BERKSHIRE BANCORP INC /DE/
Form 10-K
March 30, 2004

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2003

OR

[_] TRANSITION REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _________________ to _________________

Commission File Number 0-13649

Berkshire Bancorp Inc.
(Exact name of registrant as specified in its charter)

Delaware	94-2563513
(State or other jurisdiction of incorporation or organization)	(I.R.S. employer identification number)
160 Broadway, New York, New York	10038
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (212) 791-5362

Securities registered pursuant to Section 12(b) of the Act: None

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

Common Stock, par value $.10 per share
(Title of Class)

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

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

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Rule 12b-2 of the Act. Yes [_] No [X]

Aggregate market value of voting and non-voting common stock held by non-affiliates of the Registrant as of June 30, 2003: $39,576,260.

Number of shares of Common Stock outstanding as of March 25, 2004: 2,207,080.

DOCUMENTS INCORPORATED BY REFERENCE:

None

Forward-Looking Statements. Statements in this Annual Report on Form 10-K that are not based on historical fact may be "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Words such as "believe", "may", "will", "expect", "estimate", "anticipate", "continue" or similar terms identify forward-looking statements. A wide variety of factors could cause the Company's actual results and experiences to differ materially from the results expressed or implied by the Company's forward-looking statements. Some of the risks and uncertainties that may affect operations, performance, results of the Company's business, the interest rate sensitivity of its assets and liabilities, and the adequacy of its loan loss allowance, include, but are not limited to: (i) deterioration in local, regional, national or global economic conditions which could result, among other things, in an increase in loan delinquencies, a decrease in property values, or a change in the housing turnover rate; (ii) changes in market interest rates or changes in the speed at which market interest rates change; (iii) changes in laws and regulations affecting the financial services industry; (iv) changes in competition; (v) changes in consumer preferences, (vi) changes in banking technology; (vii) ability to maintain key members of management, (viii) possible disruptions in the Company's operations at its banking facilities, and other factors referred to in the sections of this Annual Report entitled "Business" and "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Certain information customarily disclosed by financial institutions, such as estimates of interest rate sensitivity and the adequacy of the loan loss allowance, are inherently forward-looking statements because, by their nature, they represent attempts to estimate what will occur in the future.

The Company cautions readers not to place undue reliance upon any forward-looking statement contained in this Annual Report. Forward-looking statements speak only as of the date they were made and the Company assumes no obligation to update or revise any such statements upon any change in applicable circumstances.

PART I

ITEM 1. Business

General. Berkshire Bancorp Inc., a Delaware corporation , is a bank holding company registered under the Bank Holding Company Act of 1956. As used in this Annual Report on Form 10-K, the term "Berkshire", the "Company" or "we" and similar pronouns shall mean Berkshire Bancorp Inc. and its consolidated subsidiaries unless the context otherwise requires. Berkshire's principal activity is the ownership and management of our wholly-owned banking subsidiary, The Berkshire Bank (the "Bank"), a New York State chartered commercial bank.

We file annual, quarterly and current reports, proxy statements and other information with the Securities and Exchange Commission (the "SEC"). You may read and copy our reports or other filings made with the SEC at the SEC's Public

Reference Room, located at 450 Fifth Street, N.W., Washington, DC 20549. You can also access information that we file electronically on the SEC's website at WWW.SEC.GOV.

We do not presently have a website. However, as soon as practicable after filing with or furnishing to the SEC, we will provide at no cost, paper or electronic copies of our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports. Requests should be directed to:

Berkshire Bancorp Inc.
Investor Relations
160 Broadway
New York, NY 10038

Business of the Bank - General. The Bank's principal business consists of gathering deposits from the general public and investing those deposits primarily in loans, debt obligations issued by the U.S. Government, its agencies, and business corporations, and mortgage-backed securities. The Bank currently operates from five deposit-taking offices in New York City and four deposit-taking offices in Orange and Sullivan Counties, New York. In July 1995, the Bank

opened a branch in Brooklyn, in January 2001, the Bank opened a branch in downtown Manhattan and in March 2001, as a result of the merger with Goshen Bank, the Bank acquired two branches in Goshen, NY, a branch in Harriman, NY and a branch in Bloomingburg, NY. These branches provide the Bank with customary retail banking offices. On March 22, 2001, the Company purchased a parcel of land and building located in mid-town Manhattan for a total purchase price of $3.49 million in cash. In January 2003, the Bank relocated its main office to and opened a branch at this mid-town Manhattan location. The Bank opened two additional branches in Brooklyn, New York during 2003.

The Bank's principal loan types are residential and commercial mortgage loans and commercial non-mortgage loans, both unsecured and secured by personal property. The Bank's revenues come principally from interest on loans and investment securities. The Bank's primary sources of funds are deposits and proceeds from principal and interest payments on loans and investment securities.

Operating Plan. The Bank's operating plan concentrates on obtaining deposits from a variety of businesses, professionals and retail customers and investing those funds in conservatively underwritten loans. Due to the Bank's underwriting criteria, its deposits have significantly exceeded the level of satisfactory loans available for investment in recent years. Hence, the Bank has, in recent years, invested a portion of its available funds in investment and mortgage-backed securities.

Market Area. The Bank draws its customers principally from the New York City metropolitan area and, since the merger with Goshen Bank in 2001, the Villages of Goshen and Harriman, New York and their surrounding communities, representing most of Orange County, NY. The Bank also has a branch in Bloomingburg, New York, just over the border between Orange and Sullivan

Counties. Predominantly rural with numerous small towns, many residents of Orange and Sullivan Counties work in New York City. Consequently, the health of the economy in the New York City metropolitan area has, and will continue to have a direct effect on the economic well being of residents and businesses in these Counties. From time to time, the Bank may make loans or accept deposits from outside these areas, but such transactions generally represent outgrowths of existing local customer relationships.

Competition. The Bank's principal competitors for deposits are other commercial banks, savings banks, savings and loan associations and credit unions in the Bank's market areas, as well as money market mutual funds, insurance companies, securities brokerage firms and other financial institutions, many of which are substantially larger in size than the Company. The Bank's competition for loans comes principally from commercial banks, savings banks, savings and loan associations, mortgage bankers, finance companies and other institutional lenders. Many of the institutions which compete with the Bank have much greater financial and marketing resources than the Bank. The Bank's principal methods of competition include loan and deposit pricing, maintaining close ties with its local communities, the quality of the personal service it provides, the types of business services it provides, and other marketing programs.

Operations of the Bank. Reference is made to the information set forth in Item 7 herein ("Management's Discussion and Analysis of Financial Condition and Results of Operations") for information as to various aspects of the Bank's operations, activities and conditions.

In March, 2001, pursuant to the terms of an Agreement and Plan of Reorganization dated August 16, 2000 (the "Agreement"), we completed the merger with GSB Financial Corporation, a Delaware corporation, a savings and loan holding company ("GSB Financial"), and its wholly-owned subsidiary, Goshen Savings Bank, a federal savings bank, chartered and existing under the laws of the United States ("Goshen Bank"). GSB Financial was merged with and into Berkshire and Goshen Bank was merged with and into The Berkshire Bank. Holders of the common stock of GSB Financial received $20.75 in cash for each share of common stock of GSB Financial held by them, or, in the alternative, at their election, 0.6027 shares of Berkshire's common stock. As a result of this transaction, 978,032 shares of GSB Financial common stock were converted into 589,460 shares of Berkshire common stock, and 974,338 shares of GSB Financial common stock were purchased for $20.75 per share, totaling approximately $20.2 million.

This transaction was accounted for under the purchase method of accounting. Goodwill of $7.5 million was recorded in the transaction. Effective January 1, 2002, we adopted Statement of Financial Accounting Standard No. 142, Goodwill and Intangible Assets which eliminates the amortization of goodwill and requires an annual impairment test. As of December 31, 2003, we have completed the transitional testing of our intangible assets, including goodwill. We did not identify any impairment on our outstanding goodwill.

On November 7, 2002, we sold our 24.9% interest in a merchant credit card processing company for $285,000, which represents our initial purchase price in December 1999. We accounted for our interest in this company under the equity method of accounting and have recorded approximately $200,000 in net losses since December 1999. The initial purchase price to Berkshire was received in full during 2003.

Subsidiary Activities. The Bank is permitted under New York State law and federal law to own subsidiaries for certain limited purposes, generally to engage in activities which are permissible for a subsidiary of a national bank. The Bank has one subsidiary, Berkshire Agency, Inc., a company engaged in the title insurance business.

Regulation. Berkshire is a bank holding company under federal law and registered as such with the Federal Reserve. The Bank is a commercial bank chartered under the laws of New York State. It is subject to regulation at the state level by the New York Superintendent of Banks and the New York Banking Board, while at the federal level its primary regulator is the FDIC.

Both Berkshire and the Bank are subject to extensive state and federal regulation of their activities. The following discussion summarizes certain banking laws and regulations that affect Berkshire and the Bank. Proposals to change these laws and regulations are frequently proposed in Congress, in the New York State legislature, and before state and federal bank regulatory agencies. The likelihood and timing of any changes and the impact such changes might have on the Company are impossible to determine with any certainty. A change in applicable laws or regulations, or a change in the way such laws or regulations are interpreted by regulatory agencies or courts, may have a material impact on the business, operations and earnings of the Company, the nature and effect of which cannot now be predicted.

Bank Holding Company Regulation. The Federal Reserve is authorized to make regular examinations of the Company and its nonbank subsidiaries. Under federal law and Federal Reserve regulations, the activities in which the Company and its nonbank subsidiaries may engage are limited. The Company may not acquire direct or indirect ownership or control of more than 5% of the voting shares of any company, including a bank, without the prior approval of the Federal Reserve, except as specifically authorized under federal law and Federal Reserve regulations. The Company, subject to the approval of the Federal Reserve, may acquire more than 5% of the voting shares of non-banking corporations if those corporations engage in activities which the Federal Reserve deems to be so closely related to banking or managing or controlling banks as to be a proper incident thereto. These limitations also apply to activities in which the Company engages directly rather than through a subsidiary. However, pursuant to Section 103 of the Gramm-Leach-Bliley Act, the Company may elect, provided it meets certain conditions, to engage in a significantly broader range of activities or own shares of companies that engage in such broader activities, those that are determined to be financial in nature or incidental to such financial activity or complementary in certain situations, to a financial activity. The Company has not so elected.

The Federal Reserve has enforcement powers over the Company and its non-bank subsidiaries. This allows the Federal Reserve, among other things, to stop activities that represent unsafe or unsound practices or constitute violations of law, rules, regulations, administrative orders or written agreements with a federal bank regulator. These powers may be exercised through the issuance of cease-and-desist orders, the imposition of civil money penalties or other actions.

Federal Reserve Capital Requirements. The Federal Reserve requires that the Company, as a bank holding company, must maintain certain minimum ratios of capital to assets. The Federal Reserve's regulations divide capital into types. Primary capital includes common equity, surplus, undivided profits, perpetual preferred stock, mandatory convertible instruments, the allowance for loan and lease losses, contingency and other capital reserves, and minority interests in equity accounts of consolidated subsidiaries. Secondary capital includes limited-life preferred stock, subordinated notes and debentures and certain unsecured long term debt.

The Federal Reserve requires that bank holding companies maintain a minimum ratio of primary capital to total assets of 5.5% and a minimum level of total capital (primary plus secondary capital) equal to 6% of total assets. In calculating capital ratios, the allowance for loan losses, which is a component of primary capital, is added back in determining total assets. Certain capital components, such as debt and perpetual preferred stock, are includable as capital only if they satisfy certain definitional tests.

The Company must also meet a risk-based capital standard. Capital, for the risk-based capital requirement, is divided into Tier I capital and Supplementary capital, determined as discussed below in connection with the FDIC capital requirements imposed on the Bank. The Federal Reserve requires that the Bank maintain a ratio of total capital (defined as Tier I plus Supplementary capital) to risk-weighted assets of at least 8%, of which at least 4% must be Tier I capital. Risk weighted assets are also determined in a manner comparable to the determination of risk-weighted assets under FDIC regulations as discussed below.

At December 31, 2003 and 2002, the Company satisfied all applicable Federal Reserve minimum capital requirements.

Source of Strength Doctrine. It is the Federal Reserve policy that bank holding companies must serve as a source of financial strength to its subsidiary depository institutions and must commit all available resources to support such institutions even if it might not otherwise do so. Although this "source of strength" policy has been challenged in litigation, the Federal Reserve continues to take the position that it has authority to enforce it. The Federal Reserve also has the authority to terminate any activity of the Company that constitutes a serious risk to the financial soundness or stability of the Bank or, in extreme cases, to terminate its control of any bank or nonbank subsidiaries.

Inter-state Banking. Bank holding companies may generally acquire banks in any state. Federal law also permits a bank to merge with an out-of-state bank and convert any offices into branches of the resulting bank if both states have not opted out of interstate branching; permits a bank to acquire branches from an out-of-state bank if the law of the state where the branches are located permits the interstate branch acquisition; and permits banks to establish and operate new interstate branches whenever the host state opts-in to that authority. Bank holding companies and banks that want to engage in such activities must be adequately capitalized and managed.

The New York Banking Law generally authorizes interstate branching in New York as a result of a merger, purchase of assets or similar transaction. An out of state bank may not first enter New York by opening a new branch in New York, but once a branch is acquired as described in the preceding sentence, additional new branches may be opened.

Regulation of the Bank. In general, the powers of the Bank are limited to the express powers described in the New York Banking Law and powers incidental to the exercise of those express powers. The Bank is generally authorized to accept deposits and make loans on terms and conditions determined to be acceptable to the Bank. Loans may be unsecured, secured by real estate, or secured by personal property. The Bank may also invest assets in bonds, notes or other debt securities which are not in default and certain limited classes of equity securities including certain publicly traded equity securities in an amount aggregating not more than 2% of assets or 20% of capital. The Bank may also engage in a variety of other traditional activities for commercial banks, such as the issuance of letters of credit.

The exercise of these state-authorized powers is limited by FDIC regulations and other federal laws and regulations. In particular, FDIC regulations limit the investment activities of state-chartered, FDIC-insured banks such as the Bank.

Under FDIC regulations, the Bank generally may not directly or indirectly acquire or retain any equity investment that is not permissible for a national bank. In addition, the Bank may not directly or indirectly through a subsidiary, engage as "principal" in any activity that is not permissible for a national bank unless the FDIC has determined that such activities would pose no risk to the applicable FDIC insurance fund and the Bank is in compliance with applicable regulatory capital requirements. FDIC regulations permit real estate investments under certain circumstances. The Bank does not engage in real estate investing activity.

Loans to One Borrower. With certain exceptions, the Bank may not make loans or other extensions of credit to a single borrower, or certain related groups of borrowers, in an aggregate amount in excess of 15% of the Bank's net worth, plus an additional 10% of the Bank's net worth if such amount is secured by certain types of readily marketable collateral. In addition, the Bank is not permitted to make a mortgage loan in excess of 15% of capital stock, surplus fund and undivided profits.

FDIC Capital Requirements. The FDIC requires that the Bank maintain certain minimum ratios of capital to assets. The FDIC's regulations divide capital into two tiers. The first tier ("Tier I") includes common equity, retained earnings, certain non-cumulative perpetual preferred stock (excluding auction rate issues) and minority interests in equity accounts of consolidated subsidiaries, minus goodwill and other intangible assets (except mortgage servicing rights and purchased credit card relationships subject to certain limitations). Supplementary ("Tier II") capital includes, among other items, cumulative perpetual and long-term limited-life preferred stock, mandatory convertible securities, certain hybrid capital instruments, term subordinated debt and the allowance for loan, subject to certain limitations, less required deductions.

The FDIC requires that the highest rated banks maintain a Tier I leverage ratio (Tier I capital to adjusted total assets) of at least 3.0%. All other banks subject to FDIC capital requirements must maintain a Tier I leverage ration of 4.0% to 5.0% or more. As of December 31, 2003 and 2002, the Bank's Tier I leverage capital ratio was 7.0% and 7.8%, respectively.

The Bank must also meet a risk-based capital standard. The risk-based standard requires the Bank to maintain total capital (defined as Tier I and Supplementary capital) to risk-weighted assets of at least 8%, of which at least

4% must be Tier I capital. In determining the amount of risk-weighted assets, all assets, plus certain off-balance sheet assets, are multiplied by a risk-weight of 0% to 100%, based on the risks the FDIC believes are inherent in the type of asset. As of December 31, 2003 and 2002, the Bank maintained a 18.3% and 18.5% Tier I risk-based capital ratio and a 19.1% and 19.4% total risk-based capital ratio, respectively.

In addition to the foregoing regulatory capital requirements, the FDIC Improvements Act of 1991 created a "prompt corrective action" framework, under which decreases in a depository institution's capital category trigger various supervisory actions. Pursuant to implementing regulations adopted by the FDIC, for purposes of the prompt corrective action provisions, a state-chartered, nonmember bank, such as the Bank, is deemed to be well capitalized if it has: a total risk-based capital ratio of 10% or greater; a Tier I risk-based capital ratio of 6% or greater; and a leverage ratio of 5% or greater. As of December 31, 2003 and 2002, the Bank was well capitalized under all three of these standards.

Community Reinvestment Act. The Bank must, under federal law, meet the credit needs of its community, including low and moderate income segments of its community. The FDIC is required, in connection with its examination of the Bank, to assess whether the Bank has satisfied this requirement. Failure to satisfy this requirement could adversely affect certain applications which the Bank may make, such as branch applications, merger applications, and applications for

permission to purchase branches. In the case of Berkshire, the Federal Reserve will assess the record of each subsidiary bank in considering certain applications by Berkshire. The New York Banking Law contains similar provisions applicable to the Bank. As of the most recent Community Reinvestment Act examinations by the FDIC and the New York State Banking Department, the Bank received satisfactory ratings.

Dividends From the Bank to the Company. One source of funds for Berkshire to pay dividends to its stockholders is dividends from the Bank to Berkshire. Under the New York Banking Law, the Bank may pay dividends to Berkshire, without regulatory approval, equal to its net profits for the year in which the payment is made, plus retained net profits for the two previous years, subject to certain limits not generally relevant. The Bank's retained net profits for the 2002 and 2003 calendar years totaled approximately $12.12 million. However, the ability of Berkshire to pay future dividends and meet its other financial obligations is not presently dependent upon the receipt of dividends from the Bank.

Under federal law, the Bank may not make any capital distribution to Berkshire, including any dividend or repurchase of the Bank's stock, if, after making such distribution, the Bank fails to meet the required minimum capital ratio requirements discussed below. The FDIC may prohibit the Bank from paying dividends if, in its opinion, the payment of dividends would constitute an unsafe or unsound practice.

