PHSB FINANCIAL CORPORATION

2003

ANNUAL REPORT

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PHSB FINANCIAL CORPORATION

To Our Stockholders:

On behalf of the Board of Directors, Officers and Employees of PHSB Financial Corporation and its wholly owned subsidiary, Peoples Home Savings Bank, it is my privilege to present our annual report for the year ending December 31, 2003.

The year 2003 was a challenging year for the Company. A weak economy and interest rates that fell to forty year lows impacted the Company's operations. The low interest rates produced a wave of refinancing and loan modifications. The sluggish economy resulted in a net reduction in our loan portfolio of $12.2 million from year end 2002. In addition, deposit rates did not decrease as rapidly as loan and security rates, as some deposit rates hit an effective floor.

These factors led to a reduction in the Company's net interest income, and will make for a challenging 2004. In spite of these factors, however, we continued to report strong earnings, which were augmented by security sales. In 2003, we earned $2,723,000 or $1.01 per basic share and $.98 per diluted share as compared to $2,625,000 or $.87 per basic share and $.85 per diluted share for 2002.

During 2003, we undertook measures to enhance your investment by repurchasing approximately 145,000 Treasury Shares along with paying a $.50 Special Dividend which in addition to our regular quarterly dividend resulted in a total of $.90 per share for the year. These enhancements were made possible by our record earnings and the strong financial condition of the Company.

As the company enters 2004, we maintain our mission of providing the highest level of personal service to our customers. In order for us to continue to grow the company, we are constantly seeking to meet our customer's needs by offering competitive products and services.

We will continue with our primary business of serving the banking needs of the people in our local communities.

Our management and Board of Directors are dedicated to enhancing shareholder value, serving our communities, and providing a challenging and rewarding work environment for our staff.

We would like to express our appreciation to our shareholders and customers for your continued confidence and trust in PHSB Financial Corporation and Peoples Home Savings Bank.

Very truly yours,

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

PHSB FINANCIAL CORPORATION
SELECTED FINANCIAL AND OTHER DATA

Selected Financial Data

At December 31,	2003	2002	2001	2000	1999
			(in thousands)		
Assets	$339,970	$345,537	$315,382	$265,330	$268,640
Loans, net	153,584	165,668	137,001	129,017	118,745
Mortgage-backed securities held to maturity	55,843	70,346	30,180	38,780	44,141
Mortgage-backed securities available for sale	75,911	44,137	54,604	38,415	37,426
Investment securities held to maturity	7,952	19,275	26,260	17,776	15,540
Investment securities available for sale	28,719	27,233	22,902	24,814	27,595
Interest-bearing deposits with other institutions	754	1,284	28,195	5,094	11,417
Federal Home Loan Bank stock	3,607	3,620	2,615	2,615	2,615
Deposits	231,519	232,367	210,015	198,242	189,345
Other borrowings	-	-	28	75	120
Advances from Federal Home Loan Bank	58,880	61,008	50,325	36,195	50,295
Stockholders' equity(1)	46,650	49,360	52,835	28,850	26,751

Selected Consolidated Operating Data

Year Ended December 31,	2003	2002	2001	2000	1999
			(in thousands)		
Interest income	$ 17,585	$ 19,856	$ 19,316	$ 19,035	$17,511
Interest expense	8,743	9,800	10,537	10,448	9,284
Net interest income	8,842	10,056	8,779	8,587	8,227
Provision for loan losses	620	735	520	555	410
Net interest income after provision for loan losses	8,222	9,321	8,259	8,032	7,817
Total non-interest income	2,707	1,170	1,008	854	764
Total non-interest expense	7,323	7,176	6,294	6,000	6,094
Income before income taxes	3,606	3,315	2,973	2,886	2,487
Income taxes	883	690	752	714	629
Net income	$ 2,723	$ 2,625	$ 2,221	$ 2,172	$ 1,858

(footnotes on following page)

Other Selected Data

At or for the Year Ended December 31,	2003	2002	2001	2000	1999
Return on average assets (net income divided by average total assets)	0.80%	0.78%	0.78%	0.81%	0.73%
Return on average equity (net income divided by average equity assets)	5.78%	5.15%	7.31%	7.95%	6.68%
Dividend payout ratio	89.50%	39.60%	44.65%	42.02%	40.03%
Average equity to average assets	13.91%	15.23%	10.69%	10.22%	10.86%
Net interest rate spread (1)	2.60%	2.94%	3.10%	3.18%	3.15%
Per Share Information:					
Diluted earnings per share(2)	$0.98	$0.85	$0.70	$0.67	$0.56
Tangible book value per share(2)	$16.07	$16.31	$15.11	$8.81	$7.92
Non-performing assets to total assets	0.13%	0.13%	0.19%	0.25%	0.19%
Non-performing loans to total loans	0.26%	0.25%	0.43%	0.51%	0.42%
Allowance for loan losses to total loans	1.07%	1.01%	1.08%	1.12%	1.14%

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

(2) On December 20, 2001, PHSB Financial Corporation completed its stock offering in connection with the conversion and reorganization of Peoples Home Savings Bank and its holding company, PHS Bancorp, Inc., from the mutual holding company form of organization to a full stock company. Shares outstanding for all applicable periods have been adjusted as of the beginning of the periods to give effect to the 1.28123 exchange ratio of previously issued shares in conjunction with this conversion and reorganization.

PHSB FINANCIAL CORPORATION

Corporate Profile

On July 9, 1997, Peoples Home Savings Bank (the "Bank"), reorganized from a Pennsylvania mutual savings bank into a mutual holding company structure and formed PHS Bancorp, M.H.C. As part of the reorganization, the Bank became a Pennsylvania chartered stock savings bank and issued shares in a public offering to certain depositors of the Bank and to PHS Bancorp, M.H.C. Additionally, on November 9, 1998, the Bank reorganized into a stock holding company and formed PHS Bancorp, Inc. As part of this reorganization, the Bank's public shareholders and PHS Bancorp, M.H.C. exchanged their shares of common stock for shares of PHS Bancorp, Inc.'s common stock.

On December 20, 2001, PHSB Financial Corporation (the "Company") completed its stock offering in connection with the conversion and reorganization of the Bank and its holding company, PHS Bancorp, Inc., from the mutual holding company form of organization to a full stock company. As part of the conversion and reorganization, the shares formerly held by PHS Bancorp, M.H.C. were canceled and the Company sold 2,201,191 new shares to the public and the shares held by stockholders of PHS Bancorp, Inc. were exchanged for 1,295,918 shares of the Company.

Peoples Home Savings Bank conducts business through ten full service offices and an administrative office located throughout Beaver and Lawrence Counties, Pennsylvania. We offer a broad range of deposits and loan products to individuals, families and small businesses. At December 31, 2003, we had assets of $340.0 million, net loans of $153.6 million, deposits of $231.5 million, and stockholder's equity of $46.6 million.

Stock Market Information

The Company's common stock is traded on the Nasdaq National Market under the symbol "PHSB." The following table reflects the high and low stock price as published by the Nasdaq National Market and the dividends declared for each quarter during the last two fiscal years. The quotations reflect inter-dealer prices, without retail mark-up, mark-down, or commission, and may not represent actual transactions. On December 31, 2003, the Company's common stock closed at $21.50.

QUARTER ENDED	HIGH	LOW	DIVIDENDS DECLARED PER SHARE
December 31, 2003	$21.95	$18.49	$0.60
September 30, 2003	19.09	17.49	0.10
June 30, 2003	18.52	16.90	0.10
March 31, 2003	17.90	15.50	0.10
December 31, 2002	15.74	14.71	0.09
September 30, 2002	15.00	14.16	0.09
June 30, 2002	14.50	13.40	0.08
March 31, 2002	14.50	11.85	0.08

The number of stockholders of record of common stock as of the record date on March 5, 2004, was approximately 783. This does not reflect the number of persons or entities who held stock in nominee or "street" name through various brokerage firms. At March 5, 2004, there were 2,903,353 shares outstanding.

The Company's ability to pay dividends to stockholders is subject to the requirements of Pennsylvania law. Additionally, no dividend may be paid by the Company on any of its stock if the effect thereof would cause the Bank's regulatory capital to be reduced below (1) the amount required for the liquidation account established in connection with the Bank's 2001 conversion from the mutual holding company form of organization to a full stock company, or (2) the regulatory capital requirements imposed by the Federal Deposit Insurance Corporation and the Pennsylvania Department of Banking.

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

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

References to the Company refer collectively to the Company and the Bank unless the context indicates otherwise.

Financial Condition

Total assets at December 31, 2003 of $340.0 million represented a decrease of $5.5 million or 1.6% from December 31, 2002. This decrease was primarily due to a decrease in loans, net of allowance for loan loss, of $12.1 million, partially offset by an increase in investment and mortgage-backed securities of $7.4 million.

Loans receivable at December 31, 2003 of $153.6 million represented a decrease of $12.1 million or 7.3% from $165.6 million at December 31, 2002. Mortgage, commercial and consumer loans decreased by $4.2 million, $3.9 million and $4.1 million, respectively. These decreases were primarily due to weaker loan demand and higher prepayment levels during the year. The commercial loan portfolio primarily consists of loans to local municipalities and school districts, while the majority of the consumer loan portfolio consists of auto loans originated through local dealers.

Investment and mortgage-backed securities increased $7.4 million to $168.4 million at December 31, 2003, from $161.0 million at December 31, 2002. This increase was primarily the result of purchases of $118.1 million which were partially offset by sales of $10.8 million, maturities of $36.3 million and principal repayments of $63.6 million.

Total deposits at December 31, 2003 were $231.5 million, a decrease of $900,000 or 0.4% from $232.4 million at December 31, 2002.

Advances from the Federal Home Loan Bank of Pittsburgh decreased $2.1 million to $58.9 million at December 31, 2003 from $61.0 million at December 31, 2002. This decrease was the result of $9.1 million in maturities, partially offset by $7.0 million in new borrowings.

Stockholders' equity decreased $2.7 million for the year ended December 31, 2003. This decrease was primarily due to stock repurchases of $2.5 million, cash dividends paid of $2.4 million, an increase in unallocated RSP shares of $519,000, and a decrease in accumulated other comprehensive income of $657,000. These decreases to stockholders' equity were partially offset by net income of $2.7 million and proceeds from stock option exercises of $293,000, along with a decreases in unallocated ESOP shares of $433,000.

