TF FINANCIAL CORP
Form 10-K
March 30, 2004

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K
FOR ANNUAL AND TRANSITION REPORTS
PURSUANT TO SECTIONS 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

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

For the fiscal year ended December 31, 2003

\- or -

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

For the transition period from __________ to __________

Commission file number: 0-24168

TF FINANCIAL CORPORATION
(Exact Name of Registrant as Specified in Its Charter)

Delaware	74-2705050
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
3 Penns Trail, Newtown, Pennsylvania	18940
(Address of Principal Executive Offices)	(Zip Code)

Registrant's telephone number, including area code: (215) 579-4000

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 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. [ ]

Indicate by check mark whether the registrant is an accelerated filer as defined in Exchange Act Rule 12b-2. YES ___ NO X___

The aggregate market value of the voting common equity held by non-affiliates of the registrant, based on the closing price of the registrant's Common Stock as quoted on the Nasdaq System on June 30, 2003, was $65.6 million (2,106,969 shares at $31.115 per share).

As of March 22, 2004 there were outstanding 2,885,502 shares of the registrant's Common Stock.

DOCUMENTS INCORPORATED BY REFERENCE

1. Portions of the Annual Report to Stockholders for the Fiscal Year Ended December 31, 2003. (Parts I, II and IV)
2. Portions of the Proxy Statement for the 2004 Annual Meeting of Stockholders. (Part III)

PART I

TF FINANCIAL CORPORATION (THE "COMPANY") MAY FROM TIME TO TIME MAKE WRITTEN OR ORAL "FORWARD-LOOKING STATEMENTS", INCLUDING STATEMENTS CONTAINED IN THE COMPANY'S FILINGS WITH THE SECURITIES AND EXCHANGE COMMISSION (INCLUDING THIS ANNUAL REPORT ON FORM 10-K AND THE EXHIBITS HERETO), IN ITS REPORTS TO STOCKHOLDERS AND IN OTHER COMMUNICATIONS BY THE COMPANY, WHICH ARE MADE IN GOOD FAITH BY THE COMPANY PURSUANT TO THE "SAFE HARBOR" PROVISIONS OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995.

THESE FORWARD-LOOKING STATEMENTS INVOLVE RISKS AND UNCERTAINTIES, SUCH AS STATEMENTS OF THE COMPANY'S PLANS, OBJECTIVES, EXPECTATIONS, ESTIMATES AND INTENTIONS, THAT ARE SUBJECT TO CHANGE BASED ON VARIOUS IMPORTANT FACTORS (SOME OF WHICH ARE BEYOND THE COMPANY'S CONTROL). THE FOLLOWING FACTORS, AMONG OTHERS, COULD CAUSE THE COMPANY'S FINANCIAL PERFORMANCE TO DIFFER MATERIALLY FROM THE PLANS, OBJECTIVES, EXPECTATIONS, ESTIMATES AND INTENTIONS EXPRESSED IN SUCH FORWARD-LOOKING STATEMENTS: THE STRENGTH OF THE UNITED STATES ECONOMY IN GENERAL AND THE STRENGTH OF THE LOCAL ECONOMIES IN WHICH THE COMPANY CONDUCTS OPERATIONS; THE EFFECTS OF, AND CHANGES IN, MONETARY AND FISCAL POLICIES AND LAWS, INCLUDING INTEREST RATE POLICIES OF THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM, INFLATION, INTEREST RATES, MARKET AND MONETARY FLUCTUATIONS; THE TIMELY DEVELOPMENT OF AND ACCEPTANCE OF NEW PRODUCTS AND SERVICES OF THE COMPANY AND THE PERCEIVED OVERALL VALUE OF THESE PRODUCTS AND SERVICES BY USERS, INCLUDING THE FEATURES, PRICING AND QUALITY COMPARED TO COMPETITORS' PRODUCTS AND SERVICES; THE IMPACT OF CHANGES IN FINANCIAL SERVICES' LAWS AND REGULATIONS (INCLUDING LAWS CONCERNING TAXES, BANKING, SECURITIES AND INSURANCE); TECHNOLOGICAL CHANGES; ACQUISITIONS; CHANGES IN CONSUMER SPENDING AND SAVING HABITS; AND THE SUCCESS OF THE COMPANY AT MANAGING THE RISKS INVOLVED IN THE FOREGOING.

THE COMPANY CAUTIONS THAT THE FOREGOING LIST OF IMPORTANT FACTORS IS NOT EXCLUSIVE. THE COMPANY DOES NOT UNDERTAKE TO UPDATE ANY FORWARD-LOOKING STATEMENT, WHETHER WRITTEN OR ORAL, THAT MAY BE MADE FROM TIME TO TIME BY OR ON BEHALF OF THE COMPANY.