Transactions With Related Parties. The Company, its direct non-banking subsidiaries and other companies controlled by shareholders who control the Company are affiliates, within the meaning of the Federal Reserve Act, of the

Bank and its subsidiaries. The Bank's authority to engage in transactions with its "affiliates" is limited by Sections 23A and 23B of the Federal Reserve Act. Section 23A limits the aggregate amount of transactions with any individual affiliate to 10% of the capital and surplus of the Bank and also limits the aggregate amount of transactions with all affiliates to 20% of the Bank's capital and surplus. Extensions of credit to affiliates must be secured by certain specified collateral, and the purchase of low quality assets from affiliates is generally prohibited. Section 23B provides that certain transactions with affiliates, including loans and asset purchases, must be on terms and under circumstances, including credit standards, that are at least as favorable to the Bank as those prevailing at the time for comparable transactions with non-affiliated companies. In the absence of comparable transactions, such transactions may only occur under terms and circumstances, including credit standards, that in good faith would be offered to or would apply to non-affiliated companies.

The Bank may make loans to its and the Company's directors, executive officers, and 10% stockholders, as well as to entities controlled by them, subject to specific federal and state limits. Among other things, these loans must (a) be made on terms that are substantially the same as, and follow credit underwriting procedures that are not less stringent than, those prevailing for comparable transactions with unaffiliated persons and that do not involve more than the normal risk of repayment or present other unfavorable features and (b) not exceed certain limitations on the amount of credit extended to such persons, individually and in the aggregate, which limits are based, in part, on the amount of the Bank's capital. In addition, extensions of credit in excess of certain limits must be approved by the Bank's Board of Directors. However, the Bank may make loans to executive officers, directors and principal stockholders on preferential terms, provided the extension of credit is made pursuant to a benefit or compensation program of the Bank that is widely available to employees of the Bank or its affiliates and does not give preference to any insider over other employees of the Bank or affiliate. The Bank has no such benefit or compensation programs (see Item. 2 - Properties for additional information).

Enforcement. The FDIC and the Banking Department have enforcement authority over the Bank. The Superintendent may order the Bank to appear and explain an apparent violation of law, to discontinue unauthorized or unsafe practices and to keep prescribed books and accounts. If any director or officer of the Bank has violated any law, or has continued unauthorized or unsafe practices in conducting the business of the Bank after having been notified by the Superintendent to discontinue such practices, the New York Banking Board may remove the individual from office after notice and an opportunity to be heard.

The Superintendent also may take over control of the Bank under specified statutory criteria.

The FDIC's enforcement authority includes, among other things, the ability to assess civil money penalties, to issue cease and desist orders and to remove directors and officers. As indicated above, the FDIC is required to take prompt action to correct deficiencies in banks which do not satisfy specified FDIC capital ratio requirements. Dividends, other capital distributions or the payment of management fees to any controlling person are prohibited if, following such distribution or payment, a bank would be undercapitalized. An undercapitalized bank must file a plan to restore its capital within 45 days after being notified that it is undercapitalized. Undercapitalized, significantly undercapitalized and critically undercapitalized institutions are subject to increasing prohibitions on permitted activities, and increasing levels of regulatory supervision, based upon the severity of their capital problems. The FDIC is required to monitor closely the condition of an undercapitalized bank. Enforcement action taken by the FDIC can escalate to the appointment of a conservator or receiver of a critically undercapitalized bank.

Insurance of Accounts. Deposit insurance premiums payable to the FDIC are based upon the perceived risk of the institution to the FDIC insurance fund. The FDIC assigns an institution to one of three capital categories: (a) well capitalized, (b) adequately capitalized or (c) undercapitalized. The FDIC also assigns an institution to one of three supervisory categories based on an evaluation by the institution's primary federal regulator and information that the FDIC considers relevant to the institution's financial condition and the risk posed to the deposit insurance funds. Deposit insurance premiums depend on an institution's capital and supervisory categories. At present, the Bank pays no deposit insurance premium based upon its risk-based categorization.

However, the Bank must pay a share of the cost of the bonds issued in the late 1980s to recapitalize the now defunct Federal Savings and Loan Insurance Corporation. The Bank must pay an annual assessment for this purpose, which for fiscal 2003 was equal to 0.0168% of its insured deposits and which is recorded as a deposit insurance premium expense for financial statement purposes. Beginning in 2004, the assessment was revised to 0.0154% of the Bank's insured deposits.

Reserve Requirements. The Bank must maintain non-interest-earning reserves against its transaction accounts (primarily NOW and regular checking accounts). The Bank is generally able to satisfy reserve requirements with cash on hand and other non-interest bearing deposits which it maintains for other purposes, so the reserve requirements do not impose a material financial burden on the Bank.

Governmental Policies. Our earnings are significantly affected by the monetary and fiscal policies of governmental authorities, including the Federal Reserve. Among the instruments of monetary policy used by the Federal Reserve to implement these objectives are open-market operations in U.S. Government securities and Federal funds, changes in the discount rate on member bank borrowings and changes in reserve requirements against member bank deposits. These instruments of monetary policy are used in varying combinations to influence the overall level of bank loans, investments and deposits, and the interest rates charged on loans and paid for deposits. The Federal Reserve frequently uses these instruments of monetary policy, especially its open-market operations and the discount rate, to influence the level of interest rates and to affect the strength of the economy, the level of inflation or the price of the dollar in foreign exchange markets. The monetary policies of the Federal Reserve have had a significant effect on the operating results of banking institutions in the past and are expected to continue to do so in the future. It is not possible to predict the nature of future changes in monetary and fiscal policies, or the effect which they may have on our business and earnings.

Personal Holding Company Status. For the fiscal years ended December 31, 2003, 2002 and 2001, the Company has been deemed to be a Personal Holding Company (a "PHC"), as defined in the Internal Revenue Code. As a PHC, we may be required to pay an additional income tax or issue a dividend to our shareholders in an amount based upon the PHC Internal Revenue Code formulas, which is primarily based upon net income. Accordingly, on December 4, 2001, the Board of Directors of the Company declared a cash dividend in the amounts of $.04 per common share. No such dividend was required to be paid in fiscal 2003 and 2002. (See Dividends in Item 5).

Employees. On March 25, 2004, Berkshire had one full time employee and the Bank employed approximately 90 full time and 8 part time employees. The Bank's employees are not represented by a collective bargaining unit, and the Bank considers its relationship with its employees to be good.

ITEM 2. Properties.

The following are Berkshire's and the Bank's principal facilities as of March 25, 2004:

Location	Operations	Approximate Floor Area (Sq. Ft.)	Approximate Annual Rent	Lease Expiration
New York, NY	Executive Offices	1,500	$18,000	(1)(3)
New York, NY	Main Bank Office and Bank Branch	9,700	Owned	Feb 2008 (4)
Brooklyn, NY	Bank Branch	4,500	$131,000	March 2008
Brooklyn, NY	Bank Branch	1,433	$ 34,800	March 2008
Brooklyn, NY	Bank Branch	2,592	$102,000	December 2012
New York, NY	Bank Branch	5,500	$237,000	June 2005 (2) (3)
Goshen, NY	Bank Branch	10,680	Owned	
Harriman, NY	Bank Branch	1,623	Owned	
Bloomingburg, NY	Bank Branch	1,530	$ 25,000	August 2005

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(1) Rented on a month to month basis from a company affiliated with Mr. Moses Marx, a director of the Company.

(2) Leased from a company affiliated with Mr. Marx, a director of the Company.

(3) Management believes the annual rent paid is comparable to the annual rent that would be paid to non-affiliated parties in a similar commercial transaction for similar commercial space.

(4) Leased by the Bank from the Company at an annual rent of $375,000 which management believes is comparable to the annual rent that would be paid by non-affiliated parties in a similar commercial transaction for similar commercial space.

ITEM 3. Legal Proceedings.

In the ordinary course of operations, the Bank is a party to routine litigation involving claims incidental to its banking business. Management believes that no current litigation, threatened or pending, to which the Bank or its assets is a party, poses a substantial likelihood of potential loss or exposure which would have a material adverse effect on the financial condition or results of operations of the Bank.

ITEM 4. Submission of Matters to a Vote of Security Holders.

Not Applicable.

PART II

ITEM 5. Market for Registrant's Common Equity and Related Stockholder Matters.

The Company's Common Stock trades on the Nasdaq National Market System under the symbol BERK.

The following table sets forth, for the periods indicated, the high and low sales prices for the Company's Common Stock as reported by the National Association of Securities Dealers, Inc.

	High	Low
Fiscal Year Ended December 31, 2003		
January 1, 2003 to March 31, 2003	34.45	31.85
April 1, 2003 to June 30, 2003	39.50	32.50
July 1, 2003 to September 30, 2003	44.50	35.00
October 1, 2003 to December 31, 2003	51.00	41.50

	High	Low
Fiscal Year Ended December 31, 2002		
January 1, 2002 to March 31, 2002	28.74	27.66
April 1, 2002 to June 30, 2002	32.00	27.81
July 1, 2002 to September 30, 2002	32.476	29.62
October 1, 2002 to December 31, 2002	34.31	31.00

As of the close of business on March 25, 2004, there were approximately 2,043 holders of record of the Company's Common Stock.

Dividends

For the fiscal years ended December 31, 2003, 2002 and 2001, the Company has been deemed to be a PHC, as defined in the Internal Revenue Code. As a PHC, we may be required to pay an additional income tax or issue a dividend to our shareholders in an amount based upon applicable Internal Revenue Code formulas, which is primarily based upon net income. Accordingly, on December 4, 2001, the Board of Directors of the Company declared a cash dividend in the amounts of $.04 per common share. No such dividend was required to be paid in fiscal 2003 and 2002.

On March 23, 1999, the Board of Directors adopted a policy of paying regular cash dividends in respect of the Common Stock of the Company, payable in equal semi-annual installments. Pursuant to said policy, the Board of Directors declared and the Company paid cash dividends as follows:

Declaration Date	Record Date	Payment Date	Per Share Amount
March 8, 2001	April 16, 2001	April 30, 2001	$.10
October 5, 2001	October 19, 2001	October 29, 2001	$.10
April 8, 2002	April 23, 2002	April 30, 2002	$.10
October 4, 2002	October 21, 2002	October 29, 2002	$.12
April 8, 2003	April 23, 2003	April 30, 2003	$.12
October 3, 2003	October 21, 2003	October 29, 2003	$.15

The declaration, payment and amount of such dividends in the future is within the discretion of the Board of Directors and will depend upon our earnings, capital requirements, financial condition and other relevant factors.

Equity Compensation Plans

See Part III, Item 12 for information concerning the Company's equity compensation plans.

ITEM 6. Selected Financial Data.

BERKSHIRE BANCORP INC. AND SUBSIDIARIES

Five Year Financial Highlights (a)

The following is a summary of certain financial information with respect to the Company at and for the fiscal years ended December 31, 2003, 2002, 2001 and 2000, and at and for the proforma twelve months ended December 31, 1999. This information is derived from and should be read in conjunction with the Company's financial statements and notes thereto included elsewhere in this Form 10-K.

	December 31,				
	2003	2002	2001	2000	1999(b)
	(Dollars in thousands,except per share data)				
Balance Sheet Data:					
Total Assets	$905,669	$683,738	$536,365	$244,023	$192,130
Loans, net	292,163	273,182	250,010	74,515	64,668
Investment securities	569,848	371,458	242,579	117,060	89,497

Goodwill, net	18,549	18,549	18,438	11,543	12,073
Deposits	604,255	473,818	338,776	137,647	104,087
Stockholders' equity	103,490	98,525	95,992	79,107	78,070
Interest income	34,426	32,242	24,941	14,019	9,852
Interest expense	13,647	13,416	11,877	5,184	3,101
Net interest income before provision for loan losses	20,779	18,826	13,064	8,835	6,751
Provision for loan losses	240	387	287	55	55
Net interest income	20,539	18,439	12,777	8,780	6,696
Investment securities gains	2,746	1,539	637	13,288	10,731
Other income	1,237	748	786	1,330	578
Other expenses	11,463	10,780	7,838	3,829	3,489
Amortization of goodwill	--	--	935	635	730
Income before income taxes	13,059	9,946	5,427	18,934	13,786
Provision for income taxes	5,644	4,349	2,128	6,868	5,527
Net income	$ 7,415	$ 5,597	$ 3,299	$ 12,066	$ 8,259
Net income per share:					
Basic	$ 3.35	$ 2.44	$ 1.41	$ 5.76	$ 3.88
Diluted	$ 3.30	$ 2.43	$ 1.41	$ 5.76	$ 3.65
Cash dividends per common share	$ .27	$ .22	$ .24	$ .64	$ .32
Selected Operating Ratios					
Return on average assets (c)	0.9%	0.9%	0.8%	5.8%	7.0%
Return on average equity (c)	7.2%	5.9%	3.5%	14.9%	14.6%
Net interest margin (c)	2.7%	3.3%	3.6%	4.7%	4.9%
Average equity/average assets	12.7%	15.6%	23.8%	39.1%	47.9%
Allowance for loan losses/total loans	0.9%	0.8%	0.8%	1.5%	1.4%

(a) The prior years' amounts have been reclassified to conform to the current years' presentation.

(b) On December 10, 1999, the Company changed its fiscal year end from October 31 to December 31st of each year. This change was effective December 31, 1999. For presentation purposes, proforma operations data is shown for the twelve months ended December 31, 1999.

(c) Selected amounts for the two months ended December 31, 1999 were annualized to calculate ratios.

ITEM 7. Managements' Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion and analysis is intended to provide a better understanding of the consolidated financial condition and results of operations of Berkshire Bancorp Inc. and subsidiaries ("Berkshire", the "Company" or "we" and similar pronouns) for the fiscal years ended December 31, 2003, 2002 and 2001. All references to earnings per share, unless stated otherwise, refer to earnings per diluted share. The discussion should be read in conjunction with the consolidated financial statements and related notes (Notes located in Item 8 herein). Reference is also made to Part I, Item 1 "Business" herein.

Segments

Management has determined that the Company through its wholly owned bank subsidiary, the Bank, operates in one business segment, community banking. The Bank's principal business activity consists of gathering deposits from the general public and investing those deposits in residential and commercial mortgage loans and commercial non-mortgage loans, both unsecured and secured by personal property. In addition, the Bank invests those deposits in debt obligations issued by the U.S. Government, its agencies, business corporations and mortgage-backed securities.

General

On March 30, 2001, the Company acquired GSB Financial Corporation and its wholly owned subsidiary, Goshen Savings Bank ("Goshen Bank"). Goshen Bank was simultaneously merged with and into our wholly owned subsidiary, The Berkshire Bank (the "Bank"). The Company's historic financial statements included in this Form 10-K for the twelve months ended December 31, 2001 do not include the operations of Goshen Bank from January 1, 2001 through March 31, 2001.

Critical Accounting Policies, Judgments and Estimates

The accounting and reporting policies of the Company conform with accounting principles generally accepted in the United States of America and general practices within the financial services industry. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and the assumptions that affect the amounts reported in the financial statements and the accompanying notes. Actual results could differ from those estimates.

The Company considers that the determination of the allowance for loan losses involves a higher degree of judgment and complexity than any of its other significant accounting policies. The allowance for loan losses is calculated with the objective of maintaining a reserve level believed by management to be sufficient to absorb estimated credit losses. Management's determination of the adequacy of the allowance is based on periodic evaluations of the loan portfolio and other relevant factors. However, this evaluation is inherently subjective as it requires material estimates, including, among others, expected default probabilities, loss given default, the amounts and timing of expected future cash flows on impaired loans, mortgages, and general amounts for historical loss experience. The process also considers economic conditions, uncertainties in estimating losses and inherent risks in the loan portfolio. All of these factors may be susceptible to significant change. To the extent actual outcomes differ from management estimates, additional provisions for loan losses may be required that would adversely impact earnings in future periods.

With the adoption of SFAS No. 142 on January 1, 2002, the Company discontinued the amortization of goodwill resulting from acquisitions. Goodwill is now subject to impairment testing at least annually to determine whether write-downs of the recorded balances are necessary. The Company tests for impairment based on the goodwill maintained at each defined reporting unit. A fair value is determined for each reporting unit based on at least one of three various market valuation methodologies. If the fair values of the reporting units exceed their book values, no write-down of recorded goodwill is necessary. If the fair value of the reporting unit is less, an expense may be required on the Company's books to write down the related goodwill to the proper carrying value. As of December 31, 2003, the Company completed its annual testing, which determined that no impairment write-offs were necessary.

The Company recognizes deferred tax assets and liabilities for the future tax effects of temporary differences, net operating loss carryforwards and tax credits. Deferred tax assets are subject to management's judgment based upon available evidence that future realization is more likely than not. If management determines that the Company may be unable to realize all or part of net deferred tax assets in the future, a direct charge to income tax expense may be required to reduce the recorded value of the net deferred tax asset to the expected realizable amount.

Discussion of Financial Condition and Results of Operations

Overview

Fiscal Year Ended December 31, 2003 Compared to Fiscal Year Ended December 31, 2002. Net income was $7.42 million, or $3.30 per share, for the fiscal year ended December 31, 2003, compared to $5.60 million, or $2.43 per share, for the fiscal year ended December 31, 2002, an increase of 32.48%. Investment securities, loans and total assets increased by 53.41%, 6.95% and 32.46%, respectively. Two new branches were opened in Brooklyn, New York during 2003 making a total of nine bank branches in operation at years' end.

Fiscal Year Ended December 31, 2002 Compared to Fiscal Year Ended December 31, 2001. Net income was $5.60 million, or $2.43 per share, for the fiscal year ended December 31, 2002, compared to $3.30 million, or $1.41 per share, for the fiscal year ended December 31, 2001, an increase of 69.66%. Investment securities, loans and total assets increased by 53.13%, 9.31% and 27.48%, respectively, due in part to the acquisition of GSB Financial on March 30, 2001.

	Fiscal Year Ended December 31,		
	2003	2002	% Inc.
	(In millions, except per share data)		
Total Assets	$905.7	$683.7	32%
Loans, net	292.2	273.2	7%
Investment Securities	569.8	371.5	53%
Total Liabilities	802.2	585.2	37%
Deposits	604.3	473.8	28%
Borrowings	192.1	104.4	84%
Stockholders' Equity	103.5	98.5	5%
Total Income	38.4	34.5	11%
Interest Income	34.4	32.2	7%
Total Expense	25.4	24.6	3%
Interest Expense	13.6	13.4	1%

Net Interest Income	20.8	18.8	11%
Net Income	7.4	5.6	32%
Diluted Income Per Share	3.30	2.43	36%
Bank Branches	9	7	--

Net Interest Income

Net interest income, represents the difference between total interest income earned on earning assets and total interest expense paid on interest-bearing liabilities. The amount of interest income is dependent upon many factors including: (i) the amount of interest-earning assets that the Company can maintain based upon its funding sources; (ii) the relative amounts of interest-earning assets versus interest-bearing liabilities; and (iii) the difference between the yields earned on those assets and the rates paid on those liabilities. Non-performing loans adversely affect net interest income because they must still be funded by interest-bearing liabilities, but they do not provide interest income. Furthermore, when we designate an asset as non-performing, all interest which has been accrued but not actually received is deducted from current period income, further reducing net interest income.