Average Balance Sheet and Interest Analysis

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

	Year Ended December 31,								
	2003			2002			2001		
	Average Balance	Interest	Yield/ Cost	Average Balance	Interest	Yield/ Cost	Average Balance	Interest	Yield/ Cost
	(Dollars in Thousands)								
ASSETS									
Interest-earning assets:									
Loans(1) (2)	$163,565	$11,375	6.95%	$154,349	$11,758	7.62%	$131,878	$10,821	8.21%
Mortgage-backed securities	71,619	2,959	4.13	42,630	2,364	5.55	34,718	2,237	6.44
Investment securities(2) (3)	19,533	568	2.91	39,337	1,356	3.45	30,573	1,583	5.18
Securities available for sale (2)	72,635	3,512	4.84	87,146	5,299	6.08	75,962	5,258	6.92
Total interest-earning assets	327,352	18,414	5.63	323,462	20,777	6.42	273,131	19,899	7.29
Noninterest-earning assets	11,418			11,208			11,012		
Total assets	$338,770			$334,670			$284,143		
LIABILITIES AND STOCKHOLDERS' EQUITY									
Interest-bearing liabilities:									
Savings(4)	$ 35,755	298	0.83%	$ 32,624	373	1.14%	$ 29,589	542	1.83%
NOW and money markets	71,018	362	0.51	67,490	562	0.83	62,895	1,150	1.83
Time deposits	125,821	5,134	4.08	123,421	5,766	4.67	111,539	6,213	5.57
Advances from FHLB	56,462	2,949	5.22	57,862	3,098	5.35	47,592	2,632	5.53
Total interest-bearing liabilities	289,056	8,743	3.02	281,397	9,799	3.48	251,615	10,537	4.19
Non-interest bearing liabilities	2,588			2,292			2,157		
Total liabilities	291,644			283,689			253,772		
Stockholders' equity	47,126			50,981			30,371		
Total liabilities and retained earnings	$338,770			$334,670			$284,143		
Net interest income, interest rate spread(4)		$9,671	2.60%		$10,978	2.94%		$ 9,362	3.10%
Net yield on interest-earning assets			2.95%			3.39%			3.43%
Ratio of average interest-earning assets to average interest-bearing liabilities			113.25%			114.95%			108.55%

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

Rate/Volume Analysis

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

	Year Ended December 31,					
	2003 vs. 2002			2002 vs. 2001		
	Increase (Decrease) Due to			Increase (Decrease) Due to		
	Volume	Rate	Net	Volume	Rate	Net
	(In Thousands)					
Interest income:						
Loans (1)	$ 702	$ (1,085)	$ (383)	$1,844	$ (907)	$ 937
Mortgage-backed securities	1,608	(1,013)	595	510	(383)	127
Investment securities (1)	(683)	(105)	(788)	454	(681)	(227)
Securities available for sale (1)	(882)	(905)	(1,787)	774	(733)	41
Total interest-earning assets	745	(3,108)	(2,363)	3,582	(2,704)	878
Interest expense:						
Savings	36	(111)	(75)	56	(225)	(169)
NOW and money markets	29	(229)	(200)	84	(672)	(588)
Time deposits	112	(744)	(632)	662	(1,109)	(447)
Advances from FHLB	(75)	(74)	(149)	568	(102)	466
Total interest-bearing liabilities	102	(1,158)	(1,056)	1,370	(2,107)	(738)
Net change in net interest income	$643	$ (1,950)	$ (1,307)	$2,212	$ (596)	$1,616

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

Comparison of Operating Results for the Years Ended December 31, 2003 and 2002

General. Net income for the year ended December 31, 2003 increased by $98,000 to $2,723,000, from $2,625,000 for the year ended December 31, 2002. This increase was primarily due to a $1,537,000 increase in non-interest income and a $115,000 decrease in loan loss provisions. This increase to net income was partially offset by a $1,214,000 decrease in net interest income along with increases in non-interest expense and income tax provisions of $146,000 and $193,000, respectively.

Net Interest Income. Reported net interest income decreased $1,214,000 or 12.1% for the year ended December 31, 2003. Net interest income on a tax equivalent basis decreased by $1,307,000 or 11.9% in a period when both average interest-earning assets and average interest-bearing liabilities increased (increased $3.9 million, or 1.2%, and $7.7 million, or 2.7%, respectively). The Company's interest rate spread on a tax equivalent basis decreased 34 basis points (with 100 basis points being equal to 1%) to 2.60% for the year ended December 31, 2003 as compared to 2.94% in 2002. The tax equivalent basis is calculated utilizing the statutory rate of 34%.

Interest Income. Reported interest income decreased $2,271,000 to $17.6 million for the year ended December 31, 2003, from $19.9 million for 2002. Interest income on a tax equivalent basis totaled $18.4 million for year ended December 31, 2003, a decrease of $2,363,000, or 11.4%, from $20.8 million for the year ended December 31, 2002. This decrease was primarily due to a 79 basis point decrease in the yield earned partially offset by an increase in the Company's average interest-earning assets of $3.9 million, or 1.2%, for the year ended December 31, 2003. Interest earned on loans decreased $383,000, or 3.3%, in 2003. This decrease was due to a 67 basis point decrease in the yield earned, partially offset by a $9.2 million, or 6.0% increase in the average balance of loans. Interest earned on interest-bearing deposits and investment and mortgage-backed securities (including securities available for sale) decreased $2.0 million, or 22.0%, in 2003. This decrease was due to a decrease in the average balance of securities of $5.3 million, or 3.1%, along with a 103 basis point decrease in the yield earned.

Interest Expense. Interest expense decreased $1,056,000 to $8.7 million for the year ended December 31, 2003. The decrease in interest expense was due to a 46 basis point decrease in the average cost of interest-bearing liabilities to 3.09% partially offset by a $7.7 million, or 2.7%, increase in the average balance of interest-bearing liabilities. The $7.7 million, or 2.7% increase in the average balance of interest-bearing liabilities was the result of increased average deposits of $9.1 million, or 4.1%, partially offset by a decrease in average borrowings of $1.4 million, or 2.4%.

Provision for Losses on Loans. The provision for loan losses is charged to operations to bring the total allowance for loan losses to a level that represents management's best estimate of the losses inherent in the portfolio, based on:

- historical experience;
- volume;
- type of lending conducted by the Bank;
- industry standards;
- the level and status of past due and non-performing loans;
- the general economic conditions in the Bank's lending area; and
- other factors affecting the collectibility of the loans in its portfolio.

The provision for loan losses decreased by $115,000 to $620,000 for the year ended December 31, 2003, from $735,000 for the year ended December 31, 2002. A decrease in loans precipitated the decrease in the provision for loan losses. The allowance for loan losses is maintained at a level that represents management's best estimates of probable losses in the loan portfolio at the balance sheet date. However, there can be no assurance that the allowance for losses will be adequate to cover losses which may be realized in the future and that additional provisions for losses will not be required.

Non-interest Income. Total non-interest income increased $1,537,000 to $2.7 million for the year ended December 31, 2003, from $1.2 million for the year ended December 31, 2002. This increase was primarily due to an increase in gains on sales of investment securities of $1,437,000 from $168,000 for the year ended December 31, 2002 to $1.6 million for the year ended December 31, 2003. The $1,437,000 increase in security gains resulted from management reacting to opportunities to sell securities without significantly impacting the overall effective yield of the investment portfolio. Management continues to closely monitor the investment portfolio for other similar opportunities which may become available.

Non-interest Expense. Non-interest expense increased $146,000 to $7.3 million for the year ended December 31, 2003, from $7.2 million for the year ended December 31, 2002. This increase was primarily due to an increase in compensation and employee benefits of $296,000 which was primarily the result of normal merit increases, partially offset by a $133,000 decrease in occupancy and equipment costs.

Comparison of Operating Results for the Years Ended December 31, 2002 and 2001

General. Net income for the year ended December 31, 2002 increased by $404,000 to $2,625,000, from $2,221,000 for the year ended December 31, 2001. This increase was primarily due to increases in net interest income of $1,277,000 and non-interest income of $161,000 along with a decrease in income tax provisions of $62,000. These increases to net income were partially offset by increases in non-interest expense and loan loss provisions of $883,000 and $215,000, respectively.

Net Interest Income. Reported net interest income increased $1,277,000 or 14.5% for the year ended December 31, 2002. Net interest income on a tax equivalent basis increased by $1,616,000 or 17.3% in a period when both average interest-earning assets and average interest-bearing liabilities increased (increased $50.3 million and $29.8 million, respectively). The increase in average earning assets of $50.3 million was primarily due to increases of $22.5 million in average loans along with an increase in average investment and mortgage-backed securities of $27.8 million. The Company's net interest rate spread on a tax equivalent basis decreased 16 basis points to 2.94% for the year ended December 31, 2002. Due to the volume of obligations of state and political subdivision in the Company's loan and investment portfolios, net interest income and interest income are presented on a tax equivalent basis. See also " Average Balance Sheet and Interest Analysis."

Interest Income. Interest income on a tax equivalent basis totaled $20.8 million for the year ended December 31, 2002, an increase of $0.9 million or 4.5% over the total of $19.9 million for the year ended December 31, 2001. This increase was mainly due to an increase in the Company's average interest-earning assets of $50.3 million for the year ended December 31, 2002. Interest earned on loans increased $937,000 or 8.7%, in 2002. The increase was due to a $22.5 million increase in the average balance of loans partially offset by a 59 basis point decrease in the yield earned. Interest earned on investment and mortgage-backed securities (including securities held for sale) decreased $59,000 or 0.6%, in 2002. The decrease was due to a 110 basis point decrease in the yield earned partially offset by a $27.8 million increase in the average balance of investment and mortgage-backed securities.

Interest Expense. Interest expense decreased $738,000 to $9.8 million for the year ended December 31, 2002. The decrease in interest expense was due to a 71 basis point decrease in the average cost of interest-bearing liabilities partially offset by a $29.8 million increase in the average balance of interest-bearing liabilities due to increased average deposits and borrowings of $19.6 million and $10.2 million, respectively.

Provision for Losses on Loans. The provision for loan losses increased by $215,000 to $735,000 for the year ended December 31, 2002, from $520,000 for the year ended December 31, 2001. Management continually evaluates the adequacy of the allowance for loan losses, which encompasses the overall risk characteristics of the various portfolio segments, past experience with losses, the impact of economic conditions on borrowers and other relevant factors which may come to the attention of management. The allowance for loan losses is maintained at a level that represents management's best estimates of probable losses in the loan portfolio at the balance sheet date. However, there can be no assurance that the allowance for losses will be adequate to cover losses which may be realized in the future and that additional provisions for losses will not be required.

Non-interest Income. Total non-interest income increased $161,000 to $1.2 million for the year ended December 31, 2002, from $1.0 million for the year ended December 31, 2001. This increase was primarily due to increased investment security gains of $110,000 in 2002 coupled with increased service charges on deposit accounts of $44,000, due to an increase in the number of transaction accounts. The investment securities gains were the result of sales of tax-exempt securities for the purpose of maximizing the tax benefits of these securities as well as sales of equity securities.

Non-interest Expense. Non-interest expense increased $883,000 to $7.2 million for the year ended December 31, 2002 from $6.3 million for the year ended December 31, 2001. This increase was primarily due to increases in compensation and employee benefits of $611,000 for the year ended December 31, 2002. This was primarily due to increased ESOP expense due to additional ESOP shares acquired in connection with the conversion and reorganization that was effective December 20, 2001 along with increased RSP expense as a result of the 2002 RSP plan which was ratified on December 23, 2002, as well as normal merit increases. Other expenses increased $190,000 to $1,630,000 for the year ended December 31, 2002 from $1,440,000 for the year ended December 31, 2001. This increase was the result of several increases in other expenses including increases in advertising, postage and telephone expenses.

Market Risk Analysis

The Company, like many other financial institutions, is vulnerable to an increase in interest rates to the extent that interest-bearing liabilities generally mature or reprice more rapidly than interest-earning assets. The lending activities of the Company have historically emphasized the origination of long-term, fixed rate loans secured by single family residences, and the primary source of funds has been deposits with substantially shorter maturities. While having interest-bearing liabilities that reprice more frequently than interest-earning assets is generally beneficial to net interest income during a period of declining interest rates, such an asset/liability mismatch is generally detrimental during periods of rising interest rates.

To reduce the effect of interest rate changes on net interest income the Company has adopted various strategies to enable it to improve matching of interest-earning asset maturities to interest-bearing liability maturities. The principal elements of these strategies include: (1) purchasing investment securities with maturities that match specific deposit maturities; (2) emphasizing origination of shorter-term consumer loans, which in addition to offering more rate flexibility, typically bear higher interest rates than residential mortgage loans; and (3) purchasing adjustable-rate mortgage-backed securities as well as mortgage-backed securities with balloon payments which have shorter maturities than typical mortgage-backed securities. Although consumer loans inherently generally possess a higher credit risk than residential mortgage loans, the Company has designed its underwriting standards to minimize this risk as much as possible.

