BERKSHIRE BANCORP INC /DE/
Form 10-K
March 26, 2003

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, 2002

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 (State or other jurisdiction of incorporation or organization)	94-2563513 (I.R.S. employer identification number)
160 Broadway, New York, New York (Address of principal executive offices)	10038 (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, 2002: $34,633,451.

Number of shares of Common Stock outstanding as of March 14, 2003: 2,237,976.

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 ("Berkshire", the "Company" or "we" and similar pronouns), is a bank holding company registered under the Bank Holding Company Act. 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. The Company has one wholly-owned banking subsidiary, The Berkshire Bank, a New York State chartered commercial bank (the "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 three 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 location.

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 on March 30, 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.

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 purchase price to Berkshire and the amounts owed to the Bank are being paid in the form of a note to be held by the Bank.

On March 30, 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, 2002, we have completed the transitional testing of our intangible assets, including goodwill. We did not identify any impairment on our outstanding goodwill.

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 Statement of Financial Accounting Standard No. 142.

	For The Year Ended December 31,		
	2002	2001	2000
	(In thousands, except per share amounts)		
Reported net income	$5,597	$3,299	$12,066
Add back: goodwill amortization	--	935	635
Adjusted net income	$5,597	$4,234	$12,701
Basic earnings per share:			
Reported basic earnings per share	$ 2.44	$ 1.41	$ 5.76
Goodwill amortization	--	.40	.30
Adjusted basic earnings per share	$ 2.44	$ 1.81	$ 6.06
Diluted earnings per share:			
Reported diluted earnings per share	$ 2.43	$ 1.41	$ 5.76
Goodwill amortization	--	.40	.30
Adjusted diluted earnings per share	$ 2.43	$ 1.81	$ 6.06

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.

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, 2002 and 2001, 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.

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, 2002 and 2001, the Bank's Tier I leverage capital ratio was 7.8% and 9.6%, 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, 2002 and 2001, the Bank maintained a 18.5% and 19.6% Tier I risk-based capital ratio and a 19.4% and 20.4% 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, 2002 and 2001, 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 2001 and 2002 calendar years totaled approximately $7.60 million. However, the ability of Berkshire to pay future dividends 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 2002 was equal to 0.0166% of its insured deposits and which is recorded as a deposit insurance premium expense for financial statement purposes. Beginning in 2003, the assessment was revised to 0.0168% 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, 2002, 2001 and 2000, the Company has been deemed to be a Personal Holding Company (a "PHC"), as defined in the Internal Revenue Code. As a PHC, we are 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 and November 17, 2000, the Board of Directors of the Company declared cash dividends in the amounts of $.04 and $.44 per common share, respectively. No such dividend was required to be paid in fiscal 2002. (See Dividends in Item 5).

Employees. On March 14, 2003, Berkshire had one full time employee and the Bank employed approximately 78 full time and 5 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 14, 2003:

	Approximate Floor Area	Approximate Annual	Lease

Location	Operations	(Sq. Ft.)	Rent	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	December 2002
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 a 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 ZAPS.

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, 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

	High	Low
Fiscal Year Ended December 31, 2001		
January 1, 2001 to March 31, 2001	34.25	27.438
April 1, 2001 to June 30, 2001	33.00	28.00
July 1, 2001 to September 30, 2001	31.25	25.57
October 1, 2001 to December 31, 2001	30.45	27.14

As of the close of business on March 14, 2003, there were approximately 2,151 holders of record of the Company's Common Stock.

Dividends

For the fiscal years ended December 31, 2002, 2001 and 2000, the Company has been deemed to be a Personal Holding Company (a "PHC"), as defined in the Internal Revenue Code. As a PHC, we are 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 and November 17, 2000, the Board of Directors of the Company declared cash dividends in the amounts of $.04 and $.44 per common share, respectively. No such dividend was required to be paid in fiscal 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 30,2000	April 14, 2000	April 28, 2000	$.10
September 25, 2000	October 10, 2000	October 24, 2000	$.10
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

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, 2002, 2001 and 2000, at and for the proforma twelve months ended December 31, 1999 and as of and for the fiscal year ended October 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,				October 31,
	2002	2001	2000	1999(b)	1999
	(Dollars in thousands, except per share data)				
Balance Sheet Data:					
Total Assets	$683,738	$536,365	$244,023	$192,130	$180,986
Loans, net	273,182	250,010	74,515	64,668	59,652
Investment securities	371,458	242,579	117,060	89,497	82,876
Goodwill, net	18,549	18,438	11,543	12,073	12,195
Deposits	473,818	338,776	137,647	104,087	102,318
Stockholders' equity	98,525	95,992	79,107	78,070	73,306
Interest income	32,242	24,941	14,019	9,852	8,525
Interest expense	13,416	11,877	5,184	3,101	2,548
Net interest income before provision for loan losses	18,826	13,064	8,835	6,751	5,977
Provision for loan losses	387	287	55	55	45
Net interest income	18,439	12,777	8,780	6,696	5,932
Investment securities gains	1,539	637	13,288	10,731	7,622
Other income	748	786	1,330	578	633
Other expenses	10,780	7,838	3,829	3,489	2,948
Amortization of goodwill	--	935	635	730	608
Income before income taxes	9,946	5,427	18,934	13,786	10,631
Provision for income taxes	4,349	2,128	6,868	5,527	4,091
Net income	$ 5,597	$ 3,299	$ 12,066	$ 8,259	$ 6,540

Net income per share:					
Basic	$ 2.44	$ 1.41	$ 5.76	$ 3.88	$ 3.08
Diluted	$ 2.43	$ 1.41	$ 5.76	$ 3.65	$ 2.89
Cash dividends per common share	$ .22	$ .24	$ .64	$ .32	$ .32
Selected Operating Ratios					
Return on average assets (c)	0.9%	0.8%	5.8%	7.0%	3.9%
Return on average equity (c)	5.9%	3.5%	14.9%	14.6%	6.2%
Net interest margin (c)	3.3%	3.6%	4.7%	4.9%	4.4%
Average equity/average assets	15.6%	23.8%	39.1%	47.9%	48.3%
Allowance for loan losses/total loans	0.8%	0.8%	1.5%	1.4%	1.5%

(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, 2002, 2001 and 2000. 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, 2002, the Company completed its transitional 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 Results of Operations

Overview

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, 2001 Compared to Fiscal Year Ended December 31, 2000. Net income was $3.30 million, or $1.41 per share, for the fiscal year ended December 31, 2001, compared to $12.07 million, or $5.76 per share, for the fiscal year ended December 31, 2000. Net income in fiscal 2000 was favorably impacted by a $13.29 million pre-tax gain on the sale of investment securities and by a gain of approximately $808,000 as a result of the successful settlement of certain prior year franchise tax issues.

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, 2002			Twelve Months December 31,	
	Average Balance	Interest and Dividends	Average Yield/Rate	Average Balance	Interest and Dividends
INTEREST-EARNING ASSETS:					
Loans (1)	$265,961	$18,723	7.04%	$195,296	$15,143
Investment securities	298,008	13,383	4.49	154,787	9,156

Other (2)(5)	8,479	136	1.60	15,215	642
Total interest-earning assets	572,448	32,242	5.63	365,298	24,941
Noninterest-earning assets	36,541			32,993	
Total Assets	$608,989			$398,291	
INTEREST-BEARING LIABILITIES:					
Interest bearing deposits	116,331	1,644	1.41	85,194	2,291
Time deposits	273,452	8,766	3.21	155,079	7,867
Other borrowings	86,210	3,006	3.49	36,510	1,719
Total interest-bearing liabilities	475,993	13,416	2.82	276,783	11,877
Demand deposits	30,102			21,857	
Noninterest-bearing liabilities	7,586			4,802	
Stockholders' equity (5)	95,308			94,849	
Total liabilities and stockholders' equity	$608,989			$398,291	
Net interest income		$18,826			$13,064
Interest-rate spread (3)			2.81%		
Net interest margin (4)			3.29%		
Ratio of average interest-earning assets to average interest bearing liabilities	1.20			1.32	

	Twelve Months Ended December 31, 2000		
	Average Balance	Interest and Dividends	Average Yield/Rate
INTEREST-EARNING ASSETS:			
Loans (1)	$ 70,357	$ 6,397	9.09%
Investment securities	90,918	6,381	7.01
Other (2)(5)	27,410	1,241	4.53
Total interest-earning assets	188,685	14,019	7.43
Noninterest-earning assets	18,237		
Total Assets	$206,922		

INTEREST-BEARING LIABILITIES:			
Interest bearing deposits	49,036	1,845	3.76
Time deposits	42,158	2,499	5.93
Other borrowings	14,277	840	5.88
Total interest-bearing liabilities	105,471	5,184	4.92
Demand deposits	14,848		
Noninterest-bearing liabilities	5,652		
Stockholders' equity (5)	80,951		
Total liabilities and stockholders' equity	$206,922		
Net interest income		$ 8,835	
Interest-rate spread (3)			2.51%
Net interest margin (4)			4.68%
Ratio of average interest-earning assets to average interest bearing liabilities	1.79		

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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, 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

	Twelve Months Ended December 31, 2001 Versus Twelve Months Ended December 31, 2000 Increase (Decrease) Due To		
	Rate	Volume	Total
Interest-earning assets:			
Loans	$ (943)	$ 9,689	$ 8,746
Investment securities	(991)	3,768	2,777
Other	(88)	(513)	(601)
Total	(2,022)	12,944	10,922
Interest-bearing liabilities:			
Deposit accounts:			
Interest bearing deposits	(525)	971	446
Time deposits	(363)	5,731	5,368
Other borrowings	(167)	1,046	879
Total	(1,055)	7,748	6,693

Net interest income	$ (967)	$ 5,196	$ 4,229

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 $59,000 of classified loans at December 31, 2002 and no loans classified as of December 31, 2001 and 2000.

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, 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.

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

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.

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 risks inherent in the banking business. 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, legal and 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.

Results of Operations Fiscal Year Ended December 31, 2001 Compared to Fiscal Year Ended December 31, 2000.

Net Income. Net income for the fiscal year ended December 31, 2001 was $3.30 million, or $1.41 per share, as compared to $12.07 million, or $5.76 per share, for the fiscal year ended December 31, 2000.

Net income in 2000 was favorably impacted by the pretax gain of $13.29 million on sales of the common stock of Elottery, Inc. and is not representative of the Company's ongoing business. The Company acquired its shares of Elottery, Inc. common stock as described below.

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. The declining interest rate environment that prevailed during 2001 was in contrast with the increasing interest rate environment that existed during 2000.

In fiscal 2001, net interest income increased by $4.22 million, or 47.74%, to $13.06 million from $8.84 million in fiscal 2000. The increase was the result of the growth in average interest-earning assets of $176.61 million, partially offset by the growth in average interest-bearing liabilities of $171.31 million. The increases in average interest-earning assets and interest-bearing liabilities were primarily due to the acquisition of GSB Financial on March 30, 2001. Net interest rate spread, the difference between the average yield on interest-earning assets and the average cost of interest bearing liabilities, improved slightly to 2.54% in 2001, from 2.51% in 2000. The increase in net interest rate spread resulted from a 63 basis point decrease in the average cost of interest-bearing liabilities to 4.29% in 2001, from 4.92% in 2000, partly offset by a 60 basis point decrease in the average yield on interest-earning assets to 6.83% in 2001, from 7.43% in 2000.