The Company's average balances, interest, and average yields are set forth on the following table (in thousands, except percentages):

	Twelve Months Ended December 31, 2003			Twelve Months Ended December 31, 2002		
	Average Balance	Interest and Dividends	Average Yield/Rate	Average Balance	Interest and Dividends	Av Yiel
INTEREST-EARNING ASSETS:						
Loans (1)	$291,586	$19,061	6.54%	$265,961	$18,723	7
Investment securities	470,412	15,321	3.26	298,008	13,383	4
Other (2)(5)	3,946	44	1.12	8,479	136	1
Total interest-earning assets	765,944	34,426	4.49	572,448	32,242	5
Noninterest-earning assets	37,844			36,541		
Total Assets	$803,788			$608,989		
INTEREST-BEARING LIABILITIES:						
Interest bearing deposits	201,817	2,593	1.28	116,331	1,644	1
Time deposits	333,112	7,537	2.26	273,452	8,766	3
Other borrowings	125,609	3,517	2.80	86,210	3,006	3
Total interest-bearing liabilities	660,538	13,647	2.07	475,993	13,416	2

Demand deposits	32,592			30,102		
Noninterest-bearing liabilities	8,318			7,586		
Stockholders' equity (5)	102,340			95,308		
Total liabilities and stockholders' equity	$803,788			$608,989		
Net interest income		$20,779			$18,826	
Interest-rate spread (3)			2.42%			2
Net interest margin (4)			2.71%			3
Ratio of average interest-earning assets to average interest bearing liabilities	1.16			1.20		

	Twelve Months Ended December 31, 2001		
	Average Balance	Interest and Dividends	Average Yield/Rate
INTEREST-EARNING ASSETS:			
Loans (1)	$195,296	$15,143	7.75%
Investment securities	154,787	9,156	5.92
Other (2)(5)	15,215	642	4.22
Total interest-earning assets	365,298	24,941	6.83
Noninterest-earning assets	32,993		
Total Assets	$398,291		
INTEREST-BEARING LIABILITIES:			
Interest bearing deposits	85,194	2,291	2.69
Time deposits	155,079	7,867	5.07
Other borrowings	36,510	1,719	4.71
Total interest-bearing liabilities	276,783	11,877	4.29
Demand deposits	21,857		
Noninterest-bearing liabilities	4,802		
Stockholders' equity (5)	94,849		
Total liabilities and stockholders' equity	$398,291		

	========		
Net interest income		$13,064	
		=======	
Interest-rate spread (3)			2.54%
			====
Net interest margin (4)			3.58%
			====
Ratio of average interest-earning assets to average interest bearing liabilities	1.32		
	========		

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(1) Includes nonaccrual loans.

(2) Includes interest-bearing deposits, federal funds sold and securities purchased under agreements to resell.

(3) Interest-rate spread represents the difference between the average yield on interest-earning assets and the average cost of interest bearing liabilities.

(4) Net interest margin is net interest income as a percentage of average interest-earning assets.

(5) Average balances for Berkshire Bancorp Inc. (parent only) have been calculated on a monthly basis.

Changes in net interest income may also be analyzed by segregating the volume and rate components of interest income and interest expense. The following tables set forth certain information regarding changes in interest income and interest expense of the Company for the years indicated. For each category of interest-earning assets and interest-bearing liabilities, information is provided on changes attributable to (1) changes in rate (change in rate multiplied by prior volume), (2) changes in volume (changes in volume multiplied by prior rate) and (3) changes in rate-volume (change in rate multiplied by change in volume) (in thousands):

	Twelve Months Ended December 31, 2003 Versus Twelve Months Ended December 31, 2002 Increase (Decrease) Due To		
	Rate	Volume	Total

Interest-earning assets:			
Loans	$(1,330)	$1,668	$ 338
Investment securities	(3,278)	5,216	1,938
Other	(41)	(51)	(92)
Total	(4,649)	6,833	2,184
Interest-bearing liabilities:			
Deposit accounts:			
Interest bearing deposits	(151)	1,100	949
Time deposits	(2,598)	1,369	(1,229)
Other borrowings	(595)	1,106	511
Total	(3,344)	3,575	231
Net interest income	$(1,305)	$3,891	$ 1,953

	Twelve Months Ended December 31, 2002 Versus Twelve Months Ended December 31, 2001 Increase (Decrease) Due To		
	Rate	Volume	Total
Interest-earning assets:			
Loans	$(1,395)	$ 4,975	$3,580
Investment securities	(2,204)	6,431	4,227
Other	(399)	(107)	(506)
Total	(3,998)	11,299	7,301
Interest-bearing liabilities:			
Deposit accounts:			
Interest bearing deposits	(1,090)	443	(647)
Time deposits	(2,884)	3,783	899
Other borrowings	(449)	1,736	1,287
Total	(4,423)	5,962	1,539
Net interest income	$ 425	$ 5,337	$5,762

Interest Rate Risk

Fluctuations in market interest rates can have a material effect on the Company's net interest income because the yields earned on loans and investments may not adjust to market rates of interest with the same frequency, or with the same speed, as the rates paid by the Bank on its deposits.

Most of the Bank's deposits are either interest-bearing demand deposits or short term certificates of deposit and other interest-bearing deposits with interest rates that fluctuate as market rates change. Management of the Bank seeks to reduce the risk of interest rate fluctuations by concentrating on loans and securities investments with either short terms to maturity or with adjustable rates or other features that cause yields to adjust based upon interest rate fluctuations. In addition, to cushion itself against the potential adverse effects of a substantial and sustained increase in market interest rates, the Bank has purchased off balance sheet interest rate cap contracts which generally provide that the Bank will be entitled to receive payments from the other party to the contract if interest rates exceed specified levels. These contracts are entered into with major financial institutions.

We seek to maximize our net interest margin within an acceptable level of interest rate risk. Interest rate risk can be defined as the amount of the forecasted net interest income that may be gained or lost due to favorable or unfavorable movements in interest rates. Interest rate risk, or sensitivity, arises when the maturity or repricing characteristics of assets differ significantly from the maturity or repricing characteristics of liabilities.

Provision for Loan Losses

The Company maintains an allowance for loan losses at a level deemed sufficient to absorb losses, which are inherent in the loan portfolio at each balance sheet date. Management reviews the adequacy of the allowance on at least a quarterly basis to ensure that the provision for loan losses has been charged against earnings in an amount necessary to maintain the allowance at a level that is appropriate based on management's assessment of estimated losses. The Company's methodology for assessing the appropriateness of the allowance for loan losses consists of several key elements. These elements include a specific allowance for loan watch list classified loans, an allowance based on historical trends, an additional allowance for special circumstances, and an unallocated portion. The Company consistently applies the following comprehensive methodology.

The allowance for loan watch list classified loans addresses those loans maintained on the Company's loan watch list, which are assigned a rating of substandard, doubtful, or loss. Substandard loans are those with a well-defined weakness or a weakness, which jeopardizes the repayment of the debt. A loan may be classified as substandard as a result of impairment of the borrower's financial condition and repayment capacity. Loans for which repayment plans have not been met or collateral equity margins do not protect the Company may also be classified as substandard. Doubtful loans have the characteristics of substandard loans with the added characteristic that collection or liquidation in full, on the basis of presently existing facts and conditions, is highly improbable. Although the possibility of loss is extremely high for doubtful loans, the classification of loss is deferred until pending factors, which might improve the loan, have been determined. Loans rated as doubtful in whole or in part are placed in nonaccrual status. Loans, which are classified as loss, are considered uncollectible and are charged to the allowance for loan losses. There were $109,000 and $59,000 of classified loans at December 31, 2003 and 2002, respectively, and no loans classified as of December 31, 2001.

Loans on the loan watch list may also be impaired loans, which are defined as nonaccrual loans or troubled debt restructurings, which are not in compliance with their restructured terms. Each of the classified loans on the loan watch list is individually analyzed to determine the level of the potential loss in the loan under the current circumstances. The specific reserve established for these criticized and impaired loans is based on careful analysis of the loan's performance, the related collateral value, cash flow considerations and the financial capability of any guarantor. The allowance for loan watch list classified loans is equal to the total amount of potential unconfirmed losses for

the individual classified loans on the watch list. Loan watch list loans are managed and monitored by assigned Senior Management.

The allowance based on historical trends uses charge-off experience of the Company to estimate potential unconfirmed losses in the balances of the loan and lease portfolios. The historical loss experience percentage is based on the charge-off history. Historical loss experience percentages are applied to all non-classified loans to obtain the portion of the allowance for loan losses which is based on historical trends. Before applying the historical loss experience percentages, loan balances are reduced by the portion of the loan balances, which are subject to guarantee, by a government agency. Loan balances are also adjusted for unearned discount on installment loans.

The Company also maintains an unallocated allowance. The unallocated allowance is used to cover any factors or conditions, which may cause a potential loan loss but are not specifically identifiable. It is prudent to maintain an unallocated portion of the allowance because no matter how detailed an analysis of potential loan losses is performed these estimates by definition lack precision. Management must make estimates using assumptions and information, which is often subjective and changing rapidly.

Since all identified losses are immediately charged off, no portion of the allowance for loan losses is restricted to any individual loan or groups of loans, and the entire allowance is available to absorb any and all loan losses.

A loan is placed in a nonaccrual status at the time when ultimate collectibility of principal or interest, wholly or partially, is in doubt. Past due loans are those loans which were contractually past due 90 days or more as to interest or principal payments but are well secured and in the process of collection. Renegotiated loans are those loans which terms have been renegotiated to provide a reduction or deferral of principal or interest as a result of the deteriorating financial position of the borrower.

Results of Operations Fiscal Year Ended December 31, 2003 Compared to Fiscal Year Ended December 31, 2002.

General.

References to per share amounts below, unless stated otherwise, refer to diluted shares.

Net Income. Net income for the fiscal year ended December 31, 2003 was $7.42 million, or $3.30 per share, as compared to $5.60 million, or $2.43 per share, for the fiscal year ended December 31, 2003.

The Company's net income is largely dependent on interest rate levels, the demand for the Company's loan and deposit products and the strategies employed to manage the interest rate and other risks inherent in the banking business. Interest rates, as measured by the prime rate, began the year at 4.25%, declined by 25 basis points in late June to 4.00% and remained at that level through December 31, 2003. We have operated in a consistently declining interest rate environment since May 2000 when the prime rate peaked at 9.50% which has also been a period of low inflation, stock market uncertainties, recession and the aftermath of September 11, 2001.

Net Interest Income. The Company's primary source of revenue is net interest income, or the difference between interest income on earning assets, such as loans and investment securities, and interest expense on interest-bearing liabilities such as deposits and borrowings.

For the fiscal year ended December 31, 2003, net interest income increased by $1.95 million, or 10.37%, to $20.78 million from $18.83 million for the fiscal year ended December 31, 2002. The increase in net interest income was the result of a 33.80% growth in the average amount of interest-earning assets to $765.94 million at the end of 2003 from $572.45 million at the end of 2002, partially offset by the 38.77% growth in the average amount of interest-bearing liabilities to $660.54 million from $475.99 million at December 31, 2003 and 2002,

respectively, as well as the difference between the yield on assets compared to the cost of liabilities.

During fiscal 2003, the average yield on interest-earning assets fell to 4.49% from 5.63% in fiscal 2002, a decline of 20.25%, while the average cost of interest-bearing liabilities fell to 2.07% from 2.82%, a decline of 26.60% The interest-rate spread, the difference between the average yield on interest-earning assets and the average cost of interest bearing liabilities, eased by 39 basis points to 2.42% during fiscal 2003 from 2.81% during fiscal 2002.

If interest rates remain stable, we expect to see only moderate pressure on the Company's interest-rate spread and net interest income. Investment securities in our portfolio that have been sold, matured or called by the issuer during fiscal 2003 have been replaced with securities carrying somewhat lower yields and, by design, shorter maturities to protect against a rising interest rate environment. Rates paid on deposit accounts may continue to decline as well, albeit at a slower pace due to competition for deposits in the market place.

Net Interest Margin. Net interest margin, or annualized net interest income as a percentage of average interest-earning assets, declined to 2.71% in fiscal 2003 from 3.29% in fiscal 2002. We seek to secure and retain customer deposits with competitive products and rates, while making strategic use of the prevailing interest rate environment to borrow funds at what we believe to be attractive rates, and to invest such funds in a prudent mix of loans and investment securities. The average amounts of loans and investment securities increased by $25.63 million and $172.40 million, respectively, to $291.59 million and $470.41 million, respectively, in the year ended December 31, 2003, from $265.96 million and $298.01 million, respectively, in the year ended December 31, 2002.

The average yield on loans declined to 6.54% in 2003 from 7.04% in 2002 as older loans with higher rates, commercial and residential mortgage loans, were paid off, matured, and/or refinanced at lower rates. During periods of low and stable interest rates, as was the case during 2003, borrowers gravitate towards fixed-rate loans to lock in a low interest rate, whereas adjustable rate loans are generally preferred when interest rates are high. One-to-four family mortgage loans, approximately 57% of our loan portfolio at December 31, 2003, are particularly sensitive to changes in interest rates.

The average amounts of interest-bearing deposits and time deposits increased by $85.49 million and $59.66 million, respectively, to $201.82 million and $333.11 million, respectively, in fiscal year 2003, from $116.33 million and $273.45 million, respectively, in fiscal year 2002. Borrowed funds increased by $39.40 million to $125.61 million in 2003 from $86.21 million in the 2002. During fiscal year 2003, the average rates paid on interest-bearing deposits, time deposits and borrowed funds declined to 1.28%, 2.26% and 2.80%, respectively, from 1.41%, 3.21% and 3.49%, respectively in fiscal year 2002.

Interest Income. Total interest income for the fiscal year ended December 31, 2003 increased by $2.18 million, or 6.77%, to $34.43 million from $32.24 million for the fiscal year ended December 31, 2002. The increase was the result of the 33.80% increase in the average amount of total interest-earning assets to $765.94 million in fiscal year 2003 from $572.45 million in fiscal 2002. Interest income on loans and investment securities increased to $19.06 million and $15.32 million, respectively, in fiscal year 2003, from $18.72 million and $13.38 million, respectively in fiscal year 2003.

Interest Expense. Total interest expense for the fiscal year ended December 31, 2003 increased by $231,000, or 1.72%, to $13.65 million from $13.42 million for the fiscal year ended December 31, 2002. The increase in interest expense was due primarily to the 38.77% increase in the average amount of total interest-bearing liabilities, all but offset by the 26.60% decline in the average rate paid on such balances. Interest expense increased to $2.59 million on interest-bearing deposits and decreased to $7.54 million on time deposits during fiscal year 2003, from $1.64 million and $8.77 million, respectively, during fiscal year 2002. Interest expense on borrowings, which are generally invested in earning assets of similar maturities, increased to $3.52 million in fiscal year 2003 from $3.01 million in fiscal year 2002.

Non-Interest Income. Non-interest income consists primarily of realized gains on sales of marketable securities and service fee income. For the fiscal year ended December 31, 2003, total non-interest income increase by $1.70 million, or 74.16%, to $3.98 million from $2.29 million for the fiscal year ended December 31, 2002. Investment securities gains increased to $2.75 million in fiscal year 2003 from $1.54 million in fiscal 2002, as we sold securities during 2003, realizing gains, and purchased new securities with shorter maturities. Service charges on deposit accounts increased by $92,000 to $640,000 in fiscal year 2003 from $548,000 in fiscal year 2002.

Non-Interest Expense. Non-interest expense includes salaries and employee benefits, occupancy and equipment expenses, legal and professional fees and other operating expenses associated with the day-to-day operations of the Company. Total non-interest expense for the year ended December 31, 2003 increased by $683,000, or 6.34%, to $11.46 million from $10.78 million for the year ended December 31, 2002. The increase was largely due to the $690,000 increase in salaries and employee benefits resulting from the additional personnel required to operate our expanding business.

Provision for Income Tax. During the years ended December 31, 2003 and 2002, we recorded income tax expense of $5.64 million and $4.35 million, respectively. The tax provisions for federal, state and local taxes recorded for 2003 and 2002 represent effective tax rates of 43.22% and 43.73%, respectively.

Results of Operations Fiscal Year Ended December 31, 2002 Compared to Fiscal Year Ended December 31, 2001.

General. On March 30, 2001, Berkshire, through its wholly-owned subsidiaries, the Bank and Greater American Finance Group, Inc., completed its merger with GSB Financial (see Note A of Notes to Consolidated Financial Statements). This transaction was accounted for under the purchase method of accounting and, accordingly, the results of operation for the Company include only the results of operation of GSB Financial for the nine month period from April 1 through December 31, 2001. The Company acquired total loans, assets and deposits of $134.06 million, $190.04 million and $127.86 million, respectively.

Net Income. Net income for the fiscal year ended December 31, 2002 was $5.60 million, or $2.43 per share, as compared to $3.30 million, or $1.41 per share, for the fiscal year ended December 31, 2001. The increase was due in part to the acquisition of GSB Financial referenced above.

On January 1, 2002, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 142, thereby eliminating annual goodwill amortization expense of approximately $1.0 million. Had SFAS No. 142 been in effect on January 1, 2001, net income in fiscal 2001 would have been $4.23 million, or $1.81 per share.

Interest rates, as measured by the prime rate, stabilized at 4.75% throughout the first ten months of 2002. During 2001, in contrast, the prime rate declined from 9.00% at the beginning of the year to 4.75% at years' end.

Net Interest Income. The Company's primary source of revenue is net interest income, or the difference between interest income on earning assets and interest expense on interest-bearing liabilities.

For the fiscal year ended December 31, 2002, net interest income increased by approximately $5.76 million, or 44.11%, to $18.83 million from $13.06 million for the fiscal year ended December 31, 2001. The year over year increase in net interest income was the result of two factors. Firstly, the $207.15 million, or 56.71%, increase in average interest-earning assets to $572.45 million from $365.30 million in fiscal 2001, partially offset by the $199.21 million, or 71.97%, increase in average interest-bearing liabilities to $475.99 million from $276.78 million in fiscal 2001. The second factor contributing to the increase in net interest income was the difference between the yield on assets compared to the cost of liabilities. The average yield on interest-earning assets in 2002 declined to 5.63% from 6.83% in 2001, a decline of 120 basis points, or 17.57%, however, the average cost of interest-bearing liabilities in 2002 declined to 2.82% from 4.29%, a steeper decline of 147 basis points, or 34.27% The interest-rate spread, the difference between the average yield on interest-earning assets and the average cost of interest bearing liabilities, which has a direct bearing on net interest income, improved to 2.81% in fiscal 2002 from 2.54% in fiscal 2001.

Net Interest Margin. Net interest margin, or annualized net interest income as a percentage of average interest-earning assets, declined to 3.29% in fiscal 2002 from 3.58% in fiscal 2001.

