy of the LA Bank, N.A. Salary Continuation Agreement, dated March 11, 1997, between the Bank and John G. Martines, Chief Executive Officer of the Bancorp and President of the Bank, relating to the supplemental executive retirement plan of the Bank, filed at Exhibit 10C on March 18, 1998 to Form 10-K for the fiscal year ended December 31, 1997 (No. 2-85306), and hereby incorporated by reference.
10D	Copy of the LA Bank, N.A. Salary Continuation Agreement, dated March 11, 1997, between the Bank and Louis M. Martarano, Vice President of the Bancorp and Executive Vice President and Chief Operating Officer of the Bank, relating to the supplemental executive retirement plan of the Bank, filed at Exhibit 10D on March 18, 1998 to Form 10-K for the fiscal year ended December 31, 1997 (No. 2-85306), and hereby incorporated by reference.

Exhibit Number Referred to Item 601 of Regulation S-K	Description of Exhibit
10E	Copy of the LA Bank, N.A. Salary Continuation Agreement, dated March 11, 1997, between the Bank and Joseph J. Earyes, CPA, Vice President and Treasurer of the Bancorp and Executive Vice President and Chief Financial Officer of the Bank, relating to the supplemental executive retirement plan of the Bank, filed at Exhibit 10E on March 18, 1998 to Form 10-K for the fiscal year ended December 31, 1997 (No. 2-85306), and hereby incorporated by reference.
11	None.
12	None.
13	Annual Report to Shareholders for Fiscal Year Ended December 31, 1998.
16	Current Report on Form 8-K, filed on January 15, 1999 (No. 2-85306), which contains the information with respect to the change in Bancorp's certifying accountant, and hereby incorporated by reference.
18	None.
21	List of Subsidiaries of Bancorp.
22	None.
23	None.
24	None.
27	Financial Data Schedule.
28	None.
99A	Selected 5-Year Financial Data and Selected Year-End Balances.
99B	Proxy Statement for the 1999 Annual Meeting of Shareholders To Be Held April 27, 1999

(b) Reports on Form 8-K for quarter ended December 31, 1998.

A Form 8-K was filed on January 15, 1999, reporting the change in the Registrant's certifying accountant and the appointment of new director to the

Board of Directors of the Corporation.

SIGNATURES

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

LAKE ARIEL BANCORP, INC.
(Bancorp)

By: ______________________________
John G. Martines
Chief Executive Officer

Date: March 17, 1999

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

By: ______________________________
Bruce D. Howe
President and Director

Date: March 17, 1999

By: ______________________________
John G. Martines
Chief Executive Officer and Director
(Chief Executive Officer)

Date: March 17, 1999

By: ______________________________
Peter O. Clauss
Director

Date: March 17, 1999

By: ______________________________
Donald E. Chapman
Secretary and Director

Date: March 17, 1999

By: ______________________________
Kenneth M. Pollock
Director

Date: March 17, 1999

By: ______________________________
Harry F. Schoenagel
Director

Date: March 17, 1999

By: ______________________________
William C. Gumble
Director

Date: March 17, 1999

By: ______________________________
Paul D. Horger
Director

Date: March 17, 1999

By: ______________________________
Louis M. Martarano
Vice President and Assistant
Secretary

Date: March 17, 1999

By: ______________________________
Joseph J. Earyes, CPA
Vice President and Treasurer
(Principal Financial and
Accounting Officer)

Date: March 17, 1999

SIGNATURES

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

LAKE ARIEL BANCORP, INC.
(Bancorp)

By: /s/ John G. Martines
John G. Martines
Chief Executive Officer

Date: March 17, 1999

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

By: /s/ Bruce D. Howe
Bruce D. Howe
President and Director

Date: March 17, 1999

By: /s/ John G. Martines
John G. Martines
Chief Executive Officer and Director
(Chief Executive Officer)

Date: March 17, 1999

By: /s/ Peter O. Clauss
Peter O. Clauss
Director

Date: March 17, 1999

By: /s/ Donald E. Chapman
Donald E. Chapman

Secretary and Director

Date: March 17, 1999

By: /s/ Kenneth M. Pollock
Kenneth M. Pollock
Director

Date: March 17, 1999

By: /s/ Harry F. Schoenagel
Harry F. Schoenagel
Director

Date: March 17, 1999

By: /s/ William C. Gumble
William C. Gumble
Director

Date: March 17, 1999

By: /s/ Paul D. Horger
Paul D. Horger
Director

Date: March 17, 1999

By: /s/ Louis M. Martarano
Louis M. Martarano
Vice President and Assistant
Secretary

Date: March 17, 1999

By: /s/ Joseph J. Earyes
Joseph J. Earyes, CPA
Vice President and Treasurer
(Principal Financial and
Accounting Officer)

Date: March 17, 1999

INDEX TO EXHIBITS

EXHIBIT 13

ANNUAL REPORT TO SHAREHOLDERS
FOR FISCAL YEAR ENDED DECEMBER 31, 1998

LAKE ARIEL BANCORP, INC.
1998 ANNUAL REPORT

LAKE ARIEL BANCORP, INC. 1998 ANNUAL REPORT

TABLE OF CONTENTS

Except for historical information that is contained in this annual report, certain matters presented in this report may contain forward-looking statements that involve risks and uncertainties in the banking industry, including timely availability and acceptance of new products, the impact of competitive products and pricing, the management of growth and the other risks detailed from time to time in the Company's SEC reports, including the report on Form 10-K for the year ended December 31, 1998, and the section in this report entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations."

FINANCIAL HIGHLIGHTS - 1998

EARNINGS AND DIVIDENDS

(dollars in thousands, except per share data)

<TABLE>
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	1998		1997		1996		1995	1994
		Percent/Basis Point		Percent/Basis Point		Percent/Basis Point		
	Amount	Change	Amount	Change	Amount	Change	Amount	Amount
Net Income..........................	$3,771	9.9%	$3,431	13.2%	$3,031	31.4%	$2,307	$2,128
Earnings Per Share - Basic*.........	$0.79	-14.1%	$0.88	12.2%	$0.78	30.2%	$0.60	$0.56
Earnings Per Share - Diluted*.......	$0.77	-12.5%	$0.84	7.3%	$0.78	30.2%	$0.60	$0.56
Dividends Per Share*................	$0.41	7.9%	$0.38	18.8%	$0.32	18.5%	$0.27	$0.25
Return on Average Total Assets......	0.88%	12 bpts.	1.00%	-9 bpts.	1.09%	+17 bpts.	0.92%	1.04%
Return on Average Stockholders' Equity	10.27%	497 bpts.	15.24%	+27 bpts.	14.97%	+180 bpts.	13.17%	13.07%
Dividend Payout Ratio..............	50.43%	-	39.90%	-	39.14%	-	42.13%	42.15%

</TABLE>

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FINANCIAL POSITION

	1998		1997		1996		1995	1994
		Percent/Basis Point		Percent/Basis Point		Percent/Basis Point		
	Amount	Change	Amount	Change	Amount	Change	Amount	Amount
Total Assets.......................	$474,689	29.0%	$368,073	23.6%	$297,906	18.3%	$251,859	$236,125
Total Deposits.....................	$312,742	11.5%	$280,450	10.8%	$253,196	21.3%	$208,759	$192,187
Net Loans..........................	$224,754	7.9%	$208,236	18.3%	$175,990	15.6%	$152,306	$135,018
Long-Term Debt.....................	$115,459	142.3%	$47,656	138.0%	$20,023	32.1%	$15,156	$15,219
Stockholders' Equity**.............	$37,940	5.9%	$35,815	69.2%	$21,172	8.5%	$19,509	$15,799
Book Value Per Share*..............	$7.87	4.9%	$7.50	37.6%	$5.45	2.3%	$5.33	$4.37
Stockholders' Equity to Total Assets	7.99%	-174 bpts.	9.73%	+262 bpts.	7.11%	-64 bpts.	7.75%	6.69%

<FN>

*Reflects adjustment for 5% stock dividends issued on October 1, 1998, 1997 and 1996, and a two-for-one stock split effective November 10, 1997.
**Beginning with 1994, reflects adjustment to capital as a result of the implementation of SFAS No. 115.
</FN>
</TABLE>

MESSAGE TO OUR STOCKHOLDERS

Company Overview

1998-A Year of Building for the Future

Lake Ariel Bancorp, Inc. entered 1998 with the objective of aggressively expanding its branch network. In the midst of continued mergers and consolidations within our industry, Lake Ariel Bancorp, Inc. seized the opportunity to enter new marketplaces and build new relationships (not just branches) by offering quality customer service and localized decision making.

The past year could be described as the Company's most hectic, yet most exciting year. During 1998, the following events had a major impact on our branch network:

March 18 - Dickson City Branch in Wal-Mart Supercenter opened.
April 1 - Lackawaxen Branch opened.
May 18 - Wilkes-Barre Mortgage Loan Center opened.
June 17 - Honesdale Branch in the Wal-Mart Supercenter opened.
August 24 - Taylor Branch opened.
August 31 - Tannersville Branch opened.
September 8 - Groundbreaking for the Wilkes-Barre Boulevard Branch - expected to open Spring, 1999.
September 9 - Purchased the Mellon Bank Mountainhome Branch.
September 14- Wilkes-Barre Public Square Branch opened.
November 23 - East Mountain Branch in Scranton opened.
December 7 - Kingston Branch opened.
December 11 - Sold Lackawaxen Branch to Honesdale National Bank.
December 11 -Sold Lake Wallenpaupack Branch to Honesdale National Bank.

Our financial franchise has now been established to span five counties with 22 banking locations. The ultimate challenge starts in 1999 and continues into the 21st Century - "Achieving outstanding financial performance and value for our stockholders." Costs associated with the expansion of our branch network had a negative impact on this year's earnings. A full year's effect of these operations will hamper earnings during 1999, but we are optimistic that most of our new branches will become profitable within two years and, therefore, have a positive effect on earnings in the near future.

Stockholders' Value

Significant events during 1998 had major impacts on the Company's capital position:

- 5% stock dividend
- Cash dividend increased by 8%
- Cash dividend increased 17th consecutive year
- 10.27% Return on Average Equity

At year-end 1998, our Company was in a very strong capital position. Stockholders' equity was at $38 million. The Tier I, or core capital ratio was 14.07% and the total risk-based capital ratio was at 14.96%, this is in comparison to regulatory minimums of 4% and 8%, respectively. The new capital raised in December, 1997 has been used to continue the Bank's expansion goals.

During 1998, for the 17th consecutive year, the Company increased its per share cash dividend from $0.38 in 1997 to $0.41 in 1998, an 8% increase and, also, for the third consecutive year, paid a 5% stock dividend. Per share information for all prior years has been restated to reflect the effects of this stock dividend.

Our return on average stockholders' equity for 1998 was 10.27%, down from 15.24% in 1997 due to the weighted average effect in 1998 of the sale of $12 million of common stock in December, 1997. Return on stockholders' equity is arguably the most important measure of a bank's performance.

Book value increased from $7.50 in 1997 to $7.87 in 1998, an increase of 5%. The Company's (LABN) market price closed at $12.375 per share on December 31, 1998 as compared to $17.75 at December 31, 1997. While the closing market price at December 31, 1998 was somewhat disappointing, the price represents 16 times earnings and 157% of book value.

Net Income

1998 proved to be another strong earnings performance for the Company:

- Record Earnings
- $3,771,000 - up 10%
- Return On Average Assets - 0.88%
- 12% Growth in Net Interest Income
- Earnings per share - basic - $0.79
- Earnings per share - diluted - $0.77

The Company's net income for 1998 was $3,771,000, 9.9% higher than the $3,431,000 reported for 1997. Net income was positively influenced by a 12.2% growth in net interest income and a 45.1% growth in other operating income. Overhead costs were $11.5 million for 1998, an increase of $2.2 million or 24.3% from $9.2 million reported in 1997. Overhead costs were greatly impacted by the growth in the number of branch offices in 1998.

Operating earnings for the year were at $0.79 per share - basic and $0.77 per share - diluted compared to $0.88 per share - basic and $0.84 diluted in 1997. Return on average assets was 0.88% for 1998.

Growth

1998 proved to be another year of exceptional increases:

- Assets	-	29.0%
- Deposits	-	11.5%
- Loans	-	7.9%
- Investment Securities	-	67.6%

Total assets increased to $474.7 million at year-end 1998, an increase of $106.6 million or 29.0% from $368.1 million at December 31, 1997. This increase was primarily attributable to a $16.5 million growth in securities and $77.6 million growth in net loans and leases.

Investment securities increased to $192.4 million at year-end, an increase of $77.6 million or 67.6% from $114.8 million at December 31, 1997. This increase was attributable to an investment strategy implemented during 1998 whereby the Company borrowed $75 million from the Federal Home Loan Bank of Pittsburgh ("FHLB") and invested in a combination of various fixed and variable rate investments.

Total net loans increased to $224.7 million at December 31, 1998, an increase of $16.5 million or 7.9% from $208.2 million at December 31, 1997. For the year 1998, residential mortgage loans increased to $106.7 million, an increase of $3.7 million or 3.4% from $103.0 million at December 31, 1997. This increase was attributable to the increased mortgage loan activity during the period, particularly during the second half of 1998, net of mortgage loans sold during 1998 of approximately $34.9 million. As of year end, LA Bank was servicing over $141 million in residential mortgage loans.

During 1998, total deposits increased to $312.7 million, an increase of $32.3 million or 11.5% from $280.5 million at December 31, 1997.

Strengthening the Organization - Branches, Personnel and Technology

In order to accommodate our growth during 1998 the following personnel changes were made. Branch operations were enhanced with the promotions of Treva J. Day to Vice President, Regional Branch Administrator of Monroe, Pike and Wayne Counties and Lynn P. Thiel to Vice President, Regional Branch Administrator of Lackawanna and Luzerne Counties. Other promotions include Lisa Dowse, Branch Manager, Lake Ariel; Joann Simyan, Assistant Branch Manager, Mt. Cobb; Saundra Roeckel, Branch Sales Manager and Ellen Juseck, Assistant Branch Sales Manager of our first in-store location in the Wal-Mart Supercenter in Dickson City and Deborah Aragona, Branch Sales Manager and Annemarie Roberts,

Assistant Branch Sales Manager of our second in-store location in the Honesdale Wal-Mart Supercenter; Marjorie Kunkle, Branch Manager, Tannersville; Lauri Nidoh, Branch Manager, Steamtown and Scranton; Debra Skurkis, Branch Manager, Public Square; Sybil Kline, Branch Manager, East Mountain; Patricia Williamson, Branch Manager, Kingston; Lisa Akulonis, Branch Manager, Eynon and Mary Auffhammer, Branch Manager, Keyser Valley and Maryann McManus, Branch Manager, Wilkes-Barre Boulevard.

Our sales team was refined with the addition of John Gouse as a Business Development Officer for Monroe and Pike Counties; Mary Beth Pasqualicchio, Branch Sales Officer; Cathy Langan, Mortgage Originator for Wayne County; Paul Ochman, Mortgage Originator for Luzerne County; William Zernhelt, Mortgage Originator for Pike County, and Theresa Yocum, Mortgage Originator for Monroe County.

The lending staff was reinforced with the addition of Maureen Straub, Senior Vice President, Commercial Loan Officer of Luzerne County; Paul Freeman, Vice President, Commercial Loan Officer; Peter Misura, Assistant Vice President, Consumer Loan Officer; Susan Mroczka, Consumer Loan Officer; Scott Hiller, Assistant Vice President, Credit Analyst; and, Lawrence Highhouse, Assistant Vice President, Collection Department Manager.

Finally, Daniel Santaniello was promoted to Senior Operations Officer and Francis Chinchar to Data Processing Supervisor.

In January, 1999, Kenneth M. Pollock, President of HUD, Inc. t/a Emerald Anthracite II, from Luzerne County, was appointed to the Company's Board of Directors. He currently serves on the Boards of Pennsylvania Enterprises, Inc., PG Energy, and Penn State Wilkes-Barre Campus. We welcome Mr. Pollock's vast experience and business leadership to our Company.

As a result of our new and increased presence in additional market areas, we have expanded our Business Development Boards to include Monroe and Luzerne County Boards. We have also appointed new, energetic members to the existing Development Boards. We fully expect these Boards to provide an additional source of referrals and new customers within the market areas they serve.

Marketing, Products and Services

During 1998, the Company retained the services of a professional advertising agency to develop a new marketing campaign to assist in the marketing of the new branches which opened during the year. The Senior Management team felt a strong campaign would also help launch our expansion into Luzerne County where the Company had little name recognition. Print and television ads, direct mail pieces and billboard treatments were developed which proved to be an overwhelming success in all areas, not just Luzerne County.

Home equity loans and mortgage loans were aggressively marketed throughout the year, which resulted in a record number of new loans originated. LA Bank became one of the first community banks in the area to develop a Reverse Mortgage Program, targeting senior citizens. This specialized program allows seniors to borrow against the equity in their home, which then generates monthly income that allows the money necessary for seniors to live a more comfortable lifestyle and remain in their homes. In addition, the Bank was identified through the Office of the Comptroller of the Currency as the number one lender in Northeastern Pennsylvania for conventional home purchase mortgage loans.

During the first quarter of 1998, the Bank's newly formed company, Ariel Financial Services, Inc., was introduced to employees through a series of training sessions. Customers received communications throughout the year regarding the services offered by Ariel Financial Services, Inc. and the Bank's highly-trained investment specialists marketed the Company's products and services to customers throughout the Bank's current twenty-one office branch network.

Also, during the first quarter, two new retirement products were added to the Bank's product line. The Education IRA and Roth IRA were introduced in response to significant changes in legislation signed into law under the Taxpayer Relief Act of 1997.

In response to the mandates of Electronic Funds Transfer Act of 1999 (EFT99), new legislation affecting the direct deposit of government retirement funds, the Bank's senior citizen program was heavily marketed throughout the year to attract new customers. A senior citizen seminar was held in April which addressed the new direct deposit mandate, investment services, estate planning and reverse mortgages. The Bank's new senior travel club was also introduced. The inaugural season of the travel club was an overwhelming success. The group traveled to the Grand Candlelight Dinner Theater in Milton, Atlantic City casinos and closed the year with a trip to The Big Apple to see a Broadway play.

The first of our SmartLine electronic banking products was introduced. The SmartLine telephone voice response unit allows customers to access their accounts, get information on certificates of deposit, loans, transfer funds between accounts and obtain current deposit and loan rate information via a touch-tone telephone. The new system allows customers 24-hour access to account information without the assistance of a bank employee. Bill- payment services will be added to the SmartLine in early spring of 1999.

The Bank kept abreast of current product marketing via the World Wide Web by incorporating our print advertising with the `What's New Page'. In addition to the outward change of our address to www.labank.com, LA Bank has greatly improved our Internet speed and accessibility by housing our own website. Browsers may now contact senior management and department heads directly from the web page. LA Bank employees are afforded the opportunity to procure product and sales manuals, in addition to employee handbooks via the recently established intranet. This greatly reduces the amount of paper used and allows for immediate updates and enhanced communication and efficiencies within the Bank.

For the third consecutive year, we achieved two top ratings from national financial review organizations. The Bank received IDC Financial Publishing, Inc.'s Superior ranking and Bauer Financial Reports, Inc.'s 5-Star rating, which recognizes the Bank as one of the safest financial institutions in the United States. In addition, the Bank earned the distinction of an award given by the Pennsylvania Community Bankers for the best community project in our asset size during Community Banking week.

With the addition of our two new in-store branches, an entirely different sales program was developed for these branches. The new program includes extensive sales training for the staff, focusing on in-aisle selling, development of sales promotions, and employee incentives. Each month, the branch staff develops two promotions, which run concurrently during the month. The staff are required during the day to go out in the aisle and talk to shoppers about the convenience of 7-day a week banking, our products and services. The sales staff at both in-store branches have developed unique and attractive promotions that have contributed to the success of each of the branches.