Net Interest Margin. Net interest margin, or annualized net interest income as a percentage of average interest-earning assets, was 3.58% for the fiscal year ended December 31, 2001 as compared to 4.68% for the fiscal year ended December

31, 2000. The decrease in net interest margin during fiscal 2001 was primarily due to the acquisition of GSB Financial whose loan portfolio is made up primarily of 1-4 family mortgage loans with annual yields less than previously earned by Berkshire and by the sharply declining interest rate environment. The decrease in net interest margin was partially offset by the increase in the average amounts of interest-earning assets to $365.30 million in fiscal 2001 from $188.66 million in fiscal 2000.

Interest Income. Total interest income for the fiscal year ended December 31, 2001 increased by $10.92 million, or 77.89%, to $24.94 million from $14.02 million for the fiscal year ended December 31, 2000. The increase was the result of a 93.63% increase in the average amounts of interest-earning assets in fiscal 2001, partially offset by a 60 basis point or 8.08% decrease in the average yield on interest-earning in fiscal 2001. The increase in the average amounts of interest-earning assets was due primarily to the acquisition of GSB Financial.

Interest income on loans increased by $8.74 million, or 136.56%, to $15.14 million in fiscal 2001, from $6.40 million in fiscal 2000. The increase is due to an increase of $124.94 million in average loans balances, partially offset by the decrease in the average yield on loans to 7.75% in fiscal 2001 from 9.09% in fiscal 2000. Interest income on investment securities increased $2.78 million, or 43.57%, to $9.16 million in 2001, from $6.38 million in 2000. The increase is due to an increase of $63.87 million in the average balance of investment securities, partially offset by a decrease in the average yield on investments to 5.92% in 2001, from 7.01% in 2000.

Interest Expense. Total interest expense for the fiscal year ended December 31, 2001 increased by $6.70 million, or 129.34%, to $11.88 million, from $5.18 million for the fiscal year ended December 31, 2000. The increase was the result of a $171.31 million increase in the average amounts of interest-bearing liabilities to $276.78 million in fiscal 2001 from $105.47 million in fiscal 2000, partially offset by the 63 basis point, 12.80% decrease in the average rate paid on interest-bearing liabilities to 4.29% in 2001 from 4.92% in 2000.

The increase in interest-bearing liabilities, comprised of interest bearing deposits, time deposits and borrowings, was attributable to the acquisition of GSB Financial and our strategy of employing excess capital to fund growth. The year to year increase in the overall costs of interest-bearing liabilities was partially offset by the declining interest rate environment during 2001, which serves to lower the rates paid by the Bank to attract and retain deposit accounts, and reduces the rates paid for borrowed funds.

Interest expense on interest-bearing deposits, money market and savings accounts, increased by approximately $446,000, or 23.78%, to $2.29 million for the 2001 fiscal year from $1.85 million for the 2000 fiscal year. The increase is due to higher average balances, $85.19 million in 2001 compared to $49.04 million in 2000, partially offset by a decrease in average rates paid on interest-bearing deposits to 2.69% from 3.76%. Interest expense on time deposits increased by $5.37 million, or 214.80%, to $7.87 million in 2001 from $2.50 million in 2000. The increase is due to an increase of $112.92 million, or 267.84%, in the average balance of time deposits to $155.08 million in fiscal 2001 from $42.16 million in fiscal 2000, partially offset by a decrease in the average rates paid, 5.07% in 2001 and 5.93% in 2000. Interest expense on borrowings increased by approximately $880,000, to $1.72 million in 2001, from $840,000 in 2001 due to higher average balances, $36.51 million compared to $14.28 million, partially offset by the lower average cost of borrowed funds.

Non-Interest Income. Non-interest income consists primarily of realized gains on sales of marketable securities, loan sales and service fee income. For the fiscal year ended December 31, 2001, total non-interest income was $1.42 million, compared to $14.62 million for the fiscal year ended December 31, 2000. Non-interest income in 2000 included $13.29 million of non-recurring realized gains on sales of marketable securities and $808,000 as a result of the successful settlement of certain prior year franchise tax issues.

Non-Interest Expense. Non-interest expense includes salaries and employee benefits, occupancy and equipment expenses, legal and professional fees, amortization of goodwill 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, 2001 was $8.77 million, compared to $4.46 million for the fiscal year ended December 31, 2000. The year to year increases are due primarily to increases of $2.03 million in salaries and employee benefits, $723,000 in occupancy expenses, $100,000 in equipment expenses and $300,000 in amortization expenses resulting from the acquisition of GSB Financial, and the amortization of the goodwill recorded in said acquisition.

Provision for Income Tax. During the fiscal year ended December 31, 2001, the Company recorded income tax expense of $2.13 million, compared to income tax expense of $6.87 million for the fiscal year ended December 31, 2000. The tax provisions for federal, state and local taxes recorded for fiscal 2001 and 2000 represent effective tax rates of 39.21% and 36.27%, respectively. The increase in the effective rate is due to the increase in non-deductible goodwill amortization relating to the acquisition of GSB Financial in 2001 and tax advantageous investment securities sold by the Company during 2000.

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 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 (Freddy Mac), the Federal National Mortgage Association (Fanny Mae) or the Government National Mortgage Association (Ginny 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,					
	2002		2001		2000	
	Cost	Fair Value	Cost	Fair Value	Cost	Fair Value
	(In thousands)					
Available-For-Sale						
U.S. Treasury Notes	$ 20,110	$ 20,213	$ 30,012	$ 30,038	$ --	$ --
U.S. Government Agencies	301,224	303,597	170,610	170,156	86,064	85,952
Mortgage-backed securities	6,256	6,262	2,493	2,499	4,208	4,199
Corporate notes	3,878	4,076	751	639	1,654	1,313
Marketable equity securities and other	36,383	36,477	37,547	37,634	4,813	4,845
Total	$367,851	$370,625	$241,413	$240,966	$96,739	$96,309
Held-To-Maturity						
U.S. Government Agencies	$ 833	$ 835	$ 1,613	$ 1,598	$ 296	$ 294
Corporate notes	--	--	--	--	20,455	20,408
Total	$ 833	$ 835	$ 1,613	$ 1,598	$20,751	$20,702

The following tables summarize the Company's available-for-sale and held-to-maturity securities at December 31, 2002 and 2001:

	December 31, 2002		
	Weighted Average Yield	Cost	Fair Value
	(Dollars in thousands)		
Available-For-Sale			
U.S. Treasury Notes			
Due after one year through five years	2.11%	$ 20,110	$ 20,213
		20,110	20,213
U.S. Government Agencies Obligations			
Due within one year		--	--
Due after one year through five years	3.96	120,681	121,562
Due after five years through ten years	4.67	127,261	128,369
Due after ten years	4.45	53,282	53,666
		301,224	303,597
Municipal Obligations			
Due after ten years	4.95	1,025	1,092
		1,025	1,092
Mortgage-backed securities			
Due after ten years	7.03	6,256	6,262
		6,256	6,262
Corporate Notes			
Due within one year	6.41	1,078	1,051
Due after one year through five years	32.14	2,676	3,022
Due after five years through ten years	15.29	124	3
		3,878	4,076
Common Stocks	--	50	51
Preferred Stocks	9.71	3,098	3,124
Money market funds	1.39	29,325	29,325
Federal Home Loan Bank Stock	5.58	2,885	2,885
		35,358	35,385
		$367,851	$370,625
Held-To-Maturity			
U.S. Government Agencies Obligations			
Due after five years through ten years	3.33	168	169
Due after ten years	6.37	665	666
		$ 833	$ 835

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, 2002, 2001 and 2000 , the Company had total loans of $276.25 million, $252.23 million and $75.62 million, respectively, and an allowance for loan losses of $2.32 million, $2.03 million and $1.11 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, 2002 and 2001, approximately $180.73 million and $165.20 million, respectively, or 65.4% and 65.5%, respectively, of the Company's total loan portfolio consisted of such loans as compared to approximately $25.68 million, or 34.0%, at December 31, 2000. The increase is due largely to the March 2001 acquisition of GSB Financial, whose loan portfolio consisted primarily of residential mortgage

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, 2002 and 2001, approximately 10% and 13%, respectively, of the Bank's residential one-to-four family owner-occupied first mortgage portfolio were ARMs and approximately 88% and 87%, 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, 2002, the Bank's total capital, net of goodwill and loan loss reserves, was approximately $53.7 million and thus it was generally not permitted to make loans to one borrower in excess of approximately $8.1 million, with an additional amount of approximately $5.4 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 $8.1 million. At December 31, 2002, 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,					
	2002		2001		2000	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
	(Dollars in thousands)					
Commercial and professional loans	$ 16,704	6.0%	$ 19,130	7.6%	$ 9,419	12.5%
Secured by real estate						
1 - 4 family	180,730	65.4	165,195	65.5	25,677	34.0
Multi family	8,958	3.2	11,186	4.4	4,765	6.3
Non-residential (commercial)	65,809	23.8	51,893	20.6	34,968	46.2
Consumer	4,051	1.6	4,689	1.8	229	0.3
Other	--	--	140	0.1	565	0.7
Total loans	276,252	100.0%	252,233	100.0%	75,623	100.0%
Less:						
Allowance for loan losses	(2,315)		(2,030)		(1,108)	
Unearned fees	(755)		(193)		(275)	
Loans, net	$273,182		$250,010		$74,240	

	October 31,			
	1999 (1)		1998 (1)	
	(Dollars in thousands)			
	Amount	% of Total	Amount	% of Total
Commercial and professional loans	$ 6,824	11.3%	$ 3,548	8.9%
Secured by real estate	51,300	84.7	33,015	82.9
Personal	1,932	3.2	1,970	5.0
Other	501	0.8	1,264	3.2
Total loans	60,557	100.0%	39,797	100.0%
Less:				
Allowance for loan losses	(905)		(803)	
Loans, net	$59,652		$38,994	

(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 approximately $0 and $58,000 of loans past due more than 90 days still accruing at December 31, 2002 and 2001, respectively.

	December 31,			October 31,	
	2002	2001	2000	1999(1)	1998(1)
	(Dollars in thousands)				
Nonaccrual loans:					
Commercial and professional loans	$	$ 9	$--	$ --	$ --
Secured by real estate	59	--	--	121	30

Total nonaccrual loans	59	9	--	121	30
Total nonperforming loans	$59	$ 9	$--	$121	$ 30
Total nonperforming loans to total assets	--	--	--	.07%	.08%

(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, 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.

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	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.