The Company also makes a significant effort to maintain its level of lower costs deposits as a method of enhancing profitability. The Company has traditionally had a high level of low-cost passbook, interest-bearing checking (NOW) and Money Market Demand Accounts. Although its base of such deposits has increased as a result of the current interest rate environment, such deposits have traditionally remained relatively stable and would be expected to reduce to normal levels in a period of rising interest rates. Because of this relative stability in a significant portion of its deposits, the Company has been able to offset the impact of rising rates in other deposit accounts.

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

From analysis and discussion of the aforementioned reports as of December 31, 2003, management has assessed that the Bank's level of interest rate risk is appropriate for current market conditions. The percentage change in market value of the portfolio equity for an upward and downward shift of 200 basis points are (21.59)% and 15.49%, respectively. Net interest income decreased by $502,000 or 5.1% for a downward shift in rates of 200 basis points and decreased by $156,000 or 1.3%, for an upward shift of 200 basis points. Excess Net Interest Rate Risk was within those limits outlined in the Bank's Asset/Liability Management and Interest Rate Risk Policy. The Bank's calculated (total) risk-based capital before the interest rate risk impact was 23.52% and 18.63% after the interest rate risk impact. Results fall within policy limits for all applicable tests.

Liquidity and Capital Requirements

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

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

The primary activity of the Company is originating loans and purchasing investment and mortgage-backed securities. During the years ended December 31, 2003, 2002 and 2001 the Company originated loans in the amounts of $83.5 million, $98.0 million and $67.4 million, respectively. The Company also purchases investment and mortgage-backed securities to invest excess liquidity and to supplement local loan demand. During the years ended December 31, 2003, 2002 and 2001, the Company purchased investment and mortgage-backed securities in the amounts of $118.1 million, $111.7 million and $55.4 million, respectively.

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

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

Contractual Obligations. The following table represents significant fixed and determinable contractual obligations to third parties by payment date as of December 31, 2003.

	Total	Less Than 1 Year	1-3 Years	3-5 Years	After 5 Years
Deposits without a stated maturity	$107,496	$107,496	$ -	$ -	$ -
Certificates of deposit	124,023	65,119	31,580	25,374	1,950
FHLB advances	58,880	6,250	11,130	19,000	22,500
Operating leases	359	103	167	69	20
Total	$290,758	$178,968	$42,877	$44,443	$24,470

The following table represents our commitments to extend credit, including unused lines of credit, as of December 31, 2003.

	Total	Less Than 1 Year	1-3 Years	3-5 Years	Over 5 Years
Commitments to extend credit:					
Mortgage loans	$ 267	$ 267	$ -	$ -	$ -
Commercial loans	1,100	1,100	-	-	-
Consumer loans	2,203	2,203	-	-	-
Unused commercial credit lines	2,526	2,526	-	-	-
Unused consumer credit lines	16,395	16,395	-	-	-
Commercial letters of credit	20	20	-	-	-
Total	$22,511	$22,511	$ -	$ -	$ -

Regulatory Capital Requirements. As a condition of deposit insurance, current FDIC regulations require that the Bank calculate and maintain a minimum regulatory capital level on a quarterly basis and satisfy such requirement at the calculation date and throughout the ensuing quarter. See Note 16 to the Consolidated Financial Statements.

Impact of Inflation and Changing Prices

Unlike industrial companies, nearly all of the assets and liabilities of a financial institution are monetary in nature. As a result, interest rates have a more significant impact on a financial institution's performance than general levels of inflation. Interest rates do not necessarily move in the same direction or in the same magnitude as the price of goods and services, since such goods and services are affected by inflation. In the current interest rate environment, liquidity and the maturity structure of the Company's assets and liabilities are critical to the maintenance of acceptable performance levels.

SNODGRASS
CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

REPORT OF INDEPENDENT AUDITORS

Board of Directors and Stockholders
PHSB Financial Corporation

We have audited the accompanying consolidated balance sheet of PHSB Financial Corporation and subsidiary as of December 31, 2003 and 2002, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2003. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 consolidated financial position of PHSB Financial Corporation and subsidiary as of December 31, 2003 and 2002, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2003, in conformity with accounting principles generally accepted in the United States of America.

S. R. Snodgrass, A.C.

Wexford, PA
January 16, 2004

S.R. Snodgrass, A.C. • 1000 Stonewood Drive, Suite 200 • Wexford, Pennsylvania 15090-8399 • Phone: (724) 934-0344 • Facsimile: (724) 934-0345

PHSB FINANCIAL CORPORATION
CONSOLIDATED BALANCE SHEET

	December 31, 2003	December 31, 2002
ASSETS		
Cash and amounts due from other institutions	$ 6,795,068	$ 6,938,217
Interest-bearing deposits with other institutions	753,727	1,283,752
Cash and cash equivalents	7,548,795	8,221,969
Investment securities:		
Available for sale	28,718,832	27,233,227
Held to maturity (market value $8,203,053 and $19,611,078)	7,952,211	19,274,753
Mortgage-backed securities:		
Available for sale	75,910,915	44,137,225
Held to maturity (market value $56,194,217 and $71,826,914)	55,843,363	70,346,358
Loans (net of allowance for loan losses of $1,647,886 and $1,683,596)	153,584,123	165,668,214
Accrued interest receivable	1,573,295	1,998,773
Premises and equipment	4,227,498	4,604,005
Federal Home Loan Bank stock	3,606,600	3,620,300
Other assets	1,003,979	431,881
TOTAL ASSETS	$ 339,969,611	$ 345,536,705
LIABILITIES		
Deposits	$ 231,519,432	$ 232,366,672
Advances from Federal Home Loan Bank	58,880,000	61,007,800
Accrued interest payable and other liabilities	2,920,291	2,802,061
TOTAL LIABILITIES	293,319,723	296,176,533
STOCKHOLDERS' EQUITY		
Preferred stock, no par value; 20,000,000 shares authorized; none issued and outstanding	-	-
Common stock, par value $.10 per share; 80,000,000 shares authorized; 3,519,711 and 3,497,109 issued	351,971	349,711
Additional paid-in capital	32,750,510	32,329,518
Retained earnings - substantially restricted	23,857,117	23,571,132
Accumulated other comprehensive income	1,540,849	2,197,377
Unallocated shares held by Employee Stock Ownership Plan (ESOP)	(2,023,187)	(2,276,111)
Unallocated shares held by Restricted Stock Plan (RSP)	(518,654)	-
Treasury stock, at cost (616,358 and 471,357 shares)	(9,308,718)	(6,811,455)
TOTAL STOCKHOLDERS' EQUITY	46,649,888	49,360,172
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 339,969,611	$ 345,536,705

See accompanying notes to the consolidated financial statements.

PHSB FINANCIAL CORPORATION
CONSOLIDATED STATEMENT OF INCOME

	Year Ended December 31, 2003	2002	2001
INTEREST INCOME			
Loans:			
Taxable	$ 9,788,932	$ 10,520,699	$ 10,433,463
Exempt from federal income tax	1,046,888	816,618	255,365
Investment securities:			
Taxable	861,030	1,580,707	1,673,638
Exempt from federal income tax	561,851	972,567	875,533
Mortgage-backed securities	5,278,467	5,802,854	5,795,239
Interest-bearing deposits with other institutions	47,892	162,267	282,720
Total interest income	17,585,060	19,855,712	19,315,958
INTEREST EXPENSE			
Deposits	5,793,852	6,700,653	7,904,943
Advances from Federal Home Loan Bank	2,949,286	3,098,728	2,631,809
Total interest expense	8,743,138	9,799,381	10,536,752
Net interest income	8,841,922	10,056,331	8,779,206
PROVISION FOR LOAN LOSSES	620,000	735,000	520,000
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	8,221,922	9,321,331	8,259,206
NONINTEREST INCOME			
Service charges on deposit accounts	717,957	639,283	594,701
Investment securities gains, net	1,605,389	168,027	58,118
Rental income	103,050	92,483	97,808
Other income	280,978	270,361	257,886
Total noninterest income	2,707,374	1,170,154	1,008,513
NONINTEREST EXPENSE			
Compensation and employee benefits	4,263,367	3,967,772	3,356,733
Occupancy and equipment costs	1,247,362	1,380,076	1,304,825
Data processing costs	195,428	198,566	193,188
Other expenses	1,617,073	1,630,165	1,439,539
Total noninterest expense	7,323,230	7,176,579	6,294,285
Income before income taxes	3,606,066	3,314,906	2,973,434
Income taxes	883,211	689,731	752,331
NET INCOME	$ 2,722,855	$ 2,625,175	$ 2,221,103
EARNINGS PER SHARE			
Basic	$ 1.01	$ 0.87	$ 0.70
Diluted	0.98	0.85	0.70

See accompanying notes to the consolidated financial statements.

PHSB FINANCIAL CORPORATION
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

	Common Stock	Additional Paid-in Capital	Retained Earnings Substantially Restricted	Accumulated Other Comprehensive Income	Unallocated Shares Held by ESOP	Unallocated Shares Held by RSP	Treasury Stock	Total Stockholders' Equity	Comprehensive Income
Balance, December 31, 2000	$ 276,000	$ 10,480,215	$ 20,756,274	$ 456,968	$ (917,283)	$ (185,783)	$ (2,016,157)	$ 28,850,234	
Net income			2,221,103					2,221,103	$ 2,221,103
Other comprehensive income:									
Unrealized gain on available for sale securities, net of tax of $205,973				399,830				399,830	399,830
Comprehensive income									$ 2,620,933
Cash dividends declared ($.31 per share)			(991,801)					(991,801)	
ESOP shares released		(17,700)			149,220			131,520	
Treasury stock purchased, at cost							(325,197)	(325,197)	
RSP shares released						128,513		128,513	
Sale of common stock	96,751	21,129,512						21,226,263	
Retirement of treasury stock	(23,040)	(2,318,314)					2,341,354	-	
Capital contributed from MHC		2,955,314						2,955,314	
Common stock acquired by ESOP					(1,760,950)			(1,760,950)	
Balance, December 31, 2001	349,711	32,229,027	21,985,576	856,798	(2,529,013)	(57,270)	-	52,834,829	
Net income			2,625,175					2,625,175	$ 2,625,175
Other comprehensive income:									
Unrealized gain on available for sale securities, net of tax of $690,602				1,340,579				1,340,579	1,340,579
Comprehensive income									$ 3,965,754
Cash dividends declared ($.34 per share)			(1,039,619)					(1,039,619)	
ESOP shares released		86,875			252,902			339,777	
Treasury stock purchased, at cost							(7,021,256)	(7,021,256)	
Common stock acquired by RSP		(540)				(209,261)	209,801	-	
RSP shares released		14,156				266,531		280,687	
Balance, December 31, 2002	349,711	32,329,518	23,571,132	2,197,377	(2,276,111)	-	(6,811,455)	49,360,172	
Net income			2,722,855					2,722,855	$ 2,722,855
Other comprehensive income (loss):									
Unrealized loss on available for sale securities, net of tax of benefit ($338,211)				(656,528)				(656,528)	(656,528)
Comprehensive income									$ 2,066,327
Cash dividends declared ($.90 per share)			(2,436,870)					(2,436,870)	
ESOP shares released		180,561			252,924			433,485	
Treasury stock purchased, at cost							(2,497,263)	(2,497,263)	
Common stock acquired by RSP		(76,568)				(771,157)		(847,725)	
Issuance of common stock	2,260	290,818						293,078	
RSP shares released		26,181				252,503		278,684	
Balance, December 31, 2003	$ 351,971	$ 32,750,510	$ 23,857,117	$ 1,540,849	$ (2,023,187)	$ (518,654)	$ (9,308,718)	$ 46,649,888	

	2003	2002	2001
Components of comprehensive income:			
Change in net unrealized gain on investments held for sale	$ 403,029	$ 1,451,477	$ 438,188
Realized gains included in net income, net of tax of $545,832, $57,129, and $19,760	(1,059,557)	(110,898)	(38,358)
Total	$ (656,528)	$ 1,340,579	$ 399,830

See accompanying notes to the consolidated financial statements.