Community Reinvestment and Development

During 1998, LA Bank continued to meet the credit needs of low and moderate income families within their market area by offering innovative mortgage products and participating with other local banks and agencies in providing financing to families who would not normally qualify for traditional mortgage loans. In addition, many of the Bank's loan officers are actively involved with community organizations that focus on housing and credit needs.

The Bank's commitment to the communities it serves was confirmed when the Bank was notified by the Office of the Comptroller of the Currency in 1998 that the Bank is the number one Home Mortgage Disclosure Act (HMDA) lender for conventional home purchase mortgages within Northeastern Pennsylvania. We are all very proud of this achievement.

The Bank's "Welcome Neighbor" program for first time homebuyers in the low and moderate income level was revised and improved during the year. Over $61 million of these loans were originated during 1998.

The Bank is also involved with the Office of Economic & Community Development in the City of Scranton, which assists low and moderate income individuals who are interested in becoming first time homeowners. The Bank's management team works with a consortium of other local lenders in underwriting and funding these loans.

LA Bank also participates with the Pike County Planning and Development Authority to rehabilitate residential real estate. The county provides grant money and the Bank provides financing to low and moderate income individuals who are remodeling deteriorated primary homes. Twenty-six loans were originated during 1998 for a total of $286,000.

Year In Review

For the year ended December 31, 1998, LA Bank achieved substantial growth and posted record high profits. We are very proud of this year's efforts and performance and believe our aggressive strategy gives us reason for optimism for future years.

Looking to the future, management believes that an excellent financial institution has been established. The Company has exercised a broad involvement in the various communities it serves and continues to meet the credit needs of all community segments. We believe that the Company's current commercial and retail loan growth momentum, balance sheet strength, and increased market share provide the nucleus for continued and improved earnings trends.

We thank our Board of Directors, Business Development Boards, management and employees for making 1998 a very successful year. Their effort and support, coupled with invaluable experience, are appreciated by all of us. Once again, as a stockholder, we sincerely hope that you continue to support, promote and patronize LA Bank so that we may continue in our efforts to grow as a strong locally-owned community bank.

John G. Martines
Chief Executive Officer of the Corporation and
President and Chief Executive Officer
of the Subsidiaries

Bruce D. Howe
President of the Corporation
and Chairman of the Subsidiaries

Board of Directors

William C. Gumble, Esquire - Age 61. Attorney Gumble has served on the Board of Directors since 1985. He resides in Paupack, Pike County. He retired from an active law practice in 1993. He has held office as County Solicitor and District Attorney of Pike County.

Bruce D. Howe- Age 67. Mr. Howe is Chairman of the Board of LA Bank, N.A., and is a resident of Lake Ariel. He is President of John T. Howe, Inc. which operates local fuel and heating oil companies, a motel, interstate truck stop and convenient stores. He is also President of Howe's Twin Rocks, Inc., a local restaurant.

Harry F. Schoenagel- Age 63. Mr. Schoenagel was elected to the Board of Directors in 1985. He is a resident of Greentown and is a partner in Schoenagel & Schoenagel Associates, a local engineering and surveying company located in Pike County.

John G. Martines- Age 52. Mr. Martines is Bank President and CEO and has been employed by the Bank and on the Board of Directors since 1979. He is a resident of Newton Lake, Greenfield Township, Lackawanna County.

Peter O. Clauss- Age 69. Mr. Clauss has served on the Board since 1986. He was the former President of C & D Builders, Inc., a contracting firm, and is presently retired and a resident of Lake Ariel.

Donald E. Chapman- Age 62. Mr. Chapman has been on the Board of Directors since 1972. He is a resident of Lake Ariel and owner of a Nationwide Insurance agency for the past 35 years. He also serves as a Wayne County Commissioner.

Paul D. Horger, Esquire - Age 61. Attorney Horger is a practicing attorney for 34 years. He is Senior Partner at the law firm of Oliver, Price & Rhodes in Scranton, Pennsylvania.

Kenneth M. Pollock, Jr. - Age 41. Mr. Pollock is the newest member on the Board. He is the President of HUD Inc. t/a Emerald Anthracite II and resides in Huntsville in Luzerne County.

BOARD

While the average LA Bank customer would not be nearly as familiar with the faces of the Board members as they are with those of our staff which serves them daily, it is the directives of our Board and their policy decisions that impact the products and services our customers benefit from and from which our stockholders ultimately derive financial reward. It is this entrepreneurial spirit that has given us the momentum to expand, improving the products and services we offer our customers, and culminating with our proud tradition of financial reward to our stockholders. Our aggressive expansion into now a five county territory, including the Luzerne County location pictured here, provides new opportunities to the diverse populations of the communities we serve. We welcome the new customer base which further increases our market share and overall performance.

LUZERNE COUNTY

Luzerne County has become a focal point for our continuing strength and expansion. In May, 1998 we opened our first dedicated Mortgage Loan Center, followed in September by a full-service branch at the same Luzerne County landmark site, Public Square. December ushered in the opening of our Kingston Branch, situated adjacent to the cherry-blossomed banks of the Susquehanna River. We expect our third Luzerne County branch on the Wilkes-Barre Boulevard to open in the spring of 1999. Our main Luzerne County location, this branch will also be home for our Luzerne County commercial lending and other lending functions.

There is no doubt that Public Square (pictured here) has long been the spiritual center of Luzerne County. The Square houses other prominent landmarks, including the Greater Wilkes-Barre Chamber of Business and Industry Center, the Kirby Center for the Performing Arts, and, within walking distance, the Greco-Roman style Luzerne County Courthouse. Nearby, numerous educational institutions and businesses help shape the surrounding culture of our new locations and accent the Public Square that symbolizes the aspirations of creating fine public spaces for all to enjoy.

LACKAWANNA COUNTY

LA Bank's presence in Lackawanna County has been recently marked by our Financial Center, located in the heart of downtown Scranton. Simultaneously, the greater Scranton area itself is becoming more identified with the concept of Steamtown. Steamtown National Historic Site, pictured here, is truly a landmark of national recognition. Drawing thousands of domestic and international rail fans and historians, Steamtown is a memorial to one of the most prosperous times in the history of the County. Today, one can enjoy the exhilaration of stepping back in time to enjoy an excursion spotlighting the beauty of the Valley. As it is true that life, times and means of transportation change, 1998 brought about the opening of our newest Lackawanna branch locations at Dickson City, located in the new Wal-Mart Supercenter; downtown Taylor; and, Meadow Avenue, located in the busy East Mountain area of Scranton.

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WAYNE COUNTY

Despite LA Bank's multiple expansions throughout a five-county region of Northeastern Pennsylvania, Wayne County -- the site of the founding of our precursor, the First National Bank of Lake Ariel -- remains the spiritual home to many who know the history of our founding on November 10, 1910. Today, Wayne County houses three additional branches, including our newest office located inside the Honesdale Wal-Mart Supercenter. Our Hamlin and Newfoundland locations complete the list of our other Wayne County locations. This traditional rural character is immediately evident from a drive through the Wayne County countryside, where farming remains a way of life. The values of the farming lifestyles are the landmark so reflective of this county. This lifestyle is well represented by the Walter Krompasky Farm, principally a dairy operation, and one of the oldest working farms located in the region.

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PIKE COUNTY

Pike County is home to three LA Bank branches, including one in downtown Milford. The Columns, home to the Museum of the Pike County Historical Society, a landmark of rich architectural distinction, can be seen when visiting our branch. This county shares the tremendous natural beauty of the Pocono Mountains bordering Monroe County, and together are noted as two of the fastest growing counties in Pennsylvania. The Columns, pictured here, is proof that, despite the Pocono's recreational opportunities and astounding natural aesthetics, it has man-made wonders of equal beauty. Built originally as a summer estate for a textile magnate before being deeded to the Historical Society in 1930, The Columns is best known as the home of the Lincoln Flag, historically authenticated as the flag which was placed under the head of the assassinated President as he lay dying.

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MONROE COUNTY

A popular destination for tourists seeking to enjoy the fun the outdoors offers, Monroe County was carved out of the original Northampton County, itself one of the great land grants presented by the King of England to William Penn. The county features spectacular recreational terrain and immense natural beauty. The natural beauty of the Pocono Mountains in the county itself is a true landmark and this beauty is captured in the spectacular photo of the Delaware River at Shawnee. Home to one of LA Bank's newest branches, Tannersville is also home to the Crossings, a popular shopping epicenter located just across the border from New Jersey.

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Responsibilities for Preparation of Financial Statements

The management of Lake Ariel Bancorp, Inc. ("the Company") is responsible for the preparation, integrity and fair presentation of the financial statements, as well as other information contained in the annual report. Estimates are an integral part of preparing financial statements as management must make informed judgements about the expected effects of events and transactions prior to their definitive resolution.

In meeting its responsibility for the reliability of the financial statements, the Company depends on its system of internal accounting controls. This system is designed to provide reasonable assurance that assets are safeguarded and transactions are executed in accordance with the appropriate corporate authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Although accounting control procedures are designed to achieve these objectives, it must be recognized that errors or irregularities may nevertheless occur. The effectiveness of the system of accounting controls is reviewed continually throughout the year by an established program of internal audit.

These controls are constantly modified and improved in response to changes in business conditions and operations. The design, monitoring and revision of internal accounting controls involve, among other considerations, management's judgement with respect to the relative cost and expected benefits of specific control measures. The Company believes that its accounting controls provide reasonable assurance that errors or irregularities that could be material to the financial statements are prevented or would be detected within a timely period by employees in the normal course of performing their assigned functions.

Management discharges its responsibility for the financial statements through the Audit Committee of the Board of Directors, comprised entirely of Directors who are not Company employees. This responsibility includes general oversight of the Company's accounting system, internal accounting controls, financial accounting and reporting matters and regulatory reports. The independent auditors and the Company's internal audit department have direct access to the Audit Committee, and meet with it, with and without management being present, to discuss auditing and financial reporting matters.

The accompanying financial statements have been audited by Parente, Randolph, Orlando, Carey & Associates, Certified Public Accountants, for the purpose of rendering an independent professional opinion, and their report is included herein.

Joseph J. Earyes, CPA
Vice President and Treasurer

Management's Discussion and Analysis

The consolidated financial review of Lake Ariel Bancorp, Inc. ("the Company") provides a comparison of the performance of the Company for the years ended December 31, 1998, 1997, and 1996. The financial information presented should be reviewed in conjunction with the consolidated financial statements and accompanying notes appearing elsewhere in this annual report.

Background

The Company is a one bank holding company whose principal subsidiary is LA Bank, N.A. The Company operates 21 full-service branch banking offices in its principal market area in Lackawanna, Luzerne, Monroe, Pike and Wayne Counties. At December 31, 1998, the Company had 174 full-time equivalent employees. The increase, 41 additional over 1997, was due to the additional staffing needs in the new branches.

Analysis of Results of Operation

Overview

Net income for 1998 increased to $3.8 million, an increase of $340,000 or 9.9% over 1997. Net income for 1997 was $3.4 million, an increase of $400,000 or 13.2% over 1996. On a per share basis, net income was $0.79 basic and $0.77 diluted in 1998, $0.88 basic and $0.84 diluted in 1997 and $0.78 basic and diluted in 1996. Weighted average diluted shares outstanding for 1998, 1997 and 1996 were 4,906,000, 3,886,000, and 3,686,000, respectively. Earnings per share and weighted average shares outstanding reflect adjustment for the 5% stock dividends paid on October 1, 1998, 1997 and 1996, and the two-for-one stock split effective November 10, 1997.

The growth in net income during 1998 was attributable to the volume improvement in net interest income after provision for possible credit losses, which increased to $11.4 million, an increase of $1.0 million or 9.7% over 1997, and which was coupled with an increase in other operating income to $4.9 million, an increase of $1.5 million or 45.1% over 1997. This increase more than offset the increase in other operating expenses to $11.5 million, an increase of $2.2 million or 24.3% over 1997. The Company continued to focus its efforts toward retail banking services within its existing and new market areas with specific attention given to increasing overall market share.

The growth in net income in 1997 was also attributable to the improvement in net interest income after provision for possible credit losses, which increased to $10.3 million, an increase of $903,000 or 9.6% over 1996 and which was also coupled with an increase in other operating income to $3.4 million, an increase of $695,000 or 25.7% over 1996. This increase more than offset the increase in other operating expenses to $9.2 million, an increase of $1.2 million or 15.2% over 1996.

Analysis of Net Interest Income

In 1998, net interest income (tax-equivalent basis) increased to $13.4 million, an increase of $1.4 million or 11.9% over 1997 levels. Average loans and leases increased to $218.6 million, an increase of $24.6 million or 12.7% over 1997. Average commercial loans grew to $73.4 million, an increase of $12.2 million or 20.0% over 1997 levels. Interest income on commercial loans increased to $6.6 million, an increase of $665,000 or 11.1% over 1997. This was due to increased volumes through most of 1998. The national prime rate as reported in a national publication published daily, an index to which the majority of these loans were tied, was 7.75% and 8.50% at December 31, 1998 and 1997, respectively. Average real estate loans increased 14.5%, which contributed to a 12.0% increase in interest income on real estate loans. Average consumer loans, which included credit card receivables and leases, decreased $1.2 million or 2.9% over 1997, and resulted in no change in related interest income, due to the increased volume and rates from lease financing.

Net interest income (tax-equivalent basis) for 1997 increased to $11.9 million, an increase of $1.3 million or 12.0% over 1996. This increase was due to the continued strong growth of earning assets, which grew 23.3% over 1996 levels.

On average, investment securities in 1998 increased to $166.2 million, an increase of $52.0 million or 45.5% over 1997 levels. Investment securities in 1997 increased to $114.2 million, an increase of $28.9 million or 33.9% over 1996 levels. Income earned on investment securities increased to $11.4 million, an increase of $3.1 million or 37.8% over 1997. Income earned in 1997 increased to $8.3 million, an increase of $2.2 million or 36.2% over 1996. As is discussed under "Financial Condition", the asset/liability management and investment strategies that were employed during 1998 resulted in increased holdings of investment securities and created an increase in investment income. The mix of securities in the investment portfolio changed slightly during 1998. Taxable securities, which represented 73.9% of the investment portfolio in 1997, increased to 80.2% or $133.3 million in 1998. At December 31, 1998, tax-exempt securities represented 19.8% of the portfolio compared to 26.1% in 1997 and 23.9% in 1996. In 1998, tax-exempt securities provided similar after-tax investment returns as taxable issues in similar maturity and quality ranges. Accordingly, average balances on state and municipal securities at December 31, 1998 increased to $32.9 million, an increase of $3.1 million or 10.5% over 1997. Average balances on state and municipal securities at December 31, 1997 increased to $29.8 million, an increase of $9.4 million or 46.1% from $20.4 million at December 31, 1996.

Average interest-bearing deposits at December 31, 1998 increased to $243.4 million, an increase of $10.8 million or 4.6% over 1997. Average interest-bearing deposits at December 31, 1997 increased to $232.6 million, an increase of $28.7 million or 14.1% from $203.9 million at December 31, 1996. Savings and interest-bearing demand deposits at December 31, 1998 increased to $77.8 million, an increase of $7.1 million or 10.1% over 1997. Savings and interest-bearing demand deposits at December 31, 1997 increased to $70.6 million, an increase of $6.4 million or 9.9% from $64.2 million at December 31, 1996. As a percentage of total average interest-bearing deposits, savings and interest-bearing demand deposits represented 32.0% in 1998, 30.4% in 1997 and 31.5% in 1996. Average time deposits (including deposits greater than $100,000) at December 31, 1998 increased to $165.6 million, an increase of $3.6 million or 2.2% over 1997. Average time deposits at December 31, 1997 increased to $162.0 million, an increase of $22.3 million or 15.9% over 1996. As a percentage of total average interest-bearing deposits, time deposits represented 68.0% in 1998, 69.6% in 1997, and 68.5% in 1996. Due to the shift in the mix of deposits, the rates at which they were repricing and the volume increase, interest expense on deposits at December 31, 1998 increased to $10.9 million, an increase of $462,000 or 4.4% over 1997. Interest expense on deposits at December 31, 1997 increased to $10.4 million, an increase of $1.4 million or 16.1% from $9.0 million at December 31, 1996. These results were reflected in the cost of funds which decreased 2.2% from 1997 through 1998, and increased 1.8% from 1996 to 1997, while volume increased 4.6% and 14.1%, respectively. Interest expense as a percent of earning assets decreased by 2 basis points from 4.32% in 1997 to 4.30% in 1998 due to the rate decrease paid on interest-bearing liabilities.

Short-term borrowings, which included federal funds purchased and securities sold under agreements to repurchase, averaged $2.2 million in 1998, $2.1 million in 1997 and $3.7 million in 1996. These borrowings remained relatively constant through 1998.

The overall effect of the modest decrease in interest rates paid, the shift in mix of and growth in deposit accounts and long-term debt and the decreasing yields earned on earning assets produced a negative impact on net interest margin. The net interest margin decreased by 38 basis points to 3.43% in 1998 from 3.81% in 1997. The net interest margin was 4.20% in 1996. This result is very indicative of a decreasing rate environment, which took place in 1998. Due to the large volume of variable rate securities and loans tied to the national prime rate, the yield on earning assets decreased to 7.74% from 8.13% in 1997, or a 39 basis point decrease. Similarly, the rate of interest expense as a percent of earning assets decreased from 4.32% to 4.30% or 2 basis points.

The following tables provide an analysis of changes in net interest income with regard to volume, rate and yields of interest-bearing assets and liabilities based on average balances for each period. Components of interest income and expenses are presented on a tax-equivalent basis using the statutory federal income tax rate of 34.0% each year.

