SECURITIES AND EXCHANGE COMMISSION

FORM 10-K

Annual report pursuant to section 13 and 15(d)

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PIONEER AMERICAN HOLDING CO CORP
CIK:**760731**| IRS No.: **232319931** | State of Incorp.:**PA** | Fiscal Year End: **1231**
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SIC: **6021** National commercial banks

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FORM 10-K - ANNUAL REPORT PURSUANT TO SECTION 13
OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

(Mark One)
[X] Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 [Fee Required] For the fiscal year ended December 31, 1998

[ ] Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 [No Fee Required] For the transition period from _____________________ to _____________________________ Commission file Number 0-14506

Pioneer American Holding Company Corp.
(Exact name of registrant as specified in its charter)

Pennsylvania	23-2319931
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
41 North Main Street, Carbondale, PA	18407
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code
(570) 282-2662 Securities registered pursuant to
Section 12(b) of the Act:

Title of each class	Name of each exchange on which Registered
Common	none

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

Common stock, Par Value $1.00 a Share
(Title of class)

(Title of class)

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (ss. 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this form 10-K. [ ] (Amended by Exch Act Rel No. 28869, eff. 5/1/91.)

State the aggregate market value of the voting stock held by non-affiliates of the registrant. The aggregate market value shall be computed by reference to the price at which the stock was sold, or the average bid and asked prices of such stock, as of a specified date within 60 days prior to the date of filing. (See definition of affiliate in Rule 405, 17 CFR 230.405). $46,567,841

NOTE: If a determination as to whether a particular person or entity is an affiliate cannot be made without involving unreasonable effort and expense, the aggregate market value of the common stock held by non-affiliates may be calculated on the basis of assumptions reasonable under the circumstances, provided that the assumptions are set forth in this Form.

APPLICABLE ONLY TO REGISTRANTS INVOLVED IN BANKRUPTCY
PROCEEDINGS DURING THE PRECEDING FIVE YEARS:

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. [ ] Yes [ ] No

(APPLICABLE ONLY TO CORPORATE REGISTRANTS)

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date.

The number of shares outstanding as of March 1, 1999 2,920,963 shares

DOCUMENTS INCORPORATED BY REFERENCE

List hereunder the following documents if incorporated by reference and the Part of the Form 10-K (e.g., Part I, Part II, etc.) into which the document is incorporated: (1) Any annual report to security holders; (2) Any proxy or information statement; and (3) Any prospectus filed pursuant to Rule 424(b) or (c) under the Securities Act of 1933. The listed documents should be clearly described for identification purposes (e.g., annual report to security holders

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for fiscal year ended December 24, 1980).

10-K CROSS REFERENCE

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* Not applicable

** Copies of any exhibits not contained herein may be obtained by writing to John W. Reuther, President, Pioneer American Company Corp., 41 No. Main Street, Carbondale, Pa. 18407.

THE PIONEER AMERICAN HOLDING COMPANY CORP. AND SUBSIDIARY

<TABLE>
<CAPTION>

Highlights of the Year

<S>	1998 <C>	1997 <C>	% Change <C>
FOR THE YEAR			
Total operating income	$ 31,263,000	28,968,000	7.92%
Total operating expense	25,706,000	23,460,000	9.57%
Income before income taxes	5,557,000	5,508,000	0.89%
Income tax expense	1,535,000	1,500,000	2.33%
Net income	4,022,000	4,008,000	0.35%

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Total cash dividends declared	2,235,000	2,055,000	8.76%
AT YEAR END			
Assets	405,157,000	370,126,000	9.46%
Deposits	307,360,000	293,643,000	4.67%
Loans, (net)	222,826,000	209,583,000	6.32%
Securities available for sale	101,079,000	96,696,000	4.53%
Securities held to maturity	46,178,000	37,379,000	23.54%
Stockholders' equity	35,466,000	33,398,000	6.19%
PER SHARE DATA			
Net income (diluted)	1.36	1.36	
Cash dividends declared	0.77	0.72	
Book value *	12.01	11.36	
Number of shareholders	1,457	1,430	

</TABLE>

* Based on weighted average diluted shares outstanding during the year.

Company Stock Prices and Dividend Information

This range of sales prices is based upon a very limited number of transactions for which prices are available to the Company from various sources and accordingly may not reflect the actual high and low prices at which the Company's stock traded. All stock prices have been adjusted for applicable stock splits.

Quarterly highs and lows are presented below:

<TABLE>
<CAPTION>

	1998		1997		1996	
Quarter	High	Low	High	Low	High	Low
<S>	<C>	<C>	<C>	<C>	<C>	<C>
First	23.50	21.38	25.00	22.25	21.25	20.00
Second	25.25	22.50	26.00	23.75	21.12	20.12
Third	24.50	22.00	24.75	23.25	22.00	19.50
Fourth	23.50	22.00	23.00	21.25	24.00	21.75

</TABLE>

Company Stock Prices and Dividend Information, (Continued)

On March 1, 1999 the Holding Company had approximately 1,457 shareholders. The market price of the stock on this date was $20.50 per share. Cash dividends per share for 1998, 1997 and 1996 appear in the table below:

Quarter	1998	1997	1996
First	$ 0.19	0.17	0.15
Second	0.19	0.17	0.17
Third	0.19	0.19	0.17
Fourth	0.20	0.19	0.17
	$ 0.77	0.72	0.66

Business of Pioneer American Holding Company Corp.

Holding Company

Pioneer American Holding Company Corp. (the "Company") is a Pennsylvania Corporation, incorporated in 1984 and is registered as a bank holding company under the Bank Holding Company Act of 1956, as amended (the "Holding Company Act"). The Company became an active bank holding company on May 15, 1985 when it assumed ownership of Pioneer American Bank, National Association, (the "Bank"). The Bank is a wholly-owned subsidiary of the Company and is its sole subsidiary.

The Company's principal activities consist of owning and supervising the Bank, which engages in a full-service wholesale and retail banking business. The Bank employs 184 full-time equivalents. Through the Bank, the Company derives

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substantially all of its income from the furnishing of banking and banking-related services.

The Bank

The Bank was incorporated under federal law as a national bank in 1864. The Bank is a member of the Federal Reserve System and its deposits are insured by the Federal Deposit Insurance Corporation ("FDIC") to the extent provided by law.

The Bank engages in a full-service wholesale and retail banking business, which is managed as a single operating segment. Service is provided to the Bank's customers through its main office and nineteen branch offices. Ten of these branch facilities are located within supermarkets. Many of the Bank's locations are improved with drive-in banking facilities and automated teller machines (ATM's) accessed through the "MAC" and "PLUS" systems. In addition to the ATM's located at the branches, there are 24 ATM's at remote locations. These

locations include convenience stores, supermarkets, and corporate centers. The Bank, with its expanding branch network, serves Lackawanna and Luzerne Counties and parts of Wayne, Wyoming, Susquehanna and Monroe counties in northeastern Pennsylvania.

The Bank's services include accepting time, demand and savings deposits, including interest bearing checking accounts, money market checking accounts, regular savings accounts, fixed rate certificates of deposit and club accounts. Its services also include making secured and unsecured commercial and consumer loans, financing commercial transactions either directly or through regional industrial development corporations, making construction and mortgage loans and renting of safe deposit facilities. Additional services include making residential mortgage loans, home equity lines of credit, overdraft lines of credit, small business loans, student loans, etc. The Bank's business loans include seasonal credit collateral loans and term loans.

The Bank has a relatively stable deposit base and no material amount of deposits is obtained from a single depositor or group of depositors (including Federal, state and local governments). The Bank has not experienced any significant seasonal fluctuations in the amount of its deposits.

The Bank's market area is concentrated in the primary trade areas of the branch locations. These 20 locations are throughout Northeastern Pennsylvania with offices in Lackawanna County (10), Luzerne County (5), Wayne County (2), Monroe County (2), and Wyoming County (1). The unemployment rate for Pennsylvania in the fourth quarter of 1998 was approximately 4.5%. In the counties in which the Company operates the rates were: Lackawanna 4.8%, Luzerne 5.9%, Wayne 5.1%, Monroe 5.9%, and Wyoming 6.0% . Northeastern Pennsylvania has maintained average vacancy rates with no expectation of over capacity in the foreseeable future. The loan portfolio of the Bank is primarily collateralized by commercial and residential real estate located in Northeastern Pennsylvania.

All phases of the Bank's business are highly competitive. The Bank competes with respect to its lending activities, as well as in attracting demand deposits, with local commercial banks, other commercial banks with branches in the Bank's market area, savings banks, savings and loan associations, insurance companies, finance companies, leasing companies, mutual funds, credit unions, and others. The Bank is generally competitive with 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 holding companies and banks are extensively regulated under both federal and state law. To the extent that the following information describes statutory and regulatory provisions, it is qualified in its entirety by reference to the particular statutory and regulatory provisions. Any change in applicable laws or regulations may have a material effect on the business and prospects of the Company and the Bank.

The Company

The Company is registered as a bank holding company under the Bank Holding Company Act of 1956, as amended (the "Holding Company Act") and is therefore subject to the supervision and examination by the Federal Reserve Board under the Holding Company Act. The Company is subject to certain annual reporting requirements regarding its business operations.

The Federal Deposit Insurance Corporation Improvement Act (FDICIA) directs that each federal banking agency prescribe standards for depository

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institutions and depository institution holding companies relating to internal controls, information systems, internal audit systems, loan documentation, credit underwriting, interest rate exposure, asset growth, a maximum ratio of classified assets to capital, minimum earnings sufficient to absorb losses, a minimum ratio of market value to book value for publicly traded shares (if feasible) and such other standards as the agency deems appropriate. FDICIA also contains a variety of other provisions that affected the operations of the Company, including reporting requirements, regulatory standards for real estate lending, "truth in savings" provisions, the requirement that a depository institution give 90 days prior notice to customers and regulatory authorities before closing any branch, limitations on credit exposure between banks, restrictions on loans to a bank's insiders, guidelines governing regulatory examinations and a prohibition on the acceptance or renewal of brokered deposits by depository institutions that are not well capitalized or are adequately capitalized and have not received a waiver from the FDIC. Compliance with these regulations did not impose material costs on the Company.

The Company is under the jurisdiction of the Securities and Exchange Commission and various state securities commissions for matters relating to the offering and sale of its securities and is subject to the periodic reporting requirements of the Securities and Exchange Commission.

Interstate Banking - The Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 (the "Interstate Banking Act"), enacted on September 29, 1994, permits bank holding companies to acquire banks in any state beginning in 1995. Beginning in 1997, acquired banks in different states may be merged into a single bank, and thereafter merged banks may establish and acquire additional branches anywhere the acquiree could have branched. States could opt out of interstate branching until June 1, 1997, but if so, their domestic institutions would also be prohibited from branching interstate. States could also enact laws permitting interstate merger transactions and interstate de novo branching prior to June 1, 1997. Limited branch purchases are still subject to state laws.

Bank management anticipates that the Interstate Banking Act will significantly increase competitive pressures in the Bank's market by permitting entry of additional competitors.

The Bank

The Bank, as a national bank, is subject to the National Bank Act. The Bank is also subject to the supervision of, and is regularly examined by, the Comptroller of the Currency of the United States (the "Comptroller") and is required to furnish quarterly reports to the Comptroller. The approval of the Comptroller is required for the establishment of additional branch offices by any national bank, subject to applicable state law restrictions. Under present applicable Pennsylvania law, effective March 1990, a federally chartered bank (such as the Bank) may, with the prior approval of the Comptroller, establish branches generally within any county in the Commonwealth.

The Bank is a member of the FDIC and a member of Federal Reserve System and, therefore, is subject to additional regulation by these agencies. Some of the aspects of the lending and deposit business of the Bank which are regulated by these agencies include personal lending, mortgage lending, interest rates as they relate to lending and reserve requirements. These agencies are primarily concerned with the safety and soundness of individual banks, but are also involved with the general oversight of the activities of a bank directed toward the determination that the bank is operating competitively and constructively, in accordance with applicable regulations and statutes.

The operations of the Bank are also subject to numerous Federal, State and local laws and regulations which set forth specific restrictions and procedure requirements with respect to the extension of credit, credit practices, the disclosure of credit terms and discrimination in credit transactions.

The Bank is subject to certain restrictions on loans and extensions of credit to the Company, investment in the stock or securities of the Company and acceptance of the stock or securities of the Company as collateral for loans. 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 and state legislation and regulations which may have the effect of increasing the costs of doing business as well as limiting the business activities of the Bank.

National Monetary Policy

In addition to being affected by general economic conditions, the earnings and growth of the Bank and therefore the earnings and growth of the Company, are affected by the policies of regulatory authorities, including the Comptroller, the Federal Reserve Board and the FDIC. An important function of the Federal

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Reserve Board is to regulate the money supply, conditions and interest rates. Among the instruments used to implement these objectives are open market operations in U.S. Government securities, changes in reserve requirements against member bank deposits and changing the discount rate on bank borrowings. These instruments are used in varying combinations to influence overall growth and distribution of credit, bank loans, investments and deposits. Their use may also affect interest rates charged on loans or paid for deposits.

National Monetary Policy, Continued

The policies and regulations of the Federal Reserve Board have had and will probably continue to have a significant effect on the growth and operating results of the Bank. The effects of such policies upon the future business, earnings and growth of the Company and the Bank cannot accurately be predicted.

Properties

The principal executive offices of the Bank and Company are located at 41 N. Main Street, in the City of Carbondale, Lackawanna County, Pennsylvania. This building is owned by the bank and subject to a mortgage held by the former owner. In 1996 the Company also purchased a building located at 27 North Main Street, Carbondale, Pennsylvania. This property was acquired to provide needed office space for loan operations and administrative services. The Bank also owns properties located at 3 John F. Kennedy Drive, Archbald, Pennsylvania (Archbald Branch Office); Route 6, Carbondale, Pennsylvania (Schoolside Branch Office), 105 W. Main Street, Dalton, Pennsylvania (Dalton Branch Office); Main Avenue, Dickson City, Pennsylvania (Dickson City Branch and remote Drive-In); Route 435, Elmhurst, Pennsylvania (Elmhurst Branch Office); Route 590, Hamlin, Pennsylvania (Hamlin Branch Office); and 500 Lackawanna Avenue, Mayfield, Pennsylvania (Mayfield Branch Office), Route 940, Mount Pocono, Pennsylvania (Mount Pocono Branch Office). The Bank purchased a tract of land on 455 Market Street, Kingston, Pennsylvania for the purpose of constructing a full-service office. This office was completed in November of 1998 and replaced the existing Kingston leased office. The Bank owns properties adjacent to the main office utilized as parking lots.

The Bank also leases facilities for ten branch offices: four in the Price Chopper Super Markets in Scranton (2), Dunmore and Wilkes-Barre; four in the Mr. Z's supermarkets in Mountaintop, Dallas, Stroudsburg, and Tunkhannock; and two in Weis Markets in Clarks Summit and Hazleton.

Legal Proceedings

The nature of the Company's business generates a certain amount of litigation involving matters arising in the ordinary course of business. However, in the opinion of management, there are no proceedings pending to which the Company or the Bank are parties or to which their property is subject, which would be material in relation to the Company's results of operations, stockholders' equity or financial condition. In addition, no material proceedings are pending or are known to be threatened or contemplated against the Company or the Bank by governmental authorities or parties.

Submission of Matters to a Vote of Security Holders

No matters were submitted to a vote of security holders of the Company during the fourth quarter of 1998 through the date of filing this report with the Securities and Exchange Commission.

Selected Financial Data
(In thousands, except per share data and number of shareholders)
<TABLE>
<CAPTION>

	Years ended December 31				
	1998	1997	1996	1995	1994
<S>	<C>	<C>	<C>	<C>	<C>
Results of Operations for the Year					
Interest income	$ 28,302	26,507	24,358	23,662	20,626
Interest expense	14,319	12,845	10,874	11,227	8,157

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Net interest income	13,983	13,662	13,484	12,435	12,469
Provision for loan losses	420	535	500	420	310
Net interest income after provision for loan losses	13,563	13,127	12,984	12,015	12,159
Other operating income	2,961	2,461	2,012	1,913	1,319
Other operating expense	10,967	10,080	9,749	9,075	8,697
Income tax expense	1,535	1,500	1,543	1,370	1,333
Net income	4,022	4,008	3,704	3,483	3,448
Cash dividends declared	$ 2,235	2,055	1,900	1,671	1,610
Per Share (1)					
Net income (diluted)	$ 1.36	1.36	1.26	1.20	1.19
Book value (2)	12.01	11.36	10.32	9.80	8.64
Cash dividends paid	0.77	0.72	0.66	0.60	0.58
Financial Condition At End of Year					
Assets	$ 405,157	370,126	330,213	320,647	302,408
Deposits	307,360	293,643	295,946	288,252	270,718
Loans, net	222,826	209,583	201,298	194,555	177,173
Securities available for sale	101,079	96,696	76,019	68,328	50,467
Securities held to maturity	46,178	37,379	20,860	26,033	52,915
Stockholders' equity	35,466	33,398	30,263	28,492	24,978
Number of Stockholders	1,457	1,430	1,421	1,347	1,334

<FN>

(1) Per share data for 1995 and 1994 restated to reflect the Company's two for one stock split effected in the form of a stock dividend effective July 15, 1996.