Item 1. Business

BUSINESS OF THE COMPANY

On July 13, 1994, the Company consummated its public offering for 5,290,000 shares of its common stock and acquired Third Federal Savings Bank (the "Bank") as part of the Bank's mutual-to-stock conversion. The Company was incorporated under Delaware law in March 1994. The Company is a savings and loan holding company and is subject to regulation by the Office of Thrift Supervision (the "OTS"), the Federal Deposit Insurance Corporation (the "FDIC") and the Securities and Exchange Commission (the "SEC"). The Company does not transact any material business other than through its direct and indirect subsidiaries: Third Federal Savings Bank, TF Investments Corporation, Teragon Financial Corporation, Penns Trail Development Corporation and Third Delaware Corporation. At December 31, 2003, the Company had total assets of $607 million, total liabilities of $551 million and stockholders' equity of $56 million.

BUSINESS OF THE BANK

The Bank is a federally-chartered stock savings bank, which was originally chartered in 1921 as a Pennsylvania-chartered building and loan association. The Bank's deposits are insured up to the maximum amount allowable by the FDIC.

The Bank is a community oriented savings institution offering a variety of financial services to meet the needs of the communities it serves. As of December 31, 2003 the Bank operated fourteen branch offices in Bucks and Philadelphia counties, Pennsylvania and in Mercer County, New Jersey.

The Bank attracts deposits from the general public and uses such deposits, together with borrowings and other funds primarily to originate or purchase loans secured by first mortgages on owner-occupied, one- to four-family residences in its market area and to invest in mortgage-backed and investment securities. At December 31, 2003, one- to four-family residential mortgage loans totaled $277 million or 68% of the Bank's total loan portfolio. At that same date, the Bank had approximately $130 million or 21% of total assets invested in mortgage-backed securities and $25 million or 4% of total assets in investment securities. To a lesser extent, the Bank also originates commercial real estate and multi-family, construction and consumer loans. The Bank has one subsidiary, Third Delaware Corporation, which was incorporated in 1998 for the purpose of holding and managing mortgage-backed securities and investment securities for the Bank.

Market Area

The Bank offers a wide range of consumer and business products at its fourteen full service branch offices located in Bucks and Philadelphia Counties in Pennsylvania, and Mercer County in New Jersey. Five of the branch offices are located in Bucks County., the third wealthiest county in Pennsylvania. Bucks County is a growing region offering opportunity for growth for the Bank. Six branches are located in the northeast section of Philadelphia where the Bank was founded. Although Philadelphia County is experiencing population decline, the Bank's branches in this section of Philadelphia represent a deposit stronghold. The remaining three branches are in Mercer County, New Jersey which has an expanding population and represents another growth area for the Bank.

Competition

The Bank faces varying degrees of competition from local thrift institutions and credit unions at its various branch locations. Stronger competition has come from local and very large regional commercial banks based in and around the Philadelphia area. Commercial banks hold approximately 78% of the deposit market in Philadelphia County, 65% in Bucks County and 77% in Mercer County. The Bank's share of the deposit market in Philadelphia, Bucks and Mercer Counties is 0.7%, 1.6% and 1.2%, respectively.

Lending Activities

General. The Bank's loan portfolio composition consists primarily of conventional adjustable-rate ("ARM") and fixed-rate first mortgage loans secured by one- to four-family residences. The Bank also makes commercial real estate and multi-family loans, construction loans and consumer and other loans. At December 31, 2003, the Bank's mortgage loans outstanding were $358 million, of which $277 million were secured by first mortgages on one- to four-family residential property. Of the one- to four-family residential mortgage loans outstanding at that date, 13% were ARM's and 87% were fixed-rate loans. Total ARM loans in the Bank's portfolio at December 31, 2003, amounted to $88 million or 22% of total loans. At that same date, commercial real estate and multi-family residential and construction loans totaled $74 million and $7 million, respectively.

Consumer and other loans held by the Bank totaled $48 million or 12% of total loans outstanding at December 31, 2003, of which $25 million or 52% consisted of home equity and second mortgages. At that same date commercial business loans, leases and other loans totaled $15 million, $1 million and $7 million, respectively.

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The following table sets forth the composition of the Bank's loan portfolio and mortgage-backed and related securities portfolios in dollar amounts and in percentages of the respective portfolios at the dates indicated.