PHSB FINANCIAL CORPORATION
CONSOLIDATED STATEMENT OF CASH FLOWS

	Year Ended December 31, 2003	2002	2001
OPERATING ACTIVITIES			
Net income	$ 2,722,855	$ 2,625,175	$ 2,221,103
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses	620,000	735,000	520,000
Provision for depreciation	509,374	688,004	652,309
Amortization of discounts, premiums, and loan origination fees	1,747,276	1,363,478	1,195,295
Investment securities gains, net	(1,605,389)	(168,027)	(58,118)
Deferred income tax	87,714	(112,244)	29,156
Decrease (increase) in accrued interest receivable	425,478	(319,741)	(53,612)
Increase (decrease) in accrued interest payable	(213,846)	761,222	28,896
Amortization of ESOP unearned compensation	433,485	339,777	131,520
Amortization of RSP unearned compensation	278,684	280,687	128,513
Other, net	(262,828)	(572,813)	(415,731)
Net cash provided by operating activities	4,742,803	5,620,518	4,379,331
INVESTING ACTIVITIES			
Investment and mortgage-backed securites available for sale:			
Proceeds from sales	10,767,399	9,762,943	1,862,276
Proceeds from maturities and principal repayments	49,209,510	30,603,655	24,221,862
Purchases	(92,708,414)	(32,199,422)	(39,748,386)
Investment and mortgage-backed securities held to maturity:			
Proceeds from maturities and principal repayments	50,711,324	46,254,615	15,741,702
Purchases	(25,366,693)	(79,540,243)	(15,699,383)
Decrease (increase) in loans, net	10,086,300	(30,550,489)	(9,544,876)
Proceeds from sales of repossessed assets	467,584	380,407	412,018
Purchase of premises and equipment	(132,867)	(262,016)	(1,044,929)
Redemption (purchase) of Federal Home Loan Bank stock	13,700	(1,005,500)	-
Net cash provided by (used for) investing activities	3,047,843	(56,556,050)	(23,799,716)
FINANCING ACTIVITIES			
Increase (decrease) in deposits, net	(847,240)	22,352,028	11,772,943
Proceeds from advances from Federal Home Loan Bank	7,000,000	16,000,000	23,130,000
Repayment of advances from Federal Home Loan Bank	(9,127,800)	(5,317,000)	(9,000,000)
Repayment of other borrowings	-	-	-
Common stock acquired by ESOP	-	-	(1,760,950)
Proceeds from sale of common stock	-	-	21,226,263
Proceeds from exercise of stock option	293,078	-	-
Common stock acquired by RSP	(847,725)	-	-
Capital contributed from MHC	-	-	2,955,314
Cash dividends paid	(2,436,870)	(1,039,619)	(991,801)
Purchase of treasury stock	(2,497,263)	(7,021,256)	(325,197)
Net cash provided by (used for) financing activities	(8,463,820)	24,974,153	47,006,572
Increase (decrease) in cash and cash equivalents	(673,174)	(25,961,379)	27,586,187
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	8,221,969	34,183,348	6,597,161
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 7,548,795	$ 8,221,969	$ 34,183,348

See accompanying notes to the consolidated financial statements.

PHSB FINANCIAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Nature of Operations and Basis of Presentation

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

The consolidated financial statements of the Company include the accounts of the Bank and its wholly-owned subsidiary, HOMECO. All intercompany transactions have been eliminated in consolidation. The investment in the subsidiary on the parent company financial statement is carried at the parent company's equity in the underlying assets of the Bank.

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

Investment and Mortgage-Backed Securities

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Loans

Loans are stated at the principal amount outstanding net of deferred loan fees and the allowance for loan losses. Interest income on loans is recognized on the accrual method. Accrual of interest on loans is generally discontinued after 90 days when it is determined that a reasonable doubt exists as to the collectibility of principal, interest, or both. When a loan is placed on nonaccrual status, unpaid interest is charged against income. Payments received on nonaccrual loans are either applied to principal or reported as interest income according to management's judgment as to the collectibility of principal. Loans are returned to accrual status when past due interest is collected and the collection of principal is probable.

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

Allowance for Loan Losses

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

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

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

Premises and Equipment

Premises and equipment are stated at cost less accumulated depreciation. Depreciation is principally computed on the straight-line method over the estimated useful lives of the related assets, which range from one to ten years for furniture, fixtures, and equipment and five to fifty years for office buildings. Leasehold improvements are amortized over the shorter of their estimated useful lives or their respective lease terms, which range from five to twenty years. Expenditures for maintenance and repairs are charged against income as incurred. Costs of major additions and improvements are capitalized.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Real Estate Owned

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

Income Taxes

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

Earnings Per Share

The Company provides dual presentation of basic and diluted earnings per share. Basic earnings per share is calculated utilizing net income as reported as the numerator and average shares outstanding as the denominator. The computation of diluted earnings per share differs in that the dilutive effects of any options, warrants, and convertible securities are adjusted for in the denominator.

Employee Benefit Plans

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

Stock Options

The Company maintains a stock option plan for the directors, officers, and employees. The Company accounts for its stock option plans under provisions of APB Opinion No. 25, *Accounting for Stock Issued to Employees*, and related interpretations. Under this Opinion, no compensation expense has been recognized with respect to the plans because the exercise price of the Company's employee stock options equals the market price of the underlying stock on the grant date.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Stock Options (Continued)

Had compensation expense for the stock option plans been recognized in accordance with the fair value accounting provisions of FAS No. 123, *Accounting for Stock-Based Compensation*, net income applicable to common stock, basic and diluted net income per common share for the year ended December 31 would have been as follows:

		2003		2002		2001
Net income as reported	$	2,722,855	$	2,625,175	$	2,221,103
Less pro forma expense related to option		147,316		187,360		44,044
Pro forma net income	$	2,575,539	$	2,437,815	$	2,177,059
Basic net income per common share:						
As reported	$	1.01	$	0.87	$	0.70
Pro forma		0.96		0.81		0.69
Diluted net income per common share:						
As reported	$	0.98	$	0.85	$	0.70
Pro forma		0.93		0.79		0.68

For purposes of computing pro forma results, the Company estimated fair values of stock options using the Black-Scholes option-pricing model. The model requires use of subjective assumptions that can materially affect fair value estimates. Therefore, the pro forma results are estimates of results of operation as if compensation expense had been recognized for the stock option plans. The fair value of each stock option granted was estimated using the following weighted-average assumptions for grants in 2002: (1) expected dividend yield of 1.02 percent; (2) risk-free interest rate of 3.78 percent; (3) expected volatility of 8 percent; and (4) expected option lives of ten years.

Comprehensive Income

The Company is required to present comprehensive income in a full set of general-purpose financial statements for all periods presented. Other comprehensive income is comprised exclusively of unrealized holding gains (losses) on the available-for-sale securities portfolio. The Company has elected to report the effects of other comprehensive income as part of the Consolidated Statement of Changes in Stockholders' Equity.

Cash Flow Information

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

For the years ended December 31, 2003, 2002, and 2001, the Company made cash payments for interest of $8,956,984, $9,038,159, and $10,507,856, respectively. The Company also made cash payments for income taxes of $515,321, $966,520, and $665,000, respectively, during these same periods.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recent Accounting Pronouncements

In December 2003, the Financial Accounting Standards Board ("FASB") revised Statement of Financial Accounting Standards ("FAS") No. 132, *Employers' Disclosures about Pension and Other Postretirement Benefit.* This statement retains the disclosures required by FAS No. 132, which standardized the disclosure requirements for pensions and other postretirement benefits to the extent practicable and requires additional information on changes in the benefit obligations and fair value of plan assets. Additional disclosures include information describing the types of plan assets, investment strategy, measurement date(s), plan obligations, cash flows, and components of net periodic benefit cost recognized during interim periods. This statement retains reduced disclosure requirements for nonpublic entities from FAS No. 132, and it includes reduced disclosure for certain of the new requirements. This statement is effective for financial statements with fiscal years ending after December 15, 2003. The interim disclosures required by this statement are effective for interim periods beginning after December 15, 2003.

In August 2001, the FASB issued FAS No. 143, *Accounting for Asset Retirement Obligations*, which requires that the fair value of a liability be recognized when incurred for the retirement of a long-lived asset and the value of the asset be increased by that amount. The statement also requires that the liability be maintained at its present value in subsequent periods and outlines certain disclosures for such obligations. The adoption of this statement, which was effective January 1, 2003, did not have a material effect on the Company's financial position or results of operations.

In July 2002, the FASB issued FAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities*, which requires companies to recognize costs associated with exit or disposal activities when they are incurred rather than at the date of a commitment to an exit or disposal plan. This statement replaces EITF Issue No. 94-3, *Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (Including Certain Costs Incurred in a Restructuring)*. The new statement is effective for exit or disposal activities initiated after December 31, 2002. The adoption of this statement did not have a material effect on the Company's financial position or results of operations.

On December 31, 2002, the FASB issued FAS No. 148, *Accounting for Stock-Based Compensation – Transition and Disclosure, which amends FAS No. 123, Accounting for Stock-Based Compensation.* FAS No. 148 amends the disclosure requirements of FAS No. 123 to require more prominent and more frequent disclosures in financial statements about the effects of stock-based compensation. Under the provisions of FAS No. 123, companies that adopted the preferable, fair value based method were required to apply that method prospectively for new stock option awards. This contributed to a "ramp-up" effect on stock-based compensation expense in the first few years following adoption, which caused concern for companies and investors because of the lack of consistency in reported results. To address that concern, FAS No. 148 provides two additional methods of transition that reflect an entity's full complement of stock-based compensation expense immediately upon adoption, thereby eliminating the ramp-up effect. FAS No. 148 also improves the clarity and prominence of disclosures about the pro forma effects of using the fair value based method of accounting for stock-based compensation for all companies—regardless of the accounting method used—by requiring that the data be presented more prominently and in a more user-friendly format in the footnotes to the financial statements. In addition, the statement improves the timeliness of those disclosures by requiring that this information be included in interim as well as annual financial statements. The transition guidance and annual disclosure provisions of FAS No. 148 are effective for fiscal years ending after December 15, 2002, with earlier application permitted in certain circumstances. The interim disclosure provisions are effective for financial reports containing financial statements for interim periods beginning after December 15, 2002.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recent Accounting Pronouncements (Continued)

In April 2003, the FASB issued FAS No. 149, *Amendment of Statement 133 on Derivative Instruments and Hedging Activities.* This statement amends and clarifies accounting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities under FAS No. 133. The amendments set forth in FAS No. 149 improve financial reporting by requiring that contracts with comparable characteristics be accounted for similarly. In particular, this statement clarifies under what circumstances a contract with an initial net investment meets the characteristic of a derivative as discussed in FAS No. 133. In addition, it clarifies when a derivative contains a financing component that warrants special reporting in the statement of cash flows. FAS No.149 amends certain other existing pronouncements. Those changes will result in more consistent reporting of contracts that are derivatives in their entirety or that contain embedded derivatives that warrant separate accounting. This statement is effective for contracts entered into or modified after September 30, 2003, except as stated below and for hedging relationships designated after September 30, 2003. The guidance should be applied prospectively. The provisions of this statement that relate to FAS No. 133 Implementation Issues that have been effective for fiscal quarters that began prior to September 15, 2003, should continue to be applied in accordance with their respective effective dates. In addition, certain provisions relating to forward purchases or sales of when-issued securities or other securities that do not yet exist, should be applied to existing contracts as well as new contracts entered into after September 30, 2003. The adoption of this statement did not have a material effect on the Company's financial position or results of operations.