During fiscal 2002, the Company made use of the prevailing interest rate environment to secure deposits and to borrow funds at what we believe to be attractive rates, and to invest such funds in loans and investment securities. The average amounts of loans and investment securities increased by $70.67 million and $143.22 million, respectively, to $265.96 million and $298.01 million, respectively, in fiscal 2002 from $195.30 million and $154.79 million, respectively, in fiscal 2001. Time deposits and borrowings increased by $118.37 million and $49.70 million, respectively, during 2002 to $273.45 million and $86.21 million, respectively, from $155.08 million and $36.51 million, respectively, during 2001.

Interest Income. Total interest income for the fiscal year ended December 31, 2002 increased by $7.30 million, or 29.27%, to $32.24 million from $24.94 million for the fiscal year ended December 31, 2001. The increase was the result of the higher levels of average interest-earning assets during fiscal 2002 over fiscal 2001. The average amount of loans and investment securities increased by 36.18% and 92.53%, respectively, contributing $18.72 million and $13.38 million of interest income, respectively, compared to $15.14 million and $9.16 million of interest income, respectively, in fiscal 2001.

As may be expected during a period of falling interest rates, the average yield on interest-earning assets declined to 5.63% during fiscal 2002 from 6.83% in fiscal 2001. The average yield on loans declined to 7.04% from 7.75% and we expect this trend may continue as homeowners refinance their existing mortgage loans, commercial loans at higher rates are paid off and/or renewed, and new mortgage loans and commercial loans are made, all at today's lower rates. The average yield on investment securities has declined as well, to 4.49% in 2002 from 5.92% in 2001, as securities in our portfolio with above market rates have either matured or have been called by the issuer, and have been replaced by securities that meet our investment policy criteria, albeit with lower yields.

Interest Expense. Total interest expense for the fiscal year ended December 31, 2002 increased by $1.54 million, to $13.42 million from $11.88 million for the fiscal year ended December 30, 2001. The increase is due to the overall increase of $199.21 million in the average amount of interest-bearing liabilities to $475.99 million in fiscal 2002 from $276.78 million in fiscal 2001. Interest bearing deposits and time deposits increased by 62.23% to $389.78 million in 2002 from $240.27 million in 2001. Borrowings increased by 136.13% to $86.21 million in 2002 from $36.51 million in 2001 as a result of our strategy of employing excess capital to fund the growth of our business. The increase in total interest expense was partially offset by the decline in the average rates paid on interest-bearing liabilities to 2.82% during the 2002 period from 4.29% during the 2001 period.

Non-Interest Income. Non-interest income consists primarily of realized gains on sales of investment securities and service fee income. For the fiscal year ended December 31, 2002, total non-interest income was $2.29 million, compared to $1.42 million for the fiscal year ended December 31, 2001. Service fee income increased to $548,000 in fiscal 2002 from $395,000 in fiscal 2001 as a result of the growth in deposits at the Bank. Investment securities gains increased to $1.54 million in 2002 from $637,000 in 2001, and other non-interest income declined to $200,000 in 2002 from $391,000 in 2001.

Non-Interest Expense. Non-interest expense includes salaries and employee benefits, occupancy and equipment expenses, professional fees and other operating expenses associated with the day-to-day operations of the Company. Total non-interest expense for the fiscal year ended December 31, 2002 was $10.78 million as compared to $8.77 million for the fiscal year ended December 31, 2001. The year to year increases are due primarily to increases in salaries and employee benefits and net occupancy expenses resulting from the expansion of the business.

Provision for Income Tax. During the fiscal year ended December 31, 2002, the Company recorded income tax expense of $4.35 million, compared to income tax expense of $2.13 million for the fiscal year ended December 31, 2001. The tax provisions for federal, state and local taxes recorded for fiscal 2002 and 2001 represent effective tax rates of 43.73% and 39.21%, respectively. The increase in the effective rate is primarily due to the elimination of the non-deductible amortization expense of goodwill.

Investment Activities

General. The investment policy of the Bank is designed primarily to provide satisfactory yields while maintaining adequate liquidity, a balance of high quality, diversified investments, and minimal risk. The Bank does not as a rule invest in equity securities. The largest component of the Bank's securities investments, representing more than 50% of total investment securities, are debt securities issued by the Federal Home Loan Mortgage Corporation (Freddie Mac), the Federal National Mortgage Association (Fannie Mae) or the Government National Mortgage Association (Ginnie Mae). The remainder of the Bank's debt securities investments are primarily short term debt securities issued by the United States or its agencies. The Bank maintains a small portfolio of less than $4 million of high-yield corporate debt securities. Recognizing the higher credit risks of these securities, the Bank underwrites these securities in a manner similar to its loan underwriting procedures.

As required by the Statement of Financial Accounting Standard No. 115 ("SFAS No. 115"), securities are classified into three categories: trading, held-to-maturity and available-for-sale. Securities that are bought and held principally for the purpose of selling them in the near term are classified as trading securities and are reported at fair value with unrealized gains and losses included in trading account activities in the statement of income. Securities that the Bank has the positive intent and ability to hold to maturity are classified as held-to-maturity and reported at amortized cost. All other securities are classified as available-for-sale. Available-for-sale securities are reported at fair value with unrealized gains and losses included, on an after-tax basis, as a separate component of net worth. The Bank does not have a trading securities portfolio and has no current plans to maintain such a portfolio in the future. The Bank generally classifies all newly purchased debt securities as available for sale in order to maintain the flexibility to sell those securities if the need arises. The Bank has a limited portfolio of securities classified as held to maturity, represented principally by securities purchased a number of years ago.

Federal Home Loan Bank Stock. The Bank owns stock of the Federal Home Loan Bank of New York (the "FHLBNY") which is necessary for it to be a member of the FHLBNY. Membership requires the purchase of stock equal to 1% of the Bank's residential mortgage loans. If the Bank borrows from the FHLBNY, the Bank must own stock at least equal to 5% of its borrowings.

The following table sets forth the cost and fair value of available-for-sale and held-to-maturity securities as of the dates indicated:

	December 31,					
	2003		2002		2001	
	Cost	Fair Value	Cost	Fair Value	Cost	Fair Value
	(In thousands)					
Available-For-Sale						
U.S. Treasury Notes	$ 39,941	$ 39,847	$ 20,110	$ 20,213	$ 30,012	$ 30,038
U.S. Government Agencies	419,175	416,753	301,224	303,597	170,610	170,156
Mortgage-backed securities	93,875	97,448	6,256	6,262	2,493	2,499
Corporate notes	1,570	1,662	3,878	4,076	751	639
Municipal securities	991	1,061				
Marketable equity securities and other	12,305	12,366	36,383	36,477	37,547	37,634
Total	$567,857	$569,137	$367,851	$370,625	$241,413	$240,966
Held-To-Maturity						
U.S. Government Agencies	$ 711	$ 715	$ 833	$ 835	$ 1,613	$ 1,598
Total	$ 711	$ 715	$ 833	$ 835	$ 1,613	$ 1,598

The following tables summarize the Company's available-for-sale and held-to-maturity securities at December 31, 2003:

December 31, 2003		
Weighted Average Yield	Cost	Fair Value
(Dollars in thousands)		

Available-For-Sale			
U.S. Treasury Notes			
Due after one year through five years	1.28%	$ 39,941	$ 39,847
		39,941	39,847
U.S. Government Agencies Obligations			
Due within one year		--	--
Due after one year through five years	2.90	61,115	61,145
Due after five years through ten years	4.56	196,934	195,168
Due after ten years	3.92	161,126	160,440
		419,175	416,753
Municipal Obligations			
Due after ten years	5.44	991	1,061
		991	1,061
Mortgage-backed securities			
Due after ten years	4.55	93,875	97,448
		93,875	97,448
Corporate Notes			
Due within one year		--	--
Due after one year through five years	9.68	1,570	1,662
		1,570	1,662
Common Stocks	--	90	90
Preferred Stocks	11.84	1,178	1,239
Money market funds	1.02	7,150	7,150
Federal Home Loan Bank Stock	0.00	3,887	3,887
		12,305	12,366
		$567,857	$569,137
Held-To-Maturity			
U.S. Government Agencies Obligations			
Due after one year through five years	3.13	74	74
Due after five years through ten years	2.50	70	70
Due after ten years	6.13	567	571
		$ 711	$ 715

Loan Portfolio

Loan Portfolio Composition. The Company's loans consist primarily of mortgage loans secured by residential and non-residential properties as well as commercial loans which are either unsecured or secured by personal property collateral. Most of the Company's loans are either made to individuals or personally guaranteed by the principals of the business to which the loan is made. At December 31, 2003, 2002 and 2001 , the Company had total loans, net of unearned income of $294.76 million, $275.50 million and $252.23 million, respectively, and an allowance for loan losses of $2.59 million, $2.32 million and $2.03 million, respectively. From time to time, the Bank may originate

residential mortgage loans and then sell them on the secondary market, normally recognizing fee income in connection with the sale.

Interest rates on loans are affected by the demand for loans, the supply of money available for lending, credit risks, the rates offered by competitors and other conditions. These factors are in turn affected by, among other things, economic conditions, monetary policies of the federal government, and legislative tax policies.

In order to manage interest rate risk, the Bank focuses its efforts on loans with interest rates that adjust based upon changes in the prime rate or changes in United States Treasury or similar indices. Generally, credit risks on adjustable-rate loans are somewhat greater than on fixed-rate loans primarily because, as interest rates rise, so do borrowers' payments, increasing the potential for default. The Bank seeks to impose appropriate loan underwriting standards in order to protect against these and other credit related risks associated with its lending operations.

In addition to analyzing the income and assets of its borrowers when underwriting a loan, the Bank obtains independent appraisals on all material real estate in which the Bank takes a mortgage. The Bank generally obtains title insurance in order to protect against title defects on mortgaged property.

Commercial and Mortgage Loans. The Bank originates commercial mortgage loans secured by office buildings, retail establishments, multi-family residential real estate and other types of commercial property. Substantially all of the properties are located in the New York City metropolitan area.

The Bank generally makes commercial mortgage loans with loan to value ratios not to exceed 75% and with terms to maturity that do not exceed 15 years. Loans secured by commercial properties generally involve a greater degree of risk than one- to four-family residential mortgage loans. Because payments on such loans are often dependent on successful operation or management of the properties, repayment may be subject, to a greater extent, to adverse conditions in the real estate market or the economy. The Bank seeks to minimize these risks through its underwriting policies. The Bank evaluates the qualifications and financial condition of the borrower, including credit history, profitability and expertise, as well as the value and condition of the underlying property. The factors considered by the Bank include net operating income; the debt coverage ratio (the ratio of cash net income to debt service); and the loan to value ratio. When evaluating the borrower, the Bank considers the financial resources and income level of the borrower, the borrower's experience in owning or managing similar property and the Bank's lending experience with the borrower. The Bank's policy requires borrowers to present evidence of the ability to repay the loan without having to resort to the sale of the mortgaged property. The Bank also seeks to focus its commercial mortgage loans on loans to companies with operating businesses, rather than passive real estate investors.

Commercial Loans. The Bank makes commercial loans to businesses for inventory financing, working capital, machinery and equipment purchases, expansion, and other business purposes. These loans generally have higher yields than mortgages loans, with maturities of one year, after which the borrower's financial condition and the terms of the loan are re-evaluated.

Commercial loans tend to present greater risks than mortgage loans because the collateral, if any, tends to be rapidly depreciable, difficult to sell at full value and is often easier to conceal. In order to limit these risks, the Bank evaluates these loans based upon the borrower's ability to repay the loan from ongoing operations. The Bank considers the business history of the borrower and perceived stability of the business as important factors when considering applications for such loans. Occasionally, the borrower provides commercial or residential real estate collateral for such loans, in which case the value of the collateral may be a significant factor in the loan approval process.

Residential Mortgage Loans (1 to 4 family loans). The Bank makes residential mortgage loans secured by first liens on one-to-four family owner-occupied or rental residential real estate. At December 31, 2003 and 2002, approximately $169.59 million and $180.73 million, respectively, or 57.4% and 65.4%, respectively, of the Company's total loan portfolio consisted of such

loans. The Company offers both adjustable rate mortgages ("ARMS") and fixed-rate mortgage loans. The relative proportion of fixed-rate loans versus ARMs originated by the Bank depends principally upon current customer preference, which is generally driven by economic and interest rate conditions and the pricing offered by the Bank's competitors. At December 31, 2003 and 2002, approximately 12% and 11%, respectively, of the Bank's residential one-to-four family owner-occupied first mortgage portfolio were ARMs and approximately 88% and 89%, respectively, were fixed-rate loans. The percentage represented by fixed-rate loans tends to increase during periods of low interest rates. The ARMs generally carry annual caps and life-of-loan ceilings, which limit interest rate adjustments.

The Bank's residential loan underwriting criteria are generally comparable to those required by the Federal National Mortgage Association ("FNMA") and other major secondary market loan purchasers. Generally, ARM credit risks are somewhat greater than fixed-rate loans primarily because, as interest rates rise, the borrowers' payments rise, increasing the potential for default. The Bank's teaser rate ARMs (ARMs with low initial interest rates that are not based upon the index plus the margin for determining future rate adjustments) were underwritten based on the payment due at the fully-indexed rate.

In addition to verifying income and assets of borrowers, the Bank obtains independent appraisals on all residential first mortgage loans and title insurance is required at closing. Private mortgage insurance is required on all loans with a loan-to-value ratio in excess of 80% and the Bank requires real estate tax escrows on such loans. Real estate tax escrows are voluntary on residential mortgage loans with loan-to-value ratios of 80% or less.

Fixed-rate residential mortgage loans are generally originated by the Bank for terms of 15 to 30 years. Although 30 year fixed-rate mortgage loans may adversely affect our net interest income in periods of rising interest rates, the Bank originates such loans to satisfy customer demand. Such loans are generally originated at initial interest rates which exceed the fully indexed rate on ARMs offered at the same time. Fixed-rate residential mortgage loans originated by the Bank generally include due-on-sale clauses, which permit the Bank to demand payment in full if the borrower sells the property without the Bank's consent. Due-on-sale clauses are an important means of adjusting the rates on the Bank's fixed-rate mortgage loan portfolio, and the Bank will generally exercise its rights under these clauses if necessary to maintain market yields.

ARMs originated in recent years have interest rates that adjust annually based upon the movement of the one year treasury bill constant maturity index, plus a margin of 2.00% to 2.75%. These loans generally have a maximum interest rate adjustment of 2% per year, with a lifetime maximum interest rate adjustment, measured from the initial interest rate, of 5.5% or 6.0%.

The Bank offers a variety of other loan products including residential single family construction loans to persons who intend to occupy the property upon completion of construction, home equity loans secured by junior mortgages on one-to-four family owner-occupied residences, and short-term fixed-rate consumer loans either unsecured or secured by monetary assets such as bank deposits and marketable securities or personal property.

Origination of Loans. Loan originations can be attributed to depositors, retail customers, telephone inquiries, advertising, the efforts of the Bank's loan officers, and referrals from other borrowers and real estate brokers and builders. The Bank originates loans primarily through its own efforts. Occasionally, the Bank may obtain loan opportunities as a result of referrals from loan brokers.

At December 31, 2003, the Bank's total capital, net of goodwill and loan loss reserves, was approximately $60.7 million and thus it was generally not permitted to make loans to one borrower in excess of approximately $9.1 million, with an additional amount of approximately $6.1 million being permitted if secured by readily marketable collateral. The Bank was also not permitted to make any single mortgage loan in an amount in excess of approximately $9.1 million. At December 31, 2003, the Bank was in compliance with these standards.

Delinquency Procedures. When a borrower fails to make a required payment on a loan, the Bank attempts to cause the deficiency to be cured by contacting the borrower. The Bank reviews past due loans on a case by case basis, taking the action it deems appropriate in order to collect the amount owed. Litigation may be necessary if other procedures are not successful. Judicial resolution of a past due loan can be delayed if the borrower files a bankruptcy petition because collection action cannot be continued unless the Bank first obtains relief from the automatic stay provided by the Bankruptcy Code.

If a non-mortgage loan becomes delinquent and satisfactory arrangements for payment cannot be made, the Bank seeks to realize upon any personal property collateral to the extent feasible and collect any remaining amount owed from the borrower through legal proceedings, if necessary.

It is the Bank's policy to discontinue accruing interest on a loan when it is 90 days past due or if management believes that continued interest accruals are unjustified. The Bank may continue interest accruals if a loan is more than

90 days past due if the Bank determines that the nature of the delinquency and the collateral are such that collection of the principal and interest on the loan in full is reasonably assured. When the accrual of interest is discontinued, all accrued but unpaid interest is charged against current period income. Once the accrual of interest is discontinued, the Bank records interest as and when received until the loan is restored to accruing status. If the Bank determines that collection of the loan in full is in reasonable doubt, then amounts received are recorded as a reduction of principal until the loan is returned to accruing status.

The following tables set forth information concerning the Company's loan portfolio by type of loan at the dates indicated:

	December 31,					
	2003		2002		2001	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
	(Dollars in thousands)					
Commercial and professional loans	$ 22,228	7.5%	$ 16,704	6.0%	$ 19,130	7.6%
Secured by real estate						
1 - 4 family	169,589	57.4	180,730	65.4	165,195	65.5
Multi family	6,608	2.2	8,958	3.2	11,186	4.4
Non-residential (commercial)	94,956	32.2	65,809	23.8	51,893	20.6
Consumer	2,239	0.7	4,051	1.6	4,689	1.8
Other	--	--	--	--	140	0.1
Total loans	295,620	100.0%	276,252	100.0%	252,233	100.0%
Less:						
Allowance for loan losses	(2,593)		(2,315)		(2,030)	
Unearned fees	(864)		(755)		(193)	
Loans, net	$292,163		$273,182		$250,010	

	December 31, 2000		October 31, 1999 (1)	
	Amount	% of Total	Amount	% of Total
	(Dollars in thousands)			

Commercial and professional loans	$ 9,419	12.5%	$ 6,824	11.3%
Secured by real estate			51,300	84.7
1 - 4 family	25,677	34.0		
Multi family	4,765	6.3		
Non-residential (commercial)	34,968	46.2		
Consumer	229	0.3	1,932	3.2
Other	565	0.7	501	0.8
Total loans	75,623	100.0%	60,557	100.0%
Less:				
Allowance for loan losses	(1,108)		(905)	
Unearned fees	(275)		--	
Loans, net	$74,240		$59,652	

(1) Information is prepared on a proforma basis for comparability purposes. Balances stated are not reflected in the historical financial statements of the Company.

Impaired loan balance, nonaccrual loans and loans greater than 90 days still accruing

The following table sets forth certain information regarding nonaccrual loans, including the ratio of such loans to total assets as of the dates indicated, and certain other related information. The Bank had no foreclosed real estate during these periods and no loans past due more than 90 days still accruing at December 31, 2003 and 2002, respectively.