<TABLE>
<CAPTION>

	For The Year Ended December 31,								
	1998			1997			1996		
	Average Balance (1)	Interest Income/ Expense	Yield/ Rate	Average Balance (1)	Interest Income/ Expense	Yield/ Rate	Average Balance (1)	Interest Income/ Expense	Yield/ Rate
				(Dollars in thousands)					
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Earning assets:									
Federal funds sold	$4,028	$217	5.39%	$4,640	$264	5.69%	$3,124	164	5.25%
Deposits in Federal Home Loan Bank	85	9	4.86	160	9	5.63	145	6	4.14
Investment securities:									
U.S. government agencies	127,571	8,430	6.61	81,567	5,738	7.03	63,443	4,323	6.81
State and municipal(2)	32,922	2,567	7.80	29,798	2,391	8.02	20,393	1,673	8.20
Other securities	5,708	419	7.34	2,850	154	5.40	1,460	86	5.89
Total investment securities	166,201	11,416	6.87	114,215	8,283	7.25	85,296	6,082	7.13
Loans and leases:									
Commercial, financial and industrial(2)	73,393	6,617	9.02	61,163	5,952	9.73	48,626	4,585	9.43
Real estate-construction and mortgage .	106,508	8,240	7.74	92,998	7,356	7.91	80,395	6,557	8.16
Installment loans to individuals(3) ..	34,003	3,122	9.18	36,793	3,299	8.97	34,213	3,251	9.50
Lease financing(3)	4,725	480	10.16	3,110	302	9.71	2,114	199	9.41
Total loans and leases	218,629	18,459	8.44	194,064	16,909	8.71	165,348	14,592	8.83
Total earning assets	389,043	30,101	7.74	313,079	25,465	8.13	253,913	20,844	8.21
Cash and due from banks	11,038			10,469			9,834		
Premises and equipment	14,794			10,901			7,769		
Other, less allowance for credit losses and loan fees	14,334			9,617			5,438		
Total assets	$429,209			$344,066			$276,954		
Liabilities and stockholders= equity:									
Interest-bearing deposits:									
Demand	$35,503	$806	2.27%	$30,245	$627	2.07%	$ 25,764	$537	2.08%
Savings	42,257	1,697	4.02	40,377	1,611	3.99	38,472	1,549	4.03
Time	126,525	6,288	4.97	123,054	6,157	5.00	105,883	5,350	5.05
Time over $100,000	39,090	2,066	5.29	38,918	2,000	5.14	33,811	1,521	4.50
Total interest-bearing deposits	243,375	10,857	4.46	232,594	10,395	4.47	203,930	8,957	4.39
Short-term borrowings	652	38	5.83	1,843	99	5.37	3,312	174	5.25
Securities sold under agreements to repurchase	1,526	70	4.59	259	13	5.02	338	17	5.03
Long-term debt	96,817	5,775	5.96	47,663	3,018	6.33	16,275	1,035	6.36
Total interest-bearing liabilities	342,370	16,740	4.89	282,359	13,525	4.79	223,855	10,183	4.55
Demand - noninterest - bearing	45,289			35,518			29,545		
Other liabilities	4,826			3,674			3,312		
Total liabilities	392,485			321,551			256,712		
Stockholders= equity	36,724			22,515			20,242		
Total liabilities and stockholders= equity	$429,209			$344,066			$276,954		
Net interest income		$13,361			$11,940			$10,661	
Net interest spread			2.85%			3.34%			3.66%
Net interest margin(4)			3.43%			3.81%			4.20%

</TABLE>

[FN]

(1) Average balances have been computed using daily balances. Nonaccrual loans are included in loan balances.
(2) Interest and yield are presented on a tax-equivalent basis using a 34.0% statutory tax rate for 1998, 1997 and 1996.
(3) Installment loans and leases are presented net of unearned interest.
(4) Represents the difference between interest earned and interest paid, divided by average total earning assets.
</FN>
[/TABLE]

<TABLE>
<CAPTION>

	1998 Compared to 1997(1)			1997 Compared to 1996(1)		
	Caused by		Total	Caused by		Total
	Volume	Rate	Variance	Volume	Rate	Variance

<S>	<C>	<C>	<C>	<C>	<C>	<C>
			(In thousands)			
Interest income:						
Federal funds sold............................	$ (34)	$(13)	$(47)	$ 85	$ 15	$100
Deposits in Federal Home Loan Bank	1	(1)	0	1	2	3
Investment securities	3,501	(368)	3,133	2,101	100	2,201
Loans and leases	1,160	390	1,550	2,553	(236)	2,317
Total interest income	4,628	8	4,636	4,740	(119)	4,621
Interest expense:						
Demand and savings deposits	190	75	265	169	(17)	152
Time deposits	182	15	197	1,105	181	1,286
Borrowed funds	2,932	(179)	2,753	1,904	-	1,904
Total interest expense	3,304	(89)	3,215	3,178	164	3,342
Net interest income............................	$1,324	$97	$1,421	$1,562	$(283)	$1,279

<FN>

(1) The portion of the total change attributable to both volume and rate changes during the period has been allocated to the volume and rate components based upon the absolute dollar amount of the change in each component prior to the allocation.

</FN>
</TABLE>

Provision for Possible Credit Losses

The provision for possible credit losses for the year ended December 31, 1998 increased to $1.1 million, an increase of $350,000 or 44.9% over 1997. The provision for possible credit losses for 1997 increased to $780,000, an increase of $130,000 or 20.0% from $650,000 for 1996. In 1998, the provision for possible credit losses was 128.4% of net charge-offs, compared to 155.7% in 1997 and 136.3% in 1996. The provision represented management's assessment of the risks inherent in the loan and lease portfolio while providing the amounts necessary to cover potential charge-offs.

Net charge-offs in 1998 increased to $880,000, an increase of $379,000 or 75.6% over 1997. Net charge-offs in 1997 increased to $501,000, an increase of $24,000 or 5.0% from $477,000 in 1996. The net charge-offs in 1998 were primarily attributed to the commercial, consumer installment, and credit card portfolios. The net charge-offs in 1997 were primarily attributed to the consumer installment loans and credit card portfolio. The ratio of net charge-offs to average loans outstanding was at 0.40% for 1998, 0.26% for 1997 and 0.30% for 1996.

Net charge-offs on commercial and industrial loans for 1998 were $506,000 or 57.5% of net charge-offs compared to $64,000 or 12.8% of net charge-offs for 1997 and $118,000 or 24.7% of net charge-offs for 1996. Consumer and credit card and real estate related debt accounted for 42.5% in 1998, 87.2% in 1997 and 75.3% in 1996, of net charge-offs, respectively.

Other Operating Income

Other operating income in 1998 increased to $4.9 million, an increase of $1.5 million or 45.0% over 1997. Other operating income in 1997 increased to $3.4 million, an increase of $695,000 or 25.7% from $2.7 million in 1996. Fees generated from the origination and sale of residential mortgage loans provided $39,000 or 1.0% in 1998, $183,000 or 5.4% in 1997 and $266,000 or 9.8% in 1996, of other operating income. Mortgage servicing fee income, net of amortization of mortgage servicing rights, decreased in 1998 to $294,000, a decrease of $16,000 or 5.1% over 1997. Such income in 1997 decreased to $310,000, a decrease of $17,000 or 5.2% from $327,000 in 1996. These fees were directly influenced by the volume of loans that were sold in the secondary market and the value of the retained servicing rights. Gains or losses on sales of mortgage loans occurred when the coupon rates on mortgage loans exceeded or fell short of the yields required by the purchasers. The net gain of $951,000 recorded in 1998, compared with the net gain of $404,000 in 1997 and net gain of $114,000 in 1996, was indicative of the changes in interest rates during the periods in which the sales occurred.

Fee income from service charges on demand deposits, item processing, return items and other service fees increased to $1.6 million in 1998, an increase of $329,000 or 26.4% over 1997. Such income in 1997 remained constant with 1996 at $1.2 million. These fees, which represented 31.9% of other operating income, were influenced by both pricing changes and increases in the number of consumer and business demand deposit accounts which increased $22.8 million or 31.9% in 1998 over 1997.

Net gains on available-for-sale securities represented approximately 8.8% in 1998, 6.3% in 1997 and 1.6% in 1996 of other operating income, respectively. The sales of these securities resulted from the Company's decision to liquidate certain securities to capture market gains with the ability to reinvest in bonds with similar risk and yield.

Included in other income are earnings on directors' and officers' life insurance policies, credit card annual fees and merchant discounts, safe deposit box rentals, rental income on excess office space in four of the Company's branch offices, automated teller machine surcharge income, commissions on check orders and other general service fees. These fees in 1998 increased to $1.7 million, an increase of $673,000 or 67.0% over 1997. These fees in 1997 increased to $1.0 million, an increase of $265,000 or 35.9% from $739,000 in 1996. Automated teller machine surcharge income represented $46,000 of the increase. Earnings on directors' and officers' life insurance policies represented $121,000 of the increase. Rental income represented $55,000 of the increase. A gain of $240,000 on the sale of deposits and fixed assets of two branch offices during the year represents the majority of the remaining increase.

Other Operating Expenses

Other operating expenses in 1998 increased to $11.5 million, an increase of $2.2 million or 24.3% over 1997. Other operating expenses in 1997 increased to $9.2 million, an increase of $1.2 million or 15.0% from $8.0 million in 1996. Salaries and benefits, which were the most significant of the noninterest expenses, increased in each of the years reported. Salaries and benefits for 1998 increased to $5.0 million, an increase of $807,000 or 19.2% over 1997. Salaries and benefits in 1997 increased to $4.2 million, an increase of $522,000 or 14.2% from $3.7 million in 1996. These increases were due to the additional staffing needs in both new and existing branch and administrative offices, merit increases and the added costs associated with health care insurance and other benefits which were provided by the Company.

Equipment and occupancy expenses in 1998 increased to $2.7 million, an increase of $462,000 or 20.4% over 1997. Such expenses in 1997 increased to $2.3 million, an increase of $389,000 or 20.7% over 1996. Again, these increases were primarily attributable to the growth in the number of branch offices, in addition to overall increases in overhead expenses, maintenance costs, equipment upgrades (including computer hardware and software), and the Year 2000 testing and related equipment costs throughout the branch network.

FDIC insurance assessments decreased from $222,000 in 1995 to $0 in 1998. The decrease in the FDIC insurance assessment reflected the decision by the FDIC in late 1995 to charge well-capitalized banks a $1,000 semi-annual membership fee without any deposit-based insurance premium. In 1998 and 1997, the FDIC charged no membership fee. Foreclosed asset expenses in 1998 were $27,000, a decrease of $12,000 or 30.8% over 1997. The decrease was a result of the sales of properties in 1998 without any material additions. Foreclosed asset expenses in 1997 were $39,000, a decrease of $12,000 or 23.5% over 1996.

Amortization of intangible assets increased to $205,000 in 1998, an increase of $51,000 or 33.1% over 1997, and was related to the premium the Company paid for the core deposits and the deposit customer lists from acquired branch offices. Amortization of intangible assets increased to $154,000 in 1997, an increase of $46,000 or 42.6% over 1996, also related to the acquisition premium paid for core deposits and customer lists. Advertising expenses increased to $430,000 in 1998, an increase of $138,000 or 47.3% over 1997. The increase is the result of expenses associated with a new advertising and promotion campaign developed for 1998 as well as increased marketing costs in our new market segments. Advertising expenses increased to $292,000 in 1997, an increase of $43,000 or 17.3% over 1996.

Other expenses in 1998 increased to $3.3 million, an increase of $847,000 or 35.2% over 1997. Other expenses in 1997 increased to $2.4 million, an increase of $273,000 or 12.8% over 1996. Included in these expenses were such costs as legal fees, professional and audit, state shares' tax, directors' fees and other general branch and administrative operating expenses.

Provision For Income Taxes

The provision for income taxes for the years ended December 31, 1998, 1997, and 1996 was $1.1 million. The effective tax rate for 1998, 1997, and 1996 was 22.0%, 24.4% and 27.0%, respectively.

Financial Condition

December 31, 1998 Compared to December 31, 1997

The Company's total assets increased to $474.7 million at December 31, 1998, an increase of $106.6 million or 29.0% from $368.1 million at December 31, 1997. The increase in assets was primarily attributable to a $16.5 million growth in net loans and a $77.6 million increase in investment securities.

The amortized cost of investment securities, including held-to-maturity (HTM) and available-for-sale (AFS), increased to $192.8 million at December 31, 1998, an increase of $78.0 million or 67.9% from $114.8 million at December 31, 1997. The continued attention given to management's asset/liability and investment strategies resulted in an increase in net interest income while controlling interest rate risk. Due to the significant increase in deposits and by again utilizing structured borrowings with the FHLB, the Company was able to purchase both taxable and tax-exempt investments that provided a favorable spread between the interest rate on deposits and borrowings versus the yield on invested funds. During 1998, the Company purchased $75 million of securities with funds borrowed from the FHLB. The strategy that was employed provided a favorable spread between the rates on invested and borrowed funds. At December 31, 1998, gross unrealized gains in the HTM investments were $858,000 while gross unrealized losses amounted to $331,000.

The following table presents the maturity distribution and weighted average yield of the securities portfolio of the Company at December 31, 1998. Weighted average yields on tax-exempt obligations have been computed on a taxable equivalent basis.

<TABLE>
<CAPTION>

	Available-for-Sale December 31, 1998									
	Within 1 Year		After 1 Year But Within 5 Years		After 5 Years But Within 10 Years		After 10 Years or no maturity		Total	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Amortized cost:				(Dollars in thousands)						
U.S. government agencies and corporations	$21,613	5.59%	$11,161	6.70%	$5,336	6.38%	$26,222	6.88%	$64,332	6.37%
Obligations of state and political subdivisions	100	7.80	755	6.97	494	6.50	8,171	6.78	9,520	6.79
Equity securities	--		-	-	-	-	-	5.88	7,125	5.88
Total securities available-for-sale	$21,713	5.60%	$11,916	6.72%	$5,830	6.39%	$41,518	6.69%	$80,977	6.38%

</TABLE>

<TABLE>
<CAPTION>

	Held-to-Maturity December 31, 1998									
	Within 1 Year		After 1 Year But Within 5 Years		After 5 Years But Within 10 Years		After 10 Years or no maturity		Total	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	
Amortized cost:				(Dollars in thousands)						
U.S. government agencies and corporations	$24,592	6.62%	$33,739	6.48%	$6,161	6.30%	$24,524	6.34%	$89,016	6.47%
Obligations of state and political subdivisions	-	-	1,424	6.55	11,692	6.97	9,694	7.67	22,810	7.24
Total securities held-to-maturity	$24,592	6.62%	$35,163	6.48%	$ 17,853	6.74%	$ 34,218	6.72%	$111,826	6.63%

</TABLE>

A summary of securities available-for-sale and securities held-to-maturity at December 31, 1998, 1997, 1996, 1995 and 1994 follows (in thousands):

<TABLE>
<CAPTION>

	Securities Available-for-Sale at December 31,				
	1998	1997	1996	1995	1994
<S>	<C>	<C>	<C>	<C>	<C>
U.S. government agencies and corporations.........	$64,332	$46,334	$50,253	$43,041	$27,348
Obligations of states and political subdivisions..	9,520	7,287	9,066	5,810	6,919
Equity securities(1)............................	7,125	2,913	1,443	1,304	2,619
Total amortized cost of securities...............	$80,977	$56,534	$60,762	$50,155	$36,886
Total fair value of securities...................	$80,591	$56,545	$60,399	$50,580	$34,142

<FN>

(1) Comprised mostly of FHLB stock, Federal Reserve Bank stock and a Pennsylvania community bank stock.

</FN>
</TABLE>

<TABLE>
<CAPTION>

	Securities Held-to-Maturity at December 31,				
	1998	1997	1996	1995	1994

<S>	<C>	<C>	<C>	<C>	<C>
U.S. government agencies and corporations.........	$ 89,016	$33,892	$10,841	$11,065	$31,611
Obligations of states and political subdivisions..	22,810	24,353	15,760	11,524	10,924
Total amortized cost of securities................	$111,826	$58,245	$26,601	$22,589	$42,535
Total fair value of securities....................	$112,353	$59,008	$26,564	$22,866	$40,674

</TABLE>

A summary of the outstanding loans and leases by major categories at December 31 is as follows:

<TABLE>
<CAPTION>

	1998	1997	1996 (in thousands)	1995	1994
<S>	<C>	<C>	<C>	<C>	<C>
Real estate-construction..........................	$ 3,522	$ 3,338	$ 3,214	$ 4,726	$ 2,406
Real estate-mortgage..............................	103,151	99,637	84,352	68,006	56,858
Commercial and industrial.........................	79,293	69,479	51,485	45,210	43,269
Consumer installment..............................	40,907	40,912	45,170	42,891	40,839
Lease financing...................................	5,392	3,711	2,588	1,742	1,119
Unearned income...................................	(4,606)	(6,067)	(8,091)	(7,641)	(6,947)
Unearned loan fees, net...........................	(545)	(665)	(898)	(971)	(1,030)
Total loans and leases.......................	227,114	210,345	177,820	153,963	136,514
Allowance for possible credit losses..............	(2,360)	(2,109)	(1,830)	(1,657)	(1,496)
Net loans and leases.........................	$224,754	$208,236	$175,990	$152,306	$135,018

</TABLE>

Total net loans increased to $224.7 million at December 31, 1998, an increase of $16.5 million or 7.9% from $208.2 million at December 31, 1997. The increase in net loans was directly related to the significant growth in commercial loans and residential mortgages. Residential mortgage loans (net of mortgage loans sold during 1998 of $34.9 million), which included real estate construction loans, increased to $106.7 million at December 31, 1998, an increase of $3.7 million or 3.5% from $103.0 million at December 31, 1997.

Consumer loans, net of unearned discounts, increased to $41.0 million at December 31, 1998, an increase of $2.4 million or 6.2% from $38.6 million at December 31, 1997. Commercial loans increased to $79.3 million at December 31, 1998, an increase of $9.8 million or 14.1% from $69.5 million at December 31, 1997. Commercial loans consisted of loans made to small businesses within the Company's market area and were generally secured by real estate and other assets of the borrowers.

Life insurance cash surrender value increased to $8.8 million at December 31, 1998, an increase of $900,000 or 11.4% from $7.9 million at December 31, 1997. The policies represent investments in various life insurance contracts to fund directors' deferred compensation plans, a non-qualified supplemental retirement plan (SERP) and an officer group term life insurance replacement plan on the executive officers and certain other officers of the Company.

Total deposits increased to $312.7 million at December 31, 1998, an increase of $32.3 million or 11.5% from $280.5 million at December 31, 1997. Noninterest-bearing demand deposits increased to $52.4 million at December 31, 1998, an increase of $12.7 million or 32.1% from $39.7 million at December 31, 1997. In the aggregate, savings and interest-bearing demand deposits increased to $80.3 million at December 31, 1998, an increase of $12.1 million or 17.8% from $68.2 million at December 31, 1997. As a percentage of total deposits, savings and interest-bearing demand deposits represented 25.7% in 1998, compared to 24.3% in 1997. Savings deposits increased to $38.5 million at December 31, 1998, an increase of $2.1 million or 5.7% from $36.4 million at December 31, 1997. Time deposits, which include certificates of deposit in denominations of $100,000 or more, increased to $180.0 million at December 31, 1998, an increase of $7.4 million or 4.3% from $172.6 million at December 31, 1997. As a percentage of total deposits, these deposits decreased to 57.6% in 1998 from 61.5% in 1997. Approximately $20.7 million or 6.6% of total deposits are from public funds of school districts and local governments located within the Company's market area.

Included in interest-bearing deposits are certificates of deposit in amounts of $100,000 or more. These certificates of deposit and their remaining maturities at December 31 are as follows:

<TABLE>
<CAPTION>

	1998	1997	1996 (in thousands)	1995	1994
<S>	<C>	<C>	<C>	<C>	<C>
Three months or less.....................	$14,039	$15,217	$11,375	$11,708	$9,664
Over three through six months............	11,217	12,956	17,847	5,701	6,503
Over six through twelve months...........	11,084	6,814	6,376	8,213	6,424
Over twelve months.......................	6,603	9,032	4,642	1,321	2,072
Total...........................	$42,943	$44,019	$40,240	$26,943	$24,663

</TABLE>

Nonperforming Assets

Nonperforming assets included nonperforming loans and foreclosed assets held for sale. Nonperforming loans consisted of loans where the principal and/or interest was 90 days or more past due and loans that had been placed on nonaccrual status. When loans were placed on nonaccrual status, income from the current period was reversed from current earnings and interest from prior periods was charged to the allowance for possible credit losses. Consumer loans were charged-off when principal or interest was 120 days or more delinquent, or were placed on nonaccrual status if a sufficient amount of collateral existed. The following table shows information concerning loan delinquency and other nonperforming assets of the Company for 1998, 1997, 1996, 1995, and 1994:

<TABLE>
<CAPTION>

	1998	1997	1996 (in thousands)	1995	1994
<S>	<C>	<C>	<C>	<C>	<C>
Loans past due 90 days or more...........	$ 759	$1,453	$1,593	$1,716	$1,125
Impaired loans in nonaccrual status......	2,088	411	542	1,216	-
Other nonaccrual loans...................	308	123	73	487	1,786
Total nonperforming loans.......	3,155	1,987	2,208	3,419	2,911
Foreclosed assets held for sale..........	357	523	841	52	191
Total nonperforming assets......	$3,512	$2,510	$3,049	$3,471	$3,102
Nonperforming loans as a percentage of loans.................	1.39%	.94%	1.24%	2.19%	2.13%
Nonperforming assets as a percentage of assets................	.74%	.68%	1.02%	1.36%	1.31%

</TABLE>

The following summary shows the impact on interest income on nonaccrual and restructured loans for the periods indicated:

<TABLE>
<CAPTION>

For the Year Ended December 31,	1998	1997	1996 (in thousands)	1995	1994
<S>	<C>	<C>	<C>	<C>	<C>
Interest income that would have been recorded had the loan been in accordance with their original terms............	$167	$51	$92	$187	$171
Interest income included in net income...........................	10	21	7	12	-

</TABLE>

Nonperforming loans increased 58.8% from year-end 1997. Nonaccrual loans increased $1.9 million or in excess of three times from year-end 1997. Commercial loans accounted for 87.2% of all nonaccruals, followed by real estate loans at 12.8%. Within the $2.4 million of total nonaccrual loans, 100.0% were secured by mortgages, primarily first liens, against residential or commercial properties. Loans past due 90 days or more decreased $694,000 from 1997 year-end levels. These loans included $420,000 in real estate mortgages, $68,000 in consumer credit, $236,000 in commercial loans and $35,000 in leasing.
These loans were reviewed by management at its quarterly loan review meetings regarding collection efforts.