(2) Based on weighted average diluted shares outstanding during the period.

</FN>

</TABLE>

Management's Discussion and Analysis of Financial Condition and
Results of Operations

The following financial review and analysis is presented on a consolidated basis and is intended to assist in understanding and evaluating the major changes in the financial condition and earnings performance of the Company (and the Bank) with a primary focus on the analysis of operating results for the years ended December 31, 1998, 1997, and 1996. The information below should be read in conjunction with the Company's consolidated financial statements and accompanying notes thereto, "Selected Financial Data" and other detailed information appearing elsewhere in this report.

Results of Operations
Highlights of Operating Results
1998 vs. 1997

Net income reached $4,022,000 in 1998, $14,000 or .3% higher than in 1997. These earnings represent the highest annual earnings in the Company's history. Earnings per diluted share were $1.36 in 1998 and 1997 respectively.

The Company experienced an increase in interest income driven primarily by an increase in the volume of interest earning assets. The overall change was an increase in interest income of $1,795,000 or 6.8% from 1997 to 1998. Total interest expense also increased $1,474,000, primarily as a result of increases of other borrowed money, resulting in an increase in net interest income of $321,000 or 2.3%. Net interest spread went from 3.62% in 1997 to 3.30% in 1998 due to competitive pressures on interest rates on loans which caused the spread of the loan portfolio to drop from 8.95% in 1997 to 8.76% in 1998. Other operating income was up $500,000 during 1998 from the prior period due to an increase in gain on sale of securities available for sale and ATM fees. Other operating expense also increased during 1998 versus 1997 due to an increase in ORE expense, an upgrading of our computer system and the opening of a new branch

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in November of 1998.

Highlights of Operating Results (Continued)

The table below presents both the amount and percent of increase (decrease) for items relative to net income.

Table 1 Increase (Decrease) in Components of Net Income

	1998 vs. 1997		1997 vs. 1996	
	Amount	%	Amount	%
Interest income	$ 1,795,000	6.8	2,149,000	8.8
Interest expense	1,474,000	11.5	1,971,000	18.1
Net interest income	321,000	2.3	178,000	1.3
Provision for loan losses	(115,000)	(21.5)	35,000	7.0
Net interest income after provision for loan losses	436,000	3.3	143,000	1.1
Other operating income	500,000	20.3	449,000	22.3
Other operating expense	887,000	8.8	331,000	3.4
Income before income taxes	49,000	0.9	261,000	5.0
Income tax expense	35,000	2.3	(43,000)	(2.8)
Net income	$ 14,000	0.3	304,000	8.2

1997 vs. 1996

Net income reached $4,008,000 in 1997, $304,000 or 8.2 % higher than in 1996. Diluted earnings per share was $1.36 in 1997, compared to $1.26 in 1996, an increase of 7.9 %.

The increase in net income for 1997 over 1996 was due to the increases in net interest income and other income, as well as a decline in tax expense, offset by increases in other operating expenses and the provision for loan losses. The increase in interest income resulted primarily from the change in the volume of assets in the securities portfolio. This increase was offset by an increase in interest expense on other borrowed money, which was used to fund the larger securities portfolio. Other income was also up during 1997 from the previous period due to increased service charges, gains on sales of securities, and ATM fees. This increase was partially offset by an increase in total other operating expense primarily resulting from the expanded branch and ATM network. The provision for loan losses was higher in 1997 due to a higher level of charge offs and to continuing portfolio growth.

Net Interest Income (Taxable-Equivalent Basis)

The Company's net interest income, the difference between interest and fees on loans, securities, and other earning assets and interest expense on deposits is a major determinant of the Company's profitability. In the following analyses (Tables 2 and 3) net interest income is analyzed on a tax-equivalent basis, i.e. an adjustment is made to reflect the benefit which the Company realizes by investing in certain tax free municipal securities and by making loans to certain tax-exempt organizations. In this way the ultimate economic impact of earnings from various assets can be more readily compared.

Net interest income is affected by changes in volume and changes in interest rates. Volume refers to the amount of interest-earning assets, such as loans and investments, and the amount of interest-bearing liabilities, such as

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savings and time deposits. Demand deposits and equity capital provide a source of funds for lending or investment and enhance the interest margins since no payment of interest expense is required (although equity capital requires no payment of interest expense, shareholders invest in entities such as the Company in anticipation of returns commensurate with the risk assumed with such an investment). Similarly, certain assets, such as bank premises and equipment, other real estate, and non-performing loans do not enhance the interest margin, since they earn no interest income.

Pricing policies on loans and investment policies have become increasingly important in terms of maintaining and improving the interest margin. The Company places continuing emphasis on asset/liability management at the senior management and director levels in order to maintain control and profitability in a changing economic environment. Table 2 presents a summary of the changes in net interest income separated between changes in volumes and changes in rates. The portion of the change resulting from changes in rates was determined by multiplying the change in rates during the year by the volume at the beginning of the year. The balance of change in net interest income was attributed to the change in volume experienced during the year.

The impact of changes in the volume of interest earning assets and interest bearing liabilities and the change in rates for both of these areas resulted in an increase in net interest income on a tax equivalent basis of $331,000 from 1997 to 1998. Tax equivalent net interest income was decreased by $596,000 for interest rate changes from 1997 to 1998 versus an decrease of $262,000 from 1996 to 1997. The increase in tax equivalent net interest income from volume changes from 1997 to 1998 was $927,000 versus $607,000 from 1996 to 1997.

Net interest income increased in 1997 from 1996. The volume of interest earning assets drove the increase in interest income from 1996 to 1997. The increase in volume resulted in an increase in interest income of $2,044,000. The security portfolio provided $2,088,000 of the increase with 71% of this coming from the volume increase in taxable securities. During 1997, the Bank borrowed money from Federal Home Loan Bank of Pittsburgh which was invested in mortgage backed securities in both available for sale and held to maturity investment securities. The increase in interest income from the increase in the volume of securities was slightly offset by a decrease of $96,000 in interest income from the volume of loans. Federal funds sold had an increase of interest income of $52,000 over the prior period.

The improvement in net interest income in 1998 from 1997 was the result of several factors. The volume of interest earning assets drove the increase in interest income from 1997 to 1998. The increase in volume resulted in an increase in interest income of $2,669,000. The increase in volume was the result of a $13.9 million increase in the average balance of taxable securities as part of the Bank's leverage strategy. The increase in volume was also the result of a $7.7 million increase in the average balance of installment loans. The security portfolio provided $1,086,000 of the increase with 86% of this coming from the volume increase in taxable securities. During the first quarter of 1998, the Bank borrowed an additional $25,000,000 from Federal Home Loan Bank of Pittsburgh which was invested in mortgage backed securities in both available for sale and held to maturity investment securities. The loan portfolio also provided $1,406,000 of the increase with 50% of this coming from the volume increase in installment loans and 38% in commercial loans. Federal funds sold had an increase of interest income of $177,000 over the prior period.

Net interest income was affected by a decrease in the rates of $420,000 in securities, $17,000 federal funds sold and $427,000 in loans. These changes are attributable to the downward trend in interest rates both nationally and regionally and increasing levels of lending competition.

The growth of interest bearing deposits from the nine branch openings and other promotions over the past several years was offset by a restructuring of the Bank's interest rates on deposits. This restructuring was based upon our expanded presence throughout Northeastern Pennsylvania. Our regional coverage allows for a pricing structure comparable to the Bank's regional competitors, not one based upon any local competitive pressures for any particular branch or branches. The decrease of $521,000 in interest expense from a decrease in the volume of interest bearing deposit and an increase in interest expense of $25,000 through interest rate increases on interest bearing deposits resulted in a decrease in interest expense of $496,000 from 1997 to 1998. The single largest contributor to the decrease in interest expense on deposits was a decrease in the volume of Time deposits. The decrease due to volume of $661,000 resulted from a $12,106,000 decrease in the average balances of Time deposits from $157,576,000 for 1997 to $145,470,000 for 1998.

The volume increase in interest income was the result of a $34,587,000 increase in the total average of interest earning assets from $332,618,000 in 1997 to $367,205,000 in 1998. The average rate of return on these assets was

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down slightly compared to the prior year with 1998 at 7.86% and 1997 at 8.13%. The volume increase in interest income was primarily driven by an increase in both our security and loan portfolio. Total securities were up $15,792,000 from 1997 to 1998 and total loans up $15,524,000. The related interest income was up $666,000 to $9,229,000 in 1998 for securities and up $979,000 to $19,152,000 for loans in 1998.

The Company had an increase in average interest bearing liabilities of $29,180,000 from 1997. This was due to an increase in other borrowed money to $58,964,000 for 1998, a $35,366,000 increase over 1997. Management borrowed an additional $25,000,000 in January of 1998 from Federal Home Loan Bank of Pittsburgh.

The money borrowed was invested in mortgage backed securities. Bank management believes that it was appropriate to take advantage of borrowing at a rate lower than the rate received in investing in Federal agency mortgage backed obligation in both available for sale and held to maturity investment securities. There was also a slight increase in the interest bearing checking and money market areas. Management actively managed the pricing structure of interest bearing liabilities to reduce the impact of local competitive pressures by managing the Bank's portfolio on a regional basis. The interest rate in low or non-interest bearing liabilities and in savings and time deposits stayed fairly constant for both 1998 and 1997. There was a 5 basis point increase in the cost of interest bearing liabilities in 1998 to 4.56%. The increase in funds was utilized in funding the growth in the purchase of investment grade securities.

Table 3 provides details of the average balances outstanding during each respective year, the amount of interest and the average rates earned or paid. Net interest income is again presented on a taxable-equivalent basis.

Tables 2 and 3 present securities available for sale in the securities categories.

Table 4 presents the Company's interest earning assets and interest bearing liabilities as of December 31, 1998 and indicates the relative periods within which these assets and liabilities will reprice. Although Table 4 shows the Company to be liability sensitive within the next year, management believes that factors such as product pricing, interest rate spread relationships, and customer behavior patterns permit the Company to reduce interest rate risk to acceptable levels.

Table 2
Rate/Volume Analysis of Changes in Net Interest Income
Years ended December 31
(Dollars in Thousands)

<TABLE>
<CAPTION>

	1998/1997 Increase (Decrease) due to changes in			1997/1996 Increase (Decrease) due to changes in		
	Volume (1)	Rate	Total	Volume (1)	Rate	Total
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Interest Income						
Securities:						
Taxable	936	(384)	552	1,477	441	1,918
Non-taxable (2)	150	(36)	114	611	18	629
Total securities	1,086	(420)	666	2,088	459	2,547
Federal funds sold	177	(17)	160	52	(6)	46
Loans, net of unearned discount:						
Commercial (2)	540	(35)	505	377	(39)	338
Mortgage	166	(134)	32	(691)	(45)	(736)
Installment	700	(258)	442	218	(98)	120
Total loans	1,406	(427)	979	(96)	(182)	(278)

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Total interest income	2,669	(864)	1,805	2,044	271	2,315
Interest Expense						
Interest bearing deposits:						
NOW, Super NOW and Money Market	64	(12)	52	145	457	602
Savings	76	26	102	(31)	(35)	(66)
Time	(662)	11	(651)	(35)	36	1
Total Interest Bearing Deposits	(522)	25	(497)	79	458	537
Other borrowed money and note payable	2,245	(287)	1,958	1,348	76	1,424
Fed Funds Purchased	19	(6)	13	10	(1)	9
Total interest expense	1,742	(268)	1,474	1,437	533	1,970
Change in net interest income	$ 927	(596)	331	607	(262)	345

<FN>

1) The rate/volume variance is allocated entirely to change in volume.

2) Amounts are presented on a tax-equivalent basis utilizing an effective tax rate of approximately 31% in 1998, and 32% in 1997 and 1996. The total taxable equivalent adjustments included above are $559,000, $549,000, and $382,000 for 1998, 1997 and 1996, respectively.

</FN>
</TABLE>

Table 3
Average Balance, Net Interest Income Rates
Years ended December 31
(Dollars in Thousands)

<TABLE>
<CAPTION>

	1998			1997			1996		
Assets	Average (2) Balance	Interest	Average Rate	Average (2) Balance	Interest	Average Rate	Average (2) Balance	Interest	Average Rate
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Interest earning assets:									
Securities:									
Taxable	$ 119,096	7,615	6.39	105,165	7,063	6.72	81,707	5,145	6.30
Non-taxable (1)	20,389	1,614	7.92	18,528	1,500	8.10	10,890	871	8.00
Total securities	139,485	9,229	6.62	123,693	8,563	6.92	92,597	6,016	6.50
Federal funds sold	9,172	480	5.23	5,901	320	5.42	4,955	274	5.53
Loans, net of unearned discount:									
Commercial (1) (5)	85,898	7,537	8.77	79,777	7,032	8.81	75,520	6,694	8.86
Mortgage (5)	74,022	6,291	8.50	72,112	6,259	8.68	80,020	6,995	8.74
Installment (5)	61,564	5,324	8.65	53,842	4,882	9.07	51,490	4,762	9.25
Allowance for possible loan losses	(2,936)	-	-	(2,707)	-	-	(2,794)	-	-
Net loans	218,548	19,152	8.76	203,024	18,173	8.95	204,236	18,451	9.03
Total interest earnings assets	367,205	28,861	7.86	332,618	27,056	8.13	301,788	24,741	8.20
Non-interest earning assets	27,107	-	-	25,990	-	-	24,706	-	-
Total assets/interest income	$ 394,312	28,861	7.32	358,608	27,056	7.54	326,494	24,741	7.58

</TABLE>

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Table 3, (Continued)
Average Balance, Net Interest Income Rates
Years ended December 31
(Dollar in Thousands)
<TABLE>
<CAPTION>

Liabilities	1998 Average (2) Balance	1998 Interest	1998 Average Rate	1997 Average (2) Balance	1997 Interest	1997 Average Rate	1996 Average (2) Balance	1996 Interest	1996 Average Rate
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Interest bearing liabilities:									
Deposits:									
NOW, Super NOW, and Money Market	$ 51,487	1,670	3.24	49,527	1,618	3.27	43,331	1,016	2.34
Savings	57,447	1,219	2.12	53,774	1,117	2.08	55,219	1,183	2.14
Time	145,470	7,951	5.47	157,576	8,602	5.46	158,213	8,601	5.44
Total interest bearing deposits	254,404	10,840	4.26	260,877	11,337	4.35	256,763	10,800	4.21
Other borrowed money and note payable	58,964	3,456	5.86	23,598	1,498	6.35	1,228	74	6.03
Fed Funds Purchased	447	23	4.92	160	10	6.25	15	1	6.67
Total interest bearing liabilities	313,815	14,319	4.56	284,635	12,845	4.51	258,006	10,875	4.22
Non-interest bearing deposits and other liabilities	46,620	-	-	42,594	-	-	39,471	-	-
Total liabilities	360,435	14,319	3.97	327,229	12,845	3.93	297,477	10,875	3.66
Stockholders' equity	33,877	-	-	31,379	-	-	29,017	-	-
Total liabilities and stockholders' equity/interest expense	$ 394,312	14,319	3.63	358,608	12,845	3.58	326,494	10,875	3.33
Net interest income	$	14,542			14,211			13,866	
Net interest spread (3)			3.30%			3.62%			3.98%
Net interest yield (4)			3.96%			4.27%			4.59%

<FN>

(1) Interest and average rates are presented on a taxable-equivalent basis utilizing an effective tax rate of approximately 31% in 1998, and 32% in 1997, and 1996. The total taxable-equivalent adjustments included above are $559,000, $549,000 and $382,000 for 1998, 1997, and 1996, respectively.

(2) Average balances are computed utilizing daily average balances. Non-accruing loans have been included in average loan balances.