	December 31,				October 31,
	2003	2002	2001	2000	1999(1)
	(Dollars in Thousands)				
Nonaccrual loans:					
Commercial and professional loans	$ --	$--	$ 9	$--	$ --
Secured by real estate	109	59	--	--	121
Total nonaccrual loans	109	59	9	--	121
Total nonperforming loans	$109	$59	$ 9	$--	$121
Total nonperforming loans to total assets	.01%	--	--	--	.07%

(1) Information is prepared on a proforma basis for comparability purposes. Balances stated are not reflected in the historical financial statements of the Company.

The following tables present information regarding the Company's total allowance for loan losses as well as the allocation of such amounts to the various categories of loans at the dates indicated (dollars in thousands):

	December 31, 2003		
	Allowance for Loan Losses	Percent of Allowance	Percent of Total Loans
Commercial and professional loans	$ 300	11.6%	0.10%
Secured by real estate			
1 - 4 family	424	16.3	0.14
Multi family	89	3.4	0.03
Non-residential	1,198	46.2	0.41
Consumer and other	30	1.2	0.01
General allowance (1)	552	21.3	0.19
Total allowance for loan losses	$2,593	100.0%	0.88%

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(1) The allowance for loan losses is allocated to specific loans as necessary.

	December 31, 2002		
	Allowance for Loan Losses	Percent of Allowance	Percent of Total Loans
Commercial and professional loans	$ 225	9.7%	0.08%
Secured by real estate			
1 - 4 family	452	19.5	0.16
Multi family	121	5.2	0.04
Non-residential	888	38.4	0.32
Consumer and other	55	2.4	0.02
General allowance (1)	574	24.8	0.21
Total allowance for loan losses	$2,315	100.0%	0.83%

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(1) The allowance for loan losses is allocated to specific loans as necessary.

	December 31, 2001		
	Allowance for Loan Losses	Percent of Allowance	Percent of Total Loans
Commercial and professional loans	$ 188	9.3%	0.07%
Secured by real estate			
1 - 4 family	804	39.6	0.32
Multi family	84	4.1	0.03
Non-residential	790	38.9	0.32
Consumer and other	24	1.2	0.06
General allowance (1)	140	6.9	0.06
Total allowance for loan losses	$2,030	100.0%	0.79%

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(1) The allowance for loan losses is allocated to specific loans as necessary.

	December 31, 2000		
	Allowance for Loan Losses	Percent of Allowance	Percent of Total Loans
Commercial and professional loans	$ 89	8.0%	0.12%
Secured by real estate	654	59.0	0.86
Personal and other	13	1.2	0.02
General allowance (1)	352	31.8	0.47%
Total allowance for loan losses	$1,108	100.0%	1.47%

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(1) The allowance for loan losses is allocated to specific loans as necessary.

October 31, 1999(2)

	Allowance for Loan Losses	Percent of Allowance	Percent of Total Loans
Commercial and professional loans	$ 69	7.6%	0.11%
Secured by real estate	569	63.0	0.94
Personal and other	77	8.5	0.13
General allowance (1)	190	20.9	0.31
Total allowance for loan losses	$905	100.0%	1.49%

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(1) The allowance for loan losses is allocated to specific loans as necessary.

(2) Information is prepared on a proforma basis for comparability purposes. Balances stated are not reflected in the historical financial statements of the Company.

The following tables set forth information regarding the aggregate maturities of the Company's loans in the specified categories and the amount of such loans which have fixed and variable rates.

	December 31, 2003			
	Within 1 Year	1 to 5 Years	After 5 Years	Total
	(In thousands)			
Fixed Rate				
Commercial, financial and agricultural	$ 2,164	$15,496	$145,725	$163,385
Non-residential	3,881	13,405	33,591	50,877
Total fixed rate	$ 6,045	$28,901	$179,316	$214,262
Adjustable Rate				
Commercial, financial and agricultural	7,583	11,111	18,585	37,279
Non-residential	19,162	8,971	15,946	44,079
Total adjustable rate	$26,745	$20,082	$ 34,531	$ 81,358
Total	$32,790	$48,983	$213,847	$295,620

The following table sets forth information with respect to activity in the Company's allowance for loan losses during the periods indicated (in thousands, except percentages):

	Years Ended December 31,				Two Months Ended December 31,
	2003	2002	2001	2000	1999
Average loans outstanding	$291,586	$265,961	$195,296	$70,357	$61,691
Allowance at beginning of period	2,315	2,030	1,108	923	905
Charge-offs:					
Commercial and other loans	4	199	97	--	--
Real estate loans	13	--	--	--	--
Total loans charged-off	17	199	97	--	--
Recoveries:					
Commercial and other loans	55	97	41	130	8
Real estate loans	--	--	--	--	--
Total loans recovered	55	97	41	130	8
Net recoveries (charge-offs)	38	(102)	(56)	130	8
Provision for loan losses charged to operating expenses	240	387	287	55	10
Acquisition of GSB	--	--	691	--	--
Allowance at end of period	$ 2,593	$ 2,315	$ 2,030	$ 1,108	$ 923
Ratio of net recoveries (charge-offs) to average loans outstanding (2)	0.01%	(.03)%	(.02)%	.18%	.08%
Allowance as a percent of total loans	0.88%	0.83%	0.80%	1.47%	1.41%
Total loans at end of period	$295,620	$276,252	$252,233	$75,623	$65,591

(1) Information is prepared on a proforma basis for comparability purposes. Balances stated are not reflected in the historical financial statements of the Company.

(2) Net recoveries have been annualized to calculate ratios for comparability purposes.

Deposits

The Bank concentrates on obtaining deposits from a variety of businesses, professionals and retail customers. The Bank offers a number of different deposit programs, including statement savings accounts, NOW accounts, money market deposits accounts, checking accounts and certificates of deposits with terms from seven days to five years. Deposit account terms vary according to the minimum balance required, the time period the funds must remain on deposit and the interest rate, among other factors. The Bank prices its deposit offerings competitively within the market it serves. These products are designed to attract new customers, retain existing customers and create opportunities to offer other bank products or services. While the market and pricing for deposit funds are very competitive, the Bank believes that personalized, quality service is also an important element in retaining core deposit customers.

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The following table summarizes the composition of the average balances of major deposit categories:

	December 31,					
	2003		2002		2001	
	Average Amount	Average Yield	Average Amount	Average Yield	Average Amount	Average Yield
	(Dollars in thousands)					
Demand deposits	$ 32,592	--	$ 30,102	--	$ 21,857	--
NOW and money market	58,723	1.02%	60,114	1.28%	51,026	2.64%
Savings deposits	143,094	1.95	56,217	1.56	34,168	2.69
Time deposits	333,112	2.26	273,452	3.21	155,079	5.07
Total deposits	$567,521	1.78%	$419,885	2.48%	$262,130	3.89%

The aggregate amount of jumbo certificates of deposit, each with a minimum denomination of $100,000, was approximately $110.08 million, $108.72 million and $68.88 million at December 31, 2003, 2002 and 2001, respectively.

The following table summarizes the maturity distribution of time deposits of $100,000 or more as of December 31, 2003:

	(In thousands)
3 months or less	$ 48,136
Over 3 months but within 6 months	30,913
Over 6 months but within 12 months	22,746
Over 12 months	8,285

Total	$110,080

Short-Term Borrowings

Securities sold under agreements to repurchase generally mature within 30 days from the date of the transactions. Short-term borrowings consist of Treasury Tax and Loan Note Options and various other borrowings which generally have maturities of less than one year. The details of these categories are presented below:

	Years Ended December 31,		
	2003	2002	2001
	(Dollars in thousands)		
Securities sold under repurchase agreements and federal funds purchased			
Balance at year-end	$114,391	$46,673	$53,756
Average during the year	$ 57,554	$38,443	$13,372
Maximum month-end balance	$114,391	$47,407	$53,756
Weighted average rate during the year	1.68%	1.79%	3.62%
Rate at December 31	1.73%	1.46%	1.67%

Capital Resources and Liquidity

Liquidity

The management of the Company's liquidity focuses on ensuring that sufficient funds are available to meet loan funding commitments, withdrawals from deposit accounts, the repayment of borrowed funds, and ensuring that the Bank and the Company comply with regulatory liquidity requirements. Liquidity needs of The Berkshire Bank have historically been met by deposits, investments in federal funds sold, principal and interest payments on loans, and maturities of investment securities.

For the parent company, Berkshire Bancorp Inc., liquidity means having cash available to fund operating expenses and to pay shareholder dividends, when and if declared by our Board of Directors. We paid cash dividends of $.27 per share, $.22 per share, $.24 per share, $.64 per share, $.32 per share and $.72 per share in fiscal 2003, 2002, 2001, 2000, 1999 and 1998, respectively. The ability to fund our operations and to pay dividends is not dependent upon the receipt of dividends from The Berkshire Bank. At December 31, 2003, we had cash of approximately $12.0 million and investment securities of $2.90 million.

Contingent Liabilities and Commitments

The Bank maintains financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and stand-by letters of credit. The following table presents the Company's commitments at December 31, 2003.

	Expiration By Period				
	Total	Less Than 1 Year	1-3 Years	3-5 Years	More Than 5 Years
	(In thousands)				
Lines of Credit	$11,243	$4,360	$3,814	$1,097	$1,972
Standby Letters of Credit	775	744	31	--	--
Loan Commitments	2,011	2,011	--	--	--
Total	$14,029	$7,115	$3,845	$1,097	$1,972

Contractual Obligations

The following table presents the Company's contractual obligations at December 31, 2003.

	Payments Due By Periods				
	Total	Less Than 1 Year	1-3 Years	3-5 Years	More Than 5 Years
	(In thousands)				
Long-Term Debt	$ 77,745	$ --	$17,010	$46,735	$14,000
Operating Leases	2,215	533	705	468	509
Time Deposits	317,480	297,434	18,042	2,004	--
Total Contractual Obligations	$397,440	$297,967	$35,757	$49,207	$14,509

The Company currently does not have any unconsolidated subsidiaries or special purpose entities.

Capital

The capital ratios of the Bank and Berkshire are presently in excess of the requirements necessary to meet the "well capitalized" capital category established by bank regulators. See Note P to the Consolidated Financial Statements.

Interest Rate Risk

Fluctuations in market interest rates can have a material effect on the Bank's net interest income because the yields earned on loans and investments may not adjust to market rates of interest with the same frequency, or with the same speed, as the rates paid by the Bank on its deposits.

Most of the Bank's deposits are either interest-bearing demand deposits or short term certificates of deposit and other interest-bearing deposits with interest rates that fluctuate as market rates change. Management of the Bank seeks to reduce the risk of interest rate fluctuations by concentrating on loans and securities investments with either short terms to maturity or with adjustable rates or other features that cause yields to adjust based upon interest rate fluctuations. In addition, to cushion itself against the potential adverse effects of a substantial and sustained increase in market interest rates, the Bank has purchased off balance sheet interest rate cap contracts which generally provide that the Bank will be entitled to receive payments from the other party to the contract if interest rates exceed specified levels. These contracts are entered into with major financial institutions.

The Company seeks to maximize its net interest margin within an acceptable level of interest rate risk. Interest rate risk can be defined as the amount of the forecasted net interest income that may be gained or lost due to favorable or unfavorable movements in interest rates. Interest rate risk, or sensitivity, arises when the maturity or repricing characteristics of assets differ significantly from the maturity or repricing characteristics of liabilities.

In the banking industry, a traditional measure of interest rate sensitivity is known as "gap" analysis, which measures the cumulative differences between the amounts of assets and liabilities maturing or repricing at various time intervals. The following table sets forth the Company's interest rate repricing gaps for selected maturity periods:

Berkshire Bancorp Inc.
Interest Rate Sensitivity Gap at December 31, 2003
(in thousands, except for percentages)

	3 Months or Less	3 Through 12 Months	1 Through 3 Years	Over 3 Years	Total
Interest bearing deposits in banks	1,832	--	--	--	1,832
(Rate)	0.26%				0.26%
Loans (1)(2)					
Adjustable rate loans	43,227	13,835	14,132	10,164	81,358

	(Rate)	5.40%	4.53%	5.85%	7.12%	5.55%	
Fixed rate loans		1,772	4,273	7,832	200,385	214,262	2
	(Rate)	7.74%	7.15%	7.62%	6.40%	6.47%	
Total loans		44,999	18,108	21,964	210,549	295,620	3
Investments (3)(4)		50,543	35,198	202,447	281,660	569,848	5
	(Rate)	2.69%	3.11%	2.68%	4.94%	3.82%	
Total rate-sensitive assets		97,374	53,306	224,411	492,209	867,300	
Deposit accounts (5)							
Savings and NOW		219,470	--	--	--	219,470	2
	(Rate)	1.45%				1.45%	
Money market		28,882	--	--	--	28,882	
	(Rate)	0.84%				0.84%	
Time Deposits		131,826	165,608	18,042	2,004	317,480	3
	(Rate)	1.94%	1.93%	2.48%	1.98%	1.97%	
Total deposit accounts		380,178	165,608	18,042	2,004	565,832	
Repurchase Agreements		46,835	29,556	35,000	3,000	114,391	1
	(Rate)	1.04%	1.24%	2.77%	3.52%	1.69%	
Other borrowings				17,010	60,735	77,745	
	(Rate)	%		3.07%	4.05%	3.91%	
Total rate-sensitive liabilities		427,013	195,164	70,052	65,739	757,968	
Interest rate caps		30,000	(5,000)	(5,000)	(20,000)		
Gap (repricing differences)		(359,639)	(136,858)	159,359	446,470	109,332	
Cumulative Gap		(359,639)	(496,497)	(337,138)	109,332		
Cumulative Gap to Total Rate Sensitive Assets		(41.47)%	(57.25)%	(38.87)%	12.61%		

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(1) Adjustable-rate loans are included in the period in which the interest rates are next scheduled to adjust rather than in the period in which the loans mature. Fixed-rate loans are scheduled according to their maturity dates.

(2) Includes nonaccrual loans.

(3) Investments are scheduled according to their respective repricing (variable rate loans) and maturity (fixed rate securities) dates.

(4) Investments are stated at book value.

(5) NOW accounts and savings accounts are regarded as readily accessible withdrawal accounts. The balances in such accounts have been allocated among maturity/repricing periods based upon The Berkshire Bank's historical experience. All other time accounts are scheduled according to their respective maturity dates.

Impact of Inflation and Changing Prices

The Company's financial statements measure financial position and operating results in terms of historical dollars without considering the changes in the relative purchasing power of money over time due to inflation. The impact of inflation is reflected in the increasing cost of the Company's operations. The assets and liabilities of the Company are largely monetary. As a result, interest rates have a greater impact on the Company's performance than do the effects of general levels of inflation. In addition, interest rates do not necessarily move in the direction, or to the same extent as the price of goods and services. However, in general, high inflation rates are accompanied by higher interest rates, and vice versa.

New Accounting Pronouncements

Employers' Disclosure About Pensions and Other Postretirement Benefits

In December 2003, the Financial Accounting Standards Board (the "FASB") issued Statement 132 (revised 2003), Employers' Disclosure About Pensions and Other Postretirement Benefits ("Statement 132(R)"). Statement 132(R) retains all of the disclosures that are required by FASB Statement 132, Employers' Disclosure About Pensions and Other Postretirement Benefits, and includes several additional disclosures. It also amends APB Opinion 28, Interim Financial Reporting, to require certain disclosures about pensions and other postretirement benefit plans in interim financial statements. Statement 132(R) is effective for annual financial statements for fiscal years ending December 31, 2003, and is effective for interim-period disclosures beginning after March 31, 2004. The adoption of Statement 132(R) did not have a material impact on the Company's balance sheets, statements of income or cash flows.

Accounting for Loans or Certain Debt Securities Acquired in a Transfer

In October 2003, the AICPA issued SOP 03-3 Accounting for Loans or Certain Debt Securities Acquired in a Transfer. SOP 03-3 applies to a loan with the evidence of deterioration of credit quality since origination acquired by completion of a transfer for which it is probable at acquisition, that the Company will be unable to collect all contractually required payments receivable. SOP 03-3 requires that the Company recognize the excess of all cash flows expected at acquisition over the investor's initial investment in the loan as interest income on a level-yield basis over the life of the loan as the accretable yield. The loan's contractual required payments receivable in excess of the amount of its cash flows excepted at acquisition (nonaccretable difference) should not be recognized as an adjustment to yield, a loss accrual or a valuation allowance for credit risk. SOP 03-3 is effective for loans acquired in fiscal years beginning after December 31, 2004. Early adoption is permitted. Management is currently evaluating the provisions of SOP 03-3.

Derivative Instruments and Hedging Activities

The Company adopted Statement of Financial Accounting Standard 149 (SFAS No. 149), Amendment of Statement 133 on Derivative Instruments and Hedging Activities, on July 1, 2003. SFAS No. 149 clarifies and amends SFAS No. 133 for implementation issues raised by constituents or includes the conclusions reached by the FASB on certain FASB Staff Implementation Issues. Statement 149 also amends SFAS No. 133 to require a lender to account for loan commitments related to mortgage loans that will be held for sale as derivatives. SFAS No. 149 is effective for contracts entered into or modified after September 30, 2003. The Company periodically enters into commitments with its customers, which it intends to sell in the future. Management does not anticipate the adoption of SFAS No. 149 to have a material impact on the Company's financial position or results of operations.

Financial Instruments with Characteristics of both Liabilities and Equity

The FASB issued SFAS No. 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity, on May 15, 2003. SFAS No. 150 changes the classification in the statement of financial position of certain common financial instruments from either equity or mezzanine presentation to liabilities and requires an issuer of those financial statements to recognize changes in fair value or redemption amount, as applicable, in earnings. SFAS No. 150 is effective for public companies for financial instruments entered into or

modified after May 31, 2003 and is effective at the beginning of the first interim period beginning after June 15, 2003. Management does not anticipate the adoption of SFAS No. 150 to have a material impact on the Company's financial position or results of operations. The adoption of SFAS No. 150 did not have a material impact on the Company's balance sheets, statements of income or cash flows.

Off Balance Sheet Guarantees

The Company adopted FASB Interpretation 45 (FIN 45) Guarantor's Accounting and Disclosure Requirements for Guarantees, including Indirect Guarantees of Indebtedness of Others on January 1, 2003. FIN 45 requires a guarantor entity, at the inception of a guarantee covered by the measurement provisions of the interpretation, to record a liability for the fair value of the obligation undertaken in issuing the guarantee. The Company has financial and performance letters of credit. Financial letters of credit require the Company to make payment if the customer's financial condition deteriorates, as defined in the agreements. Performance letters of credit require the Company to make payments if the customer fails to perform certain non-financial contractual obligations. The Company previously did not record an initial liability, other than the fees received for these letters of credit, when guaranteeing obligations unless it became probable that the Company would have to perform under the guarantee. FIN 45 applies prospectively to letters of credit the Company issues or modifies subsequent to December 31, 2002.