Legal proceedings on the nonaccrual loans are ongoing, routine, and reviewed by management on a continuing basis. No material losses are expected as a result of these proceedings.

Foreclosed assets held for sale were $357,000 at year-end 1998 compared to $523,000 at year-end 1997. The decrease was a result of sales during the year without any substantial additions. The Company does not expect any material losses on the sales of these properties based on current appraised values exceeding book values. See "Factors That May Affect Future Results" for factors that could affect sales prices of foreclosed assets.

Potential Problem Loans

At December 31, 1998, the Company had approximately $1.3 million of potential problem loans not included in the nonperforming loan classification. Known information about possible credit problems related to these borrowers caused management to have serious doubts as to the ability of such borrowers to comply with present loan repayment terms and may result in future classification of such loans as nonperforming. These potential problem loans were taken into consideration by management when determining the adequacy of the allowance for possible credit losses at December 31, 1998. See "Factors That May Affect Future Results" for further discussion.

Allowance for Possible Credit Losses

The Company determined the provision for possible credit losses through a quarterly review of the loan portfolio. Factors such as changing economic trends; the volume of nonperforming loans; concentrations of credit risk; adverse situations that may affect the borrower's ability to repay; prior loss experience within the various categories of the portfolio; and current economic conditions were considered when reviewing the risks in the portfolio. Larger exposures were analyzed individually. Over the past several years, the Company implemented more stringent underwriting standards in commercial lending as this category of loans continues to grow. While management believed the allowance for possible credit losses was adequate, future additions to the allowance may be necessary based on changes in economic conditions. The adequacy of the allowance for possible credit losses was reviewed quarterly by a loan review committee comprised of members of the Board of Directors and senior management of the Company. The full Board of Directors reviewed the relevant ratios with respect to the allowance after the loan review committee made its recommendations. At December 31, 1998, the allowance for possible credit losses was 1.05% of loans compared to 1.00% at December 31, 1997 and 1.03% at December 31, 1996. For further discussion on factors that could influence the allowance for possible credit losses, see "Factors That May Affect Future Results."

Changes in the allowance for possible credit losses for the years ended December 31, 1998, 1997, 1996, 1995 and 1994 were as follows:

<TABLE>
<CAPTION>

	1998	1997	1996	1995	1994
		(dollars in thousands)			
<S>	<C>	<C>	<C>	<C>	<C>
Loans past due 90 days or more....................	$ 759	$1,453	$1,593	$1,716	$1,125
Balance at beginning of period....................	$2,109	$1,830	$1,657	$1,496	$1,544
Charge-offs:					
Real estate-construction.................	-	-	-	-	-
Real estate-mortgage.....................	122	103	143	200	14
Commercial and industrial................	512	106	158	294	321
Consumer installment.....................	282	363	274	206	157
Lease financing..........................	29	11	-	-	7
Total...........................	945	583	575	700	499
Recoveries:					
Real estate-construction.................	-	-	-	-	-
Real estate-mortgage.....................	-	-	-	-	2
Commercial and industrial................	6	42	40	8	12
Consumer installment.....................	59	40	58	43	58
Lease financing..........................	-	-	-	-	4
Total...........................	65	82	98	51	76
Net charge-offs...................................	880	501	477	649	423
Provision for possible credit losses..............	1,130	780	650	810	375
Balance at end of period..........................	$2,360	$2,109	$1,830	$1,657	$1,496
Ratio of net charge-offs during period to average loans outstanding during period.........	0.40%	0.26%	0.30%	0.44%	0.35%

</TABLE>

The Company's management is unable to determine in what loan category future charge-offs and recoveries may occur. The following schedule sets forth the allocation of the allowance for possible credit losses among various categories. At December 31, 1998, approximately 74.1% of the allowance for possible credit losses is allocated to general risk to protect the Company against probable yet undetermined losses. The allocation is based upon historical experience. The entire allowance for possible credit losses is available to absorb future loan losses in any loan category.

<TABLE>
<CAPTION>

	At December 31,									
	1998		1997		1996		1995		1994	
	Amount	Percent of Loans in Each Category to Loans(1)	Amount	Percent of Loans in Each Category to Loans(1)	Amount	Percent of Loans in Each Category to Loans(1)	Amount	Percent of Loans in Each Category to Loans(1)	Amount	Percent of Loans in Each Category to Loans(1)
	(Dollars in thousands)									
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Allocation of allowance for possible credit losses:										
Real estate............	$ 281	46%	$ 278	48%	$ 248	49%	$ 279	47%	$ 370	43%
Commercial and industrial	780	36	868	32	574	29	700	29	631	32
Consumer installment....	361	16	465	19	428	21	437	23	386	24
Lease financing.........	92	2	68	1	62	1	52	1	52	1
Unallocated............	846	-	430	-	518	-	189	-	57	-
Total............	$2,360	100%	$2,109	100%	$1,830	100%	$1,657	100%	$1,496	100%

<FN>

(1) Loans, net of unearned income.
</FN>
</TABLE>

Interest Rate Risk Management

The following discussion contains certain forward-looking statements (as defined in the Private Securities Litigation Reform Act of 1995). These forward-looking statements may involve significant risks and uncertainties that are described under the caption "Factors That May Affect Future Results."

Interest rate risk management involves managing the extent to which interest-sensitive assets and interest-sensitive liabilities are matched. Interest rate sensitivity is the relationship between market interest rates and earnings volatility due to the repricing characteristics of assets and liabilities. The Company's net interest income is affected by changes in the level of market interest rates. In order to maintain consistent earnings performance, the Company seeks to manage, to the extent possible, the repricing characteristics of its assets and liabilities.

Asset/Liability Management. One major objective of the Company when managing the rate sensitivity of its assets and liabilities is to stabilize net interest income. The management of and authority to assume interest rate risk is the responsibility of the Company's Asset/Liability Committee ("ALCO"), which is comprised of senior management and Board members. ALCO meets quarterly to monitor the ratio of interest sensitive assets to interest sensitive liabilities. The process to review interest rate risk management is a regular part of management of the Company. Consistent policies and practices of measuring and reporting interest rate risk exposure, particularly regarding the treatment of noncontractual assets and liabilities, are in effect. In addition, there is an annual process to review the interest rate risk policy with the Board of Directors which includes limits on the impact to earnings from shifts in interest rates.

Interest Rate Risk Measurement. Interest rate risk is monitored through the use of three complementary measures: static gap analysis, earnings at risk simulation and economic value at risk simulation. While each of the interest rate risk measurements has limitations, taken together they represent a reasonably comprehensive view of the magnitude of interest rate risk in the Company and the distribution of risk along the yield curve, the level of risk through time, and the amount of exposure to changes in certain interest rate relationships.

Static Gap. The ratio between assets and liabilities repricing in specific time intervals is referred to as an interest rate sensitivity gap. Interest rate sensitivity gaps can be managed to take advantage of the slope of the yield curve as well as forecasted changes in the level of interest rate changes.

To manage this interest rate sensitivity gap position, an asset/liability model called "static gap analysis" is used to monitor the difference in the volume of the Company's interest sensitive assets and liabilities that mature or reprice within given periods. A positive gap (asset sensitive) indicates that more assets reprice during a given period compared to liabilities, while a negative gap (liability sensitive) has the opposite effect. The Company employs computerized net interest income simulation modeling to assist in quantifying interest rate risk exposure. This process measures and quantifies the impact on net interest income through varying interest rate changes and balance sheet compositions. The use of this model assists the ALCO to gauge the effects of the interest rate changes on interest sensitive assets and liabilities in order to determine what impact these rate changes will have upon the net interest spread.

At December 31, 1998, LA Bank maintained a one year cumulative gap of positive $11.6 million or 2.45% of total assets. The effect of this gap position provided a positive mismatch of assets and liabilities which can expose LA Bank to interest rate risk during a period of decreasing interest rates. Conversely, in a rising interest rate environment, net income could be positively affected because more assets than liabilities will reprice during a given period.

<TABLE>
<CAPTION>

Interest Sensitivity Gap at December 31, 1998

	3 months or less	3 through 12 months	1 through 3 years	Over 3 years	Total
			(Dollars in thousands)		
<S>	<C>	<C>	<C>	<C>	<C>
Cash and cash equivalents..................	$ 6,620	$ 241	$ -	$ 12,143	$ 19,004
Investment securities(1)(2)................	32,226	21,598	39,051	99,641	192,516
Loans(2)...................................	61,265	60,968	57,959	46,394	226,586
Fixed and other assets.....................	-	-	-	36,204	36,204
Total assets...............................	$100,111	$ 82,807	$97,010	$194,382	$474,310
Non interest-bearing transaction deposits(3)	$ -	$ -	$26,225	$ 26,225	$ 52,450
Interest-bearing transaction deposits(3)....	1,263	13,671	17,325	49,263	81,522
Time	45,808	62,641	15,041	12,369	135,859
Time over $100,000.........................	14,041	22,401	634	5,867	42,943
Short-term borrowings......................	3,496	641	1,529	647	6,313
Long-term debt.............................	5,585	1,753	9,552	95,540	112,430
Other liabilities..........................	-	-	-	4,986	4,986
Total Liabilities.....................	$ 70,193	$101,107	$70,306	$194,897	$436,503
Interest sensitivity gap...................	$ 29,918	$(18,300)	$26,704	$ (516)	
Cumulative gap.............................	$ 29,918	$ 11,618	$38,322	$ 37,806	
Cumulative gap to total assets.............	6.31%	2.45%	8.08%	7.97%	

<FN>

----

(1) Gross of unrealized gains/losses on available-for-sale securities.

(2) Investments and loans are included in the earlier of the period in which interest rates were next scheduled to adjust or the period in which they are due. In addition, loans were included in the periods in which they are scheduled to be repaid based on scheduled amortization. For amortizing loans and mortgage-backed securities, annual prepayment rates are assumed reflecting historical experience as well as management's knowledge and experience of its loan products.

(3) LA Bank's demand and savings accounts were generally subject to immediate withdrawal. However, management considers a certain amount of such accounts to be core accounts having significantly longer effective maturities based on the retention experiences of such deposits in changing interest rate environments. The effective maturities presented are the recommended maturity distribution limits for nonmaturing deposits based on historical deposit studies.

</FN>
</TABLE>

Certain shortcomings are inherent in the method of analysis presented in the above table. Although certain assets and liabilities may have similar maturities or periods of repricing, they may react in different degrees to changes in market interest rates. The interest rates on certain types of assets and liabilities may fluctuate in advance of changes in market interest rates, while interest rates on other types of assets and liabilities may lag behind changes in market interest rates. Certain assets, such as adjustable-rate mortgages, have features which restrict changes in interest rates on a short-term basis and over the life of the asset. In the event of a change in interest rates, prepayment and early withdrawal levels may deviate significantly from those assumed in calculating the table. The ability of many borrowers to service their adjustable-rate debt may decrease in the event of an interest rate increase.

Earnings at Risk and Economic Value at Risk Simulations. The Company recognizes that more sophisticated tools exist for measuring the interest rate risk in the balance sheet beyond static gap analysis. Although it will continue to measure its static gap position, the Company utilizes additional modeling for identifying and measuring the interest rate risk in the overall balance sheet. The ALCO is responsible for focusing on "earnings at risk" and "economic value at risk", and how both relate to the risk-based capital position when analyzing the interest rate risk.

Earnings at Risk. Earnings at risk simulation measures the change in net interest income and net income should interest rates rise and fall. The simulation recognizes that not all assets and liabilities reprice one for one with market rates (e.g., savings rate). The ALCO looks at "earnings at risk" to determine income changes from a base case scenario under an increase and decrease of 200 basis points in interest rates simulation model.

Economic Value at Risk. Earnings at risk simulation measures the short-term risk in the balance sheet. Economic value (or portfolio equity) at risk measures the long-term risk by finding the net present value of the future cashflows from the Company's existing assets and liabilities. The ALCO examines this ratio quarterly utilizing an increase and decrease of 200 basis points in interest rates simulation model. The ALCO recognizes that, in some instances, this ratio may contradict the "earnings at risk" ratio.

The following table illustrates the simulated impact of 200 basis points upward or downward movement in interest rates on net interest income, net income, and the change in economic value (portfolio equity). This analysis assumed that interest-earning asset and interest-bearing liability levels at December 31, 1998 remained constant. The impact of the rate movements was developed by simulating the effect of rates changing over a twelve-month period from the December 31, 1998 levels.

	Rates +200	Rates -200
Earnings at risk:		
Percent change in:		
Net Interest Income..........................	8.42%	(11.65)%
Net Income..................................	22.28	(29.48)
Economic value at risk:		
Percent change in:		
Economic value of equity....................	(2.48)	(20.40)
Economic value of equity as a percent of book assets................	(0.29)	(2.39)

Economic value has the most meaning when viewed within the context of risk-based capital. Therefore, the economic value may change beyond the Company's policy guideline for a short period of time as long as the risk-based capital ratio (after adjusting for the excess equity exposure) is greater than 10%.

Capital

The adequacy of the Company's capital is reviewed on an ongoing basis with regard to size, composition and quality of the Company's resources. An adequate capital base is important for continued growth and expansion in addition to providing an added protection against unexpected losses.

An important indicator in the banking industry is the leverage ratio, defined as the ratio of common stockholders' equity less intangible assets, to average quarterly assets less intangible assets. The leverage ratio at December 31, 1998 was 7.72% compared to 10.26% at December 31, 1997. This decrease in the leverage ratio in 1998 was caused by the increase in average assets in 1998 due to the borrowings from the FHLB which were invested in investment grade securities. The higher leverage ratio in 1997 was the result of the public stock offering in December, 1997. For 1998 and 1997, the ratios were well above minimum regulatory guidelines.

As required by the federal banking regulatory authorities, guidelines have been adopted to measure capital adequacy. Under the guidelines, certain minimum ratios are required for core capital and total capital as a percentage of risk-weighted assets and other off-balance sheet instruments. For the Company, Tier I capital consists of common stockholders' equity less intangible assets, and Tier II capital includes the allowable portion of the allowance for possible loan losses, currently limited to 1.25% of risk-weighted assets. By regulatory guidelines, neither Tier I nor Tier II capital reflect the adjustment of SFAS No. 115, which requires adjustment in financial statements prepared in accordance with generally accepted accounting principles by including as a separate component of equity, the amount of net unrealized holding gains or losses on debt and equity securities that are deemed to be available-for-sale.

	At December 31, 1998 (Dollars in thousands)
Primary capital.....................................	$ 37,880
Intangible assets...................................	2,293
Tier I capital......................................	35,587
Tier II capital.....................................	2,268
Total risk-based capital............................	$ 37,855
Total risk-weighted assets..........................	$252,967

Tier I ratio..	14.07%
Risk-based capital ratio............................	14.96%
Tier I leverage ratio...............................	7.72%

Regulatory guidelines require that core capital and total risk-based capital must be at least 4.0% and 8.0%, respectively.

Liquidity and Funds Management

Liquidity management is to ensure that adequate funds will be available to meet anticipated and unanticipated deposit withdrawals, debt servicing payments, investment commitments, commercial and consumer loan demand and ongoing operating expenses. Funding sources include principal repayments on loans and investments, sales of assets, growth in core deposits, short- and long-term borrowings and repurchase agreements. Regular loan payments are a dependable source of funds, while the sale of loans and investment securities, deposit flows, and loan prepayments are significantly influenced by general economic conditions and level of interest rates.

At December 31, 1998, the Company maintained $19.0 million in cash and cash equivalents (including Federal funds sold) in the form of cash and due from banks (after reserve requirements). In addition, the Company had $2.7 million of mortgage loans held for resale and $80.6 million in AFS securities. This combined total of $102.3 million represented 21.6% of total assets at December 31, 1998. The Company believes that its liquidity is adequate.

The Company considers its primary source of liquidity to be its core deposit base. This funding source has grown steadily over the years and consists of deposits from customers throughout the branch network. The Company will continue to promote the acquisition of deposits through its branch offices. At December 31, 1998, approximately 65.9% of the Company's assets were funded by core deposits acquired within its market area. An additional 8.0% of the assets were funded by the Company's equity. These two components provide a substantial and stable source of funds.

Net cash used in operating activities was $422,000 for the year ended December 31, 1998, as compared to net cash provided by operating activities of $4.9 million for the comparable period in 1997. This $5.3 million decrease is primarily related to a net $6.7 million increase in the change in mortgage loans held for resale and other assets. Net cash used in investing activities increased $30.0 million for the year ended December 31, 1998, from $69.5 million to $99.5 million, which was primarily attributable to purchases of investment securities. Net cash provided by financing activities increased $36.0 million from 1997. A net increase in FHLB borrowings of $40.2 million were used to fund investment purchases. A net increase in the annual growth of deposits from 1997 to 1998 of $5.0 million was the other major component impacting funds provided by financing activities. Cash provided by financing activities for 1998 was impacted by a net decrease of $11.8 million from net proceeds from issuance of common stock.

Future Outlook

In 1995, interest rates began moving steadily upward as the Federal Reserve Board tightened its monetary policy. In early 1995, interest rates rose and continued rising through the middle of the year, with the national prime lending rate peaking at 9.0%. The national prime lending rate fell to 8.5% at December 31, 1995, falling again to 8.25% in February 1996, where it remained at December 31, 1996. In March 1997, the national prime lending rate increased to 8.5%. Beginning with September 1998 through November 1998, the national prime lending rate fell in three separate adjustments to its current level of 7.75%. Management and the Board of Directors do not have the ability to determine if another rate adjustment will occur; however, the Company believes it is very well prepared to meet the challenges and effects of a changing interest rate environment. Management's belief is that a significant impact on earnings depends on its ability to react to changes in interest rates. Through its ALCO, the Company continually monitors interest rate sensitivity of its earning assets and interest-bearing liabilities to minimize any adverse effects on future earnings. The Company's commitment to remaining a community-based organization is strong and the intention is to recognize steady growth in its consumer, mortgage and commercial loan portfolios while obtaining and maintaining a strong core deposit base.

The banking and financial services industries are constantly changing. The Company is not aware of any pending pronouncements that would have a material impact on the results of operations.

A normal examination of LA Bank by the Office of the Comptroller of the Currency ("OCC") in 1998 resulted in no significant findings and no impact is anticipated on current or future operations.

LA Bank's current and future FDIC BIF assessment is expected to be $0; however, the FICO assessment for 1999 is expected to be approximately $45,000.