	October 31, 1998(2)		
	Allowance for Loan Losses	Percent of Allowance	Percent of Total Loans
Commercial and professional loans	$ 35	4.4%	0.09%
Secured by real estate	394	49.1	0.99
Personal and other	34	4.2	0.09
General allowance (1)	340	42.3	0.85
Total allowance for loan losses	$803	100.0%	2.02%

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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 table sets 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, 2002			
	Within 1 Year	1 to 5 Years	After 5 Years	Total
	(In thousands)			
Fixed Rate				
Commercial, financial and agricultural	$ 2,204	$ 8,083	$20,858	$31,145
Real estate-construction	--	1,099	386	1,485
Total fixed rate	$ 2,204	$ 9,182	$21,244	$32,630

Adjustable Rate				
Commercial, financial				
and agricultural	31,784	6,723	100	38,607
Real estate-construction	506	2,350	--	2,856
Total adjustable rate	$32,290	$ 9,073	$ 100	$41,463
Total	$34,494	$18,255	$21,344	$74,093

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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,	Year Ended October 31 (1)
	2002	2001	2000	1999	1999
Average loans outstanding	$265,961	$195,296	$70,357	$61,691	$48,387
Allowance at beginning of period	2,030	1,108	923	905	803
Charge-offs:					
Commercial and other loans	199	97	--	--	--
Real estate loans	--	--	--	--	31
Total loans charged-off	199	97	--	--	31
Recoveries:					
Commercial and other loans	97	41	130	8	78
Real estate loans	--	--	--	--	--
Total loans recovered	97	41	130	8	78
Net recoveries (charge-offs)	(102)	(56)	130	8	47
Provision for loan losses charged to operating expenses	387	287	55	10	55
Acquisition of GSB	--	691	--	--	--
Allowance at end of period	$ 2,315	$ 2,030	$ 1,108	$ 923	$ 905
Ratio of net recoveries (charge-offs) to average loans outstanding (2)	(.03)%	(.02)%	.18%	.08%	.09%
Allowance as a percent of total loans	0.83%	0.80%	1.47%	1.41%	1.49%

Total loans at end of period	$276,252	$252,233	$75,623	$65,591	$60,557

(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,					
	2002		2001		2000	
	Average Amount	Average Yield	Average Amount	Average Yield	Average Amount	Average Yield
	(Dollars in thousands)					
Demand deposits	$ 30,102	--	$ 21,857	--	$ 14,848	--
NOW and money market	60,114	1.28%	51,026	2.64%	44,582	3.85%
Savings deposits	56,217	1.56	34,168	2.69	4,454	2.93
Time deposits	273,452	3.21	155,079	5.07	42,158	5.93
Total deposits	$419,885	2.48%	$262,130	3.89%	$106,042	4.08%

The aggregate amount of jumbo certificates of deposit, each with a minimum denomination of $100,000, was approximately $108.72 million, $68.88 million and $55.32 million at December 31, 2002, 2001 and 2000, respectively.

The following table summarizes the maturity distribution of time deposits of $100,000 or more as of the dates indicated:

	December 31, 2002
	(In thousands)
3 months or less	$ 44,472
Over 3 months but within 6 months	36,898
Over 6 months but within 12 months	25,624
Over 12 months	1,727
Total	$108,721

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:

	Year Ended December 31,		
	2002	2001	2000
	(Dollars in thousands)		
Securities sold under repurchase agreements and federal funds purchased			
Balance at year-end	$46,673	$53,756	$23,127
Average during the year	$38,443	$13,372	$12,367
Maximum month-end balance	$47,407	$53,756	$24,495
Weighted average rate during the year	1.79%	3.62%	5.85%
Rate at December 31	1.46%	1.67%	5.75%

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 $.22 per share, $.24 per share, $.64 per share, $.32 per share and $.72 per share in fiscal 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, 2002, we had cash of $7.44 million and investment securities of $6.15 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, 2002.

	Expiration By Period				
	Total	Less Than 1 Year	1-3 Years	3-5 Years	More Than 5 Years
	(In thousands)				
Lines of Credit	$ 7,624	$2,231	$4,652	$ --	$ 741
Standby Letters of Credit	750	408	342	--	--
Loan Commitments	2,243	2,243			
Home Equity Unused Commitments	3,565	174	835	675	1,881
Total	$14,182	$5,056	$5,829	$675	$2,622

Contractual Obligations

The following table presents the Company's contractual obligations at December 31, 2002.

Payments Due By Periods

	Total	Less Than 1 Year	1-3 Years	3-5 Years	More Than 5 Years
	(In thousands)				
Long-Term Debt	$ 57,699	$ 500	$ 1,000	$42,199	$14,000
Operating Leases	3,118	900	947	595	676
Time Deposits	311,979	299,691	12,230	58	--
Total Contractual Obligations	$372,796	$301,091	$14,177	$42,852	$14,676

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.

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, 2
(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	127	--	--	--	127
(Rate)	1.25%				1.25%
Loans (1)(2)					
Adjustable rate loans	42,397	10,654	9,656	12,423	75,130
(Rate)	5.90%	5.82%	5.51%	7.71%	6.14%
Fixed rate loans	577	3,062	8,811	188,672	201,122
(Rate)	6.98%	8.00%	7.52%	6.96%	7.00%
Total loans	42,974	13,716	18,467	201,095	276,252
Investments (3)(4)	79,964	1,261	75,898	211,398	368,521
(Rate)	2.62%	6.23%	4.20%	4.99%	4.32%
Total rate-sensitive assets	123,065	14,977	94,365	412,493	644,900
Deposit accounts (5)					
Savings and NOW	90,653	--	--	--	90,653
(Rate)	1.46%				1.46%
Money market	39,866	--	--	--	39,866
(Rate)	1.13%				1.13%
Time Deposits	111,868	187,823	12,275	13	311,979
(Rate)	2.65%	2.85%	2.90%	2.47%	2.78%
Total deposit accounts	242,387	187,823	12,275	13	442,498
Repurchase Agreements	41,673	5,000	--	--	46,673
(Rate)	1.49%	1.20%			1.46%
Other borrowings	500	--	1,000	56,199	57,699
(Rate)	6.09%		5.90%	4.56%	4.60%
Total rate-sensitive liabilities	284,560	192,823	13,275	56,212	546,870
Interest rate caps	20,000	--	(10,000)	(10,000)	
Gap (repricing differences)	(181,495)	(177,846)	91,090	366,281	98,030
Cumulative Gap	(181,495)	(359,341)	(268,251)	98,030	
Cumulative Gap to Total Rate Sensitive Assets	(28.14)%	(55.72)%	(41.60)%	15.20%	

----

(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

Business Combinations

The Financial Accounting Standards Board (FASB) issued SFAS No. 147, Acquisitions of Certain Financial Institutions: An amendment of FASB Statements No. 72 and 144 and FASB Interpretation No 9, which removes acquisitions of financial institutions from the scope of SFAS 72, Accounting for Certain Acquisitions of Banking or Thrift Institutions. SFAS No. 147 also requires that the acquisition of a less-than-whole financial institution, such as a branch, be accounted for as a business combination if the transferred assets and activities constitute a business. The adoption on October 1, 2002 of SFAS No. 147 did not have an impact on the Company's financial position or results of operations.

Goodwill and Intangible Assets

Statement of Financial Accounting Standard ("SFAS") No. 141, Business Combinations ("SFAS No. 141"), and SFAS No. 142, Goodwill and Intangible Assets ("SFAS No. 142") was adopted on January 1, 2002. 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. As a result of the adoption of SFAS No. 142, Berkshire eliminated the amortization of goodwill as of January 1, 2002. The Company has completed the transitional impairment testing and did not identify any impairment on its outstanding goodwill.

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 Statement of Financial Accounting Standard No. 142.

	For The Year Ended December 31, 2002	2001	2000
	(In thousands, except per share amounts)		
Reported net income	$5,597	$3,299	$12,066
Add back: goodwill amortization	--	935	635
Adjusted net income	$5,597	$4,234	$12,701
Basic earnings per share:			
Reported basic earnings per share	$ 2.44	$ 1.41	$ 5.76
Goodwill amortization	--	.40	.30
Adjusted basic earnings per share	$ 2.44	$ 1.81	$ 6.06
Diluted earnings per share:			
Reported diluted earnings per share	$ 2.43	$ 1.41	$ 5.76
Goodwill amortization	--	.40	.30
Adjusted diluted earnings per share	$ 2.43	$ 1.81	$ 6.06

Accounting for Stock Based Compensation

SFAS No. 148 "Accounting for Stock Based Compensation-Transition and Disclosure", which amends the disclosure and certain provisions of SFAS No. 123, was issued in December 2002. SFAS No. 148 requires all entities with stock based employee compensation arrangements to provide additional disclosures in their summary of significant accounting policies note. The new interim period disclosures are required in financial statements for interim periods beginning after December 15, 2002.

		For The Years Ended December 31, 2002	2001	2000
		(In thousands, except per share amounts)		
Net income	As Reported:	$5,597	$3,299	$12,066

Less: Stock based compensation costs determined under fair value methods for all awards		680	316	618
	Pro Forma:	$4,917	$2,983	$11,448
Basic earnings per share	As Reported:	$ 2.44	$ 1.41	$ 5.76
	Pro Forma:	2.14	1.28	5.46
Diluted earnings per share	As Reported:	2.43	1.41	5.76
	Pro Forma:	2.14	1.28	5.46

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 and 2000, expected volatility of 22%, and 25%, respectively, risk-free interest of 5.34% and 6.37%, respectively, and expected lives of 5 years for all years. The Company did not grant options in 2002.

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 Certifieds 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, 2002 and 2001, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2002. 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, 2002 and 2001, and the consolidated results of their operations and their consolidated cash flows for each of the three years ended December 31, 2002 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
January 31, 2003

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

	December 31, 2002	December 31, 2001
ASSETS		
Cash and due from banks	$ 6,183	$ 7,170
Interest bearing deposits	127	213
Federal funds sold	--	3,000
Total cash and cash equivalents	6,310	10,383
Investment Securities:		
Available-for-sale	370,625	240,966
Held-to-maturity, fair value of $835 in 2002 and $1,598 in 2001	833	1,613
Total investment securities	371,458	242,579
Loans, net of unearned income	275,497	252,040
Less: allowance for loan losses	(2,315)	(2,030)
Net loans	273,182	250,010
Accrued interest receivable	4,106	3,399
Premises and equipment, net	8,976	7,446
Goodwill, net of accumulated amortization of $2,300 in 2001	18,549	18,438
Other assets	1,157	4,110
Total assets	$683,738	$536,365

LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Non-interest bearing	$ 31,320	$ 30,163
Interest bearing	442,498	308,613
Total deposits	473,818	338,776
Securities sold under agreements to repurchase	46,673	53,756
Long term borrowings	57,699	42,278
Accrued interest payable	3,348	2,406
Other liabilities	3,675	3,157
Total liabilities	585,213	440,373
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, 2002, 2,237,976 shares December 31, 2001, 2,379,990 shares	256	256
Additional paid-in capital	89,890	89,914
Retained earnings	16,145	11,053
Accumulated other comprehensive income (loss), net	1,480	(281)
Treasury Stock December 31, 2002, 328,119 shares December 31, 2001, 186,105 shares	(9,246)	(4,950)
Total stockholders' equity	98,525	95,992
	$683,738	$536,365