The Company defines the initial fair value of these letters of credit as the fee received from the customer. The maximum potential undiscounted amount of future payments of these letters of credit as of December 31, 2003 are $775,000 and they expire through 2005. Amounts due under these letters of credit would be reduced by any proceeds that the Company would be able to obtain in liquidating the collateral for the loans, which varies depending on the customer.

Variable Interest Entities

In January 2003, the FASB released Interpretation No. 46, Consolidation of Variable Interest Entities ("FIN 46"). Fin 46 requires that all primary beneficiaries of Variable Interest Entities ("VIE") consolidate that entity. FIN 46 is effective immediately for VIEs created after January 31, 2003 and to VIEs to which an enterprise obtains an interest after that date. It applies in the first fiscal year or interim period beginning after June 15, 2003, to VIEs in which an enterprise holds a variable interest it acquired before February 1,

2003. In December 2003, the FASB published a revision to FIN 46 ("FIN 46R") to clarify some of the provisions of the interpretation and defer to the effective date of implementation for certain entities. Under the guidance of FIN 46R, entities that do not have interests in structures that are commonly referred to as special purpose entities are required to apply the provisions of the interpretation in financial statements for periods ending after March 14, 2004. We do not have interests in special purpose entities and will apply the provisions of FIN 46R with our first quarter 2004 financial statements.

The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments

In November 2003, the FASB's Emerging Issues Task Force (the "EITF") reached consensus opinion on EITF Issue 03-1, "The Meaning of Other Than Temporary Impairment and Its Application to Certain Investments. The Company adopted EITF 03-1 as of December 31, 2003. EITF 03-1 includes certain disclosures regarding quantitative and qualitative disclosures for investment securities accounted for under FAS No. 115, Accounting for Certain Investments in Debt and Equity Securities that are impaired at the balance sheet date, but an other-than-temporary impairment has not been recognized. The disclosure under EITF 03-1 are required for financial statements for years ending after December 15, 2003 and are included in these financial statements.

ITEM 7A. Quantitative and Qualitative Disclosure About Market Risk.

See Item 7. Managements' Discussion and Analysis of Financial Condition and Results of Operations - Interest Rate Risk

ITEM 8. Financial Statements and Supplementary Data.

Inasmuch as the acquisition of the GSB Financial Corporation and Goshen Savings Bank was consummated on March 30, 2001, the financial statements set forth below include the results of operations of GSB Financial and Goshen Bank from April 1, 2001, through December 31, 2001.

Report of Independent Certified Public Accountants

Board of Directors and Stockholders
Berkshire Bancorp Inc.

We have audited the accompanying consolidated balance sheets of Berkshire Bancorp Inc. and its subsidiaries as of December 31, 2003 and 2002, and the related consolidated statements of income, 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 financial statements referred to above present fairly, in all material respects, the consolidated financial position of Berkshire Bancorp Inc. and its subsidiaries as of December 31, 2003 and 2002, and the consolidated results of their operations and their consolidated cash flows for each of the three years ended December 31, 2003 in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note B6 to the consolidated financial statements, the Company adopted Statement of Financial Accounting Standards No. 142 Goodwill and Other Intangible Assets on January 1, 2002.

/s/ GRANT THORNTON LLP
Philadelphia, Pennsylvania
February 12, 2004

BERKSHIRE BANCORP INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Dollars in Thousands)

	December 31, 2003	December 31, 2002
ASSETS		
Cash and due from banks	$ 7,478	$ 6,183
Interest bearing deposits	1,832	127
Total cash and cash equivalents	9,310	6,310
Investment Securities:		
Available-for-sale	569,137	370,625
Held-to-maturity, fair value of $715 in 2003 and $835 in 2002	711	833
Total investment securities	569,848	371,458
Loans, net of unearned income	294,756	275,497
Less: allowance for loan losses	(2,593)	(2,315)

Net loans	292,163	273,182
Accrued interest receivable	5,298	4,106
Premises and equipment, net	8,665	8,976
Goodwill, net	18,549	18,549
Other assets	1,836	1,157
Total assets	$905,669	$683,738
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Non-interest bearing	$ 38,422	$ 31,320
Interest bearing	565,833	442,498
Total deposits	604,255	473,818
Securities sold under agreements to repurchase	114,391	46,673
Long term borrowings	77,745	57,699
Accrued interest payable	2,208	3,348
Other liabilities	3,580	3,675
Total liabilities	802,179	585,213
Stockholders' equity		
Preferred stock - $.10 Par value:	--	--
2,000,000 shares authorized - none issued		
Common stock - $.10 par value		
Authorized -- 10,000,000 shares		
Issued -- 2,566,095 shares		
Outstanding --		
December 31, 2003, 2,207,080 shares		
December 31, 2002, 2,237,976 shares	256	256
Additional paid-in capital	89,866	89,890
Retained earnings	22,960	16,145
Accumulated other comprehensive income, net	775	1,480
Treasury Stock		
December 31, 2003, 359,015 shares		
December 31, 2002, 328,119 shares	(10,367)	(9,246)
Total stockholders' equity	103,490	98,525
	$905,669	$683,738

The accompanying notes are an integral part of these statements

BERKSHIRE BANCORP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(In Thousands, Except Per Share Data)

	For The Years Ended December 31,		
	2003	2002	2001
INTEREST INCOME			
Federal funds sold and interest bearing deposits	$ 44	$ 136	$ 642
Investments	15,321	13,383	9,156
Loans, including related fees	19,061	18,723	15,143
Total interest income	34,426	32,242	24,941
INTEREST EXPENSE			
Deposits	10,130	10,410	10,158
Short-term borrowings	794	687	483
Long-term borrowings	2,723	2,319	1,236
Total interest expense	13,647	13,416	11,877
Net interest income	20,779	18,826	13,064
PROVISION FOR LOAN LOSSES	240	387	287
Net interest income after provision for loan losses	20,539	18,439	12,777
NON-INTEREST INCOME			
Service charges on deposit accounts	640	548	395
Investment securities gains	2,746	1,539	637
Other income	597	200	391
Total non-interest income	3,983	2,287	1,423
NON-INTEREST EXPENSE			
Salaries and employee benefits	5,873	5,183	4,153
Net occupancy expense	1,611	1,625	1,170
Equipment expense	397	312	201
FDIC assessment	80	66	42
Data processing expense	183	193	138
Amortization of goodwill	--	--	935
Other	3,319	3,401	2,134
Total non-interest expense	11,463	10,780	8,773
Income before provision for taxes	13,059	9,946	5,427
Provision for income taxes	5,644	4,349	2,128
Net income	$ 7,415	$ 5,597	$ 3,299
Net income per share:			
Basic	$ 3.35	$ 2.44	$ 1.41
Diluted	$ 3.30	$ 2.43	$ 1.41
Dividends per share	$ .27	$ .22	$ .24

The accompanying notes are an integral part of these statements

BERKSHIRE BANCORP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

For The Years Ended December 31, 2003, 2002 and 2001
(In Thousands)

	Common Shares	Stock Par value	Additional paid-in capital	Accumulated other comprehensive income, net
Balance at January 1, 2001	2,566	$256	$78,549	$ (85)
Net income				
Treasury shares issued for acquisition of GSB Financial Corp			11,386	
Acquisition of treasury shares				
Treasury shares issued for options exercised			(21)	
Other comprehensive (loss) net of reclassification adjustment and taxes				(196)
Comprehensive income				
Cash dividends				
	-----	----	-------	-------
Balance at December 31, 2001	2,566	$256	$89,914	$ (281)
Net income				
Acquisition of treasury shares				
Exercise of stock options			(24)	
Other comprehensive income net of reclassification adjustment and taxes				1,761
Comprehensive income				
Cash dividends				
	-----	----	-------	-------
Balance at December 31, 2002	2,566	$256	$89,890	$1,480
Net income				
Acquisition of treasury shares				
Exercise of stock options			(24)	
Other comprehensive (loss) net of reclassification adjustment and taxes				(705)
Comprehensive income				
Cash dividends				
Balance at December 31, 2003	2,566	$256	$89,866	$ 775
	=====	====	=======	======

Accumlated earnings	Treasury stock	Comprehensive income	Total stockholders' equity

Balance at January 1, 2001	$ 8,352	$ (7,965)		$ 79,107
Net income	3,299		3,299	3,299
Treasury shares issued for acquisition of GSB Financial Corp		7,887		19,273
Acquisition of treasury shares		(4,983)		(4,983)
Treasury shares issued for options exercised		111		90
Other comprehensive (loss) net of reclassification adjustment and taxes			(196)	
Comprehensive income			$3,103	
Cash dividends	(598)			(598)
Balance at December 31, 2001	$11,053	$ (4,950)		$ 95,992
Net income	5,597		5,597	5,597
Acquisition of treasury shares		(4,422)		(4,422)
Exercise of stock options		126		102
Other comprehensive income net of reclassification adjustment and taxes			1,761	1,761
Comprehensive income			$7,358	
Cash dividends	(505)			(505)
Balance at December 31, 2002	$16,145	$ (9,246)		$98,525
Net income	7,415		7,415	7,415
Acquisition of treasury shares		(1,350)		(1,350)
Exercise of stock options		229		205
Other comprehensive (loss) net of reclassification adjustment and taxes			(705)	(705)
Comprehensive income			$6,710	
Cash dividends	(600)			(600)
Balance at December 31, 2003	$22,960	$(10,367)		$103,490

The accompanying notes are an integral part of these statements

BERKSHIRE BANCORP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	For The Years Ended December 31,		
	2003	2002	2001
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$ 7,415	$ 5,597	$ 3,299
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Realized gain on investment securities	(2,746)	(1,539)	(637)
Depreciation and amortization	605	414	1,197
Provision for loan losses	240	387	287
Increase in deferred taxes	204	(133)	(426)
CHANGES IN ASSETS AND LIABILITIES:			
(Increase) in accrued interest receivable	(1,192)	(707)	(659)
(Increase) decrease in other assets	(1,064)	3,026	1,320
(Decrease) increase in accrued interest payable and other liabilities	(1,054)	1,316	616
Net cash provided by operating activities	2,408	8,361	4,997
CASH FLOWS FROM INVESTING ACTIVITIES:			
Cash paid for business acquired	--	--	(20,222)
Cash of entities acquired	--	--	6,047
Investment securities available for sale			
Purchases	(1,837,653)	(1,729,416)	(461,048)
Sales	1,641,186	1,603,261	359,278
Investment securities held to maturity			
Purchases	--	--	(167,800)
Maturities	118	780	187,724
Net increase in loans	(19,221)	(23,559)	(42,003)
Acquisition of premises and equipment	(294)	(2,055)	(4,138)
Net cash (used in) investing activities	(215,864)	(150,989)	(142,162)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net increase in non interest bearing deposits	7,102	1,157	15,654
Net increase in interest bearing deposits	123,335	133,885	57,611
Increase (decrease) in securities sold under agreements to repurchase	67,718	(7,083)	30,629
Issuance of long term debt	20,046	34,923	24,778
Repayment of long term debt	--	(19,502)	(12,000)
Acquisition of treasury stock	(1,350)	(4,422)	(4,983)
Proceeds from exercise of common stock options	205	102	90
Dividends paid	(600)	(505)	(598)
Net cash provided by financing activities	216,456	138,555	111,181

BERKSHIRE BANCORP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	For The Years Ended December 31,		
	2003	2002	2001
Net increase (decrease) in cash and cash equivalents	3,000	(4,073)	(25,984)
Cash and cash equivalents at beginning of year	$ 6,310	$10,383	36,367
Cash and cash equivalents at end of year	$ 9,310	$ 6,310	$ 10,383
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:			
Cash used to pay interest	$14,787	$12,474	$ 10,804
Cash used to pay income taxes	$ 2,015	$ 5,692	$ 1,637

The accompanying notes are an integral part of these statements

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BERKSHIRE BANCORP INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
December 31, 2003 and 2002

NOTE A - ORGANIZATION AND PLAN OF MERGER AND CAPITALIZATION

Organization

Berkshire Bancorp Inc. ("Berkshire" or the "Company"), a Delaware corporation, is a bank holding company registered under the Bank Holding Company Act of 1956. Berkshire's principal activity is the ownership and management of its wholly owned subsidiary, The Berkshire Bank (the "Bank").

The Bank, a New York State chartered commercial bank, was established in 1989 to provide highly personalized services to high net worth individuals and to small and mid-sized commercial businesses primarily from the New York City metropolitan area. In March 2001, the Company expanded its customer base and market area with the acquisition of GSB Financial Corporation. The Bank's main office and branch is in mid-town Manhattan. It has three branches in Brooklyn, NY, one branch in downtown Manhattan and four branches in Orange and Sullivan Counties in New York state.

The Bank competes with other banking and financial institutions in its markets. Commercial banks, savings banks, savings and loan associations, mortgage bankers and brokers, and credit unions actively compete for deposits and loans. Such institutions, as well as consumer finance, mutual funds, insurance companies, and brokerage and investment banking firms may be considered to be competitors of the Bank with respect to one or more of the services provided by the Bank.

The Company and the Bank are subject to the regulations of certain state and federal agencies and, accordingly, are periodically examined by those regulatory authorities. As a consequence of such regulation of banking activities, the Bank's business may be affected by state and federal legislation.

Mergers and Acquisitions

On March 30, 2001, Berkshire completed its acquisition of GSB Financial Corporation ("GSB Financial"). As a result, GSB Financial merged with and into Berkshire and Goshen Savings Bank ("Goshen Bank") merged with and into The Berkshire Bank. Under the terms of the merger, each share of GSB Financial common stock was redeemed for $20.75, or converted into 0.6027 shares of Berkshire's common stock. As a result of this transaction, 978,032 shares of GSB Financial common stock were converted into 589,460 shares of Berkshire common stock, and 974,338 shares of GSB Financial common stock were purchased for $20.75 per share, totaling approximately $20.2 million.

This transaction was accounted for under the purchase method of accounting and accordingly, the results of operations of the Company for the year ended December 31, 2001, include only the results of operations of GSB Financial from April 1, 2001 through December 31, 2001. The acquisition resulted in the recording of approximately $7.5 million of goodwill, which, through December 31, 2001, has been amortized on a straight-line basis over 15 years.

The following represents the unaudited pro forma financial information of the Company as if the acquisition occurred on the first date of the period indicated. The pro forma information should be read in conjunction with the related historical information and is not necessarily indicative of the results that would have been attained had the transaction actually taken place.

Note A - (continued)

	For The Year Ended December 31, 2001 (In thousands)
Interest income	$31,499

Interest Expense	15,396
Net interest income	16,103
Provision for loan losses	547
Non-interest income	1,696
Non-interest expense	11,007
Net income	$ 3,427

NOTE B - SUMMARY OF ACCOUNTING POLICIES

1. Basis of Financial Statement Presentation

The consolidated financial statements include the accounts of Berkshire Bancorp and its wholly owned subsidiaries, Greater American Finance Group, Inc. ("GAFG") and the Bank, (collectively, the "Company"). All significant intercompany accounts and transactions have been eliminated.

In preparing the financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the balance sheets, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The principal estimate that is susceptible to significant change in the near term relates to the allowance for loan losses and goodwill. The evaluation of the adequacy of the allowance for loan losses includes an analysis of the individual loans and overall risk characteristics and size of the different loan portfolios, and takes into consideration current economic and market conditions, the capability of specific borrowers to pay specific loan obligations, as well as current loan collateral values. However, actual losses on specific loans, which also are encompassed in the analysis, may vary from estimated losses.

Substantially all outstanding goodwill resulted from the acquisition of The Berkshire Bank and Goshen Savings Bank, depository institutions concentrating in the New York City and Orange and Sullivan County communities, respectively. As the result of the market penetration in these New York areas, the Company had formulated its own strategy to create such a market role. Accordingly, implicit in the purchase of these franchises was the acquisition of that role. However, if such benefits, including new business, are not derived or the Company changes its business plan an impairment may be recognized.

The Company provides disclosures under SFAS 131 Disclosures About Segments of an Enterprise and Related Information. Operating segments are components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and assess performance. The Company has one operating segment and, accordingly, one reportable segment, "Community Banking." All of the Company's activities are interrelated, and each activity is dependent and assessed based on how each of the activities of the Company supports the others. For example, commercial lending is dependent upon the ability of the Bank to fund itself with retail deposits and other borrowings

BERKSHIRE BANCORP INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements (continued)

NOTE B - (continued)

and to manage interest rate and credit risk. This situation is also similar for consumer and residential mortgage lending. Accordingly, all significant operating decisions are based upon analysis of the Company as one operating segment or unit.

2. Investment Securities

The Company accounts for its investment securities in accordance with SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities". Investments in securities are classified in one of three categories: held to maturity, trading or available for sale. Investments for which management has both the ability and intent to hold to maturity, are carried at cost, adjusted for the amortization of premiums and accretion of discounts computed by the interest method. Investments which management believes may be sold prior to maturity due to changes in interest rates, prepayment risk and equity, liquidity requirements or other factors, are classified as available for sale. Available-for-sale securities are carried at fair value, with the unrealized gains and losses, net of tax, and reported as a separate component of stockholders' equity and excluded from the determination of net income. Gains or losses on disposition are based on the net proceeds and cost of the securities sold, adjusted for amortization of premiums and accretion of discounts, using the specific identification method.

In November 2003, the FASB's Emerging Issues Task Force (the "EITF") reached consensus opinion on EITF Issue 03-1, "The Meaning of Other Than Temporary Impairment and Its Application to Certain Investments. The Company adopted EITF 03-1 as of December 31, 2003. EITF 03-1 includes certain disclosures regarding quantitative and qualitative disclosures for investment securities accounted for under FAS No. 115, Accounting for Certain Investments in Debt and Equity Securities that are impaired at the balance sheet date, but an other-than-temporary impairment has not been recognized. The disclosure under EITF 03-1 are required for financial statements for years ending after December 15, 2003 and are included in these financial statements.

3. Loans and Allowance for Loan Losses

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are stated at the amount of unpaid principal and are net of unearned discount, unearned loan fees and an allowance for credit losses. The allowance for loan losses is established through a provision for loan losses charged to expense. Loan principal considered to be uncollectible by management is charged against the allowance for credit losses. The allowance is an amount that management believes will be adequate to absorb losses on existing loans that may become uncollectible based upon an evaluation of known and inherent risks in the loan portfolio. The evaluation takes into consideration such factors as changes in the nature and size of the loan portfolio, overall portfolio quality, specific problem loans, and current economic conditions which may affect the borrowers' ability to pay. The evaluation details historical losses by loan category, the resulting loss rates for which are projected at current loan total amounts.

Interest income is accrued as earned on a simple interest basis. Accrual of interest is discontinued on a loan when management believes, after considering economic and business conditions and collection efforts, that the borrower's financial condition is such that collection of interest is doubtful. When a loan is placed on such non-accrual status, all accumulated accrued interest receivable applicable to periods prior to the current year is charged off to the allowance for loan losses. Interest which had accrued in the current year is reversed out of current period income. Loans 90 days or more past due and still accruing interest must have both principal and accruing interest adequately secured and must be in the process of collection.