In 1996, LA Bank acquired the real estate and deposit customer lists of the Milford (Pike County) and Mountainhome (Monroe County) branches of PNC Bank. These branches opened in December 1996. In September 1998, LA Bank acquired the fixed assets and deposits of the Mountainhome (Monroe County) branch of Mellon Bank. The acquired office was consolidated into LA Bank's existing Mountainhome branch. The amortization of the customer lists and deposit premium was $205,000 for 1998 and is expected to be $300,000 for 1999.

Management is hopeful that the newest additional banking offices will continue to expand the Company's deposit base by attracting new depositors, while providing quality service to both new and existing customers. The initial costs associated with the branch openings, such as salaries and benefits, advertising, overhead expenses and marketing, will have a short-term negative impact on the Company's earnings until the growth in deposits reaches a level to offset these expenses. The potential for future earnings growth is positive and should provide a favorable return for our stockholders.

Year 2000 Compliance; Management Information Systems

The Board of Directors has established a Year 2000 compliance committee to address the risks of the critical internal bank systems that are affected by date sensitive applications, as well as external systems provided by third parties. A comprehensive plan was developed detailing the sequence of events and actions to be taken as the Year 2000 approaches.

The Year 2000 (Y2K) Committee was formed in May 1997. The Executive Vice President and Chief Operating Officer was named liaison to executive management. Co-chairpersons of the committee are Senior Operations Manager and Deposit Operations Manager. Other committee members include MIS Supervisor, Controller, Senior Lending Officer, Loan Review Officer, Loan Operations Officer, and Branch Administration Officers. The committee currently meets weekly to discuss the progress of the project.

An outline was developed by the Y2K Committee to manage the phases of our year 2000 readiness program. The outline addresses the necessary phases (identification, renovation, testing, and implementation) necessary to conduct a detailed review of the Company's readiness.

A list was compiled of all vendors. The list included information technology vendors and non-information technology vendors. The Company does not utilize any in-house developed programs. A letter was sent to vendors early in the third quarter of 1997 seeking assurance and testing scripts to ensure their products are Year 2000 ready. Each vendor was evaluated and prioritized as to the Company's reliance on the application. The Company's MIS Department has conducted testing on all personal computers and file servers. Those that did not successfully roll into the Year 2000 were replaced. Unisys Corporation was contracted to assist and act as a consultant to the Company with the Year 2000 testing. The Company simulated its entire technology platform into the Year 2000 to conduct transactional testing.

Lending officers have compiled a Year 2000 questionnaire for each client with a total lending relationship of $250,000 or more. Loan review has incorporated into their evaluations of the borrower's credit worthiness the question of the impact that the Year 2000 will have on an individual business and the risk associated with non-compliance resulting in business disruption. A Year 2000 legal addendum has been added to the loan documentation for all new and renewed commercial loans.

Large depositors have also been personally contacted and made aware of the Year 2000 issue and how it may effect them. The Company has also developed a Year 2000 awareness brochure that was inserted with the customers' Company statements.

The Year 2000 Committee has established a timeline for Year 2000 Readiness. This timeline is updated as actions are completed.

TIME LINE

AWARENESS AND ASSESSMENT RENOVATION, TESTING, IMPLEMENTATION PHASES

<TABLE>
<CAPTION>

*2nd Quarter 1997	*3rd Quarter 1997	*4th Quarter 1997	*1st Quarter 1998
<S>	<C>	<C>	<C>
-Y2K Committee was formed. -Vendor list was compiled. -Terminals were tested.	-Complaint letters were sent to all vendors. -Y2K Outline was developed.	-Vendors were ranked according to mission critical application.	-Commercial customers with a borrowing relationship of $250,000 or greater were contacted as to their Y2K status. -Committee Chairpersons attended Y2K training. -PC's and proof machines were tested for Y2K

			compliance. -Assessment of all vendors & hardware was completed.

*2nd Quarter 1998	*3rd Quarter 1998	*4th Quarter 1998	1st/2nd Quarter 1999
-Tested core applications. -Began renovation of PC's and routers. -Prepared contingency plan. with	-All depositors were sent a letter stating the bank's Y2K status. -Continued testing core applications for critical dates. -Commercial customers with a borrowing relationship between $150,000 to $250,000, and any others heavily reliant on technology were assessed for Y2K status.	-Sought alternate hardware and software vendors for those applications that were not Y2K compliant. -Continued testing core applications for critical dates. -Partnered with Unisys Corp. to conduct Y2K testing. The Bank's technology platform was aged into the Year 2000 and transactional testing was conducted.	-Implement any new hardware and/orsoftware vendors. -Continue testing core applic-ations for critical dates. -Complete renovations. -Test non mission critical equipment date sensitive operating controls or calendar functions.

</TABLE>

*Denotes completion

YEAR 2000 BUDGET

In accordance with the Office of the Comptroller of the Currency Year 2000 advisory letters, the Y2K Committee has prepared a budget of current and anticipated expenditures. The following is a breakdown as of January 1, 1999:

<TABLE>
<CAPTION>

Vendor	Description	Amount
<S>	<C>	<C>
Unisys Corporation	Y2K analysis, ITI, Wide Area Network, and Clear Path testing	$ 69,959
Retec Corporation	ATM memory, processor and software upgrade	23,350
Barefoot Technology	Y2K test server setup and server	2,130
Compliance Technology Systems	Wire Transfer Control System	1,500
Information Technology, Inc.	Year 2000 ITI Training Seminar	1,473
Sheshunoff Information Services	Year 2000 Planning & Consulting Manual	392
MK Business Machines, Inc.	ATM NCR 7760 year wheel upgrade	265
Amerigo Inc.	Purchase new PC's to replace non Y2K compliant PC's	12,250
Infinity Technology Group	Assist with upgrading PC's	3,840
Mortgage Banker Assoc.	Freddie Mac Delinquency and Investor Reporting	1,750
**Unisys Corporation/ Information Technology Inc.	Change non Y2K check processing software and check sorter equipment	246,163
	TOTAL	$363,072

</TABLE>

**The purchase of the check sorter equipment was a Y2K issue as well as improving the efficiency of the Bank's overall operations. The existing check processing software and equipment could have been upgraded to be Y2K compliant for approximately $80,000.

The core business processes that the Year 2000 Committee has identified are Information Technology Incorporated, Bankers Systems Incorporated, Attachmate Incorporated, Unisys Corporation, NCR, Novell Incorporated, and Leasetek Incorporated. The Company is very optimistic that by conducting the necessary tests there will not be any interruption of services.

The process that is most heavily relied upon in the Company's daily operations is Information Technology Incorporated. Without this process, the Company would not function adequately. The Year 2000 Committee has identified this as a high-risk process and has developed a very intensive testing schedule. The Company has already conducted detailed testing of this process and currently has generated a schedule that will continue into the Year 1999.

The Company has developed a written contingency plan to handle the most reasonably likely worst case scenarios. The plan addresses alternate vendors for these mission critical applications, a timeline for implementation and action, circumstances and trigger dates, and core business processes that pose the greatest amount of risk to the Company. The Y2K Committee will be responsible for updating the contingency plan, reporting progress and implementating changes. The contingency plan will be modified to reflect any changes at that time. However, no assurance can be made that the systems of others that the Company relies upon will be converted on a timely basis, or that their failure to be compliant would not have an adverse effect on the Company. Therefore, the Company cannot currently quantify the potential financial impact of a worst case scenario created by Y2K failures.

In October 1997, the Company purchased and installed an upgrade to its current bank operating systems to improve efficiencies of operations and position itself for future growth. The cost of the new system was approximately $775,000. Preconversion testing demonstrated that the new hardware and software are Year 2000 compliant.

Factors That May Affect Future Results

General

Banking is affected, directly and indirectly, by local, domestic and international economic and political conditions, and by government monetary and fiscal policies. Conditions such as inflation, recession, unemployment, volatile interest rates, tight money supply, real estate values, international conflicts and other factors beyond the control of the Company may adversely affect the future results of operations of the Company. Management does not expect any one particular factor to affect results of operations. A downward trend in several areas, however, including real estate, construction and consumer spending, could have an adverse impact on the Company's ability to maintain or increase profitability. Therefore, there is no assurance that the Company will be able to continue its current rate of profitability and growth. See "Business - Allowance For Possible Credit Losses."

Interest Rates

The Company's earnings depend, to a large extent, upon net interest income, which is primarily influenced by the relationship between its cost of funds (deposits and borrowings) and the yield on its interest-earning assets (loans and investments). This relationship, known as the net interest spread, is subject to fluctuate and is affected by regulatory, economic and competitive factors which influence interest rates, the volume, rate and mix of interest-earning assets and interest-bearing liabilities, and the level of nonperforming assets. As part of its interest rate risk management strategy, management seeks to control its exposure to interest rate changes by managing the maturity and repricing characteristics of interest-earning assets and interest-bearing liabilities. Through its asset/liability committee, the Company continually monitors interest rate sensitivity of its earning assets and interest-bearing liabilities to minimize any adverse effects on future earnings.

As of December 31, 1998, total interest-earning assets maturing or repricing within one year were more than total interest-bearing liabilities maturing or repricing in the same period by $11.6 million, representing a cumulative one-year interest rate sensitivity gap as a percentage of total assets of positive 2.45%. This condition suggests that the yield on the Company's interest-earning assets should adjust to changes in market interest rates at a faster rate than the cost of the Company's interest-bearing liabilities. Consequently, the Company's net interest income could increase during periods of rising interest rates. See "Interest Rate Risk Management."

Adequacy of Allowance for Possible Credit Losses

In originating loans, there is a likelihood that some credit losses will occur. This risk of loss varies with, among other things, general economic conditions, the type of loan being made, the creditworthiness and debt servicing capacity of the borrower over the term of the loan and, in the case of a collateralized loan, the value and marketability of the collateral securing the loan. Management maintains an allowance for possible credit losses based on, among other things, historical loan loss experience, known inherent risks in the loan portfolio, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral and an evaluation of current economic conditions. Management believes that the allowance for possible credit losses is adequate. There can be no assurance that nonperforming loans will not increase in the future.

Effects of Inflation

The majority of assets and liabilities of a financial institution are monetary in nature. Therefore, a financial institution differs greatly from most commercial and industrial companies that have significant investments in fixed assets or inventories. Management believes that the most significant impact of inflation on financial results is the Company's ability to react to changes in interest rates. As discussed previously, management attempts to maintain an essentially balanced position between rate sensitive assets and liabilities over a one year time horizon in order to protect net interest income from being affected by wide interest rate fluctuations.

New Financial Accounting Standards

Reporting Comprehensive Income

In June 1997, the FASB issued Statement No. 130, "Reporting Comprehensive Income." This Statement establishes standards for the reporting and display of comprehensive income and its components in a full set of general-purpose financial statements. Statement No. 130 requires that all items that are required to be recognized as components of comprehensive income be reported in a financial statement that is displayed with the same prominence as other financial statements. This Statement does not require a specific format for that financial statement, but requires that an enterprise display an amount representing total comprehensive income for the period in that financial statement. Statement No. 130 is effective for fiscal years beginning after December 15, 1997. The impact of this Statement on the Company was to require additional disclosures in the Company's financial statements.

Operating Segment Disclosure

In June 1997, the FASB issued Statement No. 131, "Disclosures About Segments of an Enterprise and Related Information." Statement No. 131 establishes standards for the way that public business enterprises report information about operating segments in annual financial statements and requires that those enterprises report selected information about operating segments in interim financial reports issued to shareholders. It also establishes standards for related disclosures about products and services, geographic areas and major customers. Statement No. 131 is effective for periods beginning after December 15, 1997. The impact, if any, of this Statement on the Company will be to require additional disclosures in the Company's financial statements. There was no impact on the Company's financial statements in 1998.

Accounting for Derivative Instruments and Hedging Activities

FASB No. 133, issued in June 1998, establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. In connection with the implementation of FASB No. 133, the Company may transfer debt securities classified as held-to-maturities to the available-for-sale category. Such a transfer will not call into question the Company's intention to hold other debt to maturity in the future. The impact on the Company's financial position and results of operations will be dependent upon the future volume (if any) of acquisitions of derivative instruments and hedging activities. The Company plans to adopt FASB No. 133 in 1999. Management has not determined the impact, if any, of this statement on the Company.

Accounting for Mortgage-Backed Securities after the Securitization of Mortgage Loans Held for Sale by a Mortgage Banking Enterprise

Statement of Financial Accounting Standards No. 134 amends FASB No. 65, Accounting for Certain Mortgage Banking Activities. The amendment provides that after the securitization of a mortgage loan held for sale, any retained mortgage-backed securities shall be classified in accordance with the provisions of FASB No. 115. However, a mortgage banking enterprise must classify as trading any retained mortgage-backed securities that it commits to sell before or during the securitization process. The adoption of Statement No. 134 had no impact on the Company.

<TABLE>
<CAPTION>
Consolidated Balance Sheet

December 31,

	1998	1997
	(in thousands)	
<S>	<C>	<C>
ASSETS		
Cash and cash equivalents	$ 19,004	$ 17,109
Available-for-sale securities	80,591	56,545
Held-to-maturity securities (fair value of $112,353 and $59,008 in 1998 and 1997, respectively)	111,826	58,245
Loans and leases	229,555	216,465
Mortgage loans held for resale	2,710	621
Less unearned income and loan fees	(5,151)	(6,741)
Less allowance for possible credit losses	(2,360)	(2,109)
Net loans and leases	224,754	208,236
Premises and equipment, net	17,364	13,744
Accrued interest receivable	3,210	3,005
Foreclosed assets held for sale	358	523
Life insurance cash surrender value	8,788	7,891
Other assets	8,794	2,775
TOTAL ASSETS	$474,689	$368,073
LIABILITIES		
Deposits:		
Noninterest-bearing	$ 52,410	$ 39,689
Interest-bearing:		
Demand	41,811	31,767
Savings	38,525	36,437
Time	137,053	128,538
Time $100,000 and over	42,943	44,019
Total Deposits	312,742	280,450
Accrued interest payable	3,260	2,975
Securities sold under agreements to repurchase	3,283	200
Long-term debt	115,459	47,656
Other liabilities	2,005	977
Total Liabilities	436,749	332,258
STOCKHOLDERS' EQUITY		
Preferred stock: Authorized 1,000,000 shares of $1.25 par value each; no outstanding shares	-	-
Common stock: Authorized, 10,000,000 shares of $.21 par value each; issued and outstanding 4,820,192 shares in 1998 and 4,548,383 shares in 1997	1,012	956
Capital surplus	29,563	25,717
Retained earnings	7,620	9,135
Accumulated other comprehensive income	(255)	7
Total Stockholders' Equity	37,940	35,815
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$474,689	$368,073

</TABLE>

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Statement of Income

<TABLE>
<CAPTION>

	Year Ended December 31,		
	1998	1997	1996
	(in thousands, except per share data)		
<S>	<C>	<C>	<C>
INTEREST INCOME			
Loans and leases	$18,452	$16,907	$14,592
Investment securities:			
Taxable	8,429	5,738	4,323
Exempt from federal income taxes	1,694	1,578	1,104
Dividends	419	154	86
Total investment securities income	10,542	7,470	5,513
Deposits in bank	9	9	6
Federal funds sold	217	264	164
TOTAL INTEREST INCOME	29,220	24,650	20,275

INTEREST EXPENSE			
Deposits	10,857	10,395	8,957
Long-term debt	5,744	3,018	1,143
Short-term borrowings	69	99	66
Securities sold under agreements to repurchase	70	13	17
TOTAL INTEREST EXPENSE	16,740	13,525	10,183
NET INTEREST INCOME	12,480	11,125	10,092
PROVISION FOR POSSIBLE CREDIT LOSSES	1,130	780	650
NET INTEREST INCOME AFTER PROVISION FOR POSSIBLE CREDIT LOSSES	11,350	10,345	9,442
OTHER OPERATING INCOME			
Loan origination fees	39	183	266
Customer service charges and fees	1,576	1,247	1,217
Mortgage servicing fees, net	294	310	327
Investment security gains, net	432	214	43
Gain (loss) on sale of loans, net	951	404	114
Gain (loss) on sale of assets, net	(74)	-	-
Life insurance earnings	409	288	127
Other income	1,307	755	612
TOTAL OTHER OPERATING INCOME	4,934	3,401	2,706
OTHER OPERATING EXPENSES			
Salaries and benefits	5,013	4,206	3,684
Occupancy expense	1,509	1,334	1,053
Equipment expense	1,219	932	824
Advertising	430	292	249
Foreclosed asset expenses	27	39	51
Other expenses	3,254	2,407	2,136
TOTAL OTHER OPERATING EXPENSES	11,452	9,210	7,997
INCOME BEFORE PROVISION FOR INCOME TAXES	4,832	4,536	4,151
PROVISION FOR INCOME TAXES	1,061	1,105	1,120
NET INCOME	$ 3,771	$ 3,431	$ 3,031
EARNINGS PER SHARE - BASIC*	$0.79	$0.88	$0.78
EARNINGS PER SHARE - DILUTED*	$0.77	$0.84	$0.78
DIVIDENDS PER SHARE*	$0.41	$0.38	$0.32

</TABLE>

*Reflects adjustment for 5% stock dividends issued on October 1, 1998, 1997 and 1996, and a two-for-one stock split effective November 10, 1997 (See Note 13).