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,		
	2002	2001	2000
INTEREST INCOME			
Federal funds sold and interest bearing			

deposits	$ 136	$ 642	$ 1,241
Investments	13,383	9,156	6,381
Loans, including related fees	18,723	15,143	6,397
Total interest income	32,242	24,941	14,019
INTEREST EXPENSE			
Deposits	10,410	10,158	4,344
Short-term borrowings	687	483	723
Long-term borrowings	2,319	1,236	117
Total interest expense	13,416	11,877	5,184
Net interest income	18,826	13,064	8,835
PROVISION FOR LOAN LOSSES	387	287	55
Net interest income after provision for loan losses	18,439	12,777	8,780
NON-INTEREST INCOME			
Service charges on deposit accounts	548	395	146
Investment securities gains	1,539	637	13,288
Other income	200	391	1,184
Total non-interest income	2,287	1,423	14,618
NON-INTEREST EXPENSE			
Salaries and employee benefits	5,183	4,153	2,125
Net occupancy expense	1,625	1,170	447
Equipment expense	312	201	101
FDIC assessment	66	42	27
Data processing expense	193	138	21
Amortization of goodwill	--	935	635
Other	3,401	2,134	1,108
Total non-interest expense	10,780	8,773	4,464
Income before provision for taxes	9,946	5,427	18,934
Provision for income taxes	4,349	2,128	6,868
Net income	$ 5,597	$ 3,299	$12,066
Net income per share:			
Basic	$ 2.44	$ 1.41	$ 5.76
Diluted	$ 2.43	$ 1.41	$ 5.76
Dividends per share	$ .22	$ .24	$ .64

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, 2002, 2001 and 2000
(In Thousands)

	Common Shares	Stock Par value	Additional paid-in capital	Accumulated other comprehensive income (loss), net	Accumu-lated earnings (deficit)	Treasury stock
Balance at January 1, 2000	2,566	$256	$78,570	$ 4,425	$ (2,421)	$(2,760)
Net income					12,066	
Treasury shares issued for options exercised			(21)			49
Acquisition of treasury shares						(5,254)
Other comprehensive (loss) net of reclassification adjustment and taxes				(4,510)		
Comprehensive income						
Cash dividends					(1,293)	
Balance at December 31, 2000	2,566	$256	$78,549	$ (85)	$ 8,352	$(7,965)
Net income					3,299	
Treasury shares issued for acquisition of GSB Financial Corp			11,386			7,887
Acquisition of treasury shares						(4,983)
Treasury shares issued for options exercised			(21)			111
Other comprehensive (loss) net of reclassification adjustment and taxes				(196)		
Comprehensive income						
Cash dividends					(598)	
Balance at December 31, 2001	2,566	$256	$89,914	$ (281)	$ 11,053	$(4,950)
Net income					5,597	
Acquisition of treasury shares						(4,422)
Exercise of stock options			(24)			126
Other comprehensive income net of reclassification adjustment and taxes				1,761		
Comprehensive income						
Cash dividends					(505)	
Balance at December 31, 2002	2,566	$256	$89,890	$ 1,480	$ 16,145	$(9,246)

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,		
	2002	2001	2000
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$ 5,597	$ 3,299	$ 12,066
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Realized gain on investment securities	(1,539)	(637)	(13,288)
Depreciation and amortization	414	1,197	740
Provision for loan losses	387	287	55
Increase in deferred taxes	133	(426)	1,522
CHANGES IN ASSETS AND LIABILITIES:			
(Increase) decrease in accrued interest receivable	(707)	(659)	259
Decrease (increase) other assets	2,760	1,320	(81)
Increase (decrease) in accrued interest payable and other liabilities	1,316	616	(1,692)
Net cash provided by (used in) operating activities	8,361	4,997	(419)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Investment in Madison Merchant Services, Inc.	--	--	(285)
Investment in The Berkshire Bank	--	--	(105)
Cash paid for business acquired	--	(20,222)	--
Cash of entities acquired	--	6,047	--
Investment securities available for sale			
Purchases	(1,729,416)	(461,048)	(84,247)
Sales	1,603,261	359,278	77,212
Investment securities held to maturity			
Purchases	--	(167,800)	(19,909)
Maturities	780	187,724	4,157
Net increase in loans	(23,559)	(42,003)	(9,991)
Acquisition of premises and equipment	(2,055)	(4,138)	(93)
Net cash (used in) investing activities	(150,989)	(142,162)	(33,261)

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

	For The Years Ended December 31, 2002	2001	2000
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net increase (decrease) in non interest bearing deposits	1,157	15,654	(1,040)
Net increase in interest bearing deposits	133,885	57,611	34,600
(Decrease) increase in securities sold under agreements to repurchase	(7,083)	30,629	23,127
Issuance of long term debt	34,923	24,778	--
Repayment of long term debt	(19,502)	(12,000)	--
Acquisition of treasury stock	(4,422)	(4,983)	(5,254)
Proceeds from exercise of common stock options	102	90	28
Dividends paid	(505)	(598)	(1,293)
Net cash provided by financing activities	138,555	111,181	50,168
Net (decrease) increase in cash and cash equivalents	(4,073)	(25,984)	16,488
Cash and cash equivalents at beginning of year	$ 10,383	36,367	19,879
Cash and cash equivalents at end of year	$ 6,310	$ 10,383	$36,367
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:			
Cash used to pay interest	$ 12,474	$ 10,804	$ 4,012
Cash used to pay income taxes	$ 5,692	$ 1,637	$ 7,163

The accompanying notes are an integral part of these statements

BERKSHIRE BANCORP INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
December 31, 2002 and 2001

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 one branch 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 periods 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.

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

Note A - (continued)

	For The Year Ended December 31,	
	2001	2000
	(In thousands)	
Interest income	$31,499	$26,019
Interest Expense	15,396	12,227
Net interest income	16,103	13,792
Provision for loan losses	547	190
Non-interest income	1,696	15,321
Non-interest expense	11,007	8,916
Net income	$ 3,427	$12,531

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 Berkshire Bank (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

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.

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.

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.

NOTE B - (continued)

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.

On July 6, 2001, the Securities and Exchange Commission (the "SEC") issued 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.

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. SFAS No. 144 also changes the requirements relating to reporting the effects of a disposal or discontinuation of a segment of a business. 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 years ended December 31, 2001 and 2000 was approximately $935,000 and $635,000, respectively.

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

NOTE B - (continued)

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,		
	2002	2001	2000
	(In thousands, except per share amounts)		
Reported net income	$5,597	$3,299	$12,066
Add back: goodwill amortization	--	935	635
Adjusted net income	$5,597	$4,234	$12,701
Basic earnings per share:			
Reported basic earnings per share	$ 2.44	$ 1.41	$ 5.76
Goodwill amortization	--	.40	.30
Adjusted basic earnings per share	$ 2.44	$ 1.81	$ 6.06
Diluted earnings per share:			
Reported diluted earnings per share	$ 2.43	$ 1.41	$ 5.76
Goodwill amortization	--	.40	.30
Adjusted diluted earnings per share	$ 2.43	$ 1.81	$ 6.06

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.

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

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, 2002, 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, (In thousands, except per share amounts)		
		2002	2001	2000
Net income	As Reported:	$5,597	$3,299	$12,066
Less: Stock based compensation costs determined under fair value methods for all awards		680	316	618
	Pro Forma:	$4,917	$2,983	$11,448
Basic earnings per share	As Reported:	$ 2.44	$ 1.41	$ 5.76
	Pro Forma:	2.14	1.28	5.46
Diluted earnings per share	As Reported:	2.43	1.41	5.76
	Pro Forma:	2.14	1.28	5.46

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 and 2000, expected volatility of 22%, and 25%, respectively, risk-free interest of 5.34% and 6.37%, respectively, and expected lives of 5 years for all years. The Company did not grant options in 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.

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 $1,155,000, $900,000 and $1,032,000 at December 31, 2002, 2001 and 2000, respectively.

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

NOTE B - (continued)

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, 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

	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)

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

Note B - (continued)

	Year Ended December 31, 2000		
	Before tax amount	Tax (expense) benefit	Net of tax Amount
Unrealized gains (losses) on investment securities:			

Unrealized holding gains arising during period	$ 4,898	$(1,435)	$ 3,463
Less reclassification adjustment for gains realized in net income	13,288	(5,315)	7,973
Other comprehensive loss, net	$(8,390)	$ 3,880	$(4,510)

13. Reclassifications

Certain amounts in the December 31, 2001 and 2000 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, 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

	December 31, 2001			
	Amortized Cost	Gross unrealized gains	Gross unrealized losses	Fair value
	(In thousands)			
Investment securities				
U.S. Government Agencies	$1,613	$8	$(23)	$1,598
Totals	$1,613	$8	$(23)	$1,598

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

NOTE C - (continued)

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

	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

	December 31, 2001			
	Amortized Cost	Gross unrealized gains	Gross unrealized losses	Fair value
	(In thousands)			
Investment securities				
U.S. Treasury and Notes	$ 30,012	$ 34	$ (8)	$ 30,038
U.S. Government Agencies	170,610	589	(1,043)	170,156
Mortgage-backed securities	2,493	6	--	2,499
Corporate notes	751	1	(113)	639
Marketable equity securities and other	37,547	87	--	37,634
Totals	$241,413	$717	$(1,164)	$240,966

The amortized cost and fair value of investment securities available for sale and held to maturity, by contractual maturity, at December 31, 2002 and 2001 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, 2002			
	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(In thousands)			
Due in one year or less	$ 1,078	$ 1,051	$ --	$ --
Due after one through five years	143,467	144,797	--	--
Due after five through ten years	127,385	128,372	168	169
Due after ten years	59,538	59,928	665	666
Marketable equity securities and other	36,383	36,477	--	--
Totals	$367,851	$370,625	$833	$835

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

NOTE C - (continued)

Gross gains realized on the sales of investment securities for the years ended December 31, 2002, 2001 and 2000 were $1.54 million, $637,000 and $13.29 million, respectively. Losses were not material for these periods.

As of December 31, 2002 and 2001, securities sold under agreements to repurchase with a book value of approximately $64.84 million and $56.75 million, respectively, were outstanding. As of December 31, 2002 and 2001, 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 this company which are being repaid as a result of this transaction. The purchase price to Berkshire and the amounts owed to the Bank are being paid in the form of a note to be held by the Bank.

Common Stock of Executone Information Systems, Inc.

In 1995, Unistar Gaming Corp. ("UGC") acquired Unistar Entertainment, Inc., a privately held Colorado corporation ("Unistar"). As a result of the acquisition, approximately 27.5% of the outstanding Common Stock of UGC (the "UGC Common Stock") was owned by the Company, and approximately 72.5% of the UGC Common Stock was owned by the former stockholders of Unistar. Unistar held an exclusive contract with the Coeur d'Alene Indian Tribe in Idaho to develop and manage what would be the first national lottery in the United States. The shares of UGC Common Stock which were owned by the Company were purchased for approximately $5 million comprised primarily of cash, portfolio securities and a note payable. In December 1995, the Company increased its stake in UGC to approximately 31.5% by purchasing an additional 400,000 shares of UGC Common Stock from a UGC stockholder for a cash purchase price of $.50 per share.