(3) Net interest spread is the arithmetic difference between the rate earned on total interest earning assets and the rate paid on total interest bearing liabilities.

(4) Net interest yield is computed by dividing net interest income by total interest earning assets.

(5) Total interest income includes amortization of deferred net loan origination fees of $378,000, $260,000, $359,000 in 1998, 1997, and 1996, respectively.
</FN>
</TABLE>

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Market Risk
Table 4
Interest Rate Sensitivity
<TABLE>
<CAPTION>

	December 31, 1998					
	1 to 90 Days	91 to 180 Days	181 to 365 Days	1 to 5 Years	Beyond 5 Years	Total
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Interest Earning Assets						
Securities available for sale	$ 32,017,000	6,953,000	8,593,000	28,235,000	25,281,000	101,079,000
Securities held to maturity	420,000	1,678,000	502,000	16,618,000	26,960,000	46,178,000
Loans (net of unearned discount and deferred fees)	44,927,000	5,269,000	16,046,000	38,529,000	120,964,000	225,735,000
Federal Funds Sold	7,600,000	--	--	--	--	7,600,000
Total	$ 84,964,000	13,900,000	25,141,000	83,382,000	173,205,000	380,592,000
Interest Bearing Liabilities						
Interest bearing DDA (MMA, NOW, Super NOW)	$ 60,943,000	--	--	--	--	60,943,000
Savings (1)	11,343,000	--	--	--	45,371,000	56,714,000
Time	23,304,000	20,368,000	35,164,000	26,303,000	--	105,139,000
Time > $100M	9,967,000	12,005,000	13,056,000	6,605,000	--	41,633,000
Other borrowed money and note payable	--	--	20,000,000	38,082,000	275,000	58,357,000
Total	$ 105,557,000	32,373,000	68,220,000	70,990,000	45,646,000	322,786,000
Interest rate sensitivity gap	$ (20,593,000)	(18,473,000)	(43,079,000)	12,392,000	127,559,000	57,806,000
Cumulative interest rate sensitivity gap	$ (20,593,000)	(39,066,000)	(82,145,000)	(69,753,000)	57,806,000	--
Cumulative interest rate sensitivity ratio (2)	(5.08%)	(9.64%)	(20.27%)	(17.22%)	14.27%	--

<FN>

(1) The amount shown as repricing within 1 to 90 days is that portion which, based upon average balances, is considered sensitive to changes in interest rates. The Company's historical experience has been that total savings account balances exhibit minimal movement with changes in interest rates. Accordingly, a large percentage of the Company's savings account balances are not as rate sensitive and are classified in the "Beyond Five Years" category.

(2) Represents the cumulative interest rate sensitivity gap as a percentage of total assets.
</FN>
</TABLE>

In addition to gap management, the Company also uses simulation analysis to help monitor and manage interest rate risk. In this analysis the Company examines the result of a 200 basis point change in market interest rates and the effect on net interest income. It is assumed that the change is instantaneous

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and that all rates move in a parallel manner. Assumptions are also made concerning prepayment speeds on mortgage loans and mortgage securities as well as growth rates of deposit and loan portfolios. The results of this rate shock are a useful tool to assist the Company in assessing interest rate risk inherent in their balance sheet. Below are the results of this ratio shock analysis as of December 31, 1998 and 1997.

<TABLE>
<CAPTION>

	December 31, 1998		December 31, 1997	
Change in Rates	Net Interest Income Change	Percentage Change in Net Interest Income	Net Interest Income Change	Percentage Change in Net Interest Income
<S>	<C>	<C>	<C>	<C>
+200	841	5.53%	(400)	(2.72%)
Static	-	-	-	-
-200	(1,176)	(7.73%)	(405)	(2.75%)

</TABLE>

A 200 basis point rise in interest rates results in a 5.53% increase in interest income. A 200 basis point decrease in interest rates results in a decrease in interest income due to optionality in the Company's securities portfolio. In a falling rate environment it is assumed that certain of the Company's securities would be called and the resulting cash flows would be reinvested at the lower prevailing rates.

Table 5
Other Operating Income
<TABLE>
<CAPTION>

	Years ended December 31		
	1998	1997	1996
<S>	<C>	<C>	<C>
Service charges on deposit accounts	$ 1,334,000	1,330,000	1,168,000
Net gains on sales of securities available for sale	509,000	154,000	-
Gains on calls of securities held to maturity	2,000	3,000	-
ATM Fees	523,000	402,000	131,000
Other income	593,000	572,000	713,000
Total other operating income	$ 2,961,000	2,461,000	2,012,000

</TABLE>

Gains were recognized for the sale of securities available for sale in 1998 of $509,000 and $154,000 in 1997. The Company did not recognize any gains or losses on the sale of securities available for sale in 1996. The proceeds from the sale of securities available for sale were $20,217,000, $17,799,000 and $6,327,000 in 1998, 1997, and 1996 respectively.

Other Operating Income, (Continued)

Management is constantly monitoring the securities and loan portfolios in response to changes in the various risks that are applicable to these assets and changes in the Company's asset/liability strategy. These changes in risk and strategy call for management to sell both securities and loans from time to time. In 1998, 1997 and 1996 the Company sold newly originated mortgage loans (primarily fixed rate) to the Federal Home Loan Mortgage Corporation and student loans to PHEAA.

ATM fees increased by $121,000 over the prior period. The increase was due to an additional 35 ATM machines placed in service during the fourth quarter of 1996 and throughout 1997, on which a surcharge per foreign transaction has been collected. As of December 31, 1998 the Bank has a total of 40 ATM machines. Other income and service charges on deposit accounts remained fairly constant for both 1998 and 1997.

Total operating income increased by $449,000 in 1997 compared to 1996 primarily as the result of service charges on deposits, gains on sales of securities and ATM fees, partially offset by decreases in other income.

Table 6
Other Operating Expenses

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<TABLE>
<CAPTION>

	Years ended December 31		
	1998	1997	1996
<S>	<C>	<C>	<C>
Salaries and employee benefits	$ 5,071,000	5,040,000	5,061,000
Net occupancy expense of bank premises	1,027,000	1,026,000	857,000
Furniture and equipment expenses	773,000	685,000	622,000
Data processing expense	255,000	242,000	241,000
ORE expense	360,000	121,000	193,000
Other expenses	3,481,000	2,966,000	2,775,000
Total other operating expenses	$ 10,967,000	10,080,000	9,749,000

</TABLE>

Salaries and employee benefits, which represent the most significant portion of non-interest expenses, increased by .6% and decreased by .4% in 1998 and 1997, respectively. Salary expense remained constant while employee benefit expense increased 3.2% in 1998. Employees salaries did increase 4% in 1998. This increase was offset by an increased level of SFAS 91 deferred costs based on a higher volume of real estate loans on which no points were collected.

The contribution to the Company's ESOP in 1998 was $2,000 and $54,000 in 1997. No contribution was made in 1996.

Net occupancy expense remained constant for 1998 over 1997, and the increase of $169,000 or 19.7% in 1997 over 1996 reflected the increased costs from the nine new branch facilities opened from 1994 through 1996. The increase was also attributable to inflation adjustments in lease agreements maintained by the Bank.

The increase in furniture and equipment expense of $88,000 or 12.8% over 1997 was primarily due to an increase in maintenance contracts on our expanded ATM network. During the second quarter of 1998 we also replaced computer hardware and software to update for Year 2000 compliance, resulting in increased depreciation.

ORE expense increased by $239,000 or 50.1% in 1998 due to increased charge offs of ORE properties based on evaluation of the fair values of individual properties.

Other expenses increased by 17.4% in 1998 and 6.9% in 1997. The largest increases were in automated teller and related card holder services, legal fees and marketing expense. The growth of the Bank resulted in an increase in automated teller machines and related cardholder service for 1998 over 1997 of $66,000. The expense for legal fees increased $95,000 due to additional requirements necessary to service the Bank. Marketing expense was up $185,000 in 1998 due to marketing a larger geographical area and for the relocation of an existing branch. In 1998 the Bank contracted with an advertising company to develop a new marketing campaign. The advertising company handles all public media including television commercials.

The provision for income taxes for 1998, 1997 and 1996 were $1,535,000, $1,500,000 and $1,543,000, respectively. The effective rate for these periods were 27.6%, 27.2% and 29.4%. The lower effective rate for 1998 and 1997 was due to management's strategy in investing in tax free securities.

Total other operating expense increased by $331,000 for 1997 as compared to 1996 primarily as a result of increases in other expenses relating to automated teller and related card holder services, courier expense and telephone communication.

Financial Position

Loan Portfolio

Total loans, net of unearned discount and deferred loan fees, increased $13,393,000 or 6.3% in 1998 and increased by $8,294,000 or 4.1 % in 1997. In 1998 the Bank sold $3,416,000 in mortgage loans and $1,941,000 in PHEAA loans. In 1997 the loans sold were $972,000 and $2,384,000, respectively. The increase in loans after consideration of the previously mentioned loan sales were $18,750,000 in 1998 and $11,650,000 in 1997. There was growth in two segments of the Company's portfolio in 1998: residential real estate and commercial loans. The largest amount of originations were from residential real estate loans.

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In 1998 and 1997 the Bank sold fewer loans to keep its loan and deposit ratio in the same position as in the past years. Unlike 1996, loan growth had increased at a rate greater than deposit growth. This resulted in an increase in the Bank's loan to deposit ratio in 1996. The Bank sold $12,160,000 of residential mortgage loans in 1996 consisting of $8,265,000 of fixed rate loans and $3,895,000 of adjustable rate mortgages. The objectives

were to reduce the loan to deposit ratio, address interest rate and prepayment risks in the fixed rate section of the portfolio, as well as improve the liquidity and quality characteristics of one year adjustable rate mortgages.

The following table summarizes loans held for portfolio by type at December 31 for each of the last five years:

Table 7

	December 31				
	1998	1997	1996	1995	1994
Commercial business	$ 17,264,000	15,534,000	17,256,000	16,684,000	16,200,000
Commercial real estate	71,389,000	69,505,000	61,254,000	58,062,000	52,603,000
Real estate construction	1,120,000	1,002,000	947,000	625,000	1,482,000
Real estate residential	133,521,000	120,604,000	115,791,000	112,493,000	102,708,000
Consumer	17,681,000	17,865,000	20,424,000	19,013,000	14,184,000
Total loans, gross	240,975,000	224,510,000	215,672,000	206,877,000	187,177,000
Unearned discount and deferred loan fees	(15,240,000)	(12,168,000)	(11,624,000)	(9,580,000)	(7,305,000)
Total loans, net of unearned discount and deferred loan fees	$ 225,735,000	212,342,000	204,048,000	197,297,000	179,872,000

The following table summarizes commercial, financial, agricultural and real estate construction loans at December 31, 1998 by maturity distribution (based on contractual maturities) and by interest rate sensitivity:

Table 8

	One Year or Less	One Through Five Years	Over Five Years	Total Gross Loans
Maturity Distribution:				
Commercial Business	$ 10,481,000	4,650,000	2,133,000	17,264,000
Commercial real estate	17,772,000	6,371,000	47,246,000	71,389,000
Real estate construction	1,120,000	-	-	1,120,000
Total	$ 29,373,000	11,021,000	49,379,000	89,773,000
Interest Rate Sensitivity:				
Loans with predetermined rates	10,497,000	9,522,000	46,248,000	66,267,000
Loans with variable rates	18,876,000	1,499,000	3,131,000	23,506,000
Total	$ 29,373,000	11,021,000	49,379,000	89,773,000

Variable interest rate loans and shorter maturities provide for interest

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rate changes from time to time based upon changes in the Company's base lending rate or some other barometer of market interest rates. By matching

the interest rate sensitivity of variable rate loans against the interest rate sensitivity of liabilities, management attempts to reduce the Company's vulnerability to future interest rate fluctuations. As in previous years, management continues to seek commercial and residential mortgage loans with variable interest rates. In 1998, the Company originated $19,074,000 in residential mortgage and home equity loans of which $3,648,000 were variable rate loans. The Company originated $9,843,000 and $19,261,000 of such loans in 1997 and 1996, respectively of which $4,283,000 and $10,768,000 respectively were variable rate loans. In addition, the Bank has the ability to sell fixed and adjustable rate residential mortgages and student loans it originates into secondary markets to reduce its exposure to future interest rate increases. Proceeds from the sale of mortgages and student loans were $5,419,000, $3,414,000, and $14,439,000 for 1998, 1997, and 1996, respectively.

Risk Elements of Loan Portfolio

The following table shows various non-performing categories as of December 31 for each of the last five years:

Table 9
<TABLE>
<CAPTION>

	1998	1997	1996	1995	1994
<S>	<C>	<C>	<C>	<C>	<C>
Non-accrual loans	$ 1,684,000	2,596,000	4,404,000	2,161,000	2,315,000
90 days and more past due	838,000	2,026,000	-	-	-
Restructured loans	1,247,000	890,000	643,000	837,000	1,077,000
	$ 3,769,000	5,512,000	5,047,000	2,998,000	3,392,000

</TABLE>

The Company generally places a loan on a non-accrual status when, in the opinion of management, the borrower does not have the ability to meet the original terms of the loan. The Company reserves the accrued interest on all commercial loans over ninety days past due and these loans are included in the non-accrual totals. Mortgages past due 90 days or more are placed in non-accrual status unless the Bank considers the loan to be well secured and in the process of collection. Consumer loans that are not secured by real estate are generally charged off after 120 days past due. The Bank experienced a $1,743,000 decrease in non-performing loans in 1998 over 1997 and a $465,000 increase in 1997 over 1996. During 1996 and through the first half of 1997, the Bank performed an in depth analysis of the organization structure of the lending department. In 1997, the Bank hired a Special Assets Officer and increased the collection department staff. This action resulted in a leveling off of overall delinquencies in the last quarter of 1997 and a significant drop in 1998. This action also resulted in improvement in the non-performing loan levels of the Bank through expanded effort and more expeditious resolution of problem loans on a loan-by-loan basis.

The increase in non-performing loans in 1996 from 1995 consisted primarily of thirteen (13) borrowers representing $1,921,000 of the increase. The Bank had specific loan loss reserves of $106,000 allocated and non-performing loans and the remaining problem loan balances are substantially collateralized.

The amount of interest income on non-accruing loans which was recorded in income was $13,000 in 1998, $12,000 in 1997, and -0- in 1996. If the non-accruing loans had been current in accordance with their original terms and had been outstanding throughout the period, interest income would have been increased by $98,000, $149,000 and $160,000 in 1998, 1997, and 1996, respectively.

The amount of interest on restructured loans which was recorded in income was $98,000 in 1998, $59,000 in 1997, and $54,000 in 1996. If the restructured loans had been current in accordance with their original terms and had been outstanding throughout the period, interest income would have been increased by $24,000, $33,000, and $48,000 in 1998, 1997, and 1996, respectively.

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As of December 31,1998, the Company had impaired loans with a total recorded investment of $1,530,000, $1,922,000, and $1,603,000 on December 31, 1998, 1997, and 1996, respectively. The average recorded investment for the twelve month periods ended December 31, 1998, 1997, and 1996 was $1,837,000, $1,914,000, and $1,145,000, respectively. Interest income recognized during each of these periods was nominal. As of December 31,1998, 1997, and 1996 the amount of recorded investment in impaired loans for which there is a related allowance for credit losses and amount of the allowance is $425,000 and $106,000, respectively, $815,000 and $185,000, respectively, and $819,000 and $350,000, respectively. The amount of the recorded investment in impaired loans for which there was no related allowance for credit losses at December 31, 1998, 1997, and 1996 was $1,105,000, $1,107,000, and $784,000, respectively. For purposes of applying the measurement criteria for impaired loans the Company excludes large groups of smaller-balance homogeneous loans, primarily consisting of residential real estate loans and consumer loans, as well as commercial business and commercial real estate loans with balances less than $100,000. For applicable loans, the Company evaluates the need for impairment recognition when a loan is transferred to nonaccrual status, or earlier if based on management's assessment of the relevant facts and circumstances, it is probable that the Bank will be unable to collect all proceeds due according to the contractual terms of the loan agreement. The Company's policy for the recognition of interest income on impaired loans is the same as for nonaccrual loans discussed previously. Impaired loans are charged off when the Company determines that foreclosure is probable and the fair value of the collateral is less than the recorded investment of the impaired loan.