In May 2003, the FASB issued FAS No. 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity.* This statement establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances). Such instruments may have been previously classified as equity. This statement is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after September 15, 2003. The adoption of this statement did not have a material effect on the Company's reported equity.

In November 2002, the FASB issued Interpretation No. 45, *Guarantor's Accounting and Disclosure requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others.* This interpretation elaborates on the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under certain guarantees that it has issued. This interpretation clarifies that a guarantor is required to disclose (a) the nature of the guarantee, including the approximate term of the guarantee, how the guarantee arose, and the events or circumstances that would require the guarantor to perform under the guarantee; (b) the maximum potential amount of future payments under the guarantee; (c) the carrying amount of the liability, if any, for the guarantor's obligations under the guarantee; and (d) the nature and extent of any recourse provisions or available collateral that would enable the guarantor to recover the amounts paid under the guarantee. This interpretation also clarifies that a guarantor is required to recognize, at the inception of a guarantee, a liability for the obligations it has undertaken in issuing the guarantee, including its ongoing obligation to stand ready to perform over the term of the guarantee in the event that the specified triggering events or conditions occur. The objective of the initial measurement of that liability is the fair value of the guarantee at its inception. The initial recognition and initial measurement provisions of this interpretation are applicable on a prospective basis to guarantees issued or modified after December 31, 2002, irrespective of the guarantor's fiscal year-end. The disclosure requirements in this interpretation are effective for financial statements of interim or annual periods ending after December 15, 2002. The adoption of this interpretation did not have a material effect on the Company's financial position or results of operations.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recent Accounting Pronouncements (Continued)

In January, 2003, the FASB issued Interpretation No. 46, *Consolidation of Variable Interest Entities,* in an effort to expand upon and strengthen existing accounting guidance that addresses when a company should include in its financial statements the assets, liabilities and activities of another entity. The objective of this interpretation is not to restrict the use of variable interest entities but to improve financial reporting by companies involved with variable interest entities. Until now, one company generally has included another entity in its consolidated financial statements only if it controlled the entity through voting interests. This interpretation changes that by requiring a variable interest entity to be consolidated by a company if that company is subject to a majority of the risk of loss from the variable interest entity's activities or entitled to receive a majority of the entity's residual returns or both. The consolidation requirements of this interpretation apply immediately to variable interest entities created after January 31, 2003. The consolidation requirements apply to older entities in the first fiscal year or interim period beginning after June 15, 2003. Certain of the disclosure requirements apply in all financial statements issued after January 31, 2003, regardless of when the variable interest entity was established. In October, 2003, the FASB decided to defer to the fourth quarter from the third quarter the implementation date for Interpretation No. 46. This deferral only applies to variable interest entities that existed prior to February 1, 2003. The adoption of this interpretation has not and is not expected to have a material effect on the Company's financial position or results of operations.

Reclassification

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

2. EARNINGS PER SHARE

There are no convertible securities which would affect the numerator in calculating basic and diluted earnings per share; therefore, net income as presented on the Consolidated Statement of Income will be used as the numerator.

The following table sets forth the composition of the weighted-average common shares (denominator) used in the basic and diluted earnings per share computation.

	2003	2002	2001
Weighted-average common shares outstanding	3,511,238	3,497,109	3,534,910
Average treasury stock shares	(581,312)	(240,356)	(277,425)
Average unearned ESOP and RSP shares	(237,931)	(230,818)	(83,014)
Weighted-average common shares and common stock equivalents used to calculate basic earnings per share	2,691,995	3,025,935	3,174,471
Additional common stock equivalents (stock options) used to calculate diluted earnings per share	91,141	51,307	21,135
Weighted-average common shares and common stock equivalents used to calculate diluted earnings per share	2,783,136	3,077,242	3,195,606

3. INVESTMENT SECURITIES

The amortized cost and estimated market value of investment securities are summarized as follows:

	2003			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
Available for Sale				
U.S. Treasury securities	$ 4,988,501	$ 999	$ -	$ 4,989,500
U.S. Government agency securities	9,550,555	64,617	(3,127)	9,612,045
Obligations of states and political subdivisions	4,593,629	280,619	-	4,874,248
Corporate securities	1,100,000	19,915	-	1,119,915
Real estate mortgage investment conduits	16,518	53	-	16,571
Total debt securities	20,249,203	366,203	(3,127)	20,612,279
Equity securities	6,937,088	1,182,790	(13,325)	8,106,553
Total	$ 27,186,291	$ 1,548,993	$ (16,452)	$ 28,718,832

	2002			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
Available for Sale				
U.S. Treasury securities	$ 6,978,276	$ 21,104	$ -	$ 6,999,380
U.S. Government agency securities	997,142	111,298	-	1,108,440
Obligations of states and political subdivisions	12,795,978	862,290	-	13,658,268
Corporate securities	1,100,000	11,645	-	1,111,645
Real estate mortgage investment conduits	25,221	188	-	25,409
Total debt securities	21,896,617	1,006,525	-	22,903,142
Equity securities	4,152,600	382,491	(205,006)	4,330,085
Total	$ 26,049,217	$ 1,389,016	$ (205,006)	$ 27,233,227

3. INVESTMENT SECURITIES (Continued)

	2003			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
Held to Maturity				
U.S. Government agency securities	$ 5,696,790	$ 165,200	$ -	$ 5,861,990
Obligations of states and political subdivisions	2,255,421	85,642	-	2,341,063
Total	$ 7,952,211	$ 250,842	$ -	$ 8,203,053

	2002			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
Held to Maturity				
U.S. Government agency securities	$ 16,749,897	$ 267,491	$ -	$ 17,017,388
Obligations of states and political subdivisions	2,524,856	68,834	-	2,593,690
Total	$ 19,274,753	$ 336,325	$ -	$ 19,611,078

The amortized cost and estimated market value of debt securities at December 31, 2003, by contractual maturity, are shown below.

	Available for Sale		Held to Maturity	
	Amortized Cost	Estimated Market Value	Amortized Cost	Estimated Market Value
Due in one year or less	$ 14,140,543	$ 14,142,180	$ 1,491,940	$ 1,548,860
Due after one year through five years	3,641,022	3,847,206	1,000,000	1,030,310
Due after five years through ten years	-	-	2,783,440	2,862,967
Due after ten years	2,467,638	2,622,893	2,676,831	2,760,916
Total	$ 20,249,203	$ 20,612,279	$ 7,952,211	$ 8,203,053

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

	2003	2002	2001
Proceeds from sales	$ 10,767,399	$ 9,762,943	$ 1,862,276
Gross gains	1,605,389	178,176	58,118
Gross losses	-	10,149	-

Investment securities with an amortized cost of $15,247,346 and $19,728,173 and an estimated market value of $15,474,035 and $20,015,528 were pledged to secure public deposits at December 31, 2003 and 2002, respectively.

4. MORTGAGE-BACKED SECURITIES

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

	2003			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
Available for Sale				
Government National Mortgage Association securities	$ 16,423,465	$ 942,726	$ -	$ 17,366,191
Federal Home Loan Mortgage Corporation securities	31,863,514	80,567	(320,230)	31,623,851
Federal National Mortgage Association securities	26,821,857	209,696	(110,680)	26,920,873
Total	$ 75,108,836	$ 1,232,989	$ (430,910)	$ 75,910,915

	2002			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
Available for Sale				
Government National Mortgage Association securities	$ 41,988,207	$ 2,145,098	$ -	$ 44,133,305
Federal Home Loan Mortgage Corporation securities	3,669	251	-	3,920
Total	$ 41,991,876	$ 2,145,349	$ -	$ 44,137,225

	2003			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
Held to Maturity				
Government National Mortgage Association securities	$ 7,650,980	$ 396,426	$	$ 8,047,406
Federal Home Loan Mortgage Corporation securities	32,588,872	42,890	(193,863)	32,437,899
Federal National Mortgage Association securities	15,603,511	133,038	(27,637)	15,708,912
Total	$ 55,843,363	$ 572,354	$ (221,500)	$ 56,194,217

4. MORTGAGE-BACKED SECURITIES (Continued)

	2002			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
Held to Maturity				
Government National Mortgage Association securities	$ 17,354,099	$ 821,869	$ -	$ 18,175,968
Federal Home Loan Mortgage Corporation securities	40,883,062	272,038	-	41,155,100
Federal National Mortgage Association securities	12,109,197	386,649	-	12,495,846
Total	$ 70,346,358	$ 1,480,556	$ -	$ 71,826,914

The amortized cost and estimated market value of mortgage-backed securities at December 31, 2003, by contractual maturity, are shown below. Expected maturities of securities could differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without prepayment penalties.

	Available for Sale		Held to Maturity	
	Amortized Cost	Estimated Market Value	Amortized Cost	Estimated Market Value
Due in one year or less	$ 718	$ 734	$ -	$ -
Due after one year through five years	128,718	137,013	3,749,407	3,721,301
Due after five years through ten years	8,202,526	8,376,237	31,919,309	31,873,210
Due after ten years	66,776,874	67,396,931	20,174,647	20,599,706
Total	$ 75,108,836	$ 75,910,915	$ 55,843,363	$ 56,194,217

Mortgage-backed securities with an amortized cost of $14,806,515 and $7,940,340 and an estimated market value of $14,721,414 and $8,050,029 were pledged to secure public deposits at December 31, 2003 and 2002, respectively.

5. UNREALIZED LOSSES ON SECURITIES

The following table shows the Company's gross unrealized losses and fair value, aggregated by category and length of time, that the individual securities have been in a continuous unrealized loss position, at December 31, 2003.

	Less than Twelve Months		Twelve Months or Greater		Total	
	Estimated Market Value	Gross Unrealized Losses	Estimated Market Value	Gross Unrealized Losses	Estimated Market Value	Gross Unrealized Losses
U.S. Government agencies and corporations	$ 8,548,915	$ 3,127	$ -	$ -	$ 8,548,915	$ 3,127
Mortgage-backed securities	72,687,279	652,410	-	-	72,687,279	652,410
Total debt securities	81,236,194	655,537	-	-	81,236,194	655,537
Equity securities	423,435	7,295	218,920	6,030	642,355	13,325
Total	$ 81,659,629	$ 662,832	$ 218,920	$ 6,030	$ 81,878,549	$ 668,862

5. UNREALIZED LOSSES ON SECURITIES (Continued)

The Company's investment and mortgage-backed securities portfolios contain unrealized losses of direct obligations of U.S. agencies, including mortgage-related instruments issued or backed by the full faith and credit of the U.S. government or generally viewed as having the implied guarantee of the U.S. government, and equity securities of common stock in publicly traded companies.

On a monthly basis, the Company evaluates the severity and duration of impairment for its securities portfolios and determine if the Company has the ability to hold the security to maturity without incurring a loss. Generally, impairment is considered other than temporary when an investment security has sustained a decline of 10 percent or more for six months.

The Company has concluded that any impairment of its securities portfolios is not other than temporary but is the result of interest rate changes.