In December 1995, the Company sold its minority equity interest in Unistar Gaming Corp. ("UGC") to Executone, a Virginia corporation whose common stock trades on the NASDAQ National Market System. The Company's investment in UGC was approximately $5.2 million.

In exchange for its interest in UGC, the Company received shares of Executone Common Stock, all of which were sold in open market transactions during 1998, and shares of Executone Series A and Series B Preferred Stock (the "Executone Preferred Stock"). In 1997, the Company fully reserved the carrying value, approximately $2.1 million, of its shares of Executone Preferred Stock and recorded a deferred tax asset of $925,000.

In March 1999, Executone exercised its right to redeem and convert the Executone Preferred Stock into Executone Common Stock and on April 6, 1999, in exchange for its shares of Executone Preferred Stock, the Company received 4,193,204 shares of Executone Common Stock with a market value of approximately $17.7 million.

At December 31, 2002 and 2001, the Company owned 130,000 shares of Executone Common Stock which have been classified as available-for-sale securities, all other shares having been sold during 1999 and 2000.

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

NOTE D - LOANS

Major classifications of loans are as follows:

	December 31, 2002	December 31, 2001
	(In thousands)	
Commercial and professional loans	$ 16,704	$ 19,130
Secured by real estate		
1 - 4 family	180,730	165,195
Multi family	8,958	11,186
Non-residential	65,809	51,893
Consumer	4,051	4,689
Other	--	140
	276,252	252,233

Deferred loan fees	(755)	(193)
Allowance for loan losses	(2,315)	(2,030)
	$273,182	$250,010

Changes in the allowance for loan losses are as follows:

	For The Years Ended December 31,		
	2002	2001	2000
	(In thousands)		
Balance at beginning of year	$2,030	$1,108	$ 923
Provision charged to operations	387	287	55
Loans charged off	199	97	--
Recoveries	97	41	130
Acquisition of GSB Financial Corp	--	691	--
Balance at end of year	$2,315	$2,030	$1,108

The Company had $59,000, $9,000 and $0 non accrual loans as of December 31, 2002, 2001 and 2000, respectively. The Company did not have any impaired loans as of December 31, 2002, 2001 and 2000. The Company had approximately $0, $58,000 and $0 of loans past due more than 90 days and still accruing interest as of December 31, 2002, 2001 and 2000, 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, 2002, loans to these related parties amounted to $13.9 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, 2002, resulted in new loans of $5.2 million and repayments of approximately $369,000.

NOTE E - PREMISES AND EQUIPMENT

Major classifications of premises and equipment are summarized as follows:

	Estimated useful lives	December 31, 2002	December 31, 2001
		(In thousands)	
Land	Indefinite	$ 1,817	$ 1,817
Buildings	39 years	838	838
Furniture and equipment	3 to 10 years	2,196	1,594
Leasehold improvements	2 to 10 years	612	585
Construction in progress		5,056	3,765
		10,519	8,599
Accumulated depreciation and amortization		(1,543)	(1,153)
Total		$ 8,976	$ 7,446

Depreciation and amortization expense was approximately $279,000, $249,000 and $104,000 for the years ended December 31, 2002, 2001 and 2000, respectively.

NOTE F - DEPOSITS

The aggregate amount of jumbo certificates of deposits greater than $100,000 were approximately $108.72 million, $68.88 million and $55.32 million as of December 31, 2002, 2001 and 2000, respectively.

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

	December 31, 2002
	(In thousands)
2003	$299,691
2004	12,167
2005	63
2006	46
2007	12
	$311,979

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,		
	2002	2001	2000
	(Dollars in Thousands)		
Securities sold under repurchase agreements and federal funds purchased			
Balance at year-end	$46,673	$53,756	$23,127
Average during the year	$38,433	$13,372	12,367
Maximum month-end balance	$47,407	$53,756	24,495
Weighted average rate during the year	1.79%	3.62%	5.85%
Rate at December 31	1.46%	1.67%	5.75%

Long-Term Borrowings At December 31, 2002, advances from the Federal Home Loan Bank ("FHLB") totaling $57,699,000 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 4.69%. Unused lines of credit at the FHLB were $33.21 million at December 31, 2002.

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

Year	Amount
2003	$ 500
2004	0
2005	1,000
2006	7,935
2007	34,264
Thereafter	14,000
Total	$57,699

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, 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

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

NOTE H - (continued)

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.

	Year Ended December 31, 2000 (in thousands, except per share data)		
	Income (numerator)	Shares (denominator)	Per share amount
Basic earnings per share			
Net income available to common stockholders	$12,066	2,095	$5.76
Effect of dilutive securities			
Options	--	1	--
Diluted earnings per share			
Net income available to common stockholders plus assumed conversions	$12,066	2,094	$5.76

Options to purchase 48,875 shares of common stock for $31.75 to $38.00 per share were outstanding during the year ended December 31, 2000. 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,		
	2002	2001	2000
Current	$4,216,000	$1,702,000	$ 8,390,000
Deferred Taxes (Benefit)	133,000	426,000	(1,522,000)
	$4,349,000	$2,128,000	$ 6,868,000

A reconciliation of the provision for income taxes for the years ended December 31, 2002, 2001 and 2000 and the amount computed by applying the statutory Federal income tax rate to income from continuing operations follows:

	Years Ended December 31,		
	2002	2001	2000
Effective Tax Reconciliation			
Tax at statutory rate	$3,381,000	$1,846,000	$6,438,000
State and City, net of federal income tax benefit	940,000	612,000	756,000
Nondeductible expenses, including goodwill	--	217,000	(144,000)
Tax exempt income	(53,000)	(44,000)	(182,000)
Other	81,000	(503,000)	--
Actual provision for income taxes	$4,349,000	$2,128,000	$6,868,000

The tax effect of the principal temporary differences at December 31, 2002 and 2001 are as follows:

	December 31,	
	2002	2001
Net deferred tax assets		
Net operating losses	$ --	$ 107,000
Loan loss provision	1,095,000	973,000
Depreciation	20,000	33,000
Other	(15,000)	120,000
Unrealized loss, minimum pension liability adjustment	136,000	--
Unrealized (gain) loss on investment securities	(1,124,000)	132,000
Net deferred tax asset included in other assets	$ (112,000)	$1,365,000

As a result of the acquisition of GSB Financial, the Company computed a net deferred tax asset of approximately $556,000 which included a deferred tax liability on unrealized holding gains of $48,000 during 2001.

NOTE J - ESTIMATED TAX LIABILITIES

The Company was a party to a tax sharing agreement, as amended, (the "Tax Sharing Agreement") with The Cooper Companies, Inc. ("TCC") and Cooper Development Company ("CDC") related to the Cooper Labs, Inc. ("CLI") liquidation on June 27, 1985. The above companies agreed that: (i) in the event that the amount of tax liability, including interest and penalties, shall be ultimately determined to be greater or less than $10,000,000, then such excess or deficiency shall be shared 50%, 25%, and 25% by TCC, CDC, and the Company, respectively, and (ii) they are jointly and severally liable. Since 1985, the Company has adjusted its accrual for interest charges related to potential assessments. On July 18, 2000, the Company was notified that all remaining issues covered by the Tax Sharing Agreement had been resolved. Based upon the information available and after consultation with its tax advisors, in 2000, the Company reversed approximately $808,000 of reserves deemed no longer necessary.

NOTE K - STOCK PLANS

In March 1999, the stockholder's 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 115,375 and 120,875 as of December 31, 2002 and 2001, respectively. As of December 31, 2002 and 2001, 62,126 options and 70,721 options, respectively, were outstanding as a result of the GSB acquisition. The Company did not grant options in 2002.

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

	December 31,					
	2002		2001		2000	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at beginning of year	191,596	$29.74	50,375	$36.67	212,375	$13.83
Granted	--	$ --	152,496	$27.68	5,000	$31.75
Cancelled	(6,509)	$27.13	(7,443)	$29.84	(151,000)	$ 7.21
Exercised	(7,586)	$21.75	(3,832)	$23.59	(16,000)	$10.08
Outstanding at end of year	177,501	$30.30	191,596	$29.74	50,375	$36.67
Exercisable at end of year	167,500	$33.09	84,799	$31.63	45,375	$37.21
Weighted average fair value of options granted during the year		$ --		$ 9.54		$11.14

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

NOTE K - (continued)

The following table summarizes information about options outstanding at December 31, 2002:

	Options Outstanding			Options Exercisable	
Range of exercise prices	Number outstanding at December 31, 2002	Weighted average remaining contractual life (years)	Weighted average exercise price	Number outstanding at December 31, 2002	Weighted average exercise price
$17.94 - 26.34	54,447	5.59	$25.20	45,981	$25.05
27.79 - 38.00	123,054	4.02	32.56	121,519	36.13
	177,501			167,500	

NOTE L - 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. Plan assets consist principally of equity and fixed income mutual funds.

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.

Assumptions used in the accounting were:

	December 31, 2002	December 31, 2001
Discount rates-liability	7.25%	7.50%
Long-term rate of return-assets	8.50%	8.50%

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

NOTE L - (continued)

A summary of the components of net periodic pension cost for the years ended December 31, 2002, 2001 and 2000 is as follows:

	December 31, 2002	2001	2000
Service cost-benefits earned during the period	$ 48,883	$ 68,214	$ 50,075
Interest cost on projected benefit obligation	98,897	103,364	98,525
Expected return on plan assets	(148,973)	(177,560)	(184,740)
Net amortization and deferral	18,370	10,913	(5,121)
Net pension cost/(income) of defined benefit plan	$ 17,177	$ 4,931	$ (41,261)

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, 2002 and 2001:

	December 31, 2002	2001
Actuarial present value of vested accumulated benefit obligations	$ 1,435,631	$ 1,413,923
Actuarial present value of accumulated benefit obligations	1,441,790	1,416,491

Projected benefit obligations	$(1,441,790)	$(1,496,907)
Fair value of plan assets	1,515,166	1,809,700
Excess of projected benefit obligation over fair value of plan assets	73,376	312,793
Unrecognized prior service cost	175,984	194,354
Unrecognized net loss	342,903	102,293
Adjustment required to recognize minimum liability	0	0
Prepaid pension cost, included in other assets	$ 592,263	$ 609,440

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

NOTE L - (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. Upon the notice of termination, all participant benefits vest 100%.