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Statement of Changes in Stockholders' Equity

<TABLE>
<CAPTION>

	Common Stock	Capital Surplus	Retained Earnings (in thousands)	Accumulated Other Comprehensive Income	Total
<S>	<C>	<C>	<C>	<C>	<C>
BALANCES, DECEMBER 31, 1995	$696	$9,414	$9,118	$281	$19,509
Comprehensive income:					
Net income			3,031		3,031
Change in net unrealized holding gains (losses) on available-for-sale securities, net of reclassification adjustment and tax effects				(520)	(520)
Total comprehensive income					2,511
Issuance of 16,856 shares of common stock through Dividend Reinvestment Plan*	7	265			272
Issuance of 5,735 shares of common stock through Employee Stock Purchase Plan*	2	70			72
Cash dividends declared ($.32 per share)*			(1,186)		(1,186)
Stock dividend declared (5% on October 1, 1996)	35	1,350	(1,385)		-
Cash paid for fractional shares on stock dividend			(6)		(6)

BALANCES, DECEMBER 31, 1996	740	11,099	9,572	(239)	21,172
Comprehensive income:					
Net income			3,431		3,431
Change in net unrealized holding gains (losses) on available-for-sale securities, net of reclassification adjustment and tax effects				246	246
Total comprehensive income					3,677
Issuance of 35,306 shares of common stock through Dividend Reinvestment Plan*	8	393			401
Issuance of 11,579 shares of common stock through Employee Stock Purchase Plan*	2	67			69
Cash dividends declared ($.38 per share)*			(1,369)		(1,369)
Stock dividend declared (5% on October 1, 1997)	37	2,448	(2,485)		-
Cash paid for fractional shares on stock dividend			(14)		(14)
Sale of 845,250 shares of common stock through secondary stock offering	169	11,710			11,879
BALANCES, DECEMBER 31, 1997	956	25,717	9,135	7	35,815
Comprehensive income:					
Net income		3,771		3,771	
Change in net unrealized holding gains (losses) on available-for-sale securities, net of reclassification adjustment and tax effects			(262)		(262)
Total comprehensive income					3,509
Issuance of 38,890 shares of common stock through Dividend Reinvestment Plan*	7	502			509
Issuance of 5,500 shares of common stock through Employee Stock Purchase Plan*	1	25			26
Costs on sale of common stock through secondary stock offering			(11)		(11)
Cash dividends declared ($.41 per share)			(1,903)		(1,903)
Stock dividend declared (5% on October 1, 1998)	48	3,319	(3,367)		-
Cash paid for fractional shares on stock dividend			(5)		(5)
BALANCES, DECEMBER 31, 1998	$1,012	$29,563	$7,620	$(255)	$37,940

</TABLE>

*Reflects adjustment for 5% stock dividends issued on October 1, 1998, 1997 and 1996, and a two-for-one stock split effective November 10, 1997.
The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Statement of Cash Flows
<TABLE>
<CAPTION>

	Year Ended December 31, 1998	1997	1996 (in thousands)
<S>	<C>	<C>	<C>
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$ 3,771	$3,431	$3,031
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Provision for possible credit losses	1,077	780	650
Depreciation, amortization and accretion	1,620	935	720
Deferred income taxes	158	(62)	45
Writedown of foreclosed assets held for sale	25	213	-
Investment security gains, net	(432)	(214)	(43)
(Gain) on sale of loans	(951)	(404)	(114)
(Gain) loss on sale of foreclosed assets	72	6	(1)
(Gain) loss on sale of leased assets	-	-	2
(Gain) loss on sale of equipment	2	38	(1)
(Increase) decrease in mortgage loans held for resale	(2,089)	(306)	3,090
(Increase) in accrued interest receivable	(205)	(656)	(378)
Increase in accrued interest payable	285	559	670
(Increase) decrease in other assets	(4,783)	371	(869)
Increase (decrease) in other liabilities	1,028	178	(490)
NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES	(422)	4,869	6,312
CASH FLOWS FROM INVESTING ACTIVITIES			
Held-to-maturity securities:			
Proceeds from maturities and paydowns	30,140	2,974	339

Purchases	(84,049)	(34,618)	(4,351)
Available-for-sale securities:			
Proceeds from maturities and paydowns	4,989	10,106	6,505
Proceeds from sales	34,159	29,522	34,130
Purchases	(62,565)	(35,193)	(51,190)
Purchase of life insurance policies	(897)	(5,352)	-
Increase in loans and leases	(52,203)	(61,670)	(39,923)
Purchases of premises and equipment	(5,080)	(4,959)	(2,962)
Proceeds from sale of loans	37,382	28,939	11,734
Proceeds from sale of leased assets	-	-	19
Proceeds from sale of equipment	213	253	13
Proceeds from sale of foreclosed assets	334	514	70
Purchase of intangible assets	(1,899)	-	(600)
NET CASH USED IN INVESTING ACTIVITIES	(99,476)	(69,484)	(46,216)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net increase in deposits	32,292	27,254	44,437
Decrease in short-term borrowings	-	-	(5,000)
Increase (decrease) in securities sold under agreements to repurchase	3,083	(100)	(100)
Proceeds from long-term debt	85,658	30,029	5,000
Principal payments on long-term debt	(17,854)	(2,396)	(133)
Net proceeds from issuance of common stock	517	12,349	344
Cash dividends	(1,903)	(1,383)	(1,192)
NET CASH PROVIDED BY FINANCING ACTIVITIES	101,793	65,753	43,356
INCREASE IN CASH AND CASH EQUIVALENTS	1,895	1,138	3,452
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	17,109	15,971	12,519
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 19,004	$17,109	$15,971
CASH PAID DURING THE YEAR FOR:			
Interest	$16,455	$12,966	$ 9,513
Income taxes	$850	$ 932	$ 1,025

</TABLE>

The accompanying notes are an integral part of the consolidated financial statements.

Notes to Consolidated Financial Statements

1. Summary of Significant Accounting Policies

Principles of Consolidation
The accompanying consolidated financial statements include the accounts of Lake Ariel Bancorp, Inc. and its wholly owned subsidiary, LA Bank, N.A. including its subsidiaries, LA Lease, Inc. and Ariel Financial Services, Inc. (collectively, "Company"). All material intercompany balances and transactions are eliminated in consolidation.

Nature of Operations
Lake Ariel Bancorp, Inc. is a one bank holding company whose principal subsidiary is LA Bank, N.A. LA Lease, Inc., provides auto and equipment leases to individuals and small business entities. Ariel Financial Services, a newly formed business unit, offers stocks, bonds, annuities and other insurance-related products.

The Company provides a variety of financial services to individuals and corporate customers through its twenty-one branch banking offices in Wayne, Luzerne, Lackawanna, Pike and Monroe Counties. The Bank's primary deposit products are both noninterest and interest-bearing demand deposits and certificates of deposit. Its primary lending products are single-family residential loans which qualify for sale on the secondary residential loan market.

Use of Estimates
The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent 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 those estimates.

Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for possible credit losses and the valuation of assets acquired in connection with foreclosures or in satisfaction of loans. In connection with the determination of the allowances for possible credit losses and foreclosed assets, management obtains independent appraisals for significant properties.

A majority of the Company's loan portfolio consists of single-family residential loans in the Northeastern Pennsylvania area. Accordingly, the ultimate collectibility of a substantial portion of the Company's loan portfolio and the recovery of a substantial portion of the carrying amount of foreclosed assets are susceptible to changes in local market conditions.

While management uses available information to recognize losses on loans and leases and foreclosed assets, future additions to the allowances may be necessary based on changes in local economic conditions. In addition, regulatory agencies, as an integral part of their examination process, periodically review the Company's allowances for possible credit losses and foreclosed assets. Such agencies may require the Company to recognize additions to the allowances based on their judgments about information available to them at the time of their examination. Because of these factors, it is reasonably possible that the allowances for possible credit losses and foreclosed assets may change materially in the near term.

Investment Securities
Held-to-maturity securities are bonds, notes and debentures for which the Company has the positive intent and ability to hold to maturity. These securities are reported at cost, adjusted for premiums and discounts that are recognized in interest income using the interest method over the period to maturity.

Government bonds held principally for resale in the near term, and mortgage-backed securities held for sale in conjunction with the Company's mortgage banking activities, are classified as trading account securities and are recorded at their fair values. Unrealized gains and losses on trading account securities are included immediately in other income. The Company neither held nor purchased securities which would be categorized as trading account securities during the years ended December 31, 1998, 1997 and 1996. Available-for-sale securities consist of bonds, notes, debentures and certain equity securities not classified as trading securities nor as held-to-maturity securities. These unrealized holding gains and losses, net of tax, are the sole component of accumulated other comprehensive income.

Investment gains and losses are determined using the specific identification method.

Declines in the fair value of individual held-to-maturity and available-for-sale securities below their cost that are other than temporary result in write-downs of the individual securities to their face value. The related write-downs are included in earnings as realized losses.

Derivative Financial Instruments
The Company has no derivative financial instruments requiring disclosure under SFAS No. 119.

Mortgage Loans Held for Resale
Mortgage loans originated and intended for resale in the secondary market are carried at the lower of cost or fair value in the aggregate. Net unrealized losses are recognized in a valuation allowance by charges to income. These loans are sold in whole and without recourse to the Company.

Loans and Leases
Loans are reported at the principal balance outstanding, net of unearned interest, net deferred loan fees and the allowance for possible credit losses. Unearned interest on installment loans is recognized as income using the actuarial method. Interest on all other loans is recognized on the accrual basis, based on the principal amount outstanding. Loan fees, including origination and commitment fees, less certain direct loan origination costs, are deferred and recognized over the estimated lives of the related loans as an adjustment to yield. The unamortized balance of these fees and costs are included as part of the loan balance to which it relates. Prior to 1988, such fees and costs were recognized as income or expense when collected or paid. Impaired loans are placed in a nonaccrual status when management believes that the collection of principal or interest is uncertain, unless the loans are both in the process of collection and well secured. When interest accrual is discontinued, income recorded in the current year is reversed and the accrued interest from prior years is charged to the allowance for possible credit losses.

Allowance for Possible Credit Losses
The allowance for possible credit losses is established through a provision for possible credit losses as a charge to operating expense. The Company provides for possible credit losses based on an evaluation of the risk associated with the Company's loan portfolio, prior loan loss experience, economic conditions and other factors. Loans are charged against the allowance for possible credit losses when management believes that the collection of principal is unlikely.
Recoveries on previously charged-off loans are added to the allowance for

possible credit losses.

Foreclosed Assets Held for Sale
Foreclosed assets held for sale are carried at the lower of fair value minus estimated costs to sell, or cost.

Loan Servicing and Loan Servicing Rights
The Company services real estate loans for investors in the secondary mortgage market, which are not included in the accompanying consolidated balance sheet. The approximate total amount of mortgages serviced amounted to $141,381,000, $131,509,000, and $119,898,000 at December 31, 1998, 1997 and 1996, respectively.

The cost of mortgage servicing rights is amortized in proportion to, and over the period of, estimated net servicing revenues. Impairment of mortgage servicing rights is assessed based on the fair value of those rights. Fair values are estimated using discounted cash flows based on a current market interest rate. For purposes of measuring impairment, the rights are stratified based on the predominant risk characteristics of the underlying loans, stated term of the loan and interest rate. The amount of impairment recognized is the amount by which the capitalized mortgage servicing rights for a stratum exceed their fair value.

When participating interests in loans sold have an average contractual interest rate, adjusted for normal servicing fees, that differs from the agreed yield to the purchaser, gains or losses are recognized equal to the present value of such differential over the estimated remaining life of such loans. The resulting "excess servicing receivable" or "deferred servicing revenue" is amortized over the estimated life using a method approximating the interest method.

Quoted market prices are not available for the excess servicing receivables. Thus, the excess servicing receivables and the amortization thereon are periodically evaluated in relation to estimated future servicing revenues, taking into consideration changes in interest rates, current prepayment rates, and expected future cash flows. The Company evaluates the carrying value of the excess servicing receivables by estimating the future servicing income of the excess servicing receivables based on management's best estimate of remaining loan lives and discounted at the original discount rate.

Premises and Equipment
Premises and equipment are stated at cost less accumulated depreciation. Routine maintenance and repair expenditures are expended as incurred while significant expenditures are capitalized. Depreciation expense is determined primarily on the straight-line method over the following ranges of useful lives:

Buildings and improvements	10 to 40 years
Furniture, fixtures and equipment	5 to 20 years

Intangible Assets
Core deposit intangible assets and customer lists acquired are included in other assets and are being amortized over a period of six to twelve years using the straight-line method. Amortization for 1998, 1997 and 1996 was $205,000, $154,000, and $108,000, respectively.

Employee Benefit Plans
The Company maintains and funds a defined contribution profit-sharing plan which covers substantially all eligible employees. The Company also maintains a 401(k) savings plan. Substantially all of the Company's employees are eligible to participate in the profit-sharing/401(k) savings plan on the January 1 or July 1 following their completion of six months of service and attaining age 20 1/2.

Income Taxes
Deferred tax assets and liabilities are reflected at currently enacted income tax rates applicable to the period in which the deferred tax assets or liabilities are expected to be realized or settled. As changes to the tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes.

Off-Balance Sheet Financial Instruments
In the ordinary course of business, the Company has entered into off-balance sheet financial instruments consisting of commitments to extend credit and standby letters of credit. Such financial instruments are recorded in the financial statements when they become payable.

Cash Flows
The Company considers amounts due from banks and federal funds sold as cash equivalents. Generally, federal funds are sold for one-day periods.

In 1998, 1997 and 1996, the Company transferred $266,000, $420,000, and $858,000, respectively, from its loan portfolio to foreclosed assets held for sale.

Fair Values of Financial Instruments

Statement of Financial Accounting Standards No. 107, Disclosures about Fair Value of Financial Instruments, requires disclosure of fair value information about financial instruments, whether or not recognized in the statement of financial condition. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumption used, including the discount rate and estimates of future cash flows. In that regard, the derived fair value estimates cannot be substantiated by comparison to independent markets and, in many cases, could not be realized in immediate settlement of the instruments. Statement No. 107 excludes certain financial instruments and all nonfinancial instruments from its disclosure requirements. Accordingly, the aggregate fair value amounts presented do not represent the underlying value of the Company.

Comprehensive Income
The Company adopted SFAS No. 130, "Reporting Comprehensive Income", as of January 1, 1998. Accounting principles require that recognized revenue, expenses, gains and losses be included in net income. Although 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 components of comprehensive income. The adoption of SFAS No. 130 had no effect on the Bank's net income or stockholder's equity.

Reclassifications
Certain prior year amounts have been reclassified to conform to the 1998 reporting format.

2. Restrictions on Cash and Due From Bank Accounts
The Company is required to maintain reserve balances with the Federal Reserve Bank. The average monthly balance required during 1998 and 1997 was approximately $375,000. In addition, at December 31, 1998 and 1997, required compensating reserve balances with correspondent banks were $2,239,000 and $2,003,000, respectively.

Deposits with any one financial institution are insured up to $100,000. The Company maintains cash and cash equivalents with certain other financial institutions in excess of the insured amount.

3. Investment Securities
Debt and equity securities have been classified in the consolidated balance sheet according to management's intent. The carrying amount of securities and their approximate fair values at December 31, 1998 and 1997 were as follows (in thousands):
<TABLE>
<CAPTION>

December 31, 1998

Available-for-sale securities:

<S>	Amortized Cost <C>	Gross Unrealized Gains <C>	Gross Unrealized Losses <C>	Fair Value <C>
U.S. government agencies and corporations	$64,332	$ 91	$482	$63,941
Obligations of states and political subdivisions	9,520	39	34	9,525
Total debt securities	73,852	130	516	73,466
Restricted equity securities	7,125	-	-	7,125
Total	$80,977	$130	$516	$80,591

Held-to-maturity securities:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. government agencies and corporations	$ 89,016	$152	$330	$ 88,838
Obligations of states and political subdivisions	22,810	706	1	23,515
Total	$111,826	$858	$331	$112,353

</TABLE>

<TABLE>
<CAPTION>

December 31, 1997

Available-for-sale securities:

<S>	Amortized Cost <C>	Gross Unrealized Gains <C>	Gross Unrealized Losses <C>	Fair Value <C>
U.S. government agencies and corporations	$46,334	$120	$258	$46,196
Obligations of states and political subdivisions	7,287	149	-	7,436
Total debt securities	53,621	269	258	53,632
Restricted equity securities	2,913	-	-	2,913
Total	$56,534	$269	$258	$56,545

Held-to-maturity securities:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. government agencies and corporations	$33,892	$260	$103	$34,049
Obligations of states and political subdivisions	24,353	609	3	24,959
Total	$58,245	$869	$106	$59,008

</TABLE>

The amortized cost and estimated fair value of debt securities at December 31, 1998, by contractual maturity, are shown below (in thousands). Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

<TABLE>
<CAPTION>

	Available-for-sale securities		Held-to-maturity securities	
<S>	Amortized Cost <C>	Fair Value <C>	Amortized Cost <C>	Fair Value <C>
Due in one year or less	$21,713	$21,593	$ 24,593	$ 24,602
Due after one year through five years	11,916	11,816	35,163	35,201
Due after five years through ten years	5,830	5,843	17,852	18,070
Due after ten years	41,518	41,339	34,218	34,480
Total	$80,977	$80,591	$111,826	$112,353

</TABLE>

Gross realized gains and gross realized losses on sales of available-for-sale securities were as follows for the years ended December 31, 1998, 1997, and 1996 (in thousands):

<TABLE>
<CAPTION>

	December 31,		
Gross realized gains: <S>	1998 <C>	1997 <C>	1996 <C>
U.S. government agencies and corporations	$98	$116	$78
Obligations of states and political subdivisions	354	119	114
Total	$452	$235	$192
Gross realized losses:			
U.S. government agencies and corporations	$14	$21	$149
Obligations of states and political subdivisions	6	-	-
Total	$20	$21	$149

</TABLE>

Investment securities carried at $96,308,000 in 1998 and $35,953,000 in 1997 were pledged to secure Federal Home Loan Bank borrowings, governmental deposits, public deposits, etc. as required by law. There is no significant concentration of investments in any individual security issue (excluding U.S. government and its agencies) that was in excess of 10% of stockholders' equity at December 31, 1998 or 1997.

The unamortized premiums on mortgage-backed securities amounted to $1,671,000 and $817,000 as of December 31, 1998 and 1997, respectively. The unaccreted discount on mortgage-backed securities amounted to $318,000 and $14,000 as of December 31, 1998 and 1997, respectively.

4. Loans and Leases

A summary of the outstanding loans and leases by major categories at December 31 is as follows:
<TABLE>
<CAPTION>

	1998	1997
	(in thousands)	
<S>	<C>	<C>
Real estate-construction	$ 3,522	$ 3,338
Real estate-mortgage	103,151	99,637
Commercial and industrial	79,293	69,479
Consumer installment	40,907	40,912
Lease financing	5,392	3,711
Unearned income	(4,606)	(6,067)
Unearned loan fees, net	(545)	(665)
Total loans and leases	227,114	210,345
Allowance for possible credit losses	(2,360)	(2,109)
Net loans and leases	$224,754	$208,236

</TABLE>

Total nonaccrual loans outstanding at December 31, 1998 were approximately $2,396,000 as compared to $534,000 at December 31, 1997. Included in nonaccrual loans at December 31, 1998 and 1997 are $2,088,000 and $411,000, respectively, of impaired loans in nonaccrual status, for which $452,000 and $248,000, respectively, have been allocated in the allowance for possible credit losses to cover potential losses from these impaired loans. At December 31, 1998 and 1997, there were no outstanding commitments to lend funds to debtors with nonaccrual loans. At December 31, 1998 and 1997, no loans were being accounted for as a troubled debt restructuring. Accruing loans past due 90 days or more as to principal or interest amounted to $759,000 and $1,453,000 at December 31, 1998 and 1997, respectively.

Further information regarding the balance of nonaccrual loans at December 31, 1998, and related interest payment information, is as follows (in thousands):

Cash Payments Received During 1998 Were Applied As Follows:
<TABLE>
<CAPTION>

	Book Balance 12/31/98	Contractual Balance 12/31/98	Interest Income	Recovery Of Prior Charge-Off	Reduction Of Principal
<S>	<C>	<C>	<C>	<C>	<C>
Contractually past due with:					
Substantial performance	$ 138	$ 138	$ 4	$ -	$ 3
Limited performance	1,281	1,281	1	-	12
No performance	889	889	-	-	-
Contractually current, however:					
Payment of full principal or interest in doubt	-	-	-	-	-
Other	88	88	5	-	1
Total	$2,396	$2,396	$10	$ -	$16

</TABLE>

At December 31, 1998 and 1997, certain officers and directors and/or companies in which they have 10% or more beneficial ownership were indebted to the Company in the aggregate amount of $329,000 and $370,000, respectively. Such indebtedness was incurred in the ordinary course of business, and on substantially the same terms as those prevailing at the time for comparable transactions with other persons. New loans in 1998 and 1997 were $42,000 and $17,000, respectively, while payments were $83,000 and $68,000 respectively, during the same periods.

A summary of selected loan maturities and interest sensitivity analysis at December 31, 1998 is as follows:
<TABLE>
<CAPTION>

Maturity Distribution And Interest Rate Sensitivity

	Within One Year	Two-Five Years	After Five Years	Total
		(in thousands)		
<S>	<C>	<C>	<C>	<C>
Real estate-construction	$ 3,522	$ -	$ -	$ 3,522

Commercial and industrial	14,481	11,017	53,795	79,293
Total	$18,003	$11,017	$53,795	$82,815
Predetermined interest rate	$ 5,515	$ 5,934	$ 9,291	$20,735
Floating or adjustable interest rate	12,493	5,083	44,504	62,080
Total	$18,003	$11,017	$53,795	$82,815

</TABLE>

The maturity of loans is based upon contractual terms. The Company may, however, extend the stated maturities at current rates and terms for economic or market reasons.