6. LOANS

Loans consist of the following:

	2003	2002
Mortgage loans:		
Residential	$ 58,870,778	$ 65,394,863
Multi-family units	969,956	752,296
Construction	770,384	947,147
Commercial real estate	8,184,641	5,900,334
	68,795,759	72,994,640
Commercial loans	1,265,752	1,347,954
Tax exempt loans	19,726,481	23,583,632
	20,992,233	24,931,586
Consumer:		
Consumer credit line	7,711,972	6,865,147
Automobile	48,931,743	54,995,826
Other	7,647,688	6,532,503
	64,291,403	68,393,476
Less:		
Loans in process	596,513	915,425
Deferred loan costs, net	(1,749,127)	(1,947,533)
Allowance for loan losses	1,647,886	1,683,596
	495,272	651,488
Total	$ 153,584,123	$ 165,668,214

6. LOANS (Continued)

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

	2003	2002	2001
Principal outstanding	$ 374,879	$ 370,549	$ 536,792
Contractual interest due	30,168	29,801	61,121
Interest income recognized	18,407	12,256	24,373

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

	2003	2002	2001
Balance, January 1,	$ 1,683,596	$ 1,506,140	$ 1,454,618
Add:			
Provisions charged to operations	620,000	735,000	520,000
Loan recoveries	74,671	67,835	29,715
Less loans charged off	730,381	625,379	498,193
Balance, December 31,	$ 1,647,886	$ 1,683,596	$ 1,506,140

The Company's loan portfolio is predominantly made up of one-to-four family first mortgage loans and consumer loans in the areas of Beaver and Lawrence counties. Although the Company has a diversified loan portfolio at December 31, 2003 and 2002, loans outstanding to individuals and businesses are dependent upon the local conditions in its immediate trade area.

7. ACCRUED INTEREST RECEIVABLE

Accrued interest receivable consists of the following:

	2003	2002
Interest-bearing deposits with other institutions	$ 4,155	$ 1,702
Investment securities	161,664	338,939
Mortgage-backed securities	545,644	550,235
Loans	861,832	1,107,897
Total	$ 1,573,295	$ 1,998,773

8. FHLB STOCK

The Bank is a member of the Federal Home Loan Bank System. As a member, the Bank maintains an investment in the capital stock of the FHLB of Pittsburgh in an amount not less than 70 basis points of the outstanding unused FHLB borrowing capacity and one-twentieth of its outstanding FHLB borrowings, as calculated throughout the year.

9. PREMISES AND EQUIPMENT

Premises and equipment consist of the following:

	2003	2002
Land	$ 900,624	$ 900,624
Office buildings	5,156,847	5,159,608
Furniture, fixtures, and equipment	2,652,484	3,473,976
Leasehold improvements	403,403	403,403
	9,113,358	9,937,611
Less accumulated depreciation and amortization	4,885,860	5,333,606
Total	$ 4,227,498	$ 4,604,005

Depreciation expense for the years ended December 31, 2003, 2002, and 2001 was $509,374, $688,004, and $652,309, respectively.

10. DEPOSITS

Comparative details of deposit accounts follow:

	2003		2002	
	Amount	Percent of Portfolio	Amount	Percent of Portfolio
DDA and NOW accounts	$ 42,384,950	18.3 %	$ 38,144,708	16.4 %
Money market demand accounts	29,544,169	12.7	28,769,973	12.4
Savings accounts	35,567,040	15.4	33,741,991	14.5
	107,496,159	46.4	100,656,672	43.3
Time certificates of deposit:				
Less than 2.01%	26,356,259	11.4	17,148,772	7.4
2.01% - 4.00%	40,266,988	17.4	34,798,570	15.0
4.01% - 6.00%	52,810,943	22.8	53,787,347	23.1
6.01% - 8.00%	4,589,083	2.0	25,975,311	11.2
	124,023,273	53.6	131,710,000	56.7
Total	$ 231,519,432	100.0 %	$ 232,366,672	100.0 %

At December 31, 2003, time deposits of $65,118,465, $18,757,798, $12,822,485, $14,800,308, $10,574,072, and $1,950,145 are scheduled to mature during 2004, 2005, 2006, 2007, 2008, and beyond 2008, respectively.

Time deposits include certificates of deposit in denominations of $100,000 or more. Such deposits aggregated $33,736,163 and $34,092,419 at December 31, 2003 and 2002, respectively, with maturities at December 31, 2003, as follows:

Within three months	$ 1,850,046
Beyond three but within six months	16,530,035
Beyond six but within twelve months	4,966,921
Beyond one year	10,389,161
Total	$ 33,736,163

10. DEPOSITS (Continued)

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

	2003	2002	2001
Savings accounts	$ 297,770	$ 373,010	$ 542,724
NOW and money market deposit accounts	361,936	561,419	1,150,101
Time certificates of deposit	5,134,146	5,766,224	6,212,118
Total	$ 5,793,852	$ 6,700,653	$ 7,904,943

11. ADVANCES FROM FEDERAL HOME LOAN BANK

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

Description	Maturity range from	Maturity range to	Weighted average interest rate	Stated interest rate range from	Stated interest rate range to	2003	2002
Convertible	02/20/08	03/01/11	5.30 %	5.15 %	5.53 %	$ 30,000,000	$ 30,000,000
Fixed rate	02/23/04	02/21/12	4.87	2.35	6.63	26,880,000	25,007,800
Line of credit	11/30/04		1.03	1.03		2,000,000	6,000,000
						$ 58,880,000	$ 61,007,800

The scheduled maturities of advances outstanding are as follows:

Year Ending December 31,	2003 Amount	2003 Weighted-average Rate
2003	$ -	- %
2004	6,250,000	3.98
2005	5,500,000	3.85
2006	5,630,000	4.08
2007	2,000,000	5.40
2008	17,000,000	5.30
beyond 2008	22,500,000	5.43
Total	$ 58,880,000	4.96 %

The terms of the convertible advances reset to the three-month London Interbank Offered Rate ("LIBOR") and have various spreads and call dates ranging from three months to seven years. The FHLB has the right to call any convertible select advance on its call date or quarterly thereafter. Should the advance be called, the Company has the right to pay off the advance without penalty. The FHLB advances are secured by the Company's FHLB stock and investment securities and are subject to substantial prepayment penalties.

Borrowing capacity consists of credit arrangements with the FHLB of Pittsburgh. FHLB borrowings are subject to annual renewal, incur no service charges, and are secured by a blanket security agreement on certain investment and mortgage-backed securities, outstanding residential mortgages, and the Bank's investment in FHLB stock. As of December 31, 2003, the Bank's maximum borrowing capacity with the FHLB was approximately $159 million.

12. INCOME TAXES

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

		2003		2002		2001
Currently payable:						
Federal	$	638,645	$	615,821	$	574,481
State		156,852		186,154		148,694
		795,497		801,975		723,175
Deferred		87,714		(112,244)		29,156
Total	$	883,211	$	689,731	$	752,331

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

		2003		2002
Deferred tax assets:				
Allowance for loan losses	$	560,282	$	572,423
Premises and equipment		50,058		83,183
Accrued employee benefits		270,782		315,770
Alternative minimum tax credit		10,740		11,089
Other		9,043		6,154
Total gross deferred tax assets		900,905		988,619
Deferred tax liabilities:				
Net unrealized gain on securities		793,771		1,131,982
Total gross deferred tax liabilities		793,771		1,131,982
Net deferred tax asset (liability)	$	107,134	$	(143,363)

No valuation allowance was established at December 31, 2003, in view of certain tax strategies coupled with the anticipated future taxable income as evidenced by the Company's earnings potential.

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

		2003				2002				2001	
		Amount	% of Pre-tax Income			Amount	% of Pre-tax Income			Amount	% of Pre-tax Income
Provision at statutory rate	$	1,226,062	34.0	%	$	1,127,068	34.0	%	$	1,010,968	34.0
State income tax expense, net of federal tax benefit		103,522	2.9			122,862	3.7			98,138	3.3
Tax-exempt interest		(546,971)	(15.2)			(608,323)	(18.4)			(384,505)	(12.9)
Other, net		100,598	2.8			48,124	1.5			27,730	0.9
Actual expense and effective rate	$	883,211	24.5	%	$	689,731	20.8	%	$	752,331	25.3

The Bank is subject to the Pennsylvania Mutual Thrift Institutions Tax which is calculated at 11.5 percent of earnings.

13. EMPLOYEE BENEFITS

Pension Plan

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

Obligations and Funded Status

The following table sets forth the status at December 31:

	2003	2002
Change in benefit obligation		
Benefit obligation at beginning of year	$ 5,495,131	$ 4,578,325
Service cost	236,088	197,171
Interest cost	366,868	329,653
Actuarial loss	375,815	492,012
Benefits paid	(121,373)	(102,030)
Benefit obligation at end of year	6,352,529	5,495,131
Change in plan assets		
Fair value of plan assets at beginning of year	4,708,564	4,341,756
Actual return on plan assets	313,906	295,001
Employer contribution	337,984	173,837
Benefits paid	(121,373)	(102,030)
Fair value of plan assets at end of year	5,239,081	4,708,564
Funded status	(1,113,448)	(786,567)
Unrecognized transition adjustment	(117,559)	(138,373)
Unrecognized net actuarial loss	1,190,133	804,211
Net Accrued Benefit Cost Recognized	$ (40,874)	$ (120,729)

The accumulated benefit obligation for the defined benefit pension plan was $4,675,381 and $4,022,845 at December 31, 2003 and 2002, respectively.

	2003	2002	2001
Service cost	$ 236,088	$ 197,171	$ 185,5
Interest cost	366,868	329,653	300,7
Expected return on plan assets	(338,735)	(349,068)	(320,7
Amortization of prior service cost	(20,814)	(20,814)	(20,8
Amortization of unrecognized loss	14,722	-	-
Net periodic benefit cost	$ 258,129	$ 156,942	$ 144,7

13. EMPLOYEE BENEFITS (Continued)

Assumptions

Weighted-average assumptions used to determine benefit obligations at December 31:

	2003	2002
Discount rate	6.00 %	6.50 %
Rate of compensation increase	5.00	5.00

Weighted-average assumptions used to determine net periodic cost for years ended December 31:

Discount rate	6.00 %	6.50 %
Expected long-term return on plan assets	7.00	8.00
Rate of compensation increase	5.00	5.00

The expected long-term rate of return was estimated using market benchmarks by which the plan assets would outperform the market in the future, based on historical experience adjusted for changes in asset allocation and expectations for overall lower future returns on similar investments compared to past periods.

Plan Assets

The Bank's pension plan weighted-average asset allocations at December 31 by asset category are as follows:

Asset Category	2003	2002
Cash and fixed income securities	100.0 %	100.0 %
Equity securities	-	-
Total	100.0 %	100.0 %

The investment objective for the defined benefit pension plan is to provide income while providing safety of principal. Funds become part of the general assets of Minnesota Life, which is invested primarily in long-term bonds and mortgages. No single asset represents more than a half of a percent of the general investment account.

13. EMPLOYEE BENEFITS (Continued)

Cash Flows

The Bank expects to contribute $308,544 to its pension plan in 2004.

Supplemental Retirement Plans

Board of Directors

The Bank maintains a Directors' Consultation and Retirement Plan to provide post-retirement payments over a ten-year period to non-officer members of the Board of Directors who have completed fifteen or more years of service. Expenses for the years ended December 31, 2003, 2002, and 2001 amounted to $33,200, $41,250, and $30,000, respectively, and are included as a component of other operating expenses.

President

The Bank maintains a Supplemental Retirement Plan for the President of the Bank for the purpose of providing the President with supplemental post-retirement benefits for life in addition to those provided under the Bank's pension plan for all eligible employees. Expenses for the years ended December 31, 2003, 2002, and 2001, amounted to $20,000, $30,000, and $54,000, respectively, and are included as a component of compensation and employee benefits.

The assumptions of 7.50 percent and 5.00 percent for the discount rate and rate of compensation increase, respectively, were used in determining net periodic post-retirement costs for the Directors' Consultation and Retirement Plans and Supplemental Retirement Plan for the President.

Profit Sharing Plan

The Bank maintains a section 401(k) employee savings and profit sharing plan for substantially all employees and officers of the Bank. The Bank's annual contribution to the plan is based on the discretion of the Board of Directors. Contributions for the years ended December 31, 2003, 2002, and 2001 amounted to $80,291, $75,757, and $74,479, respectively.