	December 31,	
	2002	2001
	(In thousands)	
Change in benefit obligation		
Benefit obligation at beginning of year	$1,193	$1,116
Service cost	--	--
Interest cost	84	85
Actual loss	85	81
Benefits paid	(91)	(89)
Benefits obligations at end of year	1,271	1,193
Change in plan assets		
Fair value of plan assets at beginning of year	1,309	1,518
Actual return on plan assets	(917)	(127)
Employer contribution	--	7

Benefits paid	(91)	(89)
Fair value of plan assets at end of year	1,127	1,309
Funded status	(144)	116
Unrecognized net actuarial loss	340	80
Prepaid benefit cost (included in other assets)	$ 196	$ 196

Net pension cost included the following components:

	Year Ended December 31,	
	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 L - (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,

	2002	2001
	(In thousands)	
Change in benefit obligation		
Benefit obligation at beginning of year	$ 712	$ 667
Service cost	--	--
Interest cost	50	51
Actual gain	9	48
Benefits paid	(53)	(54)
Benefits obligation at end of year	718	712
Change in plan assets		
Fair value of plan assets at beginning of year	--	--
Actual return on plan assets	--	--
Employer contribution	53	54
Benefits paid	(53)	(54)
Fair value of plan assets at end of year	--	--
Funded status	(718)	(712)
Unrecognized net actuarial loss	13	4
Accrued benefit cost (included in other liabilities)	$ 705	$ 708

Net benefit cost included the following components:

	Year Ended December 31, 2002	2001
	(In thousands)	
Service cost	$--	$--
Interest cost on projected benefit obligation	50	51
Actual return on plan assets	--	--
Net periodic benefit cost	$50	$51

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

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

NOTE L - (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 expense was $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 and $29,000 for the Bank's plan for the year ended December 31, 2000.

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, 2002 and 2001, the balance accumulated under these arrangements was approximately $248,000 and $242,000, 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 M - COMMITMENTS AND CONTINGENCIES

1. Leases and Other Commitments

The Company leases certain of its operating facilities under non-cancelable operating leases expiring in 2003 through 2007. 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)
2003	$ 900
2004	534
2005	413
2006	292
2007	979
	$3,118

Rental expense was approximately $811,000, $717,000 and $335,000 for the fiscal years ended December 31, 2002, 2001 and 2000, respectively. Included in rental expense was approximately $255,000, $255,000 and $18,000 for the fiscal years ended December 31, 2002, 2001 and 2000, respectively, which was paid to a company affiliated with a director of the Company.

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

NOTE N - 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 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, 2002 and 2001 are outlined below.

For cash and cash equivalents, the recorded book values of $6.31 million and $10.38 million at December 31, 2002 and 2001, 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,			
	2002		2001	
	Carrying amount	Estimated fair value	Carrying amount	Estimated fair value
	(In thousands)			
Investment securities	$371,458	$371,460	$242,579	$242,564
Loans, net of unearned income	275,497	278,252	252,040	289,482
Time Deposits	311,979	312,117	199,951	200,237

The net loan portfolio at December 31, 2002 and 2001 has been valued using a present value discounted cash flow where market prices were not available. The discount rate used in these calculations is the estimated current market rate adjusted for credit risk. The carrying value of accrued interest approximates fair value.

The estimated fair values of demand deposits (i.e. interest (checking) and non-interest bearing demand accounts, savings and certain types of money market accounts) are, by definition, equal to the amount payable on demand at the reporting date (i.e. their carrying amounts). The carrying amount of accrued interest payable approximates its fair value.

The fair values of the securities sold under agreements to repurchase and other long-term borrowings totaling $104.37 million and $96.03 million are estimated to approximate their recorded book balances at December 31, 2002 and 2001, respectively.

The fair value of commitments to extend credit is estimated based upon the amount of unamortized deferred loan commitment fees. The fair value of letters of credit is based upon the amount of unearned fees plus the estimated cost to terminate letters of credit. Fair values of unrecognized financial instruments, including commitments to extend credit, and the fair value of letters of credit are considered immaterial.

NOTE N - (continued)

The fair value of interest rate caps are based upon the estimated amount the Company would receive or pay to terminate the contracts or agreements, taking into account current interest rates and, when appropriate, the current creditworthiness of the counterparties. The aggregate fair value for the interest rate caps are approximately $53,000 and $22,000 at December 31, 2002 and 2001, respectively.

NOTE O - FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET RISK AND CONCENTRATIONS OF CREDIT RISK

The Bank is party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of their customers. These financial instruments include commitments to extend credit and standby letters of credit. Such financial instruments are recorded in the financial statements when they become payable. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated balance sheets. The contract or notional amounts of those instruments reflect the extent of involvement the Banks have in particular classes of financial instruments.

The Bank's exposure to credit loss in the event of non-performance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual or notional amount of those instruments. The Bank uses the same credit policies in making commitments and conditional obligations as they do for on-balance-sheet instruments.

Unless noted otherwise, the Bank does not require collateral or other security to support financial instruments with credit risk. The approximate contract amounts are as follows:

	December 31,	
	2002	2001
	(In thousands)	
Commitments to extend credit	$13,432	$ 7,718
Standby letters of credit and financial guarantees written	750	529
	$14,182	$ 8,247
Interest rate caps-notional amount	$20,000	$20,000

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

Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements, including commercial paper, bond financing and similar transactions. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Bank holds residential or commercial real estate, accounts receivable, inventory and equipment as collateral supporting those commitments for which collateral is deemed necessary. The extent of collateral held for those commitments at December 31, 2002 varies up to 100%.

NOTE O - (continued)

The Bank grants loans primarily to customers in New York and its immediately adjacent suburban communities. Although the Bank has a diversified loan portfolio, a large portion of their loans are secured by commercial or residential real property. The Bank does not generally engage in non-recourse lending and typically will require the principals of any commercial borrower to obligate themselves personally on the loan. Although the Bank has a diversified loan portfolios, a substantial portion of their debtors' ability to honor their contracts is dependent upon the economic sector. Commercial and standby letters of credit were granted primarily to commercial borrowers.

The Bank has entered into interest rate cap agreements in order to hedge its exposure to interest rate fluctuations. The Company adopted the provisions of SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS No. 133"), as amended, as of January 1, 2001. The statement requires the Company to recognize all derivative instruments at fair value as either assets or liabilities. Financial derivatives are reported at fair value in other assets or other liabilities. The accounting for changes in fair value of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship. For derivatives not designated as hedges, the gain or loss is recognized in current earnings. Amounts reclassed into earnings, when the hedged transaction culminates, are included in interest income. The Company performs an assessment, both at the inception of the hedge and quarterly thereafter, to determine whether these are highly effective in offsetting changes in the value of the hedged items. The change in fair value of the swaps attributed to hedge ineffectiveness was not material for the years ended December 31, 2002 and 2001.

NOTE P - REGULATORY MATTERS

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

Quantitative measures established by regulations to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets, and of Tier 1 capital to average assets. Management believes that, as of December 31, 2002, the Bank meets all capital adequacy requirements to which it is subject.

As of December 31, 2002, the Bank met all regulatory requirements for classification as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum total risk-based, Tier 1 risk-based and Tier 1 leverage ratios as set forth in the following table. There are no conditions or events since that date that management believes have changed the institution's category.

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

Note P - (continued)

The following table sets forth the actual and required regulatory capital amounts and ratios of, the Company and the Bank as of December 31, 2002 and 2001 (dollars in thousands):

	Actual		For capital adequacy purposes		To be well capitalized unde prompt correctiv action provision	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2002						
Total Capital (to Risk-Weighted Assets)						
Company	$80,811	12.3%	$23,801	>=8.0%	$ --	N/A
Bank	53,687	19.4%	22,193	>=8.0%	27,741	>=10.0
Tier I Capital (to Risk-Weighted Assets)						
Company	78,496	26.4%	11,900	>=4.0%	--	N/A
Bank	51,372	18.5%	11,096	>=4.0%	16,645	>= 6.0
Tier I Capital (to Average Assets)						
Company	78,496	27.2%	25,468	>=4.0%	--	N/A
Bank	51,372	7.8%	26,210	>=4.0%	32,763	>= 5.0

	Actual		For capital adequacy purposes		To be well capitalized unde prompt correctiv action provision	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2001						
Total Capital (to Risk-Weighted Assets)						
Company	79,867	20.5%	20,097	>=8.0%	--	N/A
Bank	48,110	20.4%	18,841	>=8.0%	23,551	>=10.0%
Tier I Capital (to Risk-Weighted Assets)						
Company	77,837	31.0%	10,048	>=4.0%	--	N/A
Bank	46,080	19.6%	9,421	>=4.0%	14,130	>= 6.0%
Tier I Capital (to Average Assets)						
Company	77,837	20.5%	15,194	>=4.0%	--	N/A
Bank	46,080	9.6%	19,190	>=4.0%	23,988	>= 5.0%

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

NOTE Q - CONDENSED FINANCIAL INFORMATION - PARENT COMPANY ONLY

The condensed financial information for Berkshire Bancorp Inc. (parent company only) is as follows:

CONDENSED BALANCE SHEETS
(In Thousands)

	December 31, 2002	December 31, 2001
ASSETS		
Cash	$ 7,439	$16,449
Equity investment in subsidiaries	71,276	64,225
Investment in securities available for sale	6,147	3,993
Loans	8,420	6,478
Accrued interest receivable	430	37
Premises and equipment	5,056	3,764
Other assets	294	1,371
Total assets	$99,062	$96,317
LIABILITIES AND STOCKHOLDERS' EQUITY		
Other liabilities	$ 537	$ 325
Stockholders' equity		
Common stock	256	256
Additional paid-in capital	89,890	89,914
Retained earnings	16,145	11,053
Accumulated other comprehensive income (loss), net	1,480	(281)
Common stock in treasury, at cost	(9,246)	(4,950)
Total stockholders' equity	98,525	95,992
	$99,062	$96,317

Notes to Consolidated Financial Statements (continued)

NOTE Q - (continued)

CONDENSED STATEMENTS OF INCOME
(In Thousands)

	For The Years Ended December 31,		
	2002	2001	2000
INCOME			
Interest income from the Bank	$ 207	$ 836	$ 1,750
Interest income	1,149	1,079	2,011
Gain on sales of investment securities	7	31	13,288
Other income (loss)	(73)	(92)	759
Total income	1,290	1,854	17,808
EXPENSES			
Salaries and employee benefits	243	217	111
Other expenses	505	661	648
Total expenses	748	878	759
Income before income taxes and equity in undistributed net income of the Bank	542	976	17,049
Equity in undistributed net income of the Bank	5,405	2,199	723
Income before taxes	5,947	3,175	17,772
Provision (benefit) for income taxes	350	(124)	5,706
Net income	$5,597	$3,299	$12,066

NOTE Q - (continued)

CONDENSED STATEMENTS OF CASH FLOWS
(In Thousands)

	For The Years Ended December 31,		
	2002	2001	2000
Operating activities:			
Net income	$ 5,597	$ 3,299	$ 12,066
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Gain on sales of investment securities	(7)	(31)	(13,288)
Equity in undistributed net income of the Bank	(5,405)	(2,199)	(723)
Increase (decrease in other liabilities	214	(1,153)	(5,932)
(Increase) decrease in other assets	840	3,624	(445)
Net cash provided by (used in) operating activities	1,239	3,540	(8,322)
Investing activities:			
Investment in subsidiaries and affiliates	--	--	(390)
Cash paid for acquisition	--	(20,222)	--
Proceeds from sales of common stock	--	--	13,267
Investment securities available for sale			
Purchases	(2,965)	--	--
Sales	775	1,124	4,421
Net (increase) decrease in loans	(1,942)	1,465	1,927
Purchase of premises and equipment	(1,292)	(3,764)	--
Net cash provided by (used in) investing activities	(5,424)	(21,397)	19,290
Financing activities:			
Proceeds from exercise of common stock options	102	90	28
Acquisition of treasury stock	(4,422)	(4,983)	(5,254)
Dividends paid	(505)	(598)	(1,293)
Net cash (used in) financing activities	(4,825)	(5,491)	(6,519)
Net increase (decrease) in cash and cash equivalents	(9,010)	(23,348)	4,384
Cash and cash equivalents at beginning of year	16,449	39,797	35,413
Cash and cash equivalents at end of year	$ 7,439	$ 16,449	$ 39,797

Supplemental disclosures of cash flow information:			
Cash used to pay income taxes	$ 146	$ 1,385	$ 6,418

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

NOTE R - QUARTERLY FINANCIAL DATA (UNAUDITED)

The following represents summarized quarterly financial data of the Company which, in the opinion of management, reflects all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the Company's results of operations. (In thousands, except per share data).