NOTE B - (continued)

The Company accounts for its impaired loans in accordance with SFAS No. 114, "Accounting by Creditors for Impairment of a Loan," as amended by SFAS No. 118, "Accounting by Creditors for Impairment of a Loan - Income Recognition and Disclosures." This standard requires that a creditor measure impairment based on the present value of expected future cash flows discounted at the loan's effective interest rate, except that as a practical expedient, a creditor may measure impairment based on a loan's observable market price, or the fair value of the collateral if the loan is collateral-dependent. Regardless of the measurement method, a creditor must measure impairment based on the fair value of the collateral when the creditor determines that foreclosure is probable.

The Company follows the provisions of SFAS No. 140 "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," SFAS No. 140 is based on consistent application of a financial-components approach that recognizes the financial and servicing assets it controls and the liabilities it has incurred, derecognizes financial assets when control has been surrendered and derecognizes liabilities when extinguished. SFAS No. 140 provides consistent guidelines for distinguishing transfers of financial assets from transfers that are secured borrowings. The Company adopted SFAS 140 on April 1, 2001 and the adoption did not have a material impact upon the Company's consolidated financial statements.

Staff Accounting Bulletin (SAB) No. 102, Selected Loan Loss Allowance Methodology and Documentation Issues. SAB No. 102 provides guidance on the development, documentation, and application of a systematic methodology for determining the allowance for loans and leases in accordance with US GAAP. The adoption of SAB No. 102 is not expected to have a material impact on the Company's financial position or results of operations.

In October 2003, the AICPA issued SOP 03-3 Accounting for Loans or Certain Debt Securities Acquired in a Transfer. SOP 03-3 applies to a loan with the evidence of deterioration of credit quality since origination acquired by completion of a transfer for which it is probable at acquisition, that the Company will be unable to collect all contractually required payments receivable. SOP 03-3 requires that the Company recognize the excess of all cash flows expected at acquisition over the investor's initial investment in the loan as interest income on a level-yield basis over the life of the loan as the accretable yield. The loan's contractual required payments receivable in excess of the amount of its cash flows excepted at acquisition (nonaccretable difference) should not be recognized as an adjustment to yield, a loss accrual or a valuation allowance for credit risk. SOP 03-3 is effective for loans acquired in fiscal years beginning after December 31, 2004. Early adoption is permitted. Management is currently evaluating the provisions of SOP 03-3.

The Company adopted Statement of Financial Accounting Standard 149 (SFAS No. 149), Amendment of Statement 133 on Derivative Instruments and Hedging Activities, on July 1, 2003. SFAS No. 149 clarifies and amends SFAS No. 133 for implementation issues raised by constituents or includes the conclusions reached by the FASB on certain FASB Staff Implementation Issues. Statement 149 also amends SFAS No. 133 to require a lender to account for loan commitments related to mortgage loans that will be held for sale as derivatives. SFAS No. 149 is effective for contracts entered into or modified after September 30, 2003. The Company periodically enters into commitments with its customers, which it intends to sell in the future. Management does not anticipate the adoption of SFAS No. 149 to have a material impact on the Company's financial position or results of operations.

NOTE B - (continued)

The Company adopted FASB Interpretation 45 (FIN 45) Guarantor's Accounting and Disclosure Requirements for Guarantees, including Indirect Guarantees of Indebtedness of Others on January 1, 2003. FIN 45 requires a guarantor entity, at the inception of a guarantee covered by the measurement provisions of the interpretation, to record a liability for the fair value of the obligation undertaken in issuing the guarantee. The Company has financial and performance letters of credit. Financial letters of credit require the Company to make payment if the customer's financial condition deteriorates, as defined in the agreements. Performance letters of credit require the Company to make payments if the customer fails to perform certain non-financial contractual obligations. The Company previously did not record an initial liability, other than the fees received for these letters of credit, when guaranteeing obligations unless it became probable that the Company would have to perform under the guarantee. FIN 45 applies prospectively to letters of credit the Company issues or modifies subsequent to December 31, 2002.

The Company defines the initial fair value of these letters of credit as the fee received from the customer. The maximum potential undiscounted amount of future payments of these letters of credit as of December 31, 2003 are $775,000 and they expire through 2005. Amounts due under these letters of credit would be reduced by any proceeds that the Company would be able to obtain in liquidating the collateral for the loans, which varies depending on the customer.

4. Bank Premises and Equipment

Bank premises and equipment, including leasehold improvements, are stated at cost less accumulated depreciation. Depreciation expense is computed on the straight-line method over the estimated useful lives of the assets. Leasehold improvements are amortized over the shorter of the estimated useful lives of the improvements or the terms of the related leases.

On January 1, 2002 the Company adopted SFAS No. 144, "Accounting for the

Impairment or Disposal of Long-Lived Assets." SFAS No. 144 retains the existing requirements to recognize and measure the impairment of long-lived assets to be held and used or to be disposed of by sale. However, SFAS No. 144 makes changes to the scope and certain measurement requirements of existing accounting guidance. The adoption of this statement did not have a significant impact on the financial condition or results of operations of the Company.

5. Other Real Estate Owned

Other real estate owned, representing property acquired through foreclosure, is recorded at the lower of cost or estimated fair market value, less costs of disposal. When property is acquired, the excess, if any, of the loan balance over fair market value is charged to the allowance for loan losses. Periodically thereafter, the asset is reviewed for subsequent declines in the estimated fair market value. Subsequent declines, if any, and holding costs, as well as gains and losses on subsequent sale, are included in the consolidated statements of operations.

6. Goodwill

Goodwill resulting from the acquisition of the Berkshire Bank and GSB Financial has been amortized on a straight-line basis over approximately 20 years and 15 years, respectively. Amortization expense for the year ended December 31, 2001 was approximately $935,000.

NOTE B - (continued)

On June 29, 2001, SFAS No. 141, Business Combinations, and SFAS No. 142, Goodwill and Intangible Assets were issued. These statements resulted in significant modifications relative to the Company's accounting for goodwill and other intangible assets. SFAS No. 141, which was effective upon issuance, requires that all business combinations initiated after June 30, 2001 must be accounted for under the purchase method of accounting. SFAS No. 142 modifies the accounting for all purchased goodwill and intangible assets. SFAS No. 142 includes requirements to test goodwill and indefinite lived intangible assets for impairment rather than amortize them. Upon adoption of SFAS 142, on January 1, 2002, the Company no longer amortized goodwill, thereby eliminating annual amortization expense of approximately $1.0 million.

The following table presents a reconciliation of net income and earnings-per-share amounts, as reported in the financial statements, to those amounts adjusted for goodwill and intangible asset amortization determined in accordance with the provisions of SFAS No. 142.

	For The Year Ended December 31,		
	2003	2002	2001

(In thousands, except per share amounts)

Reported net income	$7,415	$5,597	$3,299
Add back: goodwill amortization	--	--	935
Adjusted net income	$7,415	$5,597	$4,234
Basic earnings per share:			
Reported basic earnings per share	$ 3.35	$ 2.44	$ 1.41
Goodwill amortization	--	--	.40
Adjusted basic earnings per share	$ 3.35	$ 2.44	$ 1.81
Diluted earnings per share:			
Reported diluted earnings per share	$ 3.30	$ 2.43	$ 1.41
Goodwill amortization	--	--	.40
Adjusted diluted earnings per share	$ 3.30	$ 2.43	$ 1.81

7. Income Taxes

The Company accounts for income taxes under the liability method of accounting for income taxes. Deferred tax assets and liabilities are determined based on the difference between the financial statement and tax bases of assets and liabilities as measured by the enacted tax rates that will be in effect when these differences reverse. Deferred tax expense is the result of changes in deferred tax assets and liabilities. The principal types of differences between assets and liabilities for financial statement and tax return purposes are allowance for loan losses, deferred loan fees, deferred compensation and securities available for sale.

8. Net Income Per Share

The Company follows the provisions of SFAS No. 128, "Earnings Per Share." Basic earnings per share excludes dilution and is computed by dividing income available to common shareholders by the weighted-average common shares outstanding during the period. Diluted earnings per share takes into account the potential dilution that could occur if securities or other contracts to issue common stock were exercised and converted into common stock.

NOTE B - (continued)

9. Stock Based Compensation

The Company follows SFAS No. 123 "Accounting for Stock Based Compensation." This statement introduced a method of accounting for employee stock-based compensation plans based upon the fair value of the awards on the date they are granted. Under this fair value based method, public companies estimate the fair value of stock options using a pricing model, such as the Black-Scholes model, which requires inputs such as the expected volatility of the stock price and an estimate of the dividend yield over the option's expected life. The FASB, however, does not require the use of this method. Entities that continue to account for stock option plans under the existing method (APB No. 25) are required to disclose proforma net income and earnings per share, as if the fair value method had been used.

At December 31, 2003, the Company has one stock-based employee compensation plan, which is more fully described in Note K. The Company accounts for that plan under the recognition and measurement principles of APB No. 25, "Accounting for Stock Issued to Employees," and related interpretations. Stock-based employee compensation costs are not reflected in net income, as all options granted under the plan had an exercise price equal to the market value of the underlying common stock on the date of the grant. The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of SFAS No. 123, "Accounting for Stock-Based Compensation," to stock-based employee compensation.

		For The Years Ended December 31,		
		2003	2002	2001
		(In thousands, except per share amounts)		
Net income	As Reported:	$7,415	$5,597	$3,299
Less: Stock based compensation costs determined under fair value methods for all awards		32	680	316
	Pro Forma:	$7,383	$4,917	$2,983
Basic earnings per share	As Reported:	$ 3.35	$ 2.44	$ 1.41
	Pro Forma:	3.34	2.14	1.28
Diluted earnings per share	As Reported:	3.30	2.43	1.41
	Pro Forma:	3.28	2.14	1.28

The fair value of each option is estimated on the date of grant using the Black-Scholes options-pricing model with the following weighted-average assumptions used for grants as of December 31, 2001, expected volatility of 22%, risk-free interest of 5.34%, and expected lives of 5 years. The Company did not grant options in 2003 and 2002.

10. Cash Equivalents

The Company considers all highly liquid debt investments purchased with an original maturity of three months or less, and amounts due from brokers to be cash equivalents.

BERKSHIRE BANCORP INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements (continued)

NOTE B - (continued)

11. Restrictions on Cash and Due From Banks

The Bank is required to maintain reserves against customer demand deposits by keeping cash on hand or balances with the Federal Reserve Bank in a non-interest bearing account. The amounts of those reserve and cash balances was approximately $1,032,000, $1,155,000 and $900,000 at December 31, 2003, 2002 and 2001, respectively.

12. Comprehensive Income

The Company follows the provisions of SFAS No. 130, "Reporting Comprehensive Income" which includes net income as well as certain other items, which results in a change to equity during the period. (In thousands.)

	Year Ended December 31, 2003		
	Before tax amount	Tax (expense) benefit	Net of tax Amount
Unrealized gains (losses) on investment securities:			
Unrealized holding gains arising during period	$ 1,231	$ (491)	$ 740
Less reclassification adjustment for gains realized in net income	2,746	(1,097)	1,649
Unrealized (loss) on investment securities	(1,515)	606	(909)
Change in minimum pension liability	340	(136)	204
Other comprehensive income (loss), net	$(1,175)	$ 470	$ (705)

	Year Ended December 31, 2002		
	Before tax amount	Tax (expense) benefit	Net of tax Amount

Unrealized gains on investment securities:			
Unrealized holding gains arising during period	$4,760	$(1,872)	$2,888
Less reclassification adjustment for gains realized in net income	1,539	(616)	923
Unrealized gain (loss) on investment securities	3,221	(1,256)	1,965
Minimum pension liability	(340)	136	(204)
Other comprehensive income, net	$2,881	$(1,120)	$1,761

BERKSHIRE BANCORP INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements (continued)

Note B - (continued)

	Year Ended December 31, 2001		
	Before tax amount	Tax (expense) benefit	Net of tax Amount
Unrealized gains (losses) on investment securities:			
Unrealized holding (losses) arising during period	$ 357	$(171)	$ 186
Less reclassification adjustment for gains realized in net income	637	(255)	382
Other comprehensive loss, net	$(280)	$ 84	$(196)

13. Reclassifications

Certain amounts in the December 31, 2002 and 2001 financial statements have been reclassified to conform to the current period's presentation.

NOTE C - INVESTMENT SECURITIES

The following is a summary of held to maturity investment securities:

	December 31, 2003			
	Amortized Cost	Gross unrealized gains	Gross unrealized losses	Fair value
	(In thousands)			
Investment securities				
U.S. Government Agencies	$711	$4	$--	$715
Totals	$711	$4	$--	$715

	December 31, 2002			
	Amortized Cost	Gross unrealized gains	Gross unrealized losses	Fair value
	(In thousands)			
Investment securities				
U.S. Government Agencies	$833	$3	$(1)	$835
Totals	$833	$3	$(1)	$835

NOTE C - (continued)

The following is a summary of available-for-sale investment securities:

	December 31, 2003			
	Amortized Cost	Gross unrealized gains	Gross unrealized losses	Fair value
	(In thousands)			
Investment securities				
U.S. Treasury and Notes	$ 39,941	$ --	$ (94)	$ 39,847
U.S. Government Agencies	419,175	637	(3,059)	416,753
Mortgage-backed securities	93,875	3,838	(265)	97,448
Corporate notes	1,570	214	(122)	1,662
Municipal securities	991	70	--	1,061
Marketable equity securities and other	12,305	177	(116)	12,366
Totals	$567,857	$4,936	$(3,656)	$569,137

	December 31, 2002			
	Amortized Cost	Gross unrealized gains	Gross unrealized losses	Fair value
	(In thousands)			
Investment securities				
U.S. Treasury and Notes	$ 20,110	$ 103	$ --	$ 20,213
U.S. Government Agencies	301,224	2,376	(3)	303,597
Mortgage-backed securities	6,256	6	--	6,262
Corporate notes	3,878	495	(297)	4,076
Marketable equity securities and other	36,383	242	(148)	36,477
Totals	$367,851	$3,222	$(448)	$370,625

The Company has investments in certain debt and equity securities that have unrealized losses or may be otherwise impaired, but an other-than-temporary impairment has not been recognized in the financial statements. The following table indicates the length of time individual securities have been in a continuous unrealized loss position at December 31, 2003 (in thousands):

	Less than 12 months		12 months or longer		Tota
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value
Description of Securities					
U.S. Treasury and Notes	$ 39,847	$ 94	$ --	$ --	$ 39,847

U.S. Government Agencies	308,680	3,059	51	--	308,731
Mortgage-backed securities	10,432	265	--	--	10,432
Corporate notes	--	--	--	122	--
Municipal securities	--	--	--	--	--
Subtotal, debt securities	358,959	3,418	51	122	359,010
Marketable equity securities and other	213	27	126	89	339
Total temporarily impaired securities	$359,172	$3,445	$177	$211	$359,439

NOTE C - (continued)

The Company had a total of 63 securities with a fair market value of $359.01 million which were temporarily impaired at December 31, 2003. The total unrealized loss on these securities was $3.45 million, all but $27,000 of such unrealized loss is attributable to interest rate movements. We have the ability to hold these US Government and US Government Agency securities to maturity, therefore, the unrealized losses associated with these securities are not considered to be other than temporary.

We also had 1 corporate note and 7 equity securities with an aggregated fair market value of $339,000 which were temporarily impaired at December 31, 2003. The total unrealized loss on these 8 securities was $211,000. Based upon our review of the available information, such unrealized losses are not considered to be other than temporary.

The amortized cost and fair value of investment securities available for sale and held to maturity, by contractual maturity, at December 31, 2003 and 2002 are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	December 31, 2003			
	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value

(In thousands)

Due in one year or less	$ --	$ --	$ --	$ --
Due after one through five years	102,626	102,654	74	74
Due after five through ten years	196,934	195,168	70	70
Due after ten years	255,992	258,949	567	571
Marketable equity securities and other	12,305	12,366	--	--
Totals	$567,857	$569,137	$711	$715

Gross gains realized on the sales of investment securities for the years ended December 31, 2003, 2002 and 2001 were $2.91 million, $1.54 million and $637,000, respectively. Gross losses were $163,000 for the year ended December 31, 2003. Gross losses were not material for the years ended December 31, 2002 and 2001.

As of December 31, 2003 and 2002, securities sold under agreements to repurchase with a book value of approximately $114.39 million and $46.67 million, respectively, were outstanding. As of December 31, 2003 and 2002, the Company did not have any investment securities of any one issuer where the carrying value exceeded 10% of shareholders' equity.

On November 7, 2002, we sold our 24.9% interest in a merchant credit card processing company for $285,000, which represents our initial purchase price in December 1999. We accounted for our interest in this company under the equity method of accounting and have recorded approximately $200,000 in net losses since December 1999. In addition, the Bank had loans outstanding totaling $295,000 to his company which are being repaid as a result of this transaction. At December 31, 2003, the purchase price to Berkshire has been paid in full.

BERKSHIRE BANCORP INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements (continued)

NOTE D - LOANS

Major classifications of loans are as follows:

	December 31, 2003	December 31, 2002
	(In thousands)	
Commercial and professional loans	$ 22,228	$ 16,704
Secured by real estate		
1 - 4 family	169,589	180,730
Multi family	6,608	8,958

Non-residential	94,956	65,809
Consumer	2,239	4,051
	295,620	276,252
Deferred loan fees	(864)	(755)
Allowance for loan losses	(2,593)	(2,315)
	$292,163	$273,182

Changes in the allowance for loan losses are as follows:

	For The Years Ended December 31,		
	2003	2002	2001
	(In thousands)		
Balance at beginning of year	$2,315	$2,030	$1,108
Provision charged to operations	240	387	287
Loans charged off	17	199	97
Recoveries	55	97	41
Acquisition of GSB Financial Corp	--	--	691
Balance at end of year	$2,593	$2,315	$2,030

The Company had $109,000, $59,000 and $9,000 non accrual loans as of December 31, 2003, 2002 and 2001, respectively. The Company did not have any impaired loans as of December 31, 2003, 2002 and 2001. The Company had approximately $0, $0, and $58,000 of loans past due more than 90 days and still accruing interest as of December 31, 2003, 2002 and 2001, respectively.

The Company, from time to time, enters into lending transactions in the ordinary course of business with directors, executive officers, principal stockholders and affiliates of such persons on the same terms as those prevailing for comparable transactions with other borrowers. At December 31, 2003, loans to these related parties amounted to $12.6 million, were current as to principal and interest payments, and do not involve more than normal risk of collectibility. An analysis of activity in loans to related parties at December 31, 2003, resulted in new loans of $3.1 million and repayments of approximately $4.4 million.