Stock Option Plan

The Company maintains a non-statutory stock option plan for non-employee directors and an incentive stock option plan for executive officers. The plan provides for granting incentive stock options and non-statutory stock options for executive officers and non-employee directors of the Company. Effective December 23, 2002, the shareholders authorized 154,000 additional shares to the plan. A total of 313,129 shares of authorized but unissued common stock are reserved for issuance under the plan, which expires ten years from the date of shareholder ratification. The per share exercise price of an option granted will not be less than the fair value of a share of common stock on the date the option is granted.

Non-statutory stock options for non-employee directors were granted for the purchase of 90,339 shares. The recipients of these stock options vest over a three or four-year period of time. Also, incentive stock options for officers and employees were granted for the purchase of 222,790 shares. The recipients of these stock options vest over a two to five-year period of time.

13. EMPLOYEE BENEFITS (Continued)

Stock Option Plan (Continued)

The following table presents share data related to the outstanding options:

	2003	Weighted-Average Exercise Price	2002	Weighted-Average Exercise Price
Outstanding, beginning	313,129 $	12.31	159,129 $	9.22
Granted	-	-	154,000	15.51
Exercised	22,602	10.54	-	-
Forfeited	-	-	-	-
Outstanding, ending	290,527 $	12.45	313,129 $	12.31
Exercisable at year-end	257,227 $	12.06	219,479 $	10.95

The following table summarizes the characteristics of stock options at December 31, 2003:

	Outstanding			Exercisable	
Exercise price	Shares	Average Life	Average Exercise Price	Shares	Average Exercise Price
$ 9.22	141,261	4.83	$ 9.22	141,261	$ 9.22
15.51	149,266	8.97	15.51	115,966	15.51

13. EMPLOYEE BENEFITS (Continued)

Employee Stock Ownership Plan ("ESOP")

The Company has an ESOP for the benefit of employees who meet the eligibility requirements including having completed one year of service with the Company or its subsidiaries and attained age 21. The ESOP trust purchased 176,095 shares of common stock with proceeds from internally financed loans in 2001 and holds 299,093, or 8.55 percent, of the total shares issued. The Bank makes cash contributions to the ESOP on an annual basis sufficient to enable the ESOP to make the required loan payments to the Company. The loan was rewritten in 2001 to consolidate a pre-existing ESOP loan and bears interest at 6.00 percent with interest payable quarterly and principal payable in equal annual installments over ten years. The loan is secured by the shares of the stock purchased.

As the debt is repaid, shares are released from the collateral and allocated to qualified employees based on the proportion of debt service paid in the year. Accordingly, the shares pledged as collateral are reported as unallocated ESOP shares in the Consolidated Balance Sheet. As shares are released from collateral, the Company reports compensation expense equal to the current market price of the shares, and the shares become outstanding for earnings per share computations. Compensation expense for the ESOP was $433,485, $339,777, and $131,520, for the years ended December 31, 2003, 2002, and 2001, respectively.

The following table presents the components of the ESOP shares:

	2003	2002	2001
Allocated shares	82,198	60,654	48,354
Shares released for allocation	23,844	23,844	12,300
Unreleased shares	190,751	214,595	238,439
Total ESOP shares	296,793	299,093	299,093
Fair value of unreleased shares	$ 4,072,000	$ 3,358,412	$ 2,849,346

13. EMPLOYEE BENEFITS (Continued)

Restricted Stock Plan ("RSP")

The Company maintains an RSP for directors, officers, and employees. The objective of this plan is to enable the Company and the Bank to retain its corporate officers, key employees, and directors who have the experience and ability necessary to manage these entities. Directors, officers, and key employees who are selected by members of a Board-appointed committee are eligible to receive benefits under the RSP. The non-employee directors of the Company and the Bank serve as trustees for the RSP and have the responsibility to invest all funds contributed by the Bank to the Trust created for the RSP.

The Company acquired and granted a total of 63,652 shares of common stock, of which 14,318 shares became immediately vested under the plan, with the remaining shares vesting over a four-year period for directors and five years for officers and employees, beginning October 22, 1999. On December 23, 2002, the Company granted a total of 66,000 shares of common stock, of which 16,280 shares were acquired and became immediately vested under the plan with the remaining shares vesting over a two- and four-year period. A total of 79,932 shares were vested as of December 31, 2003.

The RSP shares purchased initially are excluded from stockholders' equity. The Company recognizes compensation expense in the amount of fair value of the common stock at the grant date, pro rata, over the years during which the shares are payable and recorded as an addition to the stockholders' equity. Directors, officers, and key employees who terminate their association with the Company shall forfeit the right to any shares which were awarded but not earned.

Net compensation expense attributable to the RSPs amounted to $252,503, $280,687, and $128,513 for the years ended December 31, 2003, 2002, and 2001.

14. COMMITMENTS

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

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

	2003	2002
Commitments to grant fixed rate loans	$ 3,570,013	$ 9,003,490
Unfunded commitments under variable rate lines of credit	18,941,282	16,820,280
Total	$ 22,511,295	$ 25,823,770

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements.

15. REGULATORY MATTERS

Loans

Federal law prevents the Company from borrowing from the Bank unless the loans are secured by specific collateral. Further, such secured loans are limited in amount to 10 percent of the Bank's common stock and capital surplus.

Dividend Restrictions

The Bank is subject to legal limitations on the amount of dividends that can be paid to the Company. The Pennsylvania Banking Code restricts the availability of surplus for dividend purposes. At December 31, 2003, surplus funds of $21,956,195 were not available for dividends.

16. REGULATORY CAPITAL REQUIREMENTS

Federal regulations require the Company and the Bank to maintain minimum amounts of capital. Specifically, each is required to maintain certain minimum dollar amounts and ratios of Total and Tier I capital to risk-weighted assets and of Tier I capital to average total assets.

In addition to the capital requirements, the FDIC Improvement Act ("FDICIA") established five capital categories ranging from "well capitalized" to "critically undercapitalized." Should any institution fail to meet the requirements to be considered "adequately capitalized," it would become subject to a series of increasingly restrictive regulatory actions.

As of December 31, 2003 and 2002, the FDIC categorized the Company and the Bank as well capitalized under the regulatory framework for prompt corrective action. To be classified as a well capitalized financial institution, Total risk-based, Tier 1 risk-based, and Tier 1 Leverage capital ratios must be at least 10 percent, 6 percent, and 5 percent, respectively.

16. REGULATORY CAPITAL REQUIREMENTS (Continued)

The Company's actual capital ratios are presented in the following tables, which shows the Company met all regulatory capital requirements.

	2003		2002	
	Amount	Ratio	Amount	Ratio
Total Capital (to Risk-weighted Assets)				
Actual	$ 47,282,017	27.30 %	$ 48,846,391	30.72 %
For Capital Adequacy Purposes	13,857,486	8.00	12,718,680	8.00
To Be Well Capitalized	17,321,858	10.00	15,898,350	10.00
Tier I Capital (to Risk-weighted Assets)				
Actual	$ 45,109,039	26.04 %	$ 47,162,795	29.67 %
For Capital Adequacy Purposes	6,928,743	4.00	6,359,340	4.00
To Be Well Capitalized	10,393,115	6.00	9,539,010	6.00
Tier I Capital (to Average Assets)				
Actual	$ 45,109,039	13.24 %	$ 47,162,795	13.56 %
For Capital Adequacy Purposes	13,632,800	4.00	13,909,085	4.00
To Be Well Capitalized	17,041,000	5.00	17,385,356	5.00

16. REGULATORY CAPITAL REQUIREMENTS (Continued)

The Bank's actual capital ratios are presented in the following tables.

	2003			2002	
	Amount	Ratio		Amount	Ratio
Total Capital (to Risk-weighted Assets)					
Actual	$ 38,685,908	23.52 %	$	42,779,478	27.86 %
For Capital Adequacy Purposes	13,159,680	8.00		12,282,160	8.00
To Be Well Capitalized	16,449,600	10.00		15,352,700	10.00
Tier I Capital (to Risk-weighted Assets)					
Actual	$ 37,038,022	22.52 %	$	41,095,882	26.77 %
For Capital Adequacy Purposes	6,579,840	4.00		6,141,080	4.00
To Be Well Capitalized	9,869,760	6.00		9,211,620	6.00
Tier I Capital (to Average Assets)					
Actual	$ 37,038,022	11.22 %	$	41,095,882	12.21 %
For Capital Adequacy Purposes	13,207,000	4.00		13,466,538	4.00
To Be Well Capitalized	16,508,750	5.00		16,833,172	5.00

Prior to the enactment of the Small Business Job Protection Act, the Company accumulated approximately $2,485,000 of retained earnings, which represent allocations of income to bad debt deductions for tax purposes only. Since there is no amount that represents the accumulated bad debt reserves subsequent to 1987, no provision for federal income tax has been made for such amount. If any portion of this amount is used other than to absorb loan losses (which is not anticipated), the amount will be subject to federal income tax at the current corporate rate.

17. FAIR VALUE DISCLOSURE

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

	2003		2002	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets:				
Cash and amounts due from other institutions	$ 6,795,068	$ 6,795,068	$ 6,938,217	$ 6,938,217
Interest-bearing deposits with other institutions	753,727	753,727	1,283,752	1,283,752
Investment securities:				
Available for sale	28,718,832	28,718,832	27,233,227	27,233,227
Held to maturity	7,952,211	8,203,053	19,274,753	19,611,078
Mortgage-backed securities:				
Available for sale	75,910,915	75,910,915	44,137,225	44,137,225
Held to maturity	55,843,363	56,194,217	70,346,358	71,826,914
Loans, net	153,584,123	157,392,123	165,668,214	173,219,214
Federal Home Loan Bank stock	3,606,600	3,606,600	3,620,300	3,620,300
Accrued interest receivable	1,573,295	1,573,295	1,998,773	1,998,773
Financial liabilities:				
Deposits	$ 231,519,432	$ 233,746,432	$ 232,366,672	$ 237,027,672
Advances from Federal Home Loan Bank	58,880,000	61,646,000	61,007,800	64,276,800
Advances from borrowers for taxes and insurance	504,752	504,752	548,924	548,924
Accrued interest payable	965,875	965,875	1,179,721	1,179,721

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

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

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

17. FAIR VALUE DISCLOSURE (Continued)

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

Cash and Amounts Due From Other Institutions, Interest-Bearing Deposits With Other Institutions, Accrued Interest Receivable, Advance From Borrowers for Taxes and Insurance, and Accrued Interest Payable

The fair value approximates the current book value.

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

The fair value of securities held as investments, mortgage-backed securities, and securities available for sale is equal to the available quoted market price. If no quoted market price is available, fair value is estimated using the quoted market price for similar securities. Since the FHLB stock is not actively traded on a secondary market and held exclusively by member financial institutions, the estimated fair market value approximates the carrying amount.

Loans, Deposits, and Advances From the Federal Home Loan Bank

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

Commitments to Extend Credit

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

18. CORPORATE REORGANIZATION AND STOCK ISSUANCE

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

18. CORPORATE REORGANIZATION AND STOCK ISSUANCE (Continued)

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

On August 16, 2001, the Board of Trustees of PHS Bancorp, M.H.C., Peoples Home Savings Bank, and the Board of Directors of PHS Bancorp, Inc. ("PHS") adopted a plan of conversion. In accordance with the plan, PHS Bancorp, M.H.C. was converted from a mutual holding company to PHSB Financial Corporation ("PHSB"), a full stock corporation, on December 20, 2001. The common shares held by public stockholders of PHS were converted into common shares of PHSB at a rate of 1.28123 of PHSB common shares for each common share of PHS. PHSB received the approval of the Federal Reserve Board, the Department of Banking, and the FDIC for transactions contemplated by the plan of conversion, which authorized PHSB to offer stock in a public stock offering up to a maximum of 2,731,250 shares of its common stock. As a result of the conversion, public stockholders of PHS received 1,295,918 of the PHSB common stock. Also, as a result of the stock offering, PHSB received net proceeds of $21,226,263. PHSB contributed a portion of the proceeds to the Bank, resulting in net capital additions to the Bank of $10,614,003. Upon completion of the conversion, the Bank became a wholly-owned subsidiary of PHSB. Additionally, PHS and PHS Bancorp, M.H.C. ceased to exist, with their net assets totaling $2,955,314 being contributed to PHSB.