Substantially all of the Bank's loans are secured by residential and/or commercial real estate in the area of northeastern Pennsylvania. Accordingly, the Bank's primary concentration of credit risk is related to the real estate market in the northeastern Pennsylvania area and the ultimate collectibility of this portion of the Bank's loan portfolio is susceptible to changes in economic conditions in that area. As of December 31, 1998 and 1997, there were no other concentrations of loans exceeding 10% of total loans. Loan concentrations are considered to exist when there are amounts loaned to related borrowers or to a multiple number of borrowers engaged in similar activities which would cause them to be similarly impacted by economic conditions.

Provision and Allowance for Loan Losses

The allowance for loan losses constitutes the amount available to absorb known and inherent losses within the loan portfolio. When establishing the appropriate levels for the quarterly and annual provision and the allowance for loan losses, management considers a variety of factors, in addition to the inherent risk of loss contained in the lending process. Periodic consideration is given to the current impact of economic conditions, the diversification of the loan portfolio, the volume and nature of non-performing and impaired loans, historical loss experience, the financial condition of significant individual borrowers, the adequacy of any collateral, and other factors. Consideration is also given to examinations performed by regulatory authorities and the Company's independent auditors.

The provision for loan losses was $420,000 in 1998, $535,000 in 1997, and $500,000 in 1996. The current year provision has enabled the allowance for loan losses to increase by 5.4% to $2,909,000 as of December 31, 1998, while there was a 6.3% increase in total loans, net of unearned discount and unearned loan fees. The increase in the loan portfolio in 1998 is primarily attributable to residential real estate loans (including home equity loans). Based on the nature of the collateral supporting these real estate loans it is not anticipated that potential future problems with these credits would have as significant an impact on the allowance for loan losses as loans originated in previous years. This, in combination with a reduction in non-performing loans, permitted a decrease to the provision in 1998 as compared to 1997. The increased amount of loan loss provision for 1996 over 1995 was primarily to address the additional specifically allocated reserves for the increase in non-accrual loans and for the increased level of charge-offs.

Provision and Allowance for Loan Losses, (Continued)

The following table presents an analysis of the allowance for loan losses for each of the last five years:

Table 10
Analysis of the Allowance for Loan Losses
<TABLE>
<CAPTION>

Years ended December 31

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	1998	1997	1996	1995	1994
<S>	<C>	<C>	<C>	<C>	<C>
Balance at beginning of period.	$ 2,759,000	2,750,000	2,742,000	2,699,000	2,604,000
Loans charged off:					
Commercial business	(76,000)	(225,000)	(203,000)	(99,000)	(8,000)
Commercial real estate	(68,000)	(34,000)	(55,000)	(132,000)	(58,000)
Real estate residential	(88,000)	(149,000)	(196,000)	(85,000)	(179,000)
Consumer	(76,000)	(191,000)	(64,000)	(124,000)	(69,000)
Total loans charged off	(308,000)	(599,000)	(518,000)	(440,000)	(314,000)
Recoveries on charged off loans:					
Commercial business	9,000	14,000	12,000	33,000	39,000
Commercial real estate	8,000	-	-	16,000	31,000
Real estate residential	4,000	2,000	-	-	-
Consumer	17,000	57,000	14,000	14,000	29,000
Total recoveries	38,000	73,000	26,000	63,000	99,000
Net loans charged off	(270,000)	(526,000)	(492,000)	(377,000)	(215,000)
Provision for loan losses	420,000	535,000	500,000	420,000	310,000
Balance at end of period	$ 2,909,000	2,759,000	2,750,000	2,742,000	2,699,000
Net charge-offs during the period as a percentage of average loans outstanding during the period	0.12%	0.26%	0.24%	0.20%	0.13%
Allowance for loan losses as a percentage of loans net of unearned discount and loan fees at end of period	1.29%	1.30%	1.35%	1.39%	1.50%

</TABLE>

Provision and Allowance for Loan Losses, (Continued)

The following table presents an allocation of the allowance for loan losses by major category and percentage of loans in each category to total loans for each of the last five years. It should be noted that allocations are no more than estimates and are subject to revision as conditions change.

Table 11
Allocation of Allowance for Loan Losses
<TABLE>
<CAPTION>

	1998		1997		1996		1995		1994	
	Amount	% of loans to total loans	Amount	% of loans to total loans	Amount	% of loans to total loans	Amount	% of loans to total loans	Amount	% of loans to total loans
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Commercial business	$ 770,000	7.2%	$ 439,000	6.9%	$ 666,000	8.0%	$ 161,000	8.1%	$ 386,000	8.7%
Commercial real estate	403,000	29.6	201,000	31.0	292,000	28.4	97,000	28.0	145,000	28.1
Real estate construction	-	0.5	-	0.4	-	0.4	-	0.3	-	0.8
Real estate residential	135,000	55.4	120,000	53.7	153,000	53.7	135,000	54.4	376,000	54.9
Consumer	361,000	7.3	225,000	8.0	182,000	9.5	106,000	9.2	166,000	7.5
Unallocated	1,240,000	-	1,774,000	-	1,457,000	-	2,243,000	-	1,626,000	-
Total	$2,909,000	100 %	$2,759,000	100 %	$2,750,000	100 %	$2,742,000	100 %	$2,699,000	100 %

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</TABLE>

Allocations for commercial business and commercial real estate loans are determined by reviewing certain significant, non-performing, delinquent or otherwise unusual loans and charge-offs and by analyzing historical loss experience and delinquent trends. Losses on residential real estate loans and consumer loans are reasonably predictable based on historical loss experience, delinquency trends and current economic conditions. The unallocated portion of the allowance for loan losses is established by management at a level considered prudent to absorb certain inherent risks in the loan portfolio based on such information as is currently available. Shifts in specific allocations for 1995 resulted from continuing refinement of loan officer risk ratings and reductions in certain delinquency percentages. This process was further enhanced in 1996 and, in conjunction with increased delinquencies in certain loan categories, resulted in further shifts in specific allocations.

Securities Portfolio

The primary objectives in managing the Company's securities portfolio are to maintain the needed flexibility to meet liquidity needs and changing interest rates without impairing earnings, and to provide a stable source of interest revenue. The following table presents the yield by securities type and contractual maturity for the Bank's securities portfolio, consisting of securities available for sale and securities held to maturity.

Table 12
Securities Portfolio and Yield by Maturity
<TABLE>
<CAPTION>

	December 31, 1998				
	One Year or Less	After One Through Five Years	After Five Through Ten Years	After Ten Years	Total
Securities Available for Sale					
<S>	<C>	<C>	<C>	<C>	<C>
U.S. Treasuries & Other U.S. Government agencies:					
Fair value	$ 17,144,000	23,281,000	7,112,000	34,127,000	81,664,000
Yield	5.78	5.62	6.29	6.53	6.09
State & Municipal agencies:					
Fair value	$ -	2,932,000	9,857,000	500,000	13,289,000
Yield(1)	-	8.26	7.96	7.35	8.01
Other securities:					
Fair value	-	-	-	6,126,000	6,126,000
Yield	-	-	-	6.32	6.32
Total Fair Value	$ 17,144,000	26,213,000	16,969,000	40,753,000	101,079,000
Weighted average yield(2)	5.78	6.00	7.26	6.51	6.36
Securities Held to Maturity					
U.S. Treasuries & other U.S. government agencies:					
Carrying Value	$ -	-	-	35,838,000	35,838,000
Yield	-	-	-	6.87	6.87
States & Municipal securities					
Carrying Value	2,600,000	4,185,000	3,085,000	470,000	10,340,000
Yield(1)	8.25	8.42	8.37	8.33	8.36
Total carrying value	$ 2,600,000	4,185,000	3,085,000	36,308,000	46,178,000

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Weighted average yield	8.25	8.42	8.37	6.89	7.2

<FN>

(1) Yields are presented on a taxable equivalent basis utilizing an effective tax rate of approximately 31% for all maturities.

(2) Yields on securities available for sale are computed using historical amortized cost.
</FN>
</TABLE>

Securities Portfolio, (Continued)

The following table sets forth the composition and carrying value of the Company's securities portfolio, analyzed by securities available for sale and securities held to maturity, as of the dates indicated:

Table 13
Securities Portfolio

Securities available for sale
<TABLE>
<CAPTION>

	December 31		
	1998	1997	1996
<S>	<C>	<C>	<C>
US Treasury securities	$ -	1,999,000	2,504,000
Federal agency mortgage-backed obligations:			
Federal National Mortgage Association	9,397,000	2,744,000	1,705,000
Federal Home Loan Mortgage Corporation	5,429,000	4,809,000	4,951,000
Government National Mortgage Association	19,301,000	24,429,000	1,166,000
Other obligations of Federal agencies	47,537,000	50,252,000	58,852,000
State and Municipal	13,289,000	8,828,000	4,755,000
Other	6,126,000	3,635,000	2,086,000
Total	$ 101,079,000	96,696,000	76,019,000
Securities held to maturity			
Federal agencies mortgage backed	$ 35,838,000	19,083,000	-
Obligations of Federal agencies	-	6,000,000	9,669,000
State and Municipal	10,340,000	12,296,000	11,191,000
Total	$ 46,178,000	37,379,000	20,860,000

</TABLE>

Approximately $70 million, or 48% of the total investment portfolio, is invested in U.S. Agency Mortgage-Backed pools and U.S. Agency issued Collateralized Mortgage Obligations (CMOs). This is split equally between fixed rate and adjustable rate issues. Due to the nature of the mortgage collateral behind these issues, the average lives of these holdings will tend to lengthen when interest rates rise and shorten when interest rates fall. To help mitigate this risk, management primarily focuses on instruments that have some degree of extension and call protection, particularly in the fixed rate holdings. All of the fixed rate holdings are, for example, planned amortization class CMO's, which provide a higher degree of certainty with respect to cashflows. In addition, management regularly reviews the performance of all Mortgage-Backed holdings as well as the portfolio as a whole. This includes the projection of principal cashflows under a current rate environment as well as given a parallel move in the yield curve up or down 200 basis points. The increase in the

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securities portfolio in 1998 and 1997, in both the securities available for sale and investment securities, is a result of the investment of funds borrowed from the Federal Home Loan Bank of Pittsburgh. The money borrowed was invested in mortgage backed securities to take advantage of borrowing at a rate lower than the rate received in investing in federal mortgage backed obligations for sale and investment securities.

Securities Portfolio, (Continued)

There has been a consistent trend of increasing the balance of securities available for sale. In 1998 the bank increased securities held to maturity as part of asset/liability strategy to enhance net interest income. This trend is based on managements intention to provide flexibility within the securities portfolio to adapt to the changing risk environment. Also, the Bank increased its investment in state and municipal securities. The tax equivalent interest rates available in 1998 and 1997 have made these securities an attractive investment.

Deposits

One of the primary components of sound growth and profitability is deposit accumulation and retention. Total deposits at December 31, 1998 increased by 4.7% over total deposits at December 31, 1997, which had a .8% decrease over total deposits at December 31, 1996. Table 14 below summarizes deposits by type. Table 15 presents maturity information for all time deposits and Table 16 presents maturity information for time deposits of $100,000 or greater.

Table 14
Deposits by Major Classification

	December 31		
	1998	1997	1996
Demand non-interest bearing	$ 42,931,000	43,740,000	37,643,000
Demand interest bearing	38,462,000	30,679,000	23,410,000
Savings	56,714,000	52,783,000	53,175,000
Money Market	22,481,000	22,487,000	25,020,000
Time	146,772,000	143,954,000	156,698,000
Total	$ 307,360,000	293,643,000	295,946,000

Table 15
Remaining Maturities of Time Deposits

	December 31		
	1998	1997	1996
Three months or less	$ 33,271,000	31,557,000	33,732,000
Over three through six months	32,373,000	32,327,000	36,191,000
Over six through twelve months	48,220,000	48,735,000	50,476,000
Over twelve months	32,908,000	31,335,000	36,299,000
Total	$ 146,772,000	143,954,000	156,698,000

Table 16
Remaining Maturities of Time Deposits of $100,000 or Greater

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<CAPTION>

	December 31		
	1998	1997	1996
<S>	<C>	<C>	<C>
Three months or less	$ 9,967,000	11,359,000	9,586,000
Over three through six months	12,005,000	10,128,000	14,662,000
Over six through twelve months	13,056,000	12,395,000	11,069,000
Over twelve months	6,605,000	5,852,000	7,257,000
Total	$ 41,633,000	39,734,000	42,574,000

</TABLE>

Federal Fund rates, which are a driving factor in the pricing of liabilities, have continued to remained stable in 1998. These interest rates have led to a trend from long-term instruments to intermediate and short-term instruments reflecting the consumers' unwillingness to commit their funds for extended periods of time.

Because of the Bank's continued transition to a regional financial institution in Northeastern, Pennsyl-vania, management altered the Bank's pricing strategy on interest bearing liabilities. Management actively manages the pricing structure of interest bearing liabilities to reduce the impact of local competitive pressures by managing the portfolio on a regional basis. The result of this strategy was a decrease in the time deposits of $12,744,000 in 1997 and a continuing decrease of $2,818,000 in 1998. This had a positive impact on the Bank's interest margin by lowering the cost of time deposits in 1997 and allowing the Bank to maintain that lower level of cost in 1998. Offsetting the decrease in time deposits was an increase in low and non-interest bearing deposits (demand interest bearing and savings) which increased $11,714,000 in 1998. The result was a decrease in the Bank's overall cost of deposits in 1998.

Taxation

Income tax expense was $1,535,000, $1,500,000, and $1,543,000 for 1998, 1997, and 1996, respectively. The Company's effective tax rate for these periods was 27.6%, 27.2 %, and 29.4%, respectively. The fluctuation in the Company's tax expense and effective tax rate is primarily due to management's strategy in investing in tax free securities.

Liquidity

Liquidity involves the Company's ability to raise funds to support asset growth, meet deposit withdrawal and other borrowing needs, maintain reserve requirements and otherwise operate the Company on an ongoing basis. To adjust for the effects of a changing interest rate environment and deposit structure, the Company's management monitors its liquidity requirements through its asset/liability management program. This program, along with other management analysis, enables the bank to meet its cash flow requirements and adapt to the changing needs of individual customers and the requirements of regulatory agencies.

Liquidity, (Continued)

Among the sources of asset liquidity are cash and due from banks, Federal Funds sold, securities available for sale, mortgage loans available for sale, and funds received from the repayment of loans and the maturing of investments. The total carrying value of cash and due from banks, Federal Funds sold, securities available for sale and investment securities with maturities of less than one year was $125,256,000 at December 31, 1998. In addition to these sources of liquidity and loan repayments, the Company has the ability to secure borrowings collateralized by the securities portfolio. Through the use of these and other sources, management believes the Company has adequate liquidity in both the short-term and the long-term to carry out the Company's growth and profitability strategies. The Company's ability to pay dividends depends primarily on the ability of the Bank to pay dividends to the Company. Note 12 of the consolidated financial statements provides information as to the limitations on dividend and other funds transfers from the Company's subsidiary. Such limitations are not expected to adversely impact the ability of the Company to meet its future dividend and other cash obligations.

Effects of Economic Cycles

Economic conditions are reviewed by management in a continuing effort to

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adjust to the changing environment. The effects of these changes on the banking industry as a whole and in the Company's market area are reviewed by management in order to compete at a level consistent with the goals of profitability and sound management policy.

An economic recession can decrease longer term interest rates, which will generally increase the value of existing fixed rate investment securities, mortgage loans and other similar fixed rate assets. However, recessionary periods also may tend to decrease the borrowing needs of consumers and cause increased uncertainty relative to the borrowers ability to pay previously advanced loans. Also, reinvestment of matured investments and loan principal payments can be a problem as attractive rates are not as available. This may be further exacerbated by accelerated prepayments in a falling interest rate environment. The converse of the aforementioned impact of an economic recession may be true in a period of economic expansion. Management closely monitors the collectibility of existing loans outstanding and intends to be conservative when authorizing new loans, especially during periods of economic uncertainty.

Impact of Other Recently Issued Accounting Standards

In June 1997, the FASB issued SFAS 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. SFAS 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. The 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. SFAS No. 130 is effective for fiscal years beginning after December 15, 1997. The Company has included this new reporting information in its 1998 consolidated financial statements as required.

In June 1997, the FASB issued SFAS No. 131, Disclosures About Segments of an Enterprise and Related Information. SFAS 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. SFAS No. 131 is effective for financial statements for periods beginning after December 15, 1997. The Company's 1998 annual financial statements include the required disclosures for a business that is managed as one operating segment.