NOTE E - PREMISES AND EQUIPMENT

Major classifications of premises and equipment are summarized as follows:

	Estimated useful lives	December 31, 2003	December 31, 2002
		(In thousands)	
Land	Indefinite	$ 3,817	$ 1,817
Buildings	39 years	4,059	838
Furniture and equipment	3 to 10 years	2,318	2,196
Leasehold improvements	2 to 10 years	620	612
Construction in progress		--	5,056
		10,814	10,519
Accumulated depreciation and amortization		(2,149)	(1,543)
Total		$ 8,665	$ 8,976

Depreciation and amortization expense was approximately $605,000, $279,000 and $249,000 for the years ended December 31, 2003, 2002 and 2001, respectively. The increase in 2003, as compared to prior years, was primarily due to the completion of the construction and occupancy by the Bank of the property we purchased in 2001.

NOTE F - DEPOSITS

The aggregate amount of jumbo certificates of deposits greater than $100,000 were approximately $110.08 million and $108.72 million as of December 31, 2003 and 2002, respectively.

The scheduled maturities of all certificates of deposit are as follows:

	December 31, 2003
	(In thousands)
2004	$297,434
2005	7,291
2006	10,751
2007	13
2008	1,991
	$317,480

BERKSHIRE BANCORP INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements (continued)

NOTE G - BORROWINGS

Short-Term Borrowings Securities sold under agreements to repurchase generally mature within 30 days from the date of the transactions. Short-term borrowings consist of various borrowings which generally have maturities of less than one year. The details of these categories are presented below:

	Year Ended December 31,		
	2003	2002	2001
	(Dollars in Thousands)		
Securities sold under repurchase agreements and federal funds purchased			
Balance at year-end	$114,391	$46,673	$53,756
Average during the year	$ 57,554	$38,433	$13,372
Maximum month-end balance	$114,391	$47,407	$53,756
Weighted average rate during the year	1.68%	1.79%	3.62%
Rate at December 31	1.73%	1.46%	1.67%

Long-Term Borrowings At December 31, 2003, advances from the Federal Home Loan Bank ("FHLB") totaling $77.7 million will mature within one to ten years and are reported as long-term borrowings. The advances are collateralized by FHLB stock and certain first mortgage loans. The advances had a weighted average rate of 3.91%. Unused lines of credit at the FHLB were $38.0 million at December 31, 2003.

Outstanding long-term borrowings mature as follows (in thousands):

Year	Amount
2004	$ --
2005	4,000
2006	13,010
2007	27,753
2008	18,982
Thereafter	14,000
Total	$77,745

NOTE H - EARNINGS PER SHARE

The Company's calculation of earnings per share in accordance with SFAS No. 128 is as follows:

	Year Ended December 31, 2003 (In thousands, except per share data)		
	Income (numerator)	Shares (denominator)	Per share amount
Basic earnings per share			
Net income available to common stockholders	$7,415	2,212	$3.35
Effect of dilutive securities			
Options	--	37	(.05)
Diluted earnings per share			
Net income available to common stockholders plus assumed conversions	$7,415	2,249	$3.30

BERKSHIRE BANCORP INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements (continued)
NOTE H - (continued)

	Year Ended December 31, 2002 (In thousands, except per share data)		
	Income (numerator)	Shares (denominator)	Per share amount
Basic earnings per share			
Net income available to common stockholders	$5,597	2,292	$2.44
Effect of dilutive securities			
Options	--	11	(.01)
Diluted earnings per share			
Net income available to common stockholders plus assumed conversions	$5,597	2,303	$2.43

Options to purchase 115,375 shares of common stock for $30.00 to $38.00 per share were outstanding during the year ended December 31, 2002. These options were not included in the computation of diluted earnings per share because the option exercise price was greater than the average market price for the

Company's common stock during this period.

	Year Ended December 31, 2001 (in thousands, except per share data)		
	Income (numerator)	Shares (denominator)	Per share amount
Basic earnings per share			
Net income available to common stockholders	$3,299	2,326	$1.41
Effect of dilutive securities			
Options	--	10	--
Diluted earnings per share			
Net income available to common stockholders plus assumed conversions	$3,299	2,336	$1.41

Options to purchase 119,375 shares of common stock for $30.00 to $38.00 per share were outstanding during the year ended December 31, 2001. These options were not included in the computation of diluted earnings per share because the option exercise price was greater than the average market price for the Company's common stock during this period.

BERKSHIRE BANCORP INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements (continued)

NOTE I - INCOME TAXES

The components of income tax expense are as follows:

	Years Ended December 31,		
	2003	2002	2001
Current	$5,848,000	$4,216,000	$1,702,000
Deferred Taxes (Benefit)	(204,000)	133,000	426,000
	$5,644,000	$4,349,000	$2,128,000

A reconciliation of the provision for income taxes for the years ended December 31, 2003, 2002 and 2001 and the amount computed by applying the statutory Federal income tax rate to income from continuing operations follows:

	Years Ended December 31,		
	2003	2002	2001
Effective Tax Reconciliation			
Tax at statutory rate	$4,439,000	$3,381,000	$1,846,000
State and City, net of federal income tax benefit	1,211,000	940,000	612,000
Nondeductible expenses, including goodwill	--	--	217,000
Tax exempt income	(76,000)	(53,000)	(44,000)
Other	70,000	81,000	(503,000)
Actual provision for income taxes	$5,644,000	$4,349,000	$2,128,000

The tax effect of the principal temporary differences at December 31, 2003 and 2002 are as follows:

	December 31,	
	2003	2002
Net deferred tax assets		
Loan loss provision	$1,215,000	1,095,000
Depreciation	9,000	20,000
Other	80,000	(15,000)
Unrealized loss, minimum pension liability adjustment	--	136,000
Unrealized (gain) loss on investment securities	(500,000)	(1,124,000)
Net deferred tax asset included in other assets	$ 804,000	$ (112,000)

NOTE J - STOCK PLANS

In March 1999, the stockholders of the Company approved the 1999 Stock

Incentive Plan (the "1999 Stock Incentive Plan"). The 1999 Stock Incentive Plan permits the granting of awards in the form of nonqualified stock options, incentive stock options, restricted stock, deferred stock, and other stock-based incentives. Up to 200,000 shares of common stock of the Company may be issued pursuant to the 1999 Stock Incentive Plan. Officers, directors and other key employees of the Company or any subsidiary are eligible to receive awards under the 1999 Stock Incentive Plan. Options outstanding under the 1999 Stock Incentive Plan were 112,375 and 115,375 as of December 31, 2003 and 2002, respectively. As of December 31, 2003 and 2002, 57,098 options and 62,126 options, respectively, were also outstanding as a result of the GSB acquisition. The Company did not grant options in 2003 and 2002.

A summary of activity with respect to the Stock Option Plan follows:

	December 31,					
	2003		2002		2001	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at beginning of year	177,501	$30.30	191,596	$29.74	50,375	$36.37
Granted	--	$ --	--	$ --	152,496	$27.68
Cancelled	--	$ --	(6,509)	$27.13	(7,443)	$29.84
Exercised	(8,028)	$25.83	(7,586)	$21.75	(3,832)	$23.59
Outstanding at end of year	169,473	$30.36	177,501	$30.30	191,596	$29.74
Exercisable at end of year	165,798	$30.47	167,500	$33.09	84,799	$31.63
Weighted average fair value of options granted during the year		$ --		$ --		$ 9.54

The following table summarizes information about options outstanding at December 31, 2003:

	Options Outstanding			Options Exercisable	
Range of exercise prices	Number outstanding at December 31, 2003	Weighted average remaining contractual life (years)	Weighted average exercise price	Number outstanding at December 31, 2003	Weighted average exercise price
$17.94 - 26.34	50,323	4.93	$25.43	46,648	$25.58
27.79 - 38.00	119,150	2.95	32.66	119,150	32.66

169,473	165,798
=======	=======

NOTE K - EMPLOYEE BENEFIT PLANS

1. Retirement Income Plan

The Company has a Retirement Income Plan (the "Retirement Plan"), a noncontributory plan covering substantially all full-time, non-union United States employees of the Company. Benefits were based upon a combination of employee compensation and years of service. The Company paid the entire cost of the plan for its employees and funded such costs as they accrued. The Company's funding policy was to make annual contributions within minimum and maximum levels required by applicable regulations. The Company's customary contributions were designed to fund normal cost on a current basis and fund over 30 years the estimated prior service cost of benefit improvements (15 years of annual gains and losses). The projected unit cost method was used to determine the annual cost.

Benefit accruals were frozen as of September 15, 1988, resulting in a plan curtailment. As a result of such curtailment, the Company did not accrue benefits for future services; however, the Company did continue to contribute as necessary for any unfunded liabilities. In 2000, the Company reinstated the Retirement Plan to cover substantially all full-time, non-union United States employees of the Company.

The following table summarizes the major categories of Plan assets as of the dates indicated:

	December 31,			
	2003		2002	
	Fair Value	% of Total	Fair Value	% of Total
	(In thousands, except percentages			
Mutual Funds				
International Equity Fund	$ 127	6.99%	$ 101	6.67%
Large Cap Equity Growth Fund	831	45.76	646	42.64
International Investment Grade Bond Fund	570	31.39	577	38.08
Small Cap Equity Growth Fund	122	6.72	96	6.34
Corporate Common Stocks(1)	157	8.65	95	6.27
Cash and cash equivalents	9	0.49	--	--
Total Plan Assets	$1,816	100.00%	$1,515	100.00%

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(1) Includes shares of the Company's Common Stock with a market value of $75,000 and $51,000 at December 31, 2003 and 2002, respectively.

The assets of the plan are primarily invested in well diversified common stock and fixed income funds designed to minimize risk while maximizing expected portfolio returns. To achieve the long term rate of return, plan assets will be invested in a mixture of instruments, including but not limited to, corporate common stock, investment grade bond funds, small and large cap equity funds and international equity funds. The allocation of assets will be determined by the Investment Manager, and will typically include 50% to 70% equities, with the remainder invested in fixed income and cash. Presently, this diversified portfolio is expected to return approximately 8.50% in the long run.

The expected rate of return on plan assets was determined based upon a review of historical returns, both for our Retirement Plan and for medium to large-sized defined benefit pension funds with similar asset allocations. This review generated separate expected future long-term returns for each asset class listed in the above table. These expected future returns were then blended based upon our plan's target asset allocation.

BERKSHIRE BANCORP INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements (continued)

NOTE K - (continued)

Assumptions

Weighted-average assumptions used to determine benefit obligations were as follows at the dates indicated:

	December 31, 2003	December 31, 2002
Discount rate	6.60%	7.25%
Rate of compensation increase	5.00%	5.00%

Weighted-average assumptions used to determine net periodic benefit cost for the years ended December 31, 2003 and 2002 were as follows:

	December 31, 2003	December 31, 2002

Discount rate	7.25%	7.50%
Rate of compensation increase	5.00%	5.00%
Expected return on plan assets	8.50%	8.50%
Measurement date	1/1/2003	1/1/2002

A summary of the components of net periodic pension cost for the years ended December 31, 2003, 2002 and 2001 is as follows:

	December 31,		
	2003	2002	2001
Service cost-benefits earned during the period	$ 195,162	$ 48,883	$ 68,214
Interest cost on projected benefit obligation	107,211	98,897	103,364
Expected return on plan assets	(123,482)	(148,973)	(177,560)
Net amortization and deferral	43,208	18,370	10,913
Net pension cost/(income) of defined benefit plan	$ 222,099	$ 17,177	$ 4,931

NOTE K - (continued)

The following table sets forth the funded status and amounts recognized in the Company's balance sheet for its defined benefit plan at December 31, 2003 and 2002:

	December 31,	
	2003	2002
Actuarial present value of vested accumulated benefit obligations	$ 1,807,366	$ 1,435,631
Actuarial present value of accumulated benefit obligations	1,814,032	1,441,790
Projected benefit obligations	$(1,814,032)	$(1,441,790)
Fair value of plan assets	1,815,905	1,515,166

Excess of projected benefit obligation over fair value of plan assets	1,873	73,376
Unrecognized prior service cost	157,614	175,984
Unrecognized net loss	318,677	342,903
Prepaid pension cost, included in other assets	$ 478,164	$ 592,263

Estimated Future Benefit Payments

We estimate future benefit payments to be as follows:

Years	Benefit Payments
2004	$126,705
2005	131,683
2006	135,430
2007	165,311
2008	149,466
Years 2009-2013	892,049

Company Contributions

During the fiscal year ending December 31, 2004, the Company expects to contribute approximately $105,000 to its Retirement Plan.

NOTE K - (continued)

2. Former Goshen Bank Pension Plan

The Bank, as successor to Goshen Bank, had a non-contributory defined benefit pension plan covering substantially all of its employees. In the fourth quarter of 2000, the Goshen Bank froze its defined benefit pension plan and provided that there would be no further accruals under the plan. On October 24, 2002, the Board of Directors of the Bank approved the termination of this plan. In 2003, we paid out approximately $600,000 to complete the termination of this plan and purchase annuity contracts. Upon the notice of termination, all participant benefits vest 100%.

December 31, 2002

	(In thousands)
Change in benefit obligation	
Benefit obligation at beginning of year	$1,193
Service cost	--
Interest cost	84
Actual loss	85
Benefits paid	(91)
Benefits obligations at end of year	1,271
Change in plan assets	
Fair value of plan assets at beginning of year	1,309
Actual return on plan assets	(917)
Employer contribution	--
Benefits paid	(91)
Fair value of plan assets at end of year	1,127
Funded status	(144)
Unrecognized net actuarial loss	340
Prepaid benefit cost (included in other assets)	$ 196

Net pension cost included the following components:

	Year Ended December 31, 2003	2002	2001
	(In thousands)		
Service cost	$--	$ --	$ --
Interest cost on projected benefit obligation	--	84	85
Expected return on plan assets	--	(88)	(99)
Purchase accounting change	--	--	61
Net periodic benefit cost	$--	$ 4	$ 47

The assumed discount rate and rate of increase in future compensation levels used in determining the actuarial present value of the projected benefit obligation was 7.25% and 8.00% in 2002 and 2001, respectively.

NOTE K - (continued)

3. Postretirement Welfare Plan

In addition to pension benefits, the Bank, as successor to Goshen Bank provides certain health care and life insurance benefits for retired employees and their spouses. The postretirement health care and life insurance benefits plan was terminated for persons retiring after December 31, 1998. Eligible employees retired on or before that date will have benefits paid through the plan under the agreed upon terms existing at the employee's retirement date.

	December 31,	
	2003	2002
	(In thousands)	
Change in benefit obligation		
Benefit obligation at beginning of year	$ 718	$ 712
Service cost	--	--
Interest cost	47	50
Actual loss	2	9
Benefits paid	(52)	(53)
Benefits obligation at end of year	715	718
Change in plan assets		
Fair value of plan assets at beginning of year	--	--
Actual return on plan assets	--	--
Employer contribution	52	53
Benefits paid	(52)	(53)
Fair value of plan assets at end of year	--	--
Funded status	(715)	(718)
Unrecognized net actuarial loss	15	13
Accrued benefit cost (included in other liabilities)	$ 700	$ 705

Net benefit cost included the following components:

	Year Ended December 31,	
	2003	2002
	(In thousands)	
Service cost	$--	$--
Interest cost on projected benefit obligation	47	50
Actual return on plan assets	--	--
Net periodic benefit cost	$47	$50

The assumed discount rate used in determining the actuarial present value of the projected benefit obligation was 6.75% and 7.25% in 2003 and 2002, respectively.

BERKSHIRE BANCORP INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements (continued)

NOTE K - (continued)

4. 401(k) Plans

The Bank has a 401(k) plan in which employees can contribute up to 15% of their salary. The Bank also matches 50% of the employee contribution up to a maximum of 3% of the employee's salary.

Goshen Bank had a 401(k) profit sharing plan which covered substantially all employees of the Goshen Bank prior to the acquisition by Berkshire. Each employee could contribute up to 10% of their salary. Goshen Bank matched 100% of the employee contribution up to a maximum of 3% of the employee's salary. This plan was terminated and merged into the Bank's plan effective October 2001.

The matching expense was $76,000 for the year ended December 31, 2003, $105,000 for the year ended December 31, 2002, $57,000 for both the Bank and Goshen Bank plans for the year ended December 31, 2001.

5. Deferred Compensation Arrangements

GSB Financial and Goshen Bank established deferred compensation arrangements for certain directors and executives. These deferred compensation arrangements were terminated as a result of the acquisition. At December 31, 2003 and 2002, the balance accumulated under these arrangements was approximately $241,000 and $248,000, respectively, and will be paid out when the individual (i) ceases to be a director and/or executive of the Company; (ii) attains the age of 75; or (iii) specifies a particular date.

NOTE L - COMMITMENTS AND CONTINGENCIES

1. Leases and Other Commitments

The Company leases certain of its operating facilities under non-cancelable operating leases expiring in 2004 through 2012. The leases require payment by the Company of the real estate taxes and insurance on the leased properties. Approximate future minimum annual rental payments are as follows:

Year Ending December 31,	(In thousands)
2004	$ 533

2005	413
2006	292
2007	302
2008	166
Thereafter	509
	$2,215

Rental expense was approximately $699,000, $811,000 and $717,000 for the fiscal years ended December 31, 2003, 2002 and 2001, respectively. Included in rental expense was approximately $270,000, $255,000 and $255,000 for the fiscal years ended December 31, 2003, 2002 and 2001, respectively, which was paid to a company affiliated with a director of the Company.

NOTE M - FAIR VALUE OF FINANCIAL INSTRUMENTS

SFAS No. 107 requires disclosure of the estimated fair value of an entity's assets and liabilities considered to be financial instruments. For the Company, as for most financial institutions, the majority of its assets and liabilities are considered financial instruments as defined in SFAS No. 107. However, many such instruments lack an available trading market, as characterized by a willing

Note M - (continued)

buyer and seller engaging in an exchange transaction. Also, it is the Company's general practice and intent to hold its financial instruments to maturity and not to engage in trading or sales activities, except for certain loans. Therefore, the Company had to use significant estimations and present value calculations to prepare this disclosure.

Changes in the assumptions or methodologies used to estimate fair values may materially affect the estimated amounts. Also, management is concerned that there may not be reasonable comparability between institutions due to the wide range of permitted assumptions and methodologies in the absence of active markets. This lack of uniformity gives rise to a high degree of subjectivity in estimating financial instrument fair values.

Estimated fair values have been determined by the Company using the best available data and an estimation methodology suitable for each category of financial instruments. The estimation methodologies used, the estimated fair values, and recorded book balances at December 31, 2003 and 2002 are outlined below.

For cash and cash equivalents, the recorded book values of $9.31 million and $6.31 million at December 31, 2003 and 2002, respectively, approximate fair values. The estimated fair values of investment securities are based on quoted market prices, if available. Estimated fair values are based on quoted market prices of comparable instruments if quoted market prices are not available.

	December 31,			
	2003		2002	
	Carrying amount	Estimated fair value	Carrying amount	Estimated fair value