19. PARENT COMPANY

The following are condensed financial statements for the parent company.

CONDENSED BALANCE SHEET

	2003	2002
ASSETS		
Cash and due from banks	$ 920,770	$ 816,390
Investment securities - available for sale	9,226,468	5,441,730
Investment in subsidiary bank	35,666,271	40,838,046
Loans receivable - ESOP	2,127,610	2,330,388
Other assets	40,948	28,923
TOTAL ASSETS	$ 47,982,067	$ 49,455,477
LIABILITIES AND STOCKHOLDERS' EQUITY		
Other liabilities	$ 1,332,179	$ 95,305
Stockholders' equity	46,649,888	49,360,172
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 47,982,067	$ 49,455,477

19. PARENT COMPANY (Continued)

CONDENSED STATEMENT OF INCOME

	For the Year Ended December 31, 2003	2002	2001
INCOME			
Dividends from subsidiary bank	$ 6,000,000	$ 1,000,000	$ 1,380,000
Investment securities gains, net	1,103,785	-	-
Interest income	255,350	295,373	77,983
	7,359,135	1,295,373	1,457,983
EXPENSES	578,419	143,314	62,439
Income before equity in undistributed earnings of subsidiary	6,780,716	1,152,059	1,395,544
Equity in undistributed earnings of subsidiary	(4,057,861)	1,473,116	825,559
NET INCOME	$ 2,722,855	$ 2,625,175	$ 2,221,103

19. PARENT COMPANY (Continued)

CONDENSED STATEMENT OF CASH FLOWS

	For the Year Ended December 31, 2003	2002	2001
OPERATING ACTIVITIES			
Net income	$ 2,722,855	$ 2,625,175	$ 2,221,103
Adjustments to reconcile net income to net cash provided by operating activities:			
Equity in undistributed earnings of subsidiary	4,057,861	(1,473,116)	(825,559)
Investments securities gains, net	(1,103,785)	-	-
Other, net	1,394,154	254,354	152,856
Net cash provided by operating activities	7,071,085	1,406,413	1,548,400
INVESTING ACTIVITIES			
Purchases of investment securities	(6,080,944)	(6,108,447)	(1,525,828)
Sale of investment securities	4,400,241	484,740	107,298
Maturity of investment securities	-	2,000,000	-
Additional investment in subsidiary	-	-	(8,845,744)
Decrease (increase) in loan to ESOP, net	202,778	191,317	(1,618,170)
Net cash used for investing activities	(1,477,925)	(3,432,390)	(11,882,444)
FINANCING ACTIVITIES			
Common stock acquired by ESOP	-	-	(1,760,950)
Common stock acquired by RSP	(847,725)	-	-
Proceeds from sale of common stock	293,078	-	21,226,263
Proceeds from exercise of stock options	-		
Capital contributed by MHC	-	-	2,955,314
Cash dividends paid	(2,436,870)	(1,039,619)	(991,801)
Purchase of treasury stock	(2,497,263)	(7,021,256)	(325,197)
Net cash provided by (used for) investing activities	(5,488,780)	(8,060,875)	21,103,629
Increase (decrease) in cash	104,380	(10,086,852)	10,769,585
CASH AT BEGINNING OF YEAR	816,390	10,903,242	133,657
CASH AT END OF YEAR	$ 920,770	$ 816,390	$ 10,903,242

20. SELECTED QUARTERLY FINANCIAL DATA (unaudited)

	Three Months Ended			
	March 2003	June 2003	September 2003	December 2003
Total interest income	$ 4,788,981	$ 4,471,616	$ 4,076,711	$ 4,247,752
Total interest expense	2,338,288	2,272,761	2,071,795	2,060,294
Net interest income	2,450,693	2,198,855	2,004,916	2,187,458
Provision for loan losses	190,000	180,000	130,000	120,000
Net interest income after provision for loan losses	2,260,693	2,018,855	1,874,916	2,067,458
Investment securities gains, net	176,144	366,820	467,814	594,611
Total noninterest income	254,101	277,789	285,095	285,000
Total noninterest expense	1,873,114	1,811,005	1,817,039	1,822,072
Income before income taxes	817,824	852,459	810,786	1,124,997
Income taxes	166,000	186,554	223,389	307,268
Net income	$ 651,824	$ 665,905	$ 587,397	$ 817,729
Per share data:				
Net income				
Basic	$ 0.24	$ 0.25	$ 0.22	$ 0.30
Diluted	0.23	0.24	0.21	0.29
Weighted-average shares outstanding				
Basic	2,746,632	2,671,320	2,676,199	2,674,790
Diluted	2,823,985	2,757,061	2,768,214	2,779,059

20. SELECTED QUARTERLY FINANCIAL DATA (unaudited) (Continued)

	Three Months Ended			
	March 2002	June 2002	September 2002	December 2002
Total interest income	$ 4,902,684	$ 4,980,254	$ 5,067,251	$ 4,905,523
Total interest expense	2,370,405	2,384,602	2,555,064	2,489,310
Net interest income	2,532,279	2,595,652	2,512,187	2,416,213
Provision for loan losses	180,000	180,000	195,000	180,000
Net interest income after provision for loan losses	2,352,279	2,415,652	2,317,187	2,236,213
Investment securities gains, net	5,399	44,561	98,178	19,889
Total noninterest income	227,110	242,513	256,649	275,855
Total noninterest expense	1,688,720	1,734,700	1,751,021	2,002,138
Income before income taxes	896,068	968,026	920,993	529,819
Income taxes	234,000	243,000	176,765	35,966
Net income	$ 662,068	$ 725,026	$ 744,228	$ 493,853
Per share data:				
Net income				
Basic	$ 0.20	$ 0.23	$ 0.26	$ 0.18
Diluted	0.20	0.23	0.25	0.17
Weighted-average shares outstanding				
Basic	3,254,892	3,130,855	2,912,386	2,811,725
Diluted	3,298,347	3,180,441	2,965,714	2,875,557

PHSB FINANCIAL CORPORATION
OFFICE LOCATIONS

Administrative Office and Loan Center
744 Shenango Road
Beaver Falls, Pennsylvania 15010
(724) 846-7300
www.peopleshomesavings.com

Peoples Home Savings Bank
Branch Office Locations

1. Beaver Falls Office
1427 Seventh Ave.
Beaver Falls, PA

2. Chippewa Office
2521 Darlington Road
Beaver Falls, PA

3. Hopewell Office
2293 Broadhead Road
Aliquippa, PA

4. Beaver Office
701 Corporation Street
Beaver, PA

5. New Brighton Office
800 Third Avenue
New Brighton, PA

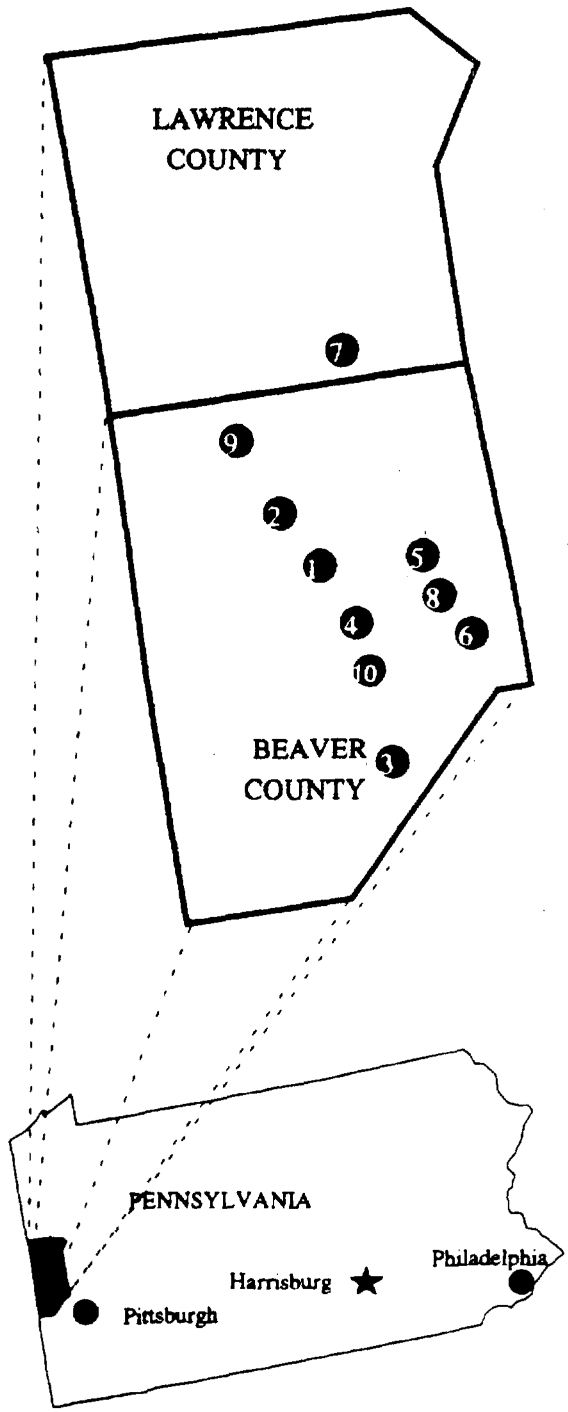
6. Northern Lights Office
1555 Beaver Road
Baden, PA

7. Ellwood City Office
632 Lawrence Avenue
Ellwood City, PA

8. Rochester Office
229 Brighton Avenue
Rochester, PA

9. Darlington Office
233 Second Street
Darlington, PA

10. Center Township Office
101 Golfview Drive
Monaca, PA 15061



Board of Directors
Joseph D. Belas
Douglas K. Brooks
Emlyn Charles
John C. Kelly
Howard B. Lenox
John M. Rowse
James P. Wetzel, Jr.

Dividend Reinvestment Plan:
For information on the PHSB Financial Corporation Dividend Reinvestment Plan, including optional cash purchases of additional shares with no brokerage fees, please contact Registrar and Transfer Company at (800) 368-5948

Corporate Counsel:
George A. Verlihay
2521 Darlington Road
Beaver Falls, Pennsylvania 15010

Special Counsel:
Malizia Spidi & Fisch, PC
1100 New York Avenue, N.W.
Suite 340 West
Washington, D.C. 20005

Executive Officers
James P. Wetzel, Jr.
President and Chief Executive Officer
Richard E. Canonge
Vice President Finance, Chief Financial Officer and Treasurer
John M. Rowse
Secretary
David E. Ault
Vice President-Community Banking and Assistant Secretary
Paul W. Jewell
Vice President-Human Resources and Business Development
Joseph R. Pollock III
Vice President-Lending

Independent Auditors:
S.R. Snodgrass, A.C.
1000 Stonewood Drive
Suite 200
Wexford, Pennsylvania 15090

Transfer Agent and Registrar:
Registrar and Transfer Company
70 Commerce Drive
Cranford, New Jersey 07016-3572
(800) 368-5948

The Company's Annual Report for the Year Ended December 31, 2003 filed with the Securities Exchange Commission on Form 10-K without exhibits is available without charge upon written request. For a copy of the Form 10-K or any other investor information, please write the Secretary of the Company at 744 Shenango Road, Beaver Falls, Pennsylvania 15010.

The Annual Meeting of Stockholders will be held on April 22, 2004 at 9:00 a.m. at the Chippewa Township Municipal Building, Chippewa Township, Beaver Falls, PA 15010.

NOTES