In February 1998, the FASB issued SFAS No. 132, Employer's Disclosures about Pensions and other Postretirement Benefits. This Statement revises employers' disclosures about pension and other postretirement benefit plans. It does not change the measurement or recognition of those plans. It standardizes the disclosure requirements for pensions and other postretirement benefits to the extent practicable, requires additional information on changes in the benefit obligations and fair values of plan assets that will facilitate financial analysis, and eliminates certain disclosures that are no longer as useful as they were when FASB Statements No. 87, Employers' Accounting for Pensions, No. 88, Employers' Accounting for Settlements and Curtailments of Defined Benefits Pension Plans and for Termination Benefits, and No. 106, Employers' Accounting for Postretirement Benefits Other Than Pensions, were issued. This Statement is effective for fiscal years beginning after December 15, 1997. This Statement requires changes in disclosures and did not effect the financial condition, operations, or equity of the Corporation.

In June 1998, the FASB issued SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities. This statement establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, (collectively referred to as derivatives) 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. The accounting for changes in the fair value of a derivative depends on the intended use of the derivative and the resulting designation. If certain conditions are met, a derivative may be specifically designated as (a) a hedge of certain exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment, (b) a hedge of the exposure to variable cash flows of a forecasted transaction, or (c) a hedge of the foreign currency exposures. This Statement is effective for all fiscal quarters of fiscal years beginning after June 15, 1999. Earlier adoption is permitted. The Company has not yet determined the impact, if any, of this Statement, including its provisions for the potential reclassifications of investment securities, on earnings, financial condition or equity.

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Impact of Other Recently Issued Accounting Standards, (Continued)

In October 1998, the FASB issued SFAS No. 134, Accounting for Mortgage-Backed Securities Retained after the Securitization of Mortgage Loans Held for Sale by a Mortgage Banking Enterprise. This Statement requires that after the securitization of a mortgage loan held for sale, an entity engaged in mortgage banking activities classify any retained mortgage-backed securities based on the ability and intent to sell or hold those investments, except that a mortgage banking enterprise must classify as trading any retained mortgage-backed securities that it commits to sell before or during the securitization process. This statement is efective for the first fiscal quarter beginning after December 15, 1998 with earlier adoption permitted. This statement provides a one-time opportunity for an enterprise to reclassify, based on the ability and intent on the date of adoption of this statement, mortgage-backed securities and other beneficial interest retained after securitization of mortgage loans held for sale from the trading category, except for those with commitments in place. The Company has not yet determined the impact, if any, of this Statement on earnings, financial condition or equity.

Other Matters

Year 2000 Compliance

Year 2000 issues result from the inability of many computer programs or computerized equipment to accurately calculate, store or use a date after December 31, 1999. The erroneous date can be interpreted in a number of different ways, the most common being Year 2000 represented as the year 1900. Correctly identifying and processing Year 2000 as a leap year may also be an issue. These misinterpretations of various dates in the Year 2000 could result in a system failure or miscalculations causing disruptions of normal business operations including, among other things, a temporary inability to process transactions, track important customer account information, or provide convenient access to this information.

Company State of Readiness

The Company has completed an assessment of its financial and operational software systems in accordance with the various regulatory agency guidance documents. The Company is maintaining an inventory of hardware and software systems, which ranges from mission critical software systems and personal computers to security and video equipment, and general office equipment. The Company has prioritized its hardware and software systems to focus on the most critical systems first. In connection with the Company's assessment, a number of the less significant third party vendors advised the Company that their software is Year 2000 compliant, and the Company intends to fully test that software by June 30, 1999.

The Company has completed an assessment of its core financial and operational software systems and has taken the necessary steps to bring them into compliance. Our Year 2000 project plan is in place and is progressing

on schedule with the testing of our core applications for critical dates. The Company has tested past the Year 2000 prior to December 31, 1998 and plans to be fully compliant by June 30, 1999.

Contingency Plan

The Board of Directors and Management of the Company recognize that, despite efforts to renovate or replace mission-critical systems, the risk of disruption remains due to the failure of a resource which supports critical business activities. To provide for business continuity in the event of such disruptions, the Board has directed management to coordinate the development of contingency plans for each line of business designated as a core business process. Management will reevaluate identification of mission-critical resources and develop and document Y2K scenarios which could result in the loss of one or more resources. Because of the number of critical resources and different combinations of failure scenarios, it is impossible to prepare for every conceivable event. Management will assign a probability and prioritize and allocate contingency planning resources based on the level of probability. The bulk of evaluation of contingency needs will be completed by June, 1999, when the Company will shift to a monitoring mode, which will include an early warning system to identify suppliers who may be experiencing date related failures.

Cost of Year 2000

Over the past several years, the Company's Technology Plan has called for an aggressive schedule for installing new systems or upgrading old systems in order to build a technology infrastructure which will allow the Company to offer competitive products while providing for internal efficiencies and customer service improvement. The Technology Plan has resulted in positioning

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the Company to continue its technology improvements while avoiding specific costly Year 2000 issues. Based on preliminary information, costs of addressing potential problems are estimated to be $550,000. The Bank had expenditures of $260,000 in 1998 for Y2K related matters, of which $10,000 was expensed in 1998 and $250,000 will be capitalized and amortized over the next five years. Additionally, during 1999 the bank anticipates further expenditures of $125,000, all of which will be capitalized over the next five years, with $20,000 expensed in 1999. This cost is primarily associated with purchasing new equipment and software which will be capitalized and amortized over a 5 year period.

Risks of Year 2000

Systems outside of the direct control of the Company, such as ATM networks, credit card processors, and the Fed Wire System, pose a more problematic issue. A theoretical problem scenario would involve a temporary inability of customers to access their funds through automated teller machines, point of service terminals at retailer locations, or other shared networks. For this reason alone, banks and their governing agencies are closely scrutinizing the progress of our major industry service providers.

Successful and timely completion of the Year 2000 project is based on management's best estimates, which were derived from numerous assumptions of future events, which are inherently uncertain, including the availability of certain resources, third party modification plans and other factors.

Forward Looking Statements

Within these financial statements we have included certain "forward looking statements" concerning the future operations of the Corporation. It is management's desire to take advantage of the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995. This statement is for the express purpose of availing the Corporation of the protections of such safe harbor with respect to all "forward looking statements" contained in our financial statements. We have used "forward looking statements" to describe the future plans and strategies including our expectations of the Corporation's future financial results. Management's ability to predict results or the effect of future plans and strategy is inherently uncertain. Factors that could affect results include interest rate trends, competition, the general economic climate in Pennsylvania, and the country as a whole, loan delinquency rates, and changes in federal and state regulation. These factors should be considered in evaluating the "forward looking statements", and undue reliance should not be placed on such statements.

Capital Adequacy

A strong capital position is important to the continued profitability of the Company and promotes depositor and investor confidence. The Company's capital consists of stockholders' equity, which provides a basis for future growth and expansion and also provides a buffer against unexpected losses. Undivided profits increased 9.7% between 1997 and 1998 and 11.9% between 1996 and 1997. The Company has paid cash dividends without interruption since 1942 and it is management's intention to continue paying a reasonable return on stockholders' investment while retaining adequate earnings to allow for continued growth.

The Company's ability to pay dividends to its' shareholders rests on the ability of the Bank to pay dividends to the Company. Dividends payable to the Company by the Bank are subject to certain regulatory limitations. The payment of dividends in any year without regulatory permission is limited to the net profits (as defined for regulatory purposes) for that year plus the retained net profits for the preceding two calendar years. Accordingly, as of December 31, 1998, dividends in excess of those already declared from the Bank to the Company are limited to $5,801,000. The dividends declared to the Company by the Bank were $2,235,000 in 1998.

The Federal Reserve Board measures capital adequacy for bank holding companies by using a risk-based capital framework and by monitoring compliance with minimum leverage ratio guidelines. The minimum ratio of total risk-based capital to risk-adjusted assets is 8% at December 31, 1998, of which 4% must be Tier I capital. The Company's total risk-based capital ratio was 16.6% at December 31, 1998 and 17.1% at December 31, 1997. The Company's Tier I risk-based capital ratio was 15.4 % at December 31, 1998 and 15.8% at December 31, 1997.

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In addition, the Federal Reserve Board has established minimum leverage ratio guidelines for bank holding companies. These guidelines provide for a minimum leverage ratio of 3% for bank holding companies that meet certain criteria, including the maintenance of the highest regulatory rating. All other bank holding companies are required to maintain a leverage ratio of 3% plus an additional cushion of at least 100 to 200 basis points. The Federal Reserve Board has not advised the Company of any specific minimum leverage ratio applicable to it. The Company's leverage ratio was 8.4% at December 31, 1998 and 8.6 % at December 31, 1997.

At December 31, 1998, the Bank's total risk-based capital, Tier I risk-based capital and Tier I leverage ratios as defined by the Federal Deposit Insurance Corporation Improvement Act were 16.2%, 14.9%, and 8.3%, respectively.

Certain other ratios that are commonly used in analyzing bank holding company and bank financial statements are presented in the following table:

Table 17
Return on Equity and Assets
<TABLE>
<CAPTION>

	Years ended December 31		
	1998	1997	1996
<S>	<C>	<C>	<C>
Return on assets (net income divided by average total assets)	1.02%	1.12%	1.13%
Return on equity (net income divided by average equity)	11.87%	12.77%	12.76%
Dividend payout ratio (cash dividends declared divided by net income)	55.57%	51.27%	51.30%
Equity to asset ratio (average equity divided by average total assets)	8.6 %	8.8 %	8.9 %

</TABLE>

Quarterly Financial Data (unaudited)
In Thousands, Except Per Share Amount
<TABLE>
<CAPTION>

		First Quarter	Second Quarter	Third Quarter	Fourth Quarter
<S>	<C>		<C>	<C>	<C>
1998					
Net Interest Income	$	3,551	3,541	3,475	3,416
Provision for Loan Losses		150	150	150	(30)
Other Operating Income		853	584	653	871
Other Operating Expense		2,674	2,714	2,742	2,837
Net Income		1,140	921	907	1,054
Earnings Per Share					
Basic (1)	$	0.40	0.32	0.31	0.36
Diluted		0.39	0.31	0.31	0.36
1997					
Net Interest Income	$	3,375	3,304	3,468	3,515
Provision for Loan Losses		135	140	140	120
Other Operating Income		537	627	738	559
Other Operating Expense		2,586	2,471	2,577	2,446
Net Income		851	965	1,070	1,122
Earnings Per Share					
Basic (1)	$	0.30	0.34	0.37	0.39
Diluted		0.29	0.33	0.36	0.38

<FN>

(1) Per share data restated to reflect the Company's two for one stock split effected in the form of a stock dividend effective July 15, 1996.

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</FN>
</TABLE>

PIONEER AMERICAN HOLDING COMPANY CORP.
Consolidated Balance Sheets
December 31, 1998 and 1997
<TABLE>
<CAPTION>

Assets		1998	1997
<S>	<C>		<C>
Cash and due from banks	$	13,977,000	14,918,000
Federal funds sold		7,600,000	-
Securities available for sale (cost of $100,057,000 in 1998 and $95,591,000 in 1997)			
U.S. Treasury securities		-	1,999,000
Federal agency mortgage based obligations		34,127,000	31,982,000
Other obligations of Federal agencies		47,537,000	50,252,000
Obligations of states and political subdivisions		13,289,000	8,828,000
Other securities		6,126,000	3,635,000
Total securities available for sale		101,079,000	96,696,000
Securities held to maturity (approximate fair value of $46,729,000 in 1998 and $37,857,000 in 1997):			
Federal agency mortgage based obligations		35,838,000	19,083,000
Other obligations of Federal agencies		-	6,000,000
Obligations of states and political subdivisions		10,340,000	12,296,000
Total securities held to maturity		46,178,000	37,379,000
Loans, net of unearned discount and deferred loan fees		225,735,000	212,342,000
Allowance for loan losses		(2,909,000)	(2,759,000)
Net loans		222,826,000	209,583,000
Accrued interest receivable		2,547,000	3,168,000
Premises and equipment, net		7,067,000	5,334,000
Other real estate owned		1,449,000	1,045,000
Other assets		1,843,000	1,373,000
Cost in excess of fair value of net assets acquired (net of accumulated amortization of $952,000 in 1998 and $913,000 in 1997)		591,000	630,000
Total assets	$	405,157,000	370,126,000

</TABLE>

PIONEER AMERICAN HOLDING COMPANY CORP.
Consolidated Balance Sheets, (Continued)
December 31, 1998 and 1997

<TABLE>
<CAPTION>

Liabilities and Stockholders' Equity		1998	1997
<S>	<C>		<C>
Deposits:			
Demand - noninterest bearing	$	42,931,000	43,740,000
NOW and Super NOW		38,462,000	30,679,000
Savings		56,714,000	52,783,000
Money Market		22,481,000	22,487,000

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Time	146,772,000	143,954,000
Total deposits	307,360,000	293,643,000
Accrued interest payable	2,095,000	2,103,000
Dividends payable	581,000	544,000
Federal funds purchased	-	2,350,000
Other borrowed money	58,357,000	37,073,000
Other liabilities	1,298,000	1,015,000
Total liabilities	369,691,000	336,728,000
Stockholders' equity:		
Common stock, $1 par value per share, 25,000,000 shares authorized; 2,904,309 shares in 1998; 2,862,874 in 1997 issued and outstanding	2,904,000	2,863,000
Additional paid-in capital	11,767,000	11,472,000
Retained earnings	20,121,000	18,334,000
Accumulated other comprehensive income	674,000	729,000
Total stockholders' equity	35,466,000	33,398,000
Total liabilities and stockholders' equity	$ 405,157,000	370,126,000

</TABLE>

See accompanying notes to consolidated financial statements.

PIONEER AMERICAN HOLDING COMPANY CORP Condolidated Statements Of Operations
Years ended December 31, 1998, 1997, and 1996
<TABLE>
<CAPTION>

<S>	1998 <C>	1997 <C>	1996 <C>
Interest income:			
Interest and fees on loans	$ 19,093,000	18,101,000	18,345,000
Interest on Federal funds sold	480,000	320,000	274,000
Interest on investments:			
Taxable	7,615,000	7,063,000	5,144,000
Non-taxable	1,114,000	1,023,000	595,000
Total interest income	28,302,000	26,507,000	24,358,000
Interest expense:			
Interest on deposits	10,840,000	11,337,000	10,799,000
Interest on Federal funds purchased	23,000	10,000	1,000
Interest on other borrowed money	3,456,000	1,498,000	74,000
Total interest expense	14,319,000	12,845,000	10,874,000
Net interest income	13,983,000	13,662,000	13,484,000
Provision for loan loss	420,000	535,000	500,000
Net interest income after provision for loan losses	13,563,000	13,127,000	12,984,000
Other operating income:			
Service charges on deposit accounts	1,334,000	1,330,000	1,168,000
Gains on sales of securities available for sale	509,000	154,000	-
Gains on calls of securities held to maturity	2,000	3,000	-
ATM fees	523,000	402,000	131,000
Other income	593,000	572,000	713,000
Total other operating income	2,961,000	2,461,000	2,012,000
Other operating expenses:			
Salaries and employee benefits	5,071,000	5,040,000	5,061,000

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Net occupancy expense of bank premises	1,027,000	1,026,000	857,000
Furniture and equipment expenses	773,000	685,000	622,000
Data Processing expense	255,000	242,000	241,000
ORE Expense	360,000	121,000	193,000
Other expenses	3,481,000	2,966,000	2,775,000
Total other operating expenses	10,967,000	10,080,000	9,749,000
Income before income taxes	5,557,000	5,508,000	5,247,000
Income tax expense	1,535,000	1,500,000	1,543,000
Net income	$ 4,022,000	4,008,000	3,704,000
Other comprehensive income net of tax			
Unrealized gain/loss on securities			
Unrealized holding gain/(loss) arising during the period	282,000	1,013,000	(87,000)
Less reclassification adjustment for gains included in net income	(337,000)	(104,000)	-
Comprehensive income	3,967,000	4,917,000	3,617,000
Earnings Per Share Data: (Based on net income)			
Basic	$ 1.39	1.41	1.32
Diluted	1.36	1.36	1.26

</TABLE>

See accompanying notes to consolidated financial statements.