	At December 31,						
	2003		2002		2001		
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total	A
	(Dollars in thousands)						
Loans:							
Mortgage loans							
One- to four-family	$276,849	68.22%	$227,953	61.33%	$222,016	58.42%	$2
Commercial real estate and multi-family	74,109	18.26	85,493	23.00	93,572	24.62	
Construction	6,591	1.62	12,026	3.23	9,824	2.59	

Total mortgage loans	357,549	88.10	325,472	87.56	325,412	85.63	3
Consumer and other loans:							
Home equity and second mortgage	25,199	6.21	25,480	6.87	25,640	6.75	
Commercial business	15,185	3.74	8,005	2.15	9,285	2.44	
Leases	1,371	0.34	2,246	0.60	3,544	0.93	
Other	6,532	1.61	10,490	2.82	16,154	4.25	
Total consumer and other loans .	48,287	11.90	46,221	12.44	54,623	14.37	
Total loans	405,836	100.00%	371,693	100.00%	380,035	100.00%	3
Less:							
Unearned discount,(premium), deferred loan fees, net...........	(924)		(446)		428		
Allowance for loan losses...........	2,111		2,047		1,972		
Total loans, net......	$404,649		$370,092		$377,635		$3

Mortgage-backed securities held-to-maturity:							
FHLMC..............................	$ 8,407	35.58%	$ 21,870	40.10%	$ 35,000	37.50%	$
FNMA...............................	7,205	30.49	11,781	21.60	15,739	16.90	
GNMA...............................	8,007	33.88	18,278	33.40	29,877	32.00	
Real estate investment mortgage conduit...........................	11	0.05	2,519	4.60	12,550	13.40	
Other mortgage-backed securities.....	--	--	144	0.30	201	0.20	
Total mortgage-backed and related securities held-to-maturity......	$ 23,630	100.00%	$ 54,592	100.00%	$ 93,367	100.00%	$1

Mortgage-backed securities available-for-sale:							
FHLMC............................	$ 8,525	7.98%	$ 699	0.60%	$ 1,108	1.10%	$
FNMA.............................	18,385	17.22	11,878	10.30	22,459	22.50	
GNMA.............................	--	--	--	--	5,515	5.50	
Real estate investment mortgage conduit.........................	79,864	74.80	102,666	89.10	70,681	70.90	
Total..........................	$106,774	100.00%	$115,243	100.00%	$ 99,763	100.00%	$

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Loan Maturity and Repricing Information. The following table sets forth certain information at December 31, 2003, regarding the dollar amount of loans maturing in the Bank's loan and mortgage-backed securities portfolios based on their maturity date. Demand loans, loans having no stated schedule of repayments and no stated maturity, overdrafts and delinquent loans maturing prior to December 31, 2004, are reported as due in one year or less. The table does not include prepayments or scheduled principal repayments.

	Due 1/1/04 - 12/31/04	Due 1/1/05 - 12/31/08	Due After 12/31/08

		(In thousands)	
Available for sale:			
Mortgage-backed securities	$ 48	$ 4,238	$102,488
Held to Maturity:			
One-to-four family	$ 162	$ 3,712	$272,975
Commercial real estate and multi-family..	1,318	16,800	55,991
Construction	4,423	2,168	--
Consumer and other	21,209	11,326	15,752
Total loans receivable	27,112	34,006	344,718
Mortgage-backed securities	21	2,533	21,076
Total..................................	$ 27,133	$ 36,539	$365,794

The following table sets forth the dollar amount of all loans and mortgage-backed securities due after December 31, 2004, which have predetermined interest rates and which have floating or adjustable interest rates.

	Predetermined Rates	Floating or Adjustable Rate
	(In thousands)	
Available for sale:		
Mortgage-backed securities	$106,726	$ --
Total....................................	$106,726	$ --
Held to Maturity:		
One-to-four family	$239,324	$ 37,363
Commercial real estate and multi-family...	17,350	55,441
Construction	--	2,168
Consumer and other	16,026	11,052
Total loans receivable	272,700	106,024
Mortgage-backed securities	23,538	71
Total....................................	$296,238	$106,095

One- to Four-Family Mortgage Lending. The Bank offers first mortgage loans secured by one- to four-family residences in the Bank's lending area. Typically, such residences are single-family homes that serve as the primary residence of the owner. The Bank generally originates and invests in one- to four-family residential mortgage loans in amounts up to 80% of the lesser of the appraised value or selling price of the mortgaged property. Loans originated in amounts over 80% of the lesser of the appraised value or selling price of the mortgaged property, other than loans to facilitate the sale of real estate acquired through foreclosure, must be owner-occupied and private mortgage insurance must be provided on the amount in excess of 80%.