	Three Months Ended			
	March 31	June 30	September 30	December 31
2002				
Interest income	$ 7,316	$ 8,097	$ 8,495	$ 8,334
Interest expense	(3,050)	(3,358)	(3,564)	(3,444)
Net interest income	4,266	4,739	4,931	4,890
Provision for loan losses	(50)	(107)	(200)	(30)
Gain on sale of securities	196	127	681	535
Other operating income	273	218	117	140
Other operating expenses	(2,399)	(2,802)	(2,898)	(2,681)
Income before taxes	2,286	2,175	2,631	2,854
Provision (benefit) for taxes	980	988	1,118	1,263
Net income	$ 1,306	$ 1,187	$ 1,513	$ 1,591
Per share data				
Net income per common share				
Basic	$ .55	$ .51	$ .67	$ .71
Diluted	$ .55	$ .51	$ .67	$ .70

	Three Months Ended			
	March 31	June 30	September 30	December 31

2001				
Interest income	$ 3,728	$ 6,789	$ 7,186	$ 7,238
Interest expense	(1,712)	(3,531)	(3,435)	(3,199)
Net interest income	2,016	3,258	3,751	4,039
Provision for loan losses	(10)	(37)	(115)	(125)
Gain on sale of securities	3	480	12	142
Other operating income	165	258	174	189
Other operating expenses	(1,267)	(2,326)	(2,464)	(2,716)
Income before taxes	907	1,633	1,358	1,529
Provision (benefit) for taxes	501	705	714	208
Net income	$ 406	$ 928	$ 644	$ 1,321
Per share data				
Net income per common share				
Basic	$ .21	$ .37	$ .26	$ .57
Diluted	$ .21	$ .37	$ .26	$ .57

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

Not Applicable.

PART III

ITEM 10. Directors and Executive Officers of the Registrant.

The following are the current directors and executive officers of the Company:

Name	Age	Position(s)
Steven Rosenberg	54	President, Director
William L. Cohen	61	Director

Thomas V. Guarino	49	Director
Moses Marx	67	Director
Randolph B. Stockwell	56	Director
Moses Krausz	62	President of The Berkshire Bank
David Lukens	53	Senior Vice President, Chief Financial Officer of The Berkshire Bank

Mr. Rosenberg has served as President and Chief Executive Officer of the Company since March 1999 and as Vice President and Chief Financial Officer of the Company from April 1990 to March 1990. He continues to serve as Chief Financial Officer. Mr. Rosenberg was elected a director in May 1995. From September 1987 through April 1990, he served as President and Director of Scomel Industries, Inc., a company engaged in international marketing and consulting. Mr. Rosenberg is a director of The Cooper Companies, Inc. (a developer and manufacturer of healthcare products).

Mr. Cohen was elected a director in July 1993. He has been a private investor for over five years. Mr. Cohen served as President, Chief Executive Officer and Chairman of the Board of The Andover Apparel Group, Inc., an apparel manufacturing company, from 1980 to 2000.

Mr. Guarino was elected a director in March 2001. He served as a director of Goshen Savings Bank from 1996, and chairman of the Board of Directors of GSB Financial Corporation from April 1998, until the respective mergers of those companies into The Berkshire Bank and the Company in March 2001. Mr. Guarino is the President and Senior Portfolio Manager of the Hudson Valley Investment Advisors, Inc., an investment management and advisory company, a position he has held since 1995. Prior to that, he had been, since 1988, a Vice President of Fleet Investment Advisors, Inc. and was Vice President in charge of investments of Norstar Bank of the Hudson Valley from 1981 to 1988.

Mr. Marx was elected a director in May 1995. Mr. Marx has been a general partner in United Equities Company (a securities brokerage firm) since 1954 and a general partner in United Equities (Commodities) Company (a commodities brokerage firm) since 1972. He is also President of Momar Corp. (a private investment company). Mr. Marx is a director of The Cooper Companies, Inc.

Mr. Stockwell was elected a director in July 1988. He has been private investor for over ten years. Since April 1999, Mr. Stockwell has served as President of Yachting Systems of America, LLC, a small start-up company. In addition, he served in various capacities with the Community Bank, a commercial bank, from September 1972 to January 1987.

Mr. Krausz has held the position of President of The Berkshire Bank since March 1992 and Chief Executive Officer since November 1993. Prior to joining The Berkshire Bank, Mr. Krausz was Managing Director of SFS Management Co., L.P., a mortgage banker, from 1987 to 1992 and was President of UMB Bank and Trust Company, a New York State chartered bank, from 1978 to 1987.

Mr. Lukens has held the position of Senior Vice President and Chief Financial Officer of The Berkshire Bank since December 1999. Prior to joining the Bank, Mr. Lukens was Senior Vice President and Chief Financial officer of First Washington State Bank, a New Jersey commercial bank, from 1994 to 1999 and was Vice President and Controller at the Philadelphia, PA branch of Bank Leumi Le-Israel B.M., an international commercial bank, from 1978 to 1994.

There are no family relationships (whether by blood, marriage or adoption) among any of the Company's current directors or executive officers.

Audit Committee Members, Financial Expert and Independence

The Board of Directors of the Company has established an Audit Committee comprised of three independent directors, Messrs. William L. Cohen, Thomas V. Guarino and Randolph B. Stockwell. All of the members of the Audit Committee meet the independence requirements under current National Association of Securities Dealers corporate governance standards for companies whose securities are quoted on NASDAQ. Based upon their education and relevant experience, the Board of Directors has determined that Messrs. Guarino and Stockwell each qualify as financial experts as defined by the Sarbanes-Oxley Act of 2002 and the Securities and Exchange Commission.

Principal Accountant Fees and Services

The Company's principal accountant is Grant Thornton LLP ("Grant Thornton"). The total fees paid to Grant Thornton for the last two fiscal years are as follows:

	Fiscal Year Ended December 31, 2002	Fiscal Year En December 31, 2
Audit Fees	$111,399	$ 86,500
Audit Related Fees: Professional services rendered for employee benefit plan audits, accounting assistance in connection with acquisitions and consultations related to financial accounting and reporting standards	6,498	12,381
Tax Fees	71,009	59,478
All Other Fees: Professional services rendered for corporate support	--	--

ITEM 11. Executive Compensation

The following table shows the compensation paid in or with respect to each of the last three fiscal years to the individual who served as the Company's Chief Executive Officer for the fiscal ended December 31, 2002, and to each of the other executive officers who were paid more than $100,000 during the fiscal year ended December 31, 2002.

Summary Compensation Table (1)

Name and Principal Position	Year	Annual Compensation Salary	Bonus	All Other Compensation
Steven Rosenberg	2002	$167,500	$ --	$ --
President, Chief Executive	2001	$152,500	$ --	$ --
Officer and Chief Financial				
Officer	2000	$125,000	$ --	$ --
Moses Krausz	2002	$347,288	$175,000	$10,050(2)
President and Chief Executive	2001	$330,750	$175,000	$ 9,300(2)
Officer of The Berkshire Bank	2000	$310,000	$175,000	$ 8,665(2)
David Lukens	2002	$125,000	$ 24,000	$ 5,367(3)
Senior Vice President and	2001	$115,000	$ 24,000	$ 4,988(3)
Chief Financial Officer of				
The Berkshire Bank	2000	$103,500	$ 18,000	$ 812(3)

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(1) Does not include one employee of The Berkshire Bank, not deemed to be an executive officer of the Company, who was paid $122,000 in fiscal 2000. Does not include the annual retirement credits of 5% of gross wages under the Company's Retirement Income Plan.

(2) Consists of contributions by the Company to a 401(k) account of $6,000, $5,250 and $5,250, respectively, in 2002, 2001 and 2000, and income associated with life insurance coverage in excess of $50,000.

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(3) Consists of contributions by the Company to a 401(k) account of $4,470 and $4,170, respectively, in 2002 and 2001, and income associated with life insurance coverage in excess of $50,000 in 2002, 2001 and 2000.

Option Grants in Last Fiscal Year

There were no stock option grants during the fiscal year ended December 31, 2002.

Aggregated Option Exercises and Fiscal Year-End Option Values

The following table sets forth information concerning options exercised during the fiscal year ended December 31, 2002, and the number of options owned and the value of any in-the-money unexercised options as of December 31, 2002 by any of the individuals named in the Summary Compensation Table.

Shares Acquired	Number of Unexercised Options at Fiscal Year-End	Value of Unexercised

Name	Shares Acquired on Exercise (#)	Value Realized ($)	Number of Unexercised Options at Fiscal Year-End (#) Exercisable /Unexercisable	Value of Unexercised In-the-Money Options at Fiscal Year-End ($) Exercisable/Unexercisable
Steven Rosenberg	-0-	-0-	10,000 / 0	43,100 / 0
Moses Krausz	-0-	-0-	50,000 / 0	86,200 / 0
David Lukens	-0-	-0-	10,000 / 0	34,350 / 0

Year-end values for unexercised in-the-money options represent the positive spread between the exercise price of such options and the fiscal year end market value of the common stock. An Option is "in-the-money" if the fiscal year end fair market value of the Common Stock exceeds the option exercise price.

Compensation of Directors

Each director who is not also an employee of the Company (a "Non-Employee Director") receives a stipend of $12,000 per annum and $1,000 for each day during which he participates in a meeting of the Board or a Committee of the Board. Each Non-Employee Director also receives fees ranging from $100 to $1,000 for telephonic meetings of the Board or a Board Committee depending upon the length of the meeting. In addition, see "1999 Stock Incentive Plan" below.

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 (subject to appropriate adjustment in the event of changes in the corporate structure of the Company). Officers, directors and other key employees of the Company or any subsidiary are eligible to receive awards under the 1999 Stock Incentive Plan. The option exercise price of all options which are granted under the 1999 Stock Incentive Plan must be at least equal to 100% of the fair market value of a share of common stock of the Company on the date of grant. At December 31, 2002, options to acquire 187,419 shares of common stock have been granted under this plan and 12,581 options are available for future grants.

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. Plan assets consist principally of equity and fixed income mutual funds.

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.