PIONEER AMERICAN HOLDING COMPANY CORP.
Consolidated Statements of Changes in Stockholders' Equity Years ended December 31, 1998, 1997 and 1996

<TABLE>
<CAPTION>

<S>	Common Stock <C>	Additional Paid-in Capital <C>	Retained Earnings <C>	Accumlated Other Compre-hensive Income <C>	Treasury Stock <C>	Total Stockholders' Equity <C>
Balance at December 31, 1995	$ 2,786,000	11,181,000	14,618,000	(93,000)	-	28,492,000
Net Income	-	-	3,704,000	-	-	3,704,000
Cash dividends declared - $0.66 per share	-	-	(1,900,000)	-	-	(1,900,000)
Changes in net unrealized loss on securities available for sale, net of tax	-	-	-	(87,000)	-	(87,000)
Exercise of stock options	43,000	52,000	(41,000)	-	-	54,000
Balance at December 31, 1996	$ 2,829,000	11,233,000	16,381,000	(180,000)	-	30,263,000
Net Income	-	-	4,008,000	-	-	4,008,000
Cash dividends declared - $0.72 per share	-	-	(2,055,000)	-	-	(2,055,000)
Changes in net unrealized gain on securities available for sale, net of tax	-	-	-	909,000	-	909,000
Exercise of stock options	34,000	239,000	-	-	-	273,000
Balance at December 31, 1997	$ 2,863,000	11,472,000	18,334,000	729,000	-	33,398,000
Net Income	-	-	4,022,000	-	-	4,022,000
Cash dividends declared - $0.77 per share	-	-	(2,235,000)	-	-	(2,235,000)
Changes in net unrealized gain on securities available for sale, net of tax	-	-	-	(55,000)	-	(55,000)
Purchase of Treasury stock	(2,000)	-	-	-	(33,000)	(35,000)

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Exercise of stock options	43,000	295,000	-	-	33,000	371,000
Balance at December 31, 1998	$ 2,904,000	11,767,000	20,121,000	674,000	-	35,466,000

</TABLE>

See accompanying notes to consolidated financial statements.

PIONEER AMERICAN HOLDING COMPANY CORP.
Consolidated Statements of Cash Flows
Years ended December 31, 1998, 1997 and 1996
<TABLE>
<CAPTION>

	1998	1997	1996
<S>	<C>	<C>	<C>
Cash flows from operating activities:			
Net income	$ 4,022,000	4,008,000	3,704,000
Adjustments to reconcile net income to net cash provided by operating activities:			
Net gain on sales of securities available for sale	(509,000)	(154,000)	-
Net gain on calls on investments securities	(2,000)	(3,000)	-
Accretion of discount on securities and money market investments	(48,000)	(63,000)	(94,000)
Amortization of premium on investment securities	394,000	91,000	97,000
Provision for loan losses	420,000	535,000	500,000
Decrease in deferred loan fees	(260,000)	(6,000)	(116,000)
(Increase) decrease in deferred tax benefit	54,000	(2,000)	(30,000)
Decrease (increase) in accrued interest receivable	621,000	(576,000)	41,000
Depreciation and amortization of premises and equipment	859,000	844,000	770,000
Gain on sales of premises and equipment	(23,000)	(5,000)	(6,000)
Loss on sale of other real estate	220,000	13,000	177,000
Proceeds from the sale of mortgage and PHEAA loans held for sale	5,419,000	3,414,000	14,439,000
Net increase in mortgage & PHEAA loans held for sale	(5,712,000)	(3,160,000)	(2,584,000)
Gain on sale of mortgages and PHEAA loans	(62,000)	(58,000)	(249,000)
(Decrease) increase in other assets	(497,000)	57,000	(322,000)
Amortization of goodwill	39,000	38,000	39,000
Increase (decrease) in accrued interest payable	(8,000)	(98,000)	99,000
(Decrease) increase in other liabilities	283,000	(32,000)	(61,000)
Total adjustments to reconcile net income to net cash provided by operating activities	1,188,000	835,000	12,700,000
Net cash provided by operating activities	5,210,000	4,843,000	16,404,000
Cash flows from investing activities:			
Proceeds from maturities and calls of securities held to maturity	16,866,000	6,638,000	6,745,000
Proceeds from maturities and calls of securities available for sale	31,788,000	38,459,000	35,908,000
Proceeds from sales of securities available for sale	20,217,000	17,799,000	6,327,000
Purchases of securities held to maturity	(25,804,000)	(44,593,000)	(4,445,000)
Purchase of securities available for sale	(56,167,000)	(53,992,000)	(47,188,000)
Net increase in loans made to customers, excluding provision for loan losses and change in deferred loan fees	(14,130,000)	(9,764,000)	(18,923,000)
Acquisition of premises and equipment	(2,635,000)	(1,132,000)	(1,071,000)
Proceeds from sales of premises and equipment	66,000	35,000	14,000
Proceeds from sale of other real estate	459,000	471,000	169,000
Net cash used in investing activities	(29,340,000)	(46,079,000)	(22,464,000)

</TABLE>

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PIONEER AMERICAN HOLDING COMPANY CORP.
Consolidated Statements of Cash Flows, (Continued)
Years ended December 31, 1998, 1997 and 1996

		1998	1997	1996
Cash flows from financing activities:				
Net (decrease)increase in demand, NOW and Super NOW, savings, money market and time deposits.	$	13,717,000	(2,303,000)	7,694,000
Dividends paid		(2,198,000)	(1,992,000)	(1,837,000)
Other borrowed money		21,284,000	36,798,000	-
Increase (decrease) Federal funds purchased		(2,350,000)	2,350,000	-
Exercise of stock options		336,000	273,000	54,000
Net cash provided by financing activities		30,789,000	35,126,000	5,911,000
Net increase (decrease) in cash and cash equivalents		6,659,000	(6,110,000)	(149,000)
Cash and cash equivalents at beginning of year		14,918,000	21,028,000	21,177,000
Cash and cash equivalents at end of year	$	21,577,000	14,918,000	21,028,000
Supplemental Disclosure:				
Cash payments for interest		14,327,000	12,943,000	10,775,000
Cash payments for income taxes		1,753,000	1,491,000	1,543,000
Transfer of assets from loans to other real estate		1,083,000	753,000	190,000
Change in net unrealized loss(gain) on securities available for sale		83,000	(1,378,000)	132,000
Tax effect on change in unrealized loss(gain) on securities available for sale		28,000	(469,000)	45,000

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

(1) Summary of Significant Accounting Policies

Principles of Consolidation and Presentation

The accompanying consolidated financial statements have been prepared in conformity with generally accepted accounting principles and include the accounts of the Pioneer American Holding Company Corp. (the "Company") and its wholly-owned subsidiary, Pioneer American Bank, National Association (the "Bank"). The Bank provides a wide range of banking services to individual and corporate customers through its branch banks in Lackawanna, Luzerne, Monroe, Wayne, and Wyoming Counties in Pennsylvania. The Bank operates within two major markets in Northeastern Pennsylvania consisting of: the Scranton -Wilkes-Barre -Hazleton metropolitan statistical area (MSA) and the Poconos. These two markets are quite diverse. The MSA consists of a stable industrial complex and a growing service industry. The MSA also has a relatively stable population base. The Poconos is a more transient market with a growing industrial and service complex, but is still primarily driven by the vacation resort and tourist trade. The entire business of the Company is managed as one operating segment.

The Bank operates its branch network in three distinct manners: supermarket banking (10 offices), traditional branch banking (8 offices), and personal banking (2 offices). A large percentage of the Bank's loans and deposits were originated and are being serviced by the traditional branches. All of the branches are full service and offer

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commercial and retail products. These products include checking accounts (non-interest and interest bearing), savings accounts, certificate of deposits, commercial and installment loans, real estate mortgages and home equity loans. The Bank also offers ancillary services which complement these products.

The Bank is subject to competition from other financial institutions and other financial services companies. The Bank is subject to the regulations of certain federal agencies and undergoes periodic examinations by those regulatory authorities.

All material intercompany balances and transactions between the Company and its subsidiary have been eliminated. In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and revenues and expenses for the period. Actual results could differ significantly from those estimates. Material estimates that are particularly susceptible to significant change in the near-term relate to the determination of the allowance for loan losses, the valuation of real estate acquired in connection with foreclosures or in satisfaction of loans.

In connection with the determination of the allowances for loan losses and real estate owned, management obtains independent appraisals for significant properties to the extent considered practical.

(1) Continued

Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks, and Federal funds sold. Generally, Federal funds are sold for one-day periods. The Bank is required to maintain certain average reserve balances as established by the Federal Reserve Bank. The amount of those reserve balances for the reserve computation period which included December 31, 1998, was $4,078,000, which amount was satisfied through the restriction of vault cash.

The Bank is also required to maintain certain balances at correspondent banks based upon activity with the correspondent. At December 31, 1998, the amount of such required balances was $22,000.

Mortgage Loans Held for Sale

The Company periodically identifies certain loans as held for sale at the time of origination. These loans consist primarily of fixed rate residential mortgages and are recorded at the lower of cost or estimated market value.

Securities

Securities are classified in three categories consisting of held-to-maturity, trading and available for sale. Trading securities are those which are bought and held principally for the purpose of selling them in the near term. Held to maturity securities are those securities for which the Company has the ability and intent to hold the security until maturity. All other securities not included in trading or held to maturity are classified as available for sale. Held to maturity securities are reported at amortized cost, while trading securities and available for sale securities are reported at fair value. For trading securities the unrealized gains and losses are included in current earnings. Available for sale securities are accounted for by reporting unrealized gains and losses as a separate component of shareholders' equity, net of tax.

Interest Revenue and Expense

Interest revenue and expense are accrued on various methods which approximate a level yield or cost when related to principal amounts outstanding. Unearned discount on loans is amortized to income by a method which also approximates a level yield on the principal amounts outstanding.

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(1) Continued

Non-accrual Loans

The accrual of interest on loans is discontinued when payment of principal or interest is considered doubtful of collection. Commercial loans over ninety days past due are included in the non-accrual totals. Mortgages past due 90 days or more are placed in non-accrual status unless the Bank considers the loan to be well secured and in the process of collection. When interest accrual is discontinued, the interest receivable which was previously credited to income is reversed. If a loan demonstrates the ability to pay over a period of time and is current as to principal and interest, then the loan is returned to accrual status.

Loan Fees

Loan origination fees and direct loan origination costs are recognized over the life of the related loan as an adjustment of the loan's yield.

Allowance for Loan Losses

The provision for loan losses charged to operating expense reflects the amount deemed appropriate by management to maintain the allowance for loan losses at a level to absorb known and inherent losses in light of the present risk characteristics of the Bank's loan portfolio. Management's judgment is based on the evaluation of individual loans and their overall risk characteristics, past experiences with respect to the relationship of its loan losses to the loan portfolio, the assessment of current economic conditions and other relevant factors.

Management believes that the allowance for loan losses is adequate. While management uses available information to make its evaluations, future adjustments to the allowance may be necessary if economic conditions differ substantially from the assumptions used in making the evaluations. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the Bank's allowance for loan losses. Such agencies may require the Bank to recognize additions to the allowances based on their judgments about information available to them at the time of their examination.

Loan losses are charged directly against the allowance and recoveries on previously charged-off loans are added to the allowance.

Impaired loans are measured based on the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's market price or the fair value of the collateral if the loan is collateral dependent. For purposes of applying the measurement criteria for impaired loans, the Company excludes large groups of smaller-balance homogeneous loans, primarily consisting of residential real estate

(1) Continued

loans and consumer loans, as well as commercial, financial , and agricultural loans with balances less than $100,000. For applicable loans, the Company evaluates the need for impairment recognition when a loan becomes nonaccrual, or earlier if, based on management's assessment of the relevant facts and circumstances, it is probable that the Bank will be unable to collect all proceeds due according to the contractual terms of the loan agreement. The Company's policy for the recognition of interest income on impaired loans is the same as for nonaccrual loans discussed previously. Impaired loans are charged off when the Company determines that foreclosure is probable and the fair value of the collateral is less than the recorded investment of the impaired loan.

Premises and Equipment

Premises and equipment are stated at cost less accumulated depreciation and amortization. Depreciation is computed on a straight-line basis over the estimated lives of the related assets as follows: buildings 20-33 years; building and land improvements 5-10 years; equipment 3-12 years; and leasehold improvements over 10-15 years. No depreciation is taken on capital projects-in-progress until such projects are completed and placed in service. Maintenance and repairs are charged to

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operations as incurred.

Other Real Estate Owned

Other real estate owned consists of real estate acquired through or in lieu of foreclosure and is stated at the lower of cost or estimated fair value, less estimated disposal costs. Allowances for declines in value subsequent to acquisition were not necessary at both December 31, 1998 and 1997. While management uses the best information available to make its evaluations, future adjustments to the valuation of other real estate may be necessary if economic conditions differ significantly from the assumptions used in making the evaluations.

Cost in Excess of Fair Value of Net Assets Acquired

Cost in excess of fair value of net assets acquired arose from an acquisition in 1976 and is being amortized on a straight-line basis over a period of 40 years.

Income Taxes

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences

(1) Continued

between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the periods in which those temporary differences are expected to be recovered or settled. The Company and the Bank file a consolidated tax return.

(2) Securities Available for Sale

Securities available for sale at December 31, 1998 and 1997 are summarized as follows:

<TABLE>
<CAPTION>

	1998			
	Cost	Unrealized		Carrying Value
		Gain	Loss	(Fair)
<S>	<C>	<C>	<C>	<C>
Federal agency mortgage-backed obligations:				
Federal National Mortgage Association	$ 9,365,000	42,000	(10,000)	9,397,000
Federal Home Loan Mortgage Corporation	5,464,000	-	(35,000)	5,429,000
Government National Mortgage Association	19,078,000	239,000	(16,000)	19,301,000
Other obligations of Federal agencies	47,207,000	391,000	(61,000)	47,537,000
State and municipals	12,817,000	502,000	(30,000)	13,289,000
Other securities	6,126,000	-	-	6,126,000
Total securities available for sale	$ 100,057,000	1,174,000	(152,000)	101,079,000

	1997			
	Cost	Unrealized		Carrying Value
		Gain	Loss	(Fair)
US Treasury securities	$ 1,998,000	1,000	-	1,999,000
Federal agency mortgage-backed obligations:				
Federal National Mortgage Association	2,707,000	37,000	-	2,744,000
Federal Home Loan Mortgage Corporation	4,831,000	-	(22,000)	4,809,000
Government National Mortgage Association	24,112,000	317,000	-	24,429,000
Other obligations of Federal agencies	49,835,000	468,000	(51,000)	50,252,000
State and municipals	8,473,000	355,000	-	8,828,000
Other securities	3,635,000	-	-	3,635,000
Total securities available for sale	$ 95,591,000	1,178,000	(73,000)	96,696,000

</TABLE>

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Notes to Consolidated Financial Statements, (Continued)

(2) Continued

The amortized cost and fair value of securities available for sale at December 31, 1998 are due as follows:

	December 31, 1998	
	Amortized Cost	Fair Value
Securities Available for Sale		
Due in one year or less	$ 17,117,000	17,144,000
Due after one year through five years	25,934,000	26,213,000
Due after five years through ten years	16,471,000	16,969,000
Due after ten years	40,535,000	40,753,000
Total securities available for sale	$ 100,057,000	101,079,000

Proceeds from sales of securities available for sale during 1998 were $20,217,000. Gross gains of $509,000 and gross losses of $-0- were realized on these sales. Proceeds from sales of securities available for sale during 1997 were $17,799,000. Gross gains of $170,000 and gross losses of $16,000 were realized on these sales. Proceeds from sales of securities available for sale during 1996 were $6,327,000. There were no gains or losses realized on these sales.

(3) Securities Held to Maturity

Securities held to maturity at December 31, 1998 and 1997 are summarized as follows:

	1998			
	Carrying Value (Cost)	Unrealized Gain	Unrealized Loss	Fair Value
Federal agencies mortgage backed	$ 35,838,000	184,000	(43,000)	35,979,000
Obligations of state and politcal subdivisions	10,340,000	413,000	(3,000)	10,750,000
Securities held for investment	$ 46,178,000	597,000	(46,000)	46,729,000

	1997			
	Carrying Value (Cost)	Unrealized Gain	Unrealized Loss	Fair Value
Federal agencies mortgage backed	19,083,000	211,000	-	19,294,000
Obligations of Federal agencies	6,000,000	1,000	(24,000)	5,977,000
Obligations of states and political subdivisions	12,296,000	304,000	(14,000)	12,586,000
Securities held for investment	$ 37,379,000	516,000	(38,000)	37,857,000

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</TABLE>

(3) Continued

The amortized cost and market value of investment securities at December 31, 1998 are due as follows:

<TABLE>
<CAPTION>

	December 31, 1998	
	Amortized Cost	Fair Value
<S>	<C>	<C>
Investment Securities		
Due in one year or less	$ 2,600,000	2,628,000
Due after one year through five years	4,185,000	4,363,000
Due after five years through ten years	3,085,000	3,273,000
Due after ten years	36,308,000	36,465,000
Total investment securities	$ 46,178,000	46,729,000

</TABLE>

At December 31, 1998 and 1997, securities with an aggregate book value of $40,407,000 and $29,654,000 respectively, were pledged to secure public deposits.