Loan originations are obtained from existing or past customers, members of the local community, and referrals from established builders and realtors within the Bank's lending area using direct advertising in local newspapers, branch signage and promotions, and word of mouth referrals.

The Bank offers a variety of ARM loans with terms of 30 years which adjust at the end of 6 months, one, three, five, seven and ten years and adjust by a maximum of 1 to 2% per adjustment with a lifetime cap of 5 to 6% over the life of the loan.

The Bank offers fixed-rate mortgage loans with terms of 10 to 30 years, which are payable monthly. Interest rates charged on fixed-rate mortgage loans are competitively priced based on market conditions. The origination fees for fixed-rate loans range from 0% to 3% depending on the underlying loan coupon. Generally, the Bank's standard underwriting guideline for fixed-rate mortgage loans conform to the FHLMC and FNMA guidelines and may be sold in the secondary market. While it does not presently do so, the Bank has in the past sold a portion of its conforming fixed-rate mortgage loans in the secondary market to FHLMC and FNMA while retaining the servicing rights on certain loans. The Bank, however, has been primarily a portfolio lender. As of December 31, 2003, the Bank's portfolio of loans serviced for FHLMC or FNMA totaled approximately $2 million.

Beginning in December 2003 the Bank initiated a mortgage lending department that is separate as to its sales efforts from the consumer lending area of the Bank. In connection with this initiative, the Bank has hired a mortgage lending manager and several commissioned loan officers. The Bank will now offer, in addition to its standard portfolio loan products, other types of mortgage loans that will be originated in the name of, or sold on a servicing released basis to, third party investors. The mortgage loan officers will support the Bank's branches and customers, and additionally engage in calling efforts directed toward realtors, builders, and others that can be sources of lending business for the Bank. The Company expects to grow this line of business in the future, and may resume selling loans to FHLMC, FNMA, or others on a servicing retained basis.

Commercial Real Estate and Multi-Family Lending. The Bank originates loans secured by commercial real estate including non-owner occupied residential multi-family dwelling units (more than four units) primarily secured by professional office buildings and apartment complexes. The Bank generally originates commercial real estate and multi-family loans up to 75% of the appraised value of the property securing the loan. Currently, it is the Bank's philosophy to originate commercial real estate and multi-family loans only to borrowers known to the Bank and on properties in its market area. The commercial real estate and multi-family loans in the Bank's portfolio consist of fixed-rate, ARM and balloon loans which were originated at prevailing market rates for terms of up to 25 years. The Bank's current policy is to originate commercial real estate and multi-family loans as ARM's that are generally amortized over a period of 20 years or as balloon loans which generally have terms of 5 to 10 years, with 20-25 year amortization.

Loans secured by commercial and multi-family real estate are generally larger and involve a greater degree of risk than one- to four-family residential mortgage loans. Of primary concern in commercial and multi-family real estate lending is the borrower's creditworthiness and the feasibility and cash flow potential of the project. Loans secured by income properties are generally larger and involve greater risks than residential mortgage loans because payments on loans secured by income properties are often dependent on successful operation or management of the properties. As a result, repayment of such loans may be subject to a greater extent than residential real estate loans to adverse conditions in the real estate market or the economy. In order to monitor cash flows on income properties, the Bank requires borrowers and loan guarantors, if any, to provide annual financial statements and rent rolls on multi-family loans. At December 31, 2003, the five largest commercial real estate and multi-family loans totaled $22.2 million with no single loan larger than $6.5 million. At December 31, 2003, all such loans were current and the properties securing such loans are in the Bank's market area.

Construction Lending. At December 31, 2003, the Bank had $7 million of construction loans or 2% of the Bank's total loan portfolio. Construction financing is generally considered to involve a higher degree of risk of loss than long-term financing on improved, occupied real estate. Risk of loss on a construction loan is dependent largely upon the accuracy of the initial estimate of the property's value at completion of construction or development and the estimated cost (including interest) of construction. During the construction phase, a number of factors could result in delays and cost overruns. If the estimate of construction costs proves to be inaccurate, the Bank may be required to advance funds beyond the amount originally committed to permit completion of the development. If the estimate of

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value proves to be inaccurate, the Bank may be confronted, at or prior to the maturity of the loan, with a project having a value which is insufficient to assure full repayment.

Consumer and Other Lending. The Bank also offers consumer and other loans in the form of home equity and second mortgage loans (referred to hereinafter collectively as "second mortgage loans"), commercial business loans, automobile loans and