A participant in the Plan accumulates a balance in his or her retirement account by receiving: (i) an annual retirement credit of 5% of gross wages paid during the year, but not in excess of the applicable annual maximum compensation permitted to be taken into account under Internal Revenue Service guidelines for each year of service; and (ii) an annual interest credit based upon the 30-year U. S. Treasury securities rate. The Company pays the entire cost of the Plan for its employees and funds such costs as they accrue.

The estimated annual benefits payable under the Plan upon retirement (at the normal retirement age of 65) for Messrs. Rosenberg and Lukens are approximately $160,000 and $15,000, respectively. In accordance with the laws currently governing the Plan, the estimated annual benefit payable to Mr. Rosenberg is not expected to increase. Mr. Krausz is not a participant in the Plan. (see Note L of Notes to Consolidated Financial Statements).

ITEM 12. Security Ownership of Certain Beneficial Owners and Management and Equity Compensation Plans.

The following table sets forth certain information as of March 14, 2003 with respect to the beneficial ownership of the Company's Common Stock by (i) each person who is known by the Company to own beneficially more than 5% of the Company's Common Stock, (ii) each of the Company's directors and executive officers, and (iii) all executive officers and directors as a group.

	Number of Shares	Percent of Class
William Cohen	2,500 (1)	*
Thomas V. Guarino	31,781 (2)	1.4%
Moses Krausz	64,800 (3)	2.8%
David Lukens	10,200 (4)	*
Moses Marx 160 Broadway New York, NY 10038	1,048,620 (5)	46.8%
Steven Rosenberg	20,861 (6)	*
Randolph B. Stockwell	8,000 (7)	*
All executive officers and directors as a group (7 persons)	1,186,762 (8)	51.1%

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* Less than 1%

(1) Includes 1,000 shares issuable upon the exercise of options which have been granted to Mr. Cohen under the Company's 1999 Stock Incentive Plan.

(2) Includes 13,195 shares issuable upon the exercise of options which have been granted to Mr. Guarino under the Company's 1999 Stock Incentive Plan. Includes 2,286 shares held in trust for minor children and 301 shares held by Mr. Guarino's wife

(3) Includes 50,000 shares issuable upon the exercise of options which have been granted to Mr. Krausz under the Company's 1999 Stock Incentive Plan. Does not include 503 shares owned by Mr. Krausz's spouse.

(4) Includes 10,000 shares issuable upon the exercise of options which have been granted to Mr. Lukens under the Company's 1999 Stock Incentive Plan.

(5) Includes 1,000 shares issuable upon the exercise of options which have been granted to Mr. Marx under the Company's 1999 Stock Incentive Plan and 125,000 shares owned by Momar Corporation. Does not include 43,067 shares owned by Eva and Esther, L.P. of which Mr. Marx has an 80.5% limited partnership interest. Mr. Marx's daughters and their husbands are the general partners of Eva and Esther, L.P.

(6) Includes 10,000 shares issuable upon the exercise of options which have been granted to Mr. Rosenberg under the Company's 1999 Stock Incentive Plan.

(7) Includes 1,000 shares issuable upon the exercise of options which have been granted to Mr. Stockwell under the Company's 1999 Stock Incentive Plan.

(8) Includes 86,195 shares of Common Stock which are issuable upon the exercise of outstanding options.

Equity Compensation Plans

The following table details information regarding the Company's existing equity compensation plans as of December 31, 2002.

Plan Category	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights	(b) Weighted-average exercise price of outstanding options, warrants and rights	(c) Number of securities remaining available for future issuance under equity compensation plan (excluding securities reflected in column (a)
Equity compensation plans approved by security holders	177,501	$30.30	12,581
Equity compensation plans not approved by security holders	--	--	--
Total	177,501	$30.30	12,581

ITEM 13. Certain Relationships and Related Transactions.

In April 2001 and June 1999, the Company made term loans in the principal amount of $2,000,000 and $2,000,000, respectively, to Pharmaceutical Holdings Corp., a Delaware corporation, the principal stockholder of which is Momar. Such loans were made on substantially the same terms, including interest rate, as those prevailing at that time for comparable loans to unrelated parties and did not involve more than normal risk of collectibility or present other unfavorable features. The notes, which bear interest at the prime rate plus 0.50%, are due in March 2003 and June 2003.

In January 2000, the Bank entered into a lease agreement with Bowling Green Associates, LP, the principal owner of which is Mr. Marx, for commercial space to open a bank branch. The Company obtained an appraisal of the market rental value of the space from an independent appraisal firm and management believes that the terms of the lease, including the annual rent paid, $237,000 in fiscal 2002 and 2001, is comparable to the terms and annual rent that would be paid to non-affiliated parties in a similar commercial transaction for similar commercial space.

In December 1999, the Bank loaned $1,500,000 to Ecogen, Inc., a corporation in which Mr. Marx may be deemed a principal stockholder. The loan was guaranteed by Momar. Contemporaneously with the making of the loan, Momar purchased a 100% interest in such loan on a non-recourse basis for a purchase price equal to the outstanding balance of the loan. The Bank services such loan on behalf of Momar for no additional consideration. Such loan was made on substantially the same terms, including interest rate and collateral, as those prevailing at that time for comparable loans to unrelated parties and did not involve more than normal risk of collectibility or present other unfavorable features. In July 2002, the loan was repaid in full.

See Item 1. Business - Transactions With Related Parties and Item 2. Properties for additional information.

ITEM 14. Controls and Procedures

Quarterly evaluation of the Company's Disclosure Controls and Internal Controls. Within the 90 days prior to the date of this Annual Report on Form 10-K, the Company evaluated the effectiveness of the design and operation of its "disclosure controls and procedures" ("Disclosure Controls"). This evaluation ("Controls Evaluation") was done under the supervision and with the participation of management, including the Chief Executive Officer ("CEO") who is also the Chief Financial Officer ("CFO").

Limitations on the Effectiveness of Controls. The Company's management, including the CEO/CFO, does not expect that its Disclosure Controls and/or its "internal controls and procedures for financial reporting" ("Internal Controls") will prevent all error and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, control may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

Conclusions. Based upon the Controls Evaluation, the CEO/CFO has concluded that, subject to the limitations noted above, the Disclosure Controls are effective to timely alert management to material information relating to the Company during the period when its periodic reports are being prepared.

In accordance with SEC requirements, the CEO/CFO notes that, since the date of the Controls Evaluation to the date of this Annual Report, there have been no significant changes in Internal Controls or in other factors that could significantly affect Internal Controls, including any corrective actions with regard to significant deficiencies and material weaknesses.

PART IV

ITEM 15. Exhibits, Financial Statement Schedules and Reports on Form 8-K.

(a) Documents filed as part of this Report:

(i) Financial Statements

Report of Independent Certified Public Accountants

Consolidated Balance Sheets as of December 31, 2002 and 2001

Consolidated Statements of Income for the Years Ended December 31, 2002, 2001 and 2000

Consolidated Statements of Stockholders' Equity for the Years Ended December 31, 2002, 2001 and 2000

Consolidated Statements of Cash Flows for the Years Ended December 31, 2002, 2001 and 2000

Notes to Consolidated Financial Statements

Schedule Number	Description

None

All schedules for which provision is made in the applicable accounting regulations of the Securities and Exchange Commission are not required under the related instructions or are not applicable and, therefore, have been omitted.

(iii) Exhibits

Exhibit Number	Description
2.1	Agreement and Plan of Reorganization, dated as of August 16, 2000, by and between Berkshire Bancorp Inc., Greater American Finance Group, Inc., The Berkshire Bank, GSB Financial Corporation and Goshen Savings Bank (incorporated by reference to the Companies Registration Statement on Form S-4 dated October 13, 2000.
3.1	Amended and Restated Certificate of Incorporation of the Company (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K dated March 30, 1999).
3.2	Amended and Restated By-laws of the Company (incorporated by reference to Exhibit 3.2 to the Company's Current Report on Form 8-K dated March 30, 1999).
10.1	Stock Incentive Plan for Non-Employee Directors of the Company (incorporated by reference to Exhibit 10.15 to the Company's Annual Report on Form 10-K for the Fiscal Year Ended October 31, 1991).
10.2	1999 Stock Incentive Plan of the Company (incorporated by reference to Exhibit 10.8 to the Company's Current Report on Form 8-K dated March 30, 1999).'D'
10.3	Employment Agreement, dated May 1, 1999, between The Berkshire Bank and Moses Krausz (incorporated by reference to Exhibit 10.3 to the Company's Annual Report on Form 10-K for the Fiscal Year Ended December 31, 2000).'D'
10.4	Employment Agreement, dated January 1, 2001, between The Berkshire Bank and David Lukens (incorporated by reference to Exhibit 10.4 to the Company's Annual Report on Form 10-K for the Fiscal Year Ended December 31, 2000).'D'
10.5	Lease Agreement, dated October 26, 1999, between Braun Management, Inc. as agent for Bowling Green Associates, L.P., and The Berkshire Bank (incorporated by reference to Exhibit 10.5 to the Company's Quarterly Report on Form 10-Q for the Quarterly Period Ended March 31, 2001).

10.6	Amendment No. 1 to Employment Agreement, dated August 1, 2001, by and between The Berkshire Bank and Moses Krausz (incorporated by reference to Exhibit 10.6 to the Company's Quarterly Report on Form 10-Q for the Quarterly Period Ended September 30, 2001).'D'
10.7	Amendment No. 1 to Employment Agreement, dated June 3, 2002, by and

between The Berkshire Bank and David Lukens (incorporated by reference to Exhibit 10.7 to the Company's Quarterly Report on Form 10-Q for the Quarterly Period Ended June 30, 2002).'D'

21. Subsidiaries of the Company.

23. Consent of Independent Certified Public Accountant

99.1 Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

'D' Denotes a management compensation plan or arrangement.

(b) Reports on Form 8-K.
None.

SIGNATURES

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

BERKSHIRE BANCORP INC.

By: /s/ Steven Rosenberg
Steven Rosenberg
President, (Chief Executive Officer)

Date: March 21, 2003

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Company and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Steven Rosenberg Steven Rosenberg	President, (Chief Executive Officer, Principal Financial Officer and Principal Accounting Officer); Director	March 21, 2003
/s/ William Cohen	Director	March 21, 2003

-------------------------- William Cohen		
/s/ Thomas V. Guarino -------------------------- Thomas V. Guarino	Director	March 21, 2003
/s/ Moses Marx -------------------------- Moses Marx	Director	March 21, 2003
/s/ Randolph B. Stockwell -------------------------- Randolph B. Stockwell	Director	March 21, 2003

Certification of Principal Executive and Financial Officer

I, Steven Rosenberg the Chief Executive Officer, President and Chief Financial Officer of Berkshire Bancorp Inc., certify that:

1. I have reviewed this annual report on Form 10-K of Berkshire Bancorp Inc.;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 21, 2003

/s/ Steven Rosenberg

Steven Rosenberg,
Chief Executive Officer, President
and Chief Financial Officer

Statement of Differences Most Commonly Used Symbols

The dagger symbol shall be expressed as.............................. 'D'
The greater-than-or-equal-to sign shall be expressed as................ >=