There were no sales of securities held to maturity during the periods presented herein.

(4) Loans

Loans at December 31, 1998 and 1997 are summarized below:

<TABLE>
<CAPTION>

	1998	1997
<S>	<C>	<C>
Commercial business	$ 17,264,000	15,534,000
Commercial real estate	71,389,000	69,505,000
Real estate construction	1,120,000	1,002,000
Real estate residential (mortgage and installment)	133,521,000	120,604,000
Consumer	17,681,000	17,865,000
Total loans, gross	240,975,000	224,510,000
Unearned discount	(14,531,000)	(11,199,000)
Deferred loan fees	(709,000)	(969,000)
Total loans, net of unearned discount and deferred loan fees	$ 225,735,000	212,342,000

</TABLE>

(4) Loans

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Substantially all of the Bank's loans are secured by both residential and commercial real estate in the area of Northeastern Pennsylvania. Loans secured by commercial or residential real estate outside of Northeastern Pennsylvania constitute less than 2% of the Bank's loans outstanding at December 31, 1998 and 1997. Accordingly, the Bank's primary concentration of credit risk is related to the real estate market in the Northeastern Pennsylvania area and the ultimate collectibility of this portion of the Bank's loan portfolio is susceptible to changes in economic conditions in that area. Management of the Bank does not believe there are any other significant concentrations of credit risk in the loan portfolio.

Interest was not being recorded on total loans aggregating approximately $1,684,000 as of December 31, 1998 and $2,596,000 as of December 31, 1997. If all non-accrual loans had been current in accordance with their original terms and had been outstanding throughout the period, interest income would have increased by $98,000, $149,000, and $160,000 for the years ended December 31, 1998, 1997, and 1996 respectively. The amount of interest income on non-accruing loans which were recorded in income was $13,000 in 1998, and $12,000 in 1997 and -0- for 1996, respectively. The total amount of restructured loans were $1,247,000, $890,000, and $643,000 as of December 31, 1998, 1997, and 1996, respectively. The amount of interest on restructured loans which was recorded in income was $98,000, $59,000, and $54,000 during 1998, 1997, and 1996, respectively. If the restructured loans had been current in accordance with their original terms and had been outstanding throughout the period, interest income would have increased by $24,000, $33,000, and $48,000 for the years ended December 31, 1998, 1997, and 1996.

As of December 31, 1998, the Company had impaired loans with a total recorded investment of $1,530,000 and $1,922,000 on December 31, 1997. The average recorded investment for the twelve month period ended December 31, 1998, 1997, and 1996 was $1,837,000, $1,914,000, and $1,145,000, respectively. Interest income recognized during each of these periods was nominal. As of December 31, 1998, the amount of recorded investment in impaired loans for which there is a related allowance for credit losses and amount of the allowance is $425,000 and $106,000, respectively and $815,000 and $185,000 for the prior year. The amount of the recorded investment in impaired loans for which there was no related allowance for credit losses at December 31, 1998 is $1,105,000 and $1,107,000 for December 31, 1997. The aggregate amount of impaired loans are measured under the fair value measurement method.

The aggregate amount of loans by the Company to its directors and executive officers, including loans to related persons and entities, was $2,580,000 and $2,715,000 at December 31, 1998 and 1997, respectively. These loans were made in the ordinary course of business at substantially the same terms and conditions as those with other borrowers.

(4) Continued

An analysis of the activity of these loans follows:

	1998
Balance January 1	$ 2,715,000
New loans	925,000
Repayments	1,060,000
Balance December 31	$ 2,580,000

In 1998, 1997 and 1996 the Company sold newly originated mortgage loans (primarily fixed rate) to the Federal Home Loan Mortgage Corporation. In 1996, the Company also sold both fixed rate and adjustable mortgage loans to a financial intermediary. The proceeds from the sale of these loans were $3,452,000, $992,000, and $12,380,000 respectively. The Company recognized a gain of $36,000 in 1998 and a gain of $20,000 and $220,000 in 1997 and 1996, respectively, from these transactions. The proceeds from the sale of PHEAA loans by the Company were $1,967,000, $2,422,000 and $2,059,000 in 1998, 1997, and 1996, resulting in gains of $26,000, $38,000, and $29,000, respectively. Loans serviced for the benefit of others approximated $18,231,000 and $19,299,000 as of December 31, 1998 and 1997, respectively.

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(5) Allowance for Loan Losses

Activity in the allowance for loan losses for the years ended December 31, 1998, 1997 and 1996 is summarized as follows:

	1998	1997	1996
Balance at beginning of period	$ 2,759,000	2,750,000	2,742,000
Additions and (deductions):			
Loans charged-off	(308,000)	(599,000)	(518,000)
Recoveries	38,000	73,000	26,000
Net loans charged-off	(270,000)	(526,000)	(492,000)
Provision for loan losses	420,000	535,000	500,000
Balance at end of period	$ 2,909,000	2,759,000	2,750,000

(6) Premises and Equipment

Premises and equipment are comprised of the following at December 31, 1998 and 1997:

	1998	1997
Premises owned	$ 5,801,000	4,675,000
Furniture and equipment	8,700,000	7,331,000
Leasehold improvements	1,334,000	1,336,000
	15,835,000	13,342,000
Accumulated depreciation and amortization	(8,768,000)	(8,008,000)
	$ 7,067,000	5,334,000

Occupancy expenses are reduced by rental income from premises owned of $30,000 in 1998, $31,000 in 1997 and $73,000 in 1996.

(7) Deposits

Included in time deposits are certificates of deposit and money market certificates. Although such certificates are often renewed, the following is a summary by maturity date of these certificates at December 31, 1998 and 1997:

Maturity	1998	1997
Less than one year	$ 113,864,000	112,619,000
Greater than one year	32,908,000	31,335,000
	$ 146,772,000	143,954,000

The aggregate amount of certificates of deposit, each $100,000 or more,

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was $41,633,000 and $39,734,000 at December 31, 1998 and 1997, respectively. Interest expense associated with certificates of deposit, each $100,000 or more, was approximately $2,510,000, $2,782,000, and $1,951,000, respectively, for the years ended December 31, 1998, 1997 and 1996.

(8) Other Borrowed Money

The Bank maintains a collateralized maximum borrowing capacity of $129,602,000 with the Federal Home Loan Bank of Pittsburgh (FHLB). Inclusive in this figure is an available line of credit of $13,000,000. The line is collateralized by eligible securities. At December 31, 1998 and 1997 there were no borrowing outstanding against the Bank's line of credit. Two FHLB advances of $10,000,000 each were issued on January 21, 1997 and will mature on January 22, 2002 with a fixed rate of 6.44% and 6.45%, respectively. The Bank's third FHLB advance of $20,000,000 was made on September 11, 1997. This was a five year/two year convertible program with a fixed rate of 5.98% for two years, adjustable quarterly thereafter

(8) Continued

at the option of the FHLB. On January 22, 1998 the Bank also borrowed $25,000,000 at a ten year/five year putable program with a fixed rate of 5.38%.

The balance of other borrowed money and Federal funds purchased as of December 31, 1998 and 1997 are summarized as follows:

<TABLE>
<CAPTION>

<S>	Balance End of Period <C>	Weighted Average Interest Rate <C>	Maximum Amount Outstanding at Month End During the Period <C>	Average Amount Outstanding During the Period <C>	Weighted Average Interest Rate During the Period <C>
1998					
FHLB Advances	$ 58,082,000	6.15%	$ 61,497,000	$ 58,689,000	5.86%
Note Payable	275,000	6.50	275,000	275,000	6.50
Federal funds purchased	-	-	3,000,000	447,000	4.92
1997					
FHLB Advances	$ 36,798,000	6.36%	$ 37,984,000	$ 23,323,000	6.35%
Note Payable	275,000	6.50	275,000	275,000	6.50
Federal funds purchased	2,350,000	8.00	2,350,000	160,000	6.25
1996					
FHLB Advances	$ -	- %	$ -	$ -	- %
Note Payable	275,000	6.50	275,000	275,000	6.50
Federal funds purchased	-	-	-	-	-

</TABLE>

Advances from the Federal Home Loan Bank (FHLB) of Pittsburgh with fixed rates ranging from 5.38% to 6.45% at December 31, 1998 are due as follows :

	Amount	Weighted Average Rate
1999	3,962,000	6.45%
2000	4,226,000	6.45
2001	4,506,000	6.45
2002	20,388,000	5.99
2008	25,000,000	5.38
	$ 58,082,000	

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(9) Commitments, Contingent Liabilities, Off Balance Sheet Risk

In the ordinary course of business, the Company, Bank and its subsidiaries are subject to legal actions which involve claims for monetary relief. Based upon information presently available to management and its counsel, it is management's opinion that any legal and financial responsibility arising from such claims will not have a material adverse effect on the Company's financial condition and results of operations.

The Company leases four branch offices under year-to-year operating leases. The Company is currently obligated for six non-cancelable, long-term commitments under operating leases for six branch offices. Total rental expense, which consists primarily of the rent for the branch offices and computer equipment was $310,000, $304,000 and $233,000 for the years ended December 31, 1998, 1997 and 1996, respectively.

The following is a schedule by years for future minimum rental payments required for operating leases as of December 31, 1998:

Years ending December 31:		
1999		282,000
2000		228,000
2001		138,000
2002		77,000
2003		75,000
2004 thereafter		139,000
Total minimum payments required	$	939,000

In the normal course of business, various commitments and contingent liabilities are outstanding, such as guarantees and commitments to extend credit, which are not reflected in the consolidated financial statements. Management does not anticipate any significant losses as a result of these commitments. Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. The Bank evaluates each customer's creditworthiness on a case by case basis. The amount of collateral, if any, obtained upon extension of credit is based on management's credit evaluation of the borrower. Collateral held usually consists of real estate, but may include securities, property or other assets.

The Company had outstanding standby letters of credit in the amount of approximately $2,131,000 and $1,929,000 and unfunded loan and line of credit commitments in the amount of approximately $14,846,000 and $14,374,000 at December 31, 1998 and 1997, respectively. These instruments involve, to

(9) Continued

varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheet. The exposure to credit loss in the event of non-performance by the counter party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual amount. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Bank holds various collateral to support these commitments. The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

(10) Stockholders' Equity and Per Share Data

In the second quarter of 1996 the Company's Board of Directors declared a two for one stock split effected in the form of a stock dividend. The split was effective on July 15, 1996. The shareholders in June of 1996 approved a decrease in the par value of authorized shares of common stock from 25,000,000 ($10 par value) to 25,000,000 ($1 par value). These financial statements have been adjusted to reflect both the stock

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split and the change in par value.

Basic earnings per share is calculated by dividing net income by the weighted average shares outstanding during the period. The dilutive effect of stock options is excluded from basic earnings per share, but included in the computation of diluted earnings per share.

The following table sets forth the computation of basic and diluted earnings per share (in thousands, except per share data):

<TABLE>
<CAPTION>

	1998	1997	1996
<S>	<C>	<C>	<C>
Numerator:			
Net income	$ 4,022	4,008	3,704
Denominator:			
Denominator for basic earnings per share - weighted average shares	2,894	2,850	2,812
Effect of dilutive securities:			
Employee stock options	59	89	120
Denominator for diluted earnings per share - adjusted weighted average shares and assumed conversion	2,953	2,939	2,932
Basic earnings per share	$ 1.39	1.41	1.32
Diluted earnings per share	$ 1.36	1.36	1.26

</TABLE>

(10) Continued

The weighted average number of basic shares outstanding in 1998, 1997 and 1996 were, 2,893,570, 2,849,723, and 2,812,269 shares, respectively. The weighted average number of diluted shares outstanding in 1998, 1997, and 1996 were 2,953,325, 2,939,090 and 2,932,161 shares, respectively. The Company currently has one million shares of authorized, but unissued preferred stock.

(11) Employee Stock Option Plan

In 1990, the Company's Board of Directors adopted an employee stock option plan (the Plan) which reserved 300,000 shares of authorized but unissued stock, as adjusted for the stock splits, effective February 7, 1994 and a stock split July 15, 1996. The Plan provides for the grant of incentive stock options and nonqualified stock options. The exercise price of the options when issued was at least 100% of the fair market value of the Company's common stock as of the date the options were granted. The exercise of the stock options is subject to a vesting schedule and certain termination provisions. Stock options have been issued for all of the authorized shares of stock reserved under the plan.

Changes in total options outstanding during 1998, 1997, and 1996, were as follows:

<TABLE>
<CAPTION>

	Number of Options	Exercise Price Per Option (1)	Weighted Average Exercise Price
<S>	<C>	<C>	<C>
Balance at December 31, 1995	248,278	$8.00 - $13.00	9.70
ISOs Exercised	(65,553)	$8.00	8.00
Balance at December 31, 1996	182,725	$8.00 - $13.00	10.31
ISOs Exercised	(37,597)	$8.00 - $13.00	9.68

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Balance at December 31, 1997	145,128	$8.00 - $13.00	10.48
ISOs Exercised	(42,935)	$8.00 - $ 9.00	8.64
Balance at December 31, 1998	102,193	$8.00 - $13.00	11.26

</TABLE>

The amounts have been restated to reflect the Company's two for one split effected in the form of a stock dividend, effective July 15, 1996.

The following table summarizes information about stock options outstanding at December 31, 1998:

	Exercisable		
Exercise Price Range	Shares	Average Life (1)	Average Exercise Price
$ 8.00	9,525	2.50	$ 8.00
9.00	32,668	4.33	9.00
$ 13.00	60,000	5.17	$ 13.00
Total	102,193	4.00	11.26

(1) Average contractual life remaining in years.

(11) Continued

The Company, as permitted, has elected not to adopt the fair value accounting provisions of SFAS No. 123, "Accounting for Stock-Based Compensation", and has instead continued to apply the existing intrinsic value method in accounting for stock based compensation and provide the required proforma disclosure of SFAS No. 123. The Company did not grant any options in 1998, 1997 or 1996. Therefore had compensation cost for the Company's stock options been determined consistent with SFAS No. 123, the Company's net income and earnings per share would have been unaffected.

(12) Regulatory Matters

Dividends payable to the Company by the Bank are subject to certain regulatory limitations. The payment of dividends in any year without regulatory permission is limited to the net profits (as defined for regulatory purposes) for that year plus the retained net profits for the preceding two calendar years. Accordingly, as of December 31, 1998, dividends in excess of those already declared from the Bank to the Company are limited to $5,801,000. The dividends declared to the Company by the Bank were $2,235,000 in 1998.

Under Federal banking law, the Bank is restricted regarding extensions of credit to the Company. The limit on extensions of credit was $1,908,000 as of December 31, 1998.

The Bank 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 Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities, and certain off- balance-sheet items as calculated under regulatory accounting practices. The Bank'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 Bank 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

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believes, as of December 31, 1998, that the Bank meets all capital adequacy requirements to which it is subject.

As of December 31, 1998, the most recent notification from the Office of the Comptroller of the Currency categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To

(12) Continued

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. There are no conditions or events since that notification that management believes have changed the institution's category.

The Bank's actual capital amounts and ratios are also presented in the table.