Changes in the allowance for possible credit losses for the years ended December 31, 1998, 1997 and 1996 were as follows:
<TABLE>
<CAPTION>

<S>	1998 <C>	1997 (dollars in thousands) <C>	1996 <C>
Balance at beginning of period	$2,109	$1,830	$1,657
Charge-offs:			
Real estate-construction	-	-	-
Real estate-mortgage	122	103	143
Commercial and industrial	512	106	158
Consumer installment	282	363	274
Lease financing	29	11	-
Total	945	583	575
Recoveries:			
Real estate-construction	-	-	-
Real estate-mortgage	-	-	-
Commercial and industrial	6	42	40
Consumer installment	59	40	58
Lease financing	-	-	-
Total	65	82	98
Net charge-offs	880	501	477
Provision for possible credit losses	1,130	780	650
Balance at end of period	$2,360	$2,109	$1,830
Ratio of net charge-offs during period to average loans outstanding during period	0.40%	0.26%	0.30%

</TABLE>

5. Premises and Equipment
Premises and equipment at December 31 are summarized as follows:
<TABLE>
<CAPTION>

<S>	1998 <C>	1997 (in thousands) <C>
Land and land improvements	$ 2,357	$ 1,545
Buildings and improvements	12,965	10,301
Furniture, fixtures and equipment	7,511	6,195
Total	22,833	18,041
Less accumulated depreciation	5,469	4,297
Net	$17,364	$13,744

</TABLE>

Depreciation expense was $1,245,000, $932,000, and $730,000 in 1998, 1997 and 1996, respectively.

Certain facilities and equipment are leased under agreements expiring at various dates to the year 2003. Rental expenses on these operating leases amounted to $551,000 in 1998, $439,000 in 1997, and $348,000 in 1996. Required future minimum annual rentals under all such noncancelable operating leases as of December 31, 1998 are as follows (in thousands):

1999	$ 510
2000	529
2001	551
2002	545
2003	469

Thereafter	1,610
Total	$4,214

6. Deposits

There are no brokered deposits included in certificates of deposit of $100,000 or more. These certificates of deposit and their remaining maturities at December 31 are as follows:

<TABLE>
<CAPTION>

<S>	1998 <C>	1997 <C>
	(in thousands)	
Three months or less	$14,039	$15,217
Over three through six months	11,217	12,956
Over six through twelve months	11,084	6,814
Over twelve months	6,603	9,032
Total	$42,943	$44,019

</TABLE>

The aggregate amount of maturities for each of the five years following December 31, 1998 for all time deposits with a remaining term of over twelve months at December 31, 1998 are as follows (in thousands):

2000	$23,167
2001	7,756
2002	2,612
2003	2,209
2004	7
Thereafter	5
Total	$35,756

7. Short-term Borrowings

There were no short-term borrowings outstanding at December 31, 1998 and 1997. The maximum amount of outstanding month-end short-term borrowings during 1998 and 1997 was $9,400,000 and $9,500,000, respectively. The approximate average amount outstanding during 1998 and 1997 was $2,178,000 and $2,102,000, respectively. The average interest rate on the balances during 1998 and 1997 was 4.96% and 5.33%, respectively.

The Company maintains a U.S. Treasury tax and loan note option account for the deposit of withholding taxes, corporate income taxes and certain other payments to the federal government. Deposits are subject to withdrawal and are evidenced by an open-ended interest-bearing note. Borrowings under this note option account were approximately $300,000 at December 31, 1998 and approximately $1,000,000 at December 31, 1997. These deposits are included in interest-bearing demand deposits for each period presented.

The Company has a line of credit commitment available from the Federal Home Loan Bank for borrowings of up to approximately $10.0 million, expiring March 24, 1999. There were no borrowings under this line of credit at December 31, 1998 or 1997.

8. Long-term Debt

Long-term debt at December 31 is as follows:

<TABLE>
<CAPTION>

<S>	1998 <C>	1997 <C>
	(in thousands)	
Unsecured notes, payable in the amount of $31,200 semiannually plus accrued interest at the New York City prime interest rate, maturing April 22, 1998*	$ -	$ 31
Collateralized borrowings, interest and principal payable monthly; fixed interest rate ranging from 6.40% to 6.60%, maturing October 17, 2001, January 22, 2002 and May 1, 2008	10,459	12,625
Collateralized borrowings, interest payable monthly and principal at maturity; interest rates are both fixed and variable and range from 4.40% to 6.45% at December 31, 1998	105,000	35,000
Total	$115,459	$47,656

</TABLE>

Annual maturities of long-term debt are as follows: $3,032,000 in 1999, $8,232,000 in 2000, $8,339,000 in 2001, $5,448,000 in 2002, $50,065,000 in 2003, $69,000 in 2004, $30,074,000 in 2005, $79,000 in 2006, $84,000 in 2007, and $10,037,000 in 2008. Investment securities are pledged to collateralize the borrowings with the Federal Home Loan Bank of Pittsburgh.

9. Common Stock

The Company has reserved 284,025 shares under its 1994 and 1997 Stock Option Plans ("Option Plan"). Options are granted to purchase common stock at prices not less than the fair market value of the common stock on the date of grant. Such shares and prices have been adjusted to reflect the stock dividends and stock split.

The Company applies Accounting Principles Board Opinion No. 25 and related interpretations in accounting for the Option Plan. Accordingly, no compensation expense has been recognized for the Option Plan. Had compensation cost for the Option Plan been determined based on the fair values at the grant dates for awards consistent with the method of SFAS No. 123, the Company's net income and earnings per share would have been adjusted to the pro forma amounts indicated below for the year ended December 31, 1998:

	As Reported	Pro Forma
Net Income (in thousands):	$3,771	$3,726
Earnings per share-basic:	$0.79	$0.78

For purposes of the pro forma calculations, the fair value of each option grant is estimated using the Black-Scholes option - pricing model with the following weighted - average assumptions for grants issued in 1995:

Dividend yield	3.51%
Expected volatility	36.73%
Risk-free interest rate	5.89%
Expected lives	10 years

A summary of the status of the Company's Option Plan as of December 31, 1998, 1997 and 1996, and changes during the years then ended, is presented below:
<TABLE>
<CAPTION>

	1998		1997		1996	
	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Outstanding beginning of year	231,525	$ 6.35	231,525	$6.35	231,525	$6.35
Granted	11,667	16.28	-		-	
Exercised	-		-		-	
Forfeited	-		-		-	
Outstanding, end of year	243,192	$ 6.83	231,525	$6.35	231,525	$6.35

</TABLE>

The following summarizes information about stock options outstanding at December 31, 1998:
<TABLE>
<CAPTION>

Exercise Price	Number	Weighted-Average Remaining Contractual Life	Options Exercisable
<S>	<C>	<C>	<C>
$ 6.53	81,035	5.6 years	81,035
$ 6.26	150,490	6.6 years	150,490
$16.28	52,500	9.0 years	11,667

</TABLE>

The Company reserved 115,763 shares of common stock under the Company's Employee Stock Purchase Plan, increased to 100,000 effective November 10, 1997, as a result of the two-for-one stock split. Under the terms of the plan, employees may purchase common stock of the Company at 85% of the fair market value. Employees pay for their stock purchases through periodic payroll deductions subject to a limit of 10% of base pay. During 1998, 1997 and 1996, 5,500, 11,579, and 5,735 shares, respectively, were purchased under the plan.

The Company has a Dividend Reinvestment and Stock Purchase Plan was implemented during the year ended December 31, 1994 to provide stockholders an opportunity to automatically reinvest their dividends in shares of common stock. Total common shares of 694,575 are reserved under this plan. The price per share of common stock purchased from the Company is 95% of the fair market value on the quarterly dividend payment date. During the years ended December 31, 1998, 1997 and 1996, 38,890, 35,306, and 16,856 shares, respectively, were issued under this plan.

10. Other Comprehensive Income

The components of other comprehensive income and related tax effects are as follows (in thousands):

<TABLE>
<CAPTION>

	Years Ended December 31,		
	1998	1997	1996
<S>	<C>	<C>	<C>
Unrealized holding gains (losses) on available-for-sale securities	$ 35	$ 587	$(745)
Less reclassification adjustment for gains realized in income	(432)	(214)	(43)
Net unrealized gain (loss)	(397)	373	(788)
Tax effect	135	(127)	268
Net of tax amount	$(262)	$ 246	$(520)

</TABLE>

11. Income Taxes

The following temporary differences gave rise to the net deferred tax asset at December 31, 1998 and 1997 (in thousands):

<TABLE>
<CAPTION>

	1998	1997
<S>	<C>	<C>
Deferred tax assets:		
Unrealized losses on available-for-sale securities	$ 131	$ -
Allowance for possible credit losses	551	473
Loan fees and costs	121	130
Deferred compensation	232	156
Amortization of core deposits	64	21
Foreclosed assets held for sale	-	34
Total	1,099	814
Deferred tax liabilities:		
Unrealized gains on available-for-sale securities	-	(4)
Depreciation	(305)	(228)
Bond accretion	(24)	(21)
Leasing	(399)	(194)
Total	(728)	(447)
Deferred tax asset, net	$ 371	$367

</TABLE>

The provision for income taxes is comprised of the following components (in thousands):

<TABLE>
<CAPTION>

	Year Ended December 31,		
	1998	1997	1996
<S>	<C>	<C>	<C>
Current	$ 903	$1,167	$1,075
Deferred	158	(62)	45
Total	$1,061	$1,105	$1,120

</TABLE>

The following tabulation presents a reconciliation of the expected provision for income taxes (in thousands), determined by using the current federal income tax rate of 34% in 1998, 1997, 1996 to the actual provision for income taxes reflected in the accompanying consolidated financial statements.

<TABLE>
<CAPTION>

	Year Ended December 31,		
	1998	1997	1996
<S>	<C>	<C>	<C>
Provision at the expected statutory rate	$1,643	$1,542	$1,411
Effect of tax-exempt income	(580)	(537)	(322)
Other items	(2)	100	31
Provision for income taxes	$1,061	$1,105	$1,120

</TABLE>

12. Employee Benefit Plans

The Company has a profit-sharing plan for the benefit of its employees. Contributions to the profit-sharing plan are made at the discretion of the Board of Directors, funded currently, and amounted to $236,000 in 1998, $251,000 in 1997, and $214,000 in 1996.

The Company also maintains a 401(k) savings plan. The Company contributes 50% of the employee contribution up to 6% of compensation. The Company's 1998, 1997 and 1996 contributions to this plan were $77,000, $70,000, and $58,000, respectively.

13. Earnings Per Share

Earnings per share (EPS) is computed using the weighted-average number of shares of common stock outstanding after giving effect to the 5% stock dividends issued on October 1, 1998, 1997 and 1996, the two-for-one stock split effective November 10, 1997, and the assumed exercise of stock options. The following data shows the amounts used in computing earnings per share and the effects on income and the weighted average number of shares of dilutive potential common stock for the years ended December 31, 1998, 1997 and 1996. The common shares denominators for 1997 and 1996 have been adjusted for the 1998 and 1997 5% stock dividend and two-for-one stock split.

<TABLE>
<CAPTION>

	Income Numerator	Common Shares Denominator	EPS
<S>	<C>	<C>	<C>
1998			
Basic EPS	$3,771,000	4,796,000	$0.79
Dilutive effect of potential common stock			
Stock options:			
Exercise of options outstanding		243,000	
Hypothetical share repurchase at $12.42	_________	(133,000)	
Diluted EPS	$3,771,000	4,906,000	$0.77
1997			
Basic EPS	$3,431,000	3,748,000	$0.88
Dilutive effect of potential common stock			
Stock options:			
Exercise of options outstanding		220,500	
Hypothetical share repurchase at $17.75	_________	(82,500)	
Diluted EPS	$3,431,000	3,886,000	$0.84

1996			
Basic EPS	$3,031,000	3,676,400	$0.78
Dilutive effect of potential common stock			
Stock options:			
Exercise of options outstanding		220,500	
Hypothetical share repurchase at $6.98	_________	(210,900)	
Diluted EPS	$3,031,000	3,686,000	$0.78

</TABLE>

14. Regulatory Matters

The Company may not pay cash dividends in any year in excess of the total of the current year's net income and the retained net income of the prior two years without the approval of the Federal Reserve Board. Accordingly, Company cash dividends in 1999 may not exceed $3,912,000 plus Company net income for 1999. Similar banking regulations limit the amount of dividends that may be paid to the Company by its bank subsidiary without prior approval of the Comptroller of the Currency.

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

Quantitative measures established by regulation to ensure capital adequacy require the Company to maintain minimum amounts and ratios (set forth in the table below) of total and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier I capital (as defined) to average assets (as defined). Management believes, as of December 31, 1997, that the Company meets all capital adequacy requirements to which it is subject.

To be categorized as well capitalized, the bank must maintain minimum total risk-based, Tier I risk-based, and Tier I leverage ratios as set forth in the table below. There are no conditions or events since that notification that management believes have changed the institution's category. The Company's actual capital amounts (in thousands) and ratios are also presented in the table. No amounts were deducted from capital for interest-rate risk in either year.

	Actual		For Capital Adequacy Purposes:		To Be Well Capitalized Under Prompt Corrective Action Provisions:	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 1998:						
Total Capital (to Risk Weighted Assets)	$37,855	14.96%	$20,250	8.0%	$25,300	10.0%
Tier I Capital (to Risk Weighted Assets)	$35,587	14.07%	$10,150	4.0%	$15,200	6.0%
Tier I Capital (to Average Assets)	$35,587	7.72%	$18,450	4.0%	$23,050	5.0%
As of December 31, 1997:						
Total Capital (to Risk Weighted Assets)	$37,273	18.12%	$16,500	8.0%	$20,600	10.0%
Tier I Capital (to Risk Weighted Assets)	$35,232	17.12%	$8,250	4.0%	$12,400	6.0%
Tier I Capital (to Average Assets)	$35,232	10.26%	$13,800	4.0%	$17,200	5.0%

15. Off-Balance Sheet Financial Instruments

The Company 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 and standby letters of credit. These instruments involve, to varying degrees, elements of credit, interest rate or liquidity risk in excess of the amount recognized in the consolidated balance sheet. The contract amount of these instruments expresses the extent of involvement the Company has in particular classes of financial instruments.

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

Unless noted otherwise, the Company does not require collateral or other security to support financial instruments with off-balance sheet credit risk.

The financial instruments whose contract amounts represent credit risk at December 31, 1998 were as follows (in thousands):

Commitments to extend credit	$15,123
Standby letters of credit	$950

Commitments to extend credit are legally binding agreements to lend to customers. Commitments generally have fixed expiration dates or other termination clauses and may require payment of fees. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future liquidity requirements. The Company evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company, on an extension of credit is based on management's credit assessment of the counterparty.

Standby letters of credit are conditional commitments issued by the Company guaranteeing performance by a customer to a third party. Those guarantees are issued primarily to support public and private borrowing arrangements, including commercial paper, bond financing and similar transactions. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers.

16. Fair Values of Financial Instruments

The following methods and assumptions were used by the Company in estimating its fair value disclosures for financial instruments:

Cash and cash equivalents: The carrying amounts reported in the statement of financial condition for cash and cash equivalents approximate those assets' fair values.

Investment securities: Fair values for investment securities are based on quoted market prices, where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments.

Loans: For variable-rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying amounts. The fair values for other loans (for example, fixed rate commercial real estate and rental property mortgage loans and commercial and industrial loans) are estimated using discounted cash flow analysis, based on interest rates currently being offered for loans with similar terms to borrowers of similar credit quality. Loan fair value estimates include judgements regarding future expected loss experience and risk characteristics. The carrying amount of accrued interest receivable approximates its fair value. Mortgage loans held for resale are valued based on available market quotations.

Deposits: The fair values disclosed for demand deposits (for example, interest-bearing checking accounts and passbook accounts) are, by definition, equal to the amount payable on demand at the reporting date (that is, their carrying amounts). The fair values for certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates to a schedule of aggregated contractual maturities on such time deposits. The carrying amount of accrued interest payable approximates its fair value.

Short-term borrowings and notes payable: The carrying amounts of short-term borrowings and notes payable approximate their fair values.

Other liabilities: Commitments to extend credit were evaluated and fair value was estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counterparties. For fixed-rate loan commitments, fair value also considers the difference between current levels of interest rates and the committed rates.

Financial Assets and Liabilities

The following represents the notional or carrying values and estimated fair values as of December 31:

<TABLE>
<CAPTION>

	1998		1997	
	Notional or Carrying Value	Estimated Fair Value	Notional or Carrying Value	Estimated Fair Value
		(in thousands)		
<S>	<C>	<C>	<C>	<C>
FINANCIAL ASSETS:				
Cash and cash equivalents	$19,004	$19,004	$17,109	$17,109
Investment securities	192,417	192,944	114,790	115,553
Net loans	224,754	226,191	208,236	209,254
Accrued interest receivable	3,210	3,210	3,005	3,005
FINANCIAL LIABILITIES:				

Deposits	$312,742	$294,649	$280,450	$282,614
Accrued interest payable	3,260	3,260	2,975	2,975
Securities sold under agreements to repurchase	3,283	3,283	200	200
Long-term debt	115,459	114,998	47,656	47,704
Commitments	16,073	16,073	18,211	18,211

</TABLE>

17. Condensed Financial Information -Parent Company Only

Condensed parent company only financial information is as follows (in thousands):

<TABLE>
<CAPTION>

Condensed Balance Sheet
December 31,

<S>	<C> 1998	<C> 1997
Assets:		
Cash$ -	$ -	
Investment securities	288	-
Investment in subsidiary	37,652	35,815
Total Assets	$37,940	$35,815
Liabilities and Stockholders' Equity:		
Stockholders' equity	$37,940	$35,815

</TABLE>
<TABLE>
<CAPTION>

Condensed Statement of Income
Year Ended December 31,
1998 1997 1996

<S>	<C>	<C>	<C>
Earnings of Subsidiary:			
Received as dividends	$2,218	$1,369	$1,287
Undistributed	1,553	2,062	1,744
Net Income	$3,771	$3,431	$3,031

Condensed Statement of Cash Flows
Year Ended December 31,

	1998	1997	1996
Operating Activities:			
Net income	$3,771	$ 3,431	$3,031
Less undistributed earnings of subsidiary	1,553	2,062	1,744
Net cash provided by operating activities	2,218	1,369	1,287
Investing Activities:			
Purchase of investment securities	(288)	-	-
Investment in subsidiary	(562)	(12,349)	(445)
Net cash used in investing activities	(850)	(12,349)	(445)
Financing Activities:			
Cash dividends paid to stockholders	(1,903)	(1,369)	(1,186)
Issuance of common stock	535	12,349	344
Net cash provided by (used in) financing activities	(1,368)	10,980	(842)
Increase (decrease) in Cash	-	-	-
Cash at Beginning of Year	-	-	-
Cash at End of Year	$ -	$ -	$ -

</TABLE>

18. Contingencies

On February 5, 1996, a complaint was filed against LA Bank ("the Bank") and certain directors and officers of the Bank. The plaintiffs demanded monetary and punitive damages and the additional payment of plaintiffs' attorneys' fees and disbursements and other court-related costs. Counsel representing the Company and the Bank are not currently able to provide an evaluation of the likelihood of an unfavorable outcome since an unfavorable outcome is neither probable nor remote. In addition, an estimate of the loss or range of loss, in the event of an unfavorable outcome, has not been provided since the probability of the inaccuracy of such an estimate is more than slight. No provision for any liability has been made in the accompanying financial statements as of December 31, 1998 and 1997.

19. Significant Group Concentrations of Credit Risk
Most of the Company's business activity is with customers located within Pennsylvania. Investments in state and municipal securities typically involve governmental entities within the Company's market area. Concentrations of credit, as defined by the Company's loan policy, are groupings of loans with a common repayment source that exceed 25% of the Company's capital. As of December 31, 1998, the Company had no such credit concentrations.

The distribution of commitments to extend credit approximates the distribution of loans outstanding. Commercial and standby letters of credit were granted primarily to commercial borrowers. The Company, as a matter of policy, does not extend credit in excess of 50% of the Bank's regulatory legal lending limit to any single borrower or group of related borrowers.