<TABLE>
<CAPTION>

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
<S>	<C>	<C>	<C>	<C>	<C>	<C>
As of December 31, 1998						
Total Capital (to Risk Weighted Assets)	$36,359,000	16.22%	≥ $ 17,935,840	≥ 8.00%	≥ $ 22,419,800	≥ 10.00%
Tier I Capital (to Risk Weighted Assets)	$33,555,000	14.97%	≥ $ 8,967,920	≥ 4.00%	≥ $ 13,451,880	≥ 6.00%
Tier I Capital (to Average Assets)	$33,555,000	8.25%	≥ $ 16,260,840	≥ 4.00%	≥ $20,326,050	≥ 5.00%
As of December 31, 1997						
Total Capital (to Risk Weighted Assets)	$34,150,000	16.70%	≥ $ 16,360,800	≥ 8.00%	≥ $20,451,000	≥ 10.00%
Tier I Capital (to Risk Weighted Assets)	$31,591,000	15.45%	≥ $ 8,180,400	≥ 4.00%	≥ $ 12,270,600	≥ 6.00%
Tier I Capital (to Average Assets)	$31,591,000	8.45%	≥ $ 14,946,880	≥ 4.00%	≥ $ 18,683,600	≥ 5.00%

</TABLE>

(13) Income Taxes

The components of federal income tax expense (benefit) are as follows:

	1998	1997	1996
Current	$ 1,481,000	1,502,000	1,573,000
Deferred	54,000	(2,000)	(30,000)
	$ 1,535,000	1,500,000	1,543,000

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(13) Continued

A reconciliation of the income tax expense in the accompanying statements of income with the amount computed by applying the statutory federal income tax rate to income before income taxes is as follows:

	1998	1997	1996
Tax expense at 34% rate	$ 1,889,000	1,873,000	1,784,000
Interest from tax exempt loans and investments	(368,000)	(361,000)	(251,000)
Other, net	14,000	(12,000)	10,000
Income tax expense	$ 1,535,000	1,500,000	1,543,000

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

<TABLE>
<CAPTION>

<S>	<C> 1998	<C> 1997
Deferred tax assets:		
Executive retirement plan	$ 251,000	243,000
Allowance for loan losses	713,000	662,000
Deferred loan fees	185,000	266,000
Deferred directors fees	116,000	116,000
Non-accrual interest	45,000	64,000
Others, net	39,000	39,000
Total gross deferred tax assets	1,349,000	1,390,000
Deferred tax liabilities:		
Accumulated amortization of discount on investment securities	(118,000)	(194,000)
Depreciation	(325,000)	(236,000)
Unrealized gain on securities available for sale	(347,000)	(376,000)
Total gross deferred tax liabilities	(790,000)	(806,000)
Net deferred tax asset	$ 559,000	584,000

</TABLE>

Based upon the Company's current taxable history and the anticipated level of future taxable income, management of the Company believes the existing deductible temporary differences will, more likely than not, reverse in future periods in which the Company generates net taxable income. Accordingly, the Company does not believe a valuation allowance is necessary at December 31, 1998 and 1997. There can be no assurance, however, that the Company will generate any earnings or any specific level of continued earnings in the future.

(13) Continued

At December 31, 1998 and 1997, net deferred tax benefits of $559,000 and $584,000 respectively, are included in other assets, and income taxes currently recoverable of $257,000 and -0-, respectively are included in other assets. At December 31, 1997, $15,000 of income taxes currently payable was included in other liabilities.

(14) Benefit Plans

The Bank has an employee stock ownership plan which includes substantially all employees who have at least one year of service. A qualified determination letter has been received from the Internal Revenue Service. Contributions at the discretion of the Company's Board

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of Directors of $2,000, $54,000 and $-0- were accrued in 1998, 1997 and 1996, respectively.

The ESOP held 143,579 and 148,770 shares of the Bank's common stock at December 31, 1998 and 1997, respectively.

The Bank has a savings and investment plan. Employees who have completed one year of service with 1,000 hours of employment during that year are eligible to participate. Employees may contribute up to 12% of their total pay in each payroll period up to approximately $9,000 during any calendar year. The Bank matches the employees' contribution to the Plan at a rate of 100% for the first 3% contributed by the employee and at a rate of 50% for the second 3% contributed by the employee. A qualified determination letter has been received from the Internal Revenue Service. Expense for this Plan was $121,000 in 1998, $115,000 in 1997, and $105,000 in 1996.

During 1996, 1997 and through and until October 1998, the Company maintained employment contracts with its President and Senior Executive Vice President. The employment contracts provided for a minimum annual salary and certain incentives in the event of a merger of the Company. During this period, the Company also paid premiums on split dollar life insurance policies on the lives of these executives and expects reimbursement of policy premiums upon the death or termination of these executives. The Company has also agreed to provide enhanced retirement benefits for these executives. Costs for these benefits were approximately $24,000, $44,000 and $84,000 in 1998, 1997 and 1996, respectively.

The Company has a deferred compensation plan for directors' fees under which nine directors deferred receipt of $6,000 each per year during the four years ended March 31, 1990. The Company is obligated to pay the directors an annuity beginning at the later of their attaining age 65 or March 31, 1990. The obligation is funded substantially by life insurance on the directors.

(14) Continued

A total of $32,000 was disbursed to these directors in each year 1998, 1997 and 1996. In 1998, 1997 and 1996, $36,000, was remitted for the payment of insurance premiums. Assets held by the insurance company which have reduced the company's accrual were $502,000 and $452,000 at December 31, 1998 and 1997, respectively. Expense under this plan was $12,000, $24,000, and $6,000 in 1998, 1997 and 1996, respectively.

(15) Disclosures about Fair Value of Financial Instruments

Statement of Financial Accounting Standards No. 107 "Disclosures about Fair Value of Financial Instruments" (SFAS No. 107), as amended by SFAS No. 119, requires the bank to disclose estimated fair value for its financial instruments.

Limitations

Fair value estimates are based on existing on-and-off balance sheet financial instruments without attempting to estimate the value of anticipated future business and the value of assets and liabilities that are not considered financial instruments. Significant assets and liabilities that are not considered financial instruments include deferred tax assets, property, plant and equipment, and goodwill.

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates do not reflect any premium or discount that could result from offering for sale at one time the Bank's entire holdings of a particular financial instrument. Because no market exists for a significant portion of the Bank's financial instruments, fair value estimates are based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates are subjective in nature and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimate.

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

Cash and Due from Banks and Federal Funds Sold

For cash and due from banks and Federal funds sold, the carrying amount is a reasonable estimate of fair value.

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(15) Continued

Securities Available for Sale and Securities Held to Maturity

The fair values of securities available for sale and securities held to maturity are estimated based on bid prices published in financial newspapers or bid quotations received from securities dealers.

Loans

Fair values are estimated for portfolios of loans of similar financial characteristics. Loans are segregated by type such as commercial, residential real estate, and consumer. Each loan category is further segmented into fixed and adjustable rate interest terms. The fair value of performing loans is calculated by discounting the expected future cash flows through expected maturity, considering prepayment experience, using estimated market discount rates that reflect the inherent credit risk in the loan.

Fair value of nonperforming loans is based upon estimated future cash flows discounted using a rate commensurate with the risk associated with the estimated cash flows. Assumptions regarding credit risk, cash flows, and discount rates are judgmentally determined using available market information and specific borrower information.

Deposit liabilities

The fair value of deposits with no stated maturity, such as non-interest earning demand deposits, savings, NOW and Super NOW accounts, and money market accounts, is equal to the amount payable on demand. The fair value of certificates of deposit and other time deposits is based on the discounted value of contractual cash flows. The discount rate is estimated using the rates currently offered for deposits of similar remaining maturities.

Federal Funds Purchased

For federal funds purchased, the carrying amount is a reasonable estimate of fair value.

Other Borrowed Money

The estimated fair value of other borrowed money is the carrying value due to the interest and term of other borrowed money being commensurate with the current market rate.

(15) Continued

Commitments to extend credit, and standby letters of credit

The fair value of commitments to extend credit is estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present credit worthiness of the counterparties.

The following represents the carrying value and estimated fair value:

<TABLE>
<CAPTION>

<S>	1998 Carrying Value <C>	1998 Fair Value <C>	1997 Carrying Value <C>	1997 Fair Value <C>
Financial assets:				
Cash and due from banks	$ 13,977,000	13,977,000	14,918,000	14,918,000
Federal funds sold	7,600,000	7,600,000	-	-
Securities available for sale	101,079,000	101,079,000	96,696,000	96,696,000
Securities held to maturity	46,178,000	46,729,000	37,379,000	37,857,000
Loans	222,826,000	229,198,000	209,583,000	213,705,000

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Financial liabilities:

Deposits	$ 307,360,000	307,732,000	293,643,000	293,686,000
Federal funds purchased	-	-	2,350,000	2,350,000
Other borrowed money	58,357,000	58,357,000	37,073,000	37,073,000

</TABLE>

The contract amount and estimated fair value for commitments to extend credit and standby letters of credit are as follows:

<TABLE>
<CAPTION>

	At December 31, 1998		At December 31, 1997	
	Contract Amount	Estimated Fair Value	Contract Amount	Estimated Fair Value
<S>	<C>	<C>	<C>	<C>
Commitments to extend credit	$ 14,846,000	223,000	14,374,000	216,000
Standby letters of credit	2,131,000	43,000	1,929,000	39,000

</TABLE>

(16) Pioneer American Holding Company Corp. (Parent Company Only)

Condensed 1998, 1997 and 1996 financial information is as follows:

Condensed Balance Sheets

<TABLE>
<CAPTION>

Assets	1998	1997
<S>	<C>	<C>
Cash	$ 594,000	396,000
Investment in subsidiary	34,820,000	32,950,000
Receivable from subsidiary	633,000	596,000
Total assets	$ 36,047,000	33,942,000
Liabilities and Stockholders' Equity		
Dividends payable	581,000	544,000
Stockholders' equity	35,466,000	33,398,000
Total liabilities and stockholders' equity	$ 36,047,000	33,942,000

</TABLE>

Condensed Statements of Income

<TABLE>
<CAPTION>

	1998	1997	1996
<S>	<C>	<C>	<C>
Expenses:			
Administrative and other	$ 138,000	50,000	69,000
Loss before earnings of subsidiary	(138,000)	(50,000)	(69,000)
Earnings of subsidiary:			
Received as dividends	2,235,000	2,055,000	1,900,000
Undistributed	1,925,000	2,003,000	1,873,000

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Net income	$ 4,022,000	4,008,000	3,704,000

</TABLE>

(16) Pioneer American Holding Company Corp. (Parent Company Only), (Continued)

Condensed Statements of Cash Flows

<TABLE>
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<S>	<C>	<C>	<C>
Cash flows from operating activities:			
Net income	$ 4,022,000	4,008,000	3,704,000
Adjustments to reconcile net income to net cash from operating activities:			
Undistributed earnings of subsidiary	(1,925,000)	(2,003,000)	(1,873,000)
Other	(37,000)	(62,000)	(63,000)
Net cash from operating activities	2,060,000	1,943,000	1,768,000
Cash flows used in financing activities:			
Dividend paid	(2,198,000)	(1,992,000)	(1,837,000)
Exercise of stock options	336,000	273,000	54,000
Net cash used in financing activities	(1,862,000)	(1,719,000)	(1,783,000)
Net increase (decrease) in cash	198,000	224,000	(15,000)
Cash at beginning of year	396,000	172,000	187,000
Cash at end of year	$ 594,000	396,000	172,000

</TABLE>

INDEPENDENT AUDITORS' REPORT

The Board of Directors
Pioneer American Holding Company Corp.:

We have audited the accompanying consolidated balance sheets of Pioneer American Holding Company Corp. and subsidiary (the "Company") as of December 31, 1998 and 1997, and the related consolidated statements of operations, changes in stockholders' equity and cash flows for each of the years in the three-year period ended December 31, 1998. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated 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 Pioneer American Holding Company Corp. and subsidiary as of December 31, 1998 and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 1998 in conformity with generally accepted accounting principles.

KPMG LLP

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Janaury 25, 1999
Philadelphia, Pennsylvania

SIGNATURES

<TABLE>
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<S>	<C>
Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.	/S/ GENE E. GOLDENZIEL, ESQ. GENE E. GOLDENZIEL, ESQ. Director
PIONEER AMERICAN HOLDING COMPANY CORP.	
Date: March 26, 1999	/S/WILLIAM K. NASSER WILLIAM K. NASSER Director
By/S/John W. Reuther John W. Reuther President, Chief Executive Officer, & Chief Financial Officer	/S/RICHARD CHOJNOWSKI RICHARD CHOJNOWSKI Director
By/S/Richard J. Lapera Richard J. Lapera Comptroller of Pioneer American Bank, National Association	/S/JOHN W. REUTHER JOHN W. REUTHER Director
	/S/ELDORE SEBASTIANELLI ELDORE SEBASTIANELLI Director
	/S/MARGARET O'CONNOR, R.N. MARGARET O'CONNOR, R.N. Director
	/S/JOHN W. WALSKI JOHN W. WALSKI Director

</TABLE>

Management Statement of Responsibility

The consolidated financial statements and related financial information presented in this Annual Report were prepared by the management of the Company which is responsible for the fairness, objectivity, and integrity of the information presented herein. Management believes that the financial statements have been prepared in conformity with generally accepted accounting principles. This information is based on recorded financial transactions which include amounts that are based on management's best estimate and judgment.

Management's responsibility for the financial information in the report rests on the Company's internal accounting control structure. The internal accounting control structure consists of written policies and procedures which include segregation of responsibilities and safeguarding against unauthorized use or disposition of assets. During 1998, the internal audit staff, which reports to the Audit Committee of the Board of Directors, had the responsibility of following audit procedures and maintaining close observation of such controls. The internal accounting control structure is designed to provide reasonable assurance that financial records are reliable for financial reporting purposes and that assets are properly safeguarded.

The Audit Committee of the Board of Directors meets on a regular basis in order to review and oversee the Company's internal control structure and financial reporting. The Audit Committee reviews the Company's audit and financial reporting matters with management, the internal auditors and the independent auditors, KPMG, LLP.

The consolidated financial statements in this Annual Report have been

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audited by the independent auditors. Management believes their audit was conducted in accordance with generally accepted auditing standards and included consideration of the Company's internal accounting control structure to the extent they deemed necessary to determine the nature, timing and extent of their audit testing for the purpose of expressing an opinion on the Company's consolidated financial statements.

Item 10

Directors and Executive Officers

The information that appears in the Corporation's Definitive Proxy Statement relating to the 1999 Annual Meeting of Shareholders of the Corporation is incorporated herein by reference.

Item 11

Executive Compensation

The information that appears in the Corporation's Definitive Proxy Statement relating to the 1999 Annual Meeting of Shareholders of the Corporation is incorporated herein by reference.

Item 12

Security Ownership of Certain Beneficial Owners and Management

The information that appears in the Corporation's Definitive Proxy Statement relating to the 1999 Annual Meeting of Shareholders of the Corporation is incorporated herein by reference.

Item 13

Certain Relationships and Related Transactions

The information that appears in the Corporation's Definitive Proxy Statement relating to the 1999 Annual Meeting of Shareholders of the Corporation is incorporated herein by reference

Consent of Independent Auditors

The Board of Directors
Pioneer American Holding Company Corp.:

We consent to incorporation by reference in the Registration Statement (No. 33-70784) on Form S-8 of Pioneer American Holding Company Corp. of our report dated January 25, 1999, relating to the consolidated balance sheets of Pioneer American Holding Company Corp. and subsidiaries as of December 31, 1998, and 1997, and the related consolidated statements of operations, changes in stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 1998, which report appears in the December 31, 1998 annual report on Form 10-K of Pioneer American Holding Company Corp.

KPMG LLP

Philadelphia, PA
March 26, 1999

Consent of Independent Auditors

The Board of Directors
Pioneer American Holding Company Corp.:

We consent to incorporation by reference in the registration Statement (No. 33-70784) on Form S-8 of Pioneer American Holding Company Corp. of our report dated January 29, 1998, relating to the consolidated balance sheet of Pioneer American Holding Company Corp. and subsidiaries as of December 31, 1997, and 1996, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 1997, which report appears in the December 31, 1997 annual report on Form 10-K of Pioneer American Holding Company Corp.

KPMG Peat Marwick LLP

Philadelphia, Pennsylvania

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March 23, 1998

Consent of Independent Auditors

The Board of Directors
Pioneer American Holding Company Corp.:

We consent to incorporation by reference in the Registration Statement (No. 33-70784) on Form S-8 of Pioneer American Holding Company Corp. of our report dated January 23, 1997, relating to the consolidated balance sheet of Pioneer American Holding Company Corp. and subsidiaries as of December 31, 1996, and 1995, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 1996, which report appears in the December 31, 1996 annual report on Form 10-K of Pioneer American Holding Company Corp.

KPMG Peat Marwick LLP

Philadelphia, Pennsylvania
March 31, 1997

Consent of Independent Auditors

The Board of Directors
Pioneer American Holding Company Corp.

We consent to incorporation by reference in the registration statement (No. 33-70784) on Form S-8 of Pioneer American Holding Company Corp. of our report dated January 26, 1996, relating to the consolidated balance sheet of Pioneer American Holding Company Corp. and subsidiaries as of December 31, 1995, and 1994, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 1995, which report appears in the December 31, 1995 annual report on Form 10-K of Pioneer American Holding Company Corp.

KPMG Peat Marwick LLP

Philadelphia, Pennsylvania
March 27, 1996

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