The contractual amounts of credit-related financial instruments such as commitments to extend credit, credit-card arrangements, and letters of credit represent the amounts of potential accounting loss should the contract be fully drawn upon, the customer default, and the value of any existing collateral become worthless.

20. Selected Quarterly Financial Data (Unaudited) (in thousands, except per share data)
<TABLE>
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	Quarter Ending			
	March 31, 1998	June 30, 1998	September 30, 1998	December 31, 1998
<S>	<C>	<C>	<C>	<C>
Interest income	$7,068	$7,253	$7,371	$7,528
Interest expense	4,016	4,182	4,161	4,381
Net interest income	3,052	3,071	3,210	3,147
Provision for possible credit losses	200	125	165	640
Investment security gains (losses), net	55	23	2	352
Net income	1,079	1,006	1,023	663
Earnings per share - basic*	0.23	0.21	0.21	0.14
Earnings per share - diluted*	0.22	0.21	0.21	0.13

</TABLE>

<TABLE>

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	Quarter Ending			
	March 31, 1997	June 30, 1997	September 30, 1997	December 31, 1997
<S>	<C>	<C>	<C>	<C>
Interest income	$5,820	$6,049	$6,383	$6,398
Interest expense	3,096	3,308	3,506	3,615
Net interest income	2,724	2,741	2,877	2,783
Provision for possible credit losses	125	255	350	50
Investment security gains (losses), net	(8)	(1)	89	134
Net income	730	806	861	1,034
Earnings per share - basic*	0.19	0.20	0.22	0.27
Earnings per share - diluted*	0.18	0.19	0.21	0.26

</TABLE>

*Reflects adjustment for 5% stock dividends issued on October 1, 1998 and 1997, and a two-for-one stock split effective November 10, 1997.

Independent Auditor's Report

Board of Directors and Stockholders
Lake Ariel Bancorp, Inc. and Subsidiary:

We have audited the accompanying consolidated balance sheets of Lake Ariel Bancorp, Inc. and Subsidiary as of December 31, 1998 and 1997, and the related consolidated statements of income, changes in stockholders' equity and cash flows for each of the three years in the period ended December 31, 1998. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Lake Ariel Bancorp, Inc. and Subsidiary as of December 31, 1998 and 1997, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles.

Parente, Randolph, Orlando, Carey & Associates

Wilkes-Barre, Pennsylvania
January 25, 1999

INVESTOR INFORMATION

MARKET INFORMATION

The Company's common stock has been listed on the Nasdaq National Market since November 21, 1997, and was previously listed on the Nasdaq Small-Cap Market since December 9, 1993. "The Nasdaq Stock Market" or "Nasdaq" is a highly-regulated electronic securities market comprised of competing Market Makers whose trading is supported by a communications network linking them to quotation dissemination, trade reporting, and order execution systems. This market also provides specialized automation services for screen-based negotiations of transactions, on-line comparison of transactions, and a range of informational services tailored to the needs of the securities industry, investors and issuers. The Nasdaq Stock Market consists of two distinct market tiers: the Nasdaq National Market7 and the Nasdaq SmallCap Markets. The Nasdaq Stock Market is operated by the Nasdaq Stock Market, Inc., a wholly-owned subsidiary of the National Association of Securities Dealers, Inc. The Nasdaq National Market symbol for the Company's common stock is LABN. At December 31, 1998, the total number of holders of record of the common stock was approximately 1,394.

The table below presents the high and low bid prices reported for the common stock and the cash dividends declared on such common stock for the periods indicated. The range of high and low prices is based on trade prices reported on the Nasdaq Small-Cap Market, except for the fourth quarter of 1997 and all of 1998. Market quotations reflect inter-dealer prices, without retail mark-up, mark-down, or commission, and may not necessarily reflect actual transactions. On December 31, 1998, the closing price of a share of common stock on the Nasdaq National Market was $12.375. All prices and dividends have been restated to reflect the 5% stock dividends paid in October 1998, 1997 and 1996, and the two-for-one stock split effective on November 10, 1997.
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Year	Quarter	High	Low	Dividends Declared
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1998	4th	$13.25	$11.75	$0.13
	3rd	16.00	11.43	0.10
	2nd	16.19	14.88	0.09
	1st	16.55	14.76	0.09
1997	4th	$20.95	$13.24	$0.13
	3rd	13.38	9.05	0.09

	2nd	9.29	9.05	0.08
	1st	10.76	9.29	0.08
1996	4th	$11.57	$7.19	$0.11
	3rd	7.81	6.86	0.08
	2nd	7.24	6.14	0.08
	1st	7.33	6.38	0.08

</TABLE>

MARKET MAKERS

Janney Montgomery Scott, Inc.
1801 Market Street
11th Floor
Philadelphia, PA 19103
1-215-665-6500

Knight Securities, Inc.
525 Washington Boulevard
Newport Tower
Jersey City, NJ 07310
1-800-222-4910

Instinet Corporation
875 3rd Avenue
29th Floor
New York, NY 10022
1-212-310-9550

Legg Mason Wood Walker, Inc.
One Battery Park Plaza
26th Floor
New York, NY 10004
1-212-428-4949

USCC Trading
10 Exchange Place
22nd Floor
Jersey City, NJ 07302
1-800-526-3041

TRANSFER AGENT American Stock Transfer & Trust Company, 40 Wall Street, 46th Floor, New York, New York 10005. Stockholders who may have questions regarding their stock ownership should contact Shareholder Services at 1-800-937-5449.

DIVIDEND CALENDAR Dividends on Lake Ariel Bancorp's common stock, if approved by the Board of Directors, are customarily paid on March 15, June 15, September 15, and December 15.

INDEPENDENT AUDITORS

Parente, Randolph, Orlando,
Carey & Associates
46 Public Square
Wilkes-Barre, PA 18701
(570)820-0100

CORPORATE COUNSEL

Oliver, Price & Rhodes
Suite 300
220 Penn Avenue
Scranton, PA 18501
(570)343-6581

AUTOMATIC DIVIDEND REINVESTMENT PLAN Common stockholders of Lake Ariel Bancorp, Inc. may have their dividends reinvested automatically in Lake Ariel common shares at a 5% discount from the "Fair Market Value" on the quarterly dividend payment date. Stockholders participating in the plan may also purchase, per quarter, up to $2,500 in additional shares at the price per share determined on the quarterly dividend payment date. There are no brokerage fees, commissions or service charges on any stock purchases made by plan participants. Information regarding the plan is available by contacting American Stock Transfer and Trust Company, Dividend Reinvestment Department, 40 Wall Street, 46th Floor, New York, New York 10005, 1-800-278-4353.

DIVIDEND DIRECT DEPOSIT Common stockholders of Lake Ariel Bancorp, Inc. may have their dividends deposited electronically into their bank account by contacting Shareholder Services, American Stock Transfer & Trust Company, 40 Wall Street, 46th Floor, New York, New York 10005, 1-800-937-5449.

SEC REPORTS AND ADDITIONAL INFORMATION Upon written request of any stockholder, investor or analyst, a copy of the Corporation's report on Form 10-K for its fiscal year ended December 31, 1998, including financial statements and the schedules thereto, required to be filed with the Securities and Exchange Commission, may be obtained, without charge, by contacting the Chief Financial Officer, Lake Ariel Bancorp, Inc., 409 Lackawanna Avenue, Suite 201, Scranton, PA 18503, (570)343-8200.

INTERNET ADDRESS ON THE WORLD WIDE WEB
http://www.labank.com

E-MAIL ADDRESS
labank@labank.com

Lake Ariel Bancorp, Inc.
Officers
Bruce D. Howe
President
John G. Martines
Chief Executive Officer
Louis M. Martarano
Vice President & Assistant Secretary
Joseph J. Earyes, CPA

Vice President & Treasurer
Donald E. Chapman
Secretary

Directors of
Corporation and Bank
Donald E. Chapman
Peter O. Clauss
William C. Gumble
Paul D. Horger, Esq.
Bruce D. Howe
John G. Martines
Kenneth M. Pollock
Harry F. Schoenagel

LA Bank, N.A.
Executive Officers
Bruce D. Howe
Chairman
John G. Martines
President and Chief Executive Officer
Louis M. Martarano
Executive Vice President &
Chief Operating Officer
Joseph J. Earyes, CPA
Executive Vice President &
Chief Financial Officer
Donald E. Chapman
Secretary

LA Lease, Inc.
Officers
Bruce D. Howe
Chairman
John G. Martines
President and Chief Executive Officer
Thomas Dziak
Vice President
Joseph J. Earyes, CPA
Secretary & Treasurer

Ariel Financial Services, Inc.
Officers
Bruce D. Howe
Chairman
John G. Martines
President and Chief Executive Officer
Joseph J. Earyes, CPA
Vice President
Louis M. Martarano
Secretary and Treasurer

Administration Division

Karen T. Pasternak
Sr. Vice President
Cynthia A. Smaniotto
Sr. Vice President
Treva J. Day
Vice President
Kathy Enslin
Vice President & Cashier
Gregory G. Gula
Vice President
Daniel J. Santaniello
Vice President
Lynn P. Thiel
Vice President
Salvatore R. DeFrancesco, Jr., CPA
Assistant Vice President
Lawrence H. Highhouse
Assistant Vice President
Scott P. Hiller
Assistant Vice President

Gary S. Lavelle
Assistant Vice President
Jeri S. Prussia
Assistant Vice President
Bonnie Robinson
Assistant Vice President
Marcy Swingle
Assistant Vice President
Susan T. Lenko
Assistant Cashier

Retail Division

John Foley
Sr. Vice President
Maureen Straub
Sr. Vice President
Theodore Daniels
Vice President
Thomas Dziak
Vice President
Paul R. Freeman
Vice President
William Kerstetter
Vice President

Lake Ariel Branch
Lisa A. Dowse
Branch Manager

Mt. Cobb Branch
Mary Ellen Bentler
Branch Manager
Joann Simyan
Assistant Branch Manager

Greene Dreher Branch
Mary Ellen Bentler
Branch Manager

Hamlin Corners Branch
Ann O'Reilly
Branch Manager

Eynon Branch
Lisa Akulonis
Branch Manager
Autumn Molinaro
Assistant Branch Manager

Keyser Valley Branch
Mary Auffhammer
Branch Manager

Milford Township Branch
Cynthia Halliday
Branch Manager

Clarks Green Branch
Ellen Ball
Branch Manager

The Mall At Steamtown Branch
Lauri A. Nidoh
Branch Manager

Lords Valley Branch
Laura Schultz
Branch Manager

Carbondale Branch
Sheila Dick
Branch Manager

John A. Gouse
Assistant Vice President
Doris Hellerman
Assistant Vice President
Peter Misura
Assistant Vice President
Thomas Wasilewski
Assistant Vice President
Penny Cola
Assistant Cashier
Susan Mroczka
Consumer Loan Officer

Milford Branch
Laura Schultz
Branch Manager

Mountainhome Branch
Marilynn Palmer
Branch Manager

Scranton Branch
Lauri A. Nidoh
Branch Manager

Dickson City Branch
Saundra Roeckel
Branch Sales Manager
Ellen T. Juseck
Assistant Branch Sales Mgr.

Honesdale Branch
Deborah A. Aragona
Branch Sales Manager
Annemarie Roberts
Assistant Branch Sales Mgr.

Taylor Branch
Patricia A. Jenkins
Branch Manager

Tannersville Branch
Marjorie A. Kunkle
Branch Manager

Public Square Branch
Debra A. Skurkis
Branch Manager

East Mountain Branch
Sybil G. Kline
Branch Manager

Kingston Branch
Patricia A. Williamson
Branch Manager

Mortgage Loan Originators
Catherine Langan
Lori A. Rudalavage
William J. Zernhelt
Paul S. Ochman
Theresa A. Yocum

OFFICE LOCATIONS

<TABLE>
<CAPTION>

CORPORATE ADDRESSES	BRANCH ADDRESSES	
<S>	<C>	<C>
Lake Ariel Bancorp, Inc. P.O. Box 67 Route 191 Lake Ariel, PA 18436 (570)698-5695	Lake Ariel P.O. Box 67 Route 191 Lake Ariel, PA 18436 (570)698-5695	Milford 214 W. Harford Street Milford, PA 18337 (570)296-0200
LA Bank, N.A. P.O. Box 67 Route 191 Lake Ariel, PA 18436	Mt. Cobb Routes 348 & 247 Lake Ariel, PA 18436 (570)689-2694	Mountainhome Route 390 Barrett Twp. Mountainhome, PA 18342 (570)595-6400

1-800-4LA-BANK
(Pennsylvania only)

LA Bank, N.A.
Financial Center
409 Lackawanna Avenue, Suite 201
Scranton, PA 18503-2045
(570)343-8200

LA Lease Inc.
P.O. Box 67
Route 191
Ariel, PA 18436
(570)698-5695

Ariel Financial Services, Inc.
P.O. Box 67
Route 191
Lake Ariel, PA 18436
(570)698-8400
(570)876-8400

Greene-Dreher
Route 191
Newfoundland, PA 18445
(570)676-4767

Hamlin Corners
Routes 191 & 590
Hamlin, PA 18427
(570)689-0944

Eynon
685 Scranton-Carbondale Hwy.
Eynon, PA 18403-1022
(570)876-1637/342-2242

Keyser Valley
130 N. Keyser Avenue
Scranton, PA 18504
(570)341-8100

Milford Township
Routes 6 & 209
Milford, PA 18337
(570)296-5600

Clarks Green
318 East Grove Street
Clarks Green, PA 18411
(570)587-0505

The Mall At Steamtown
220 The Mall at Steamtown
Scranton, PA 18503
(717)341-8000

Lords Valley
Lords Valley Shopping Plaza
Route 739, South
Lords Valley, PA 18428
(570)775-8800

Carbondale
93 Brooklyn Street
Ames Shopping Plaza
Carbondale, PA 18407
(570)282-7400

Scranton
409 Lackawanna Avenue
Suite 101
Scranton, PA 18503-2049
(570)341-8200

Dickson City
900 Commerce Boulevard
Suite 1
Dickson City, PA 18519
(570)489-6800

Honesdale
777 Old Willow Avenue Lake
Suite 100
Honesdale, PA 18431
(570)253-3400

Taylor
801 S. Main Street
Taylor, PA 18517
(570)562-2500

Tannersville
P.O. Box 348
Tannersville, PA 18372
(570)620-0100

Public Square
4 Public Square
Wilkes-Barre, PA 18701
(570)823-2900

East Mountain
117 Meadow Avenue
Scranton, PA 18505
(570)341-8900

Kingston
247 Wyoming Avenue
Kingston, PA 18704
(570)283-0500

Ariel Financial Services, Inc.
(2 Locations)

Lake Ariel Office
P.O. Box 67
Route 191
Lake Ariel, PA 18436
(717)698-8400

Eynon Office
685 Scranton-Carbondale Hwy.
Eynon, PA 18403-1022
(717)876-8400

</TABLE>

Business Development Boards

Lackawanna County
Martin Andrews
Eli Arenberg
Francis Bianconi
George Bieber*
Ervin Brong
Carol Chisdak
Harry T. Coleman, Esq.
Dominick Cruciani, M.D.
Gilbert Hoban
William T. Jones, Esq.
Kevin K. Kearney
Ron Leas
Dave Maddocks*
Robert A. Mazzoni

Regina Peters*
Ted Reap*
Henry Roever*
Mark Suchter
John J. Vanston
Joseph Zandarski, Ph.D., CPA
Sandor Zangardi

Monroe County**
Dario Belardi
Janet Howe Bursis
Harry Callie
H. Jane Cilurso
John W. Donaghy
Tony Farda
Rich Gommel
Jeanne Heater
Virginia Hood
Ryan Martens
Don Mick
Kerry Nix
George Royle IV, Esq.
Dennis Slayton
John E. Spewak
Mark Vultagglio
Frank Young

Wayne County
Joseph P. Ceresko
Edward Cimoch
Forrest Compton
Joseph M. Dombrowski
Harry Howell
Andrew J. Krompasky
Susan Howe Kwiatek*
James R. Shorten
Brian Smolsky
Jeffrey S. Treat, Esq.*
Alice Trunzo
Joanne C. Valanda
Michael Walker, Esq.
Louis J. Zefran

Luzerne County**
Frank Conyngham
Mary Griffin Cummings, Esq.
Mary Erwine, RN
Joan Evans
John J. Joyce
Clayton Karambelas
Thomas J. McGrath, Jr.
Christine McLaughlin, Esq.
Barbara Metcalf
Joseph F. Perugino
Joseph Peterson
Robert Riley
Joseph R. Rogowicz
Lynda Strey-Rowinski
Robert S. Tambur

Pike County
Stacey Beecher Chelak, Esq.*
Victor Decker, Esq.
Robert E. Derse
Robert J. Glasgow*
Peter Helms
Donald W. Henderson, M.D.
Douglas J. Jacobs, Esq.
Joseph F. Kameen, Esq.
Robert Lankenau
Dr. Michael Newmark
Edward S. Nikles
Robert Pityo
Karen Quick*
Edmund J. Riess, Jr.
William Sanquilly
Edward J. Shafer
George Schmitt
Thomas H. Wiss, IV
David Zeiler

*New Board Members appointed in 1999

**New Boards added in 1999

EXHIBIT 21

LIST OF SUBSIDIARIES OF BANCORP

Direct Subsidiary:	LA Bank, National Association, chartered under the laws of the United States of America, a national banking association.
Indirect Subsidiaries:	LA Lease, Inc., incorporated under the laws of the Commonwealth of Pennsylvania, a Pennsylvania business corporation and wholly-owned subsidiary of LA Bank, National Association.
	Ariel Financial Services, Inc., incorporated under the laws of the Commonwealth of Pennsylvania, a Pennsylvania business corporation and wholly-owned subsidiary of LA Bank, National Association.

EXHIBIT 99A

SELECTED 5-YEAR FINANCIAL DATA
AND SELECTED YEAR-END BALANCES

LAKE ARIEL BANCORP, INC.
SELECTED FINANCIAL DATA

(in thousands, except per share data)
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Year Ended December 31	1998	1997	1996	1995	1994
<S>	<C>	<C>	<C>	<C>	<C>
Interest Income	$29,220	$24,650	$20,275	$18,548	$14,157
Interest Expense	16,740	13,525	10,183	9,514	5,967
Net interest income	12,480	11,125	10,092	9,034	8,190
Provision for possible credit losses	1,130	780	650	810	375
Other operating income	4,934	3,401	2,706	2,481	1,679
Other operating expenses 11,452	9,210	7,997	7,763	6,831	
Income before income taxes	4,832	4,536	4,151	2,942	2,663
Provision for income taxes	1,061	1,105	1,120	635	535
Net income	3,771	3,431	3,031	2,307	2,128
Earnings per share - Basic (1)	.79	.88	.78	.63	.59
Earnings per share - Diluted (1)	.77	.84	.78	.63	.59
Dividends per share .41		.38	.32	.27	.25

<FN>

(1) Reflects adjustment for 5% stock dividends issued on October 1, 1998, 1997, and 1996, and two-for-one stock split effective November 10, 1997.

</FN>
</TABLE>

Year End Balances

	1998	1997	1996	1995	1994
Total assts	$474,689	$368,073	$297,906	$251,859	$236,125
Investment securities	192,417	114,790	87,000	73,169	76,677
Loans and leases, net	224,754	208,236	175,990	152,306	135,018
Deposits	312,742	280,450	253,196	208,759	192,187
Long Term debt	115,459	47,656	20,023	15,156	15,219
Stockholders' equity	37,940	35,815	21,172	19,509	15,799

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<ALLOWANCE-UNALLOCATED> 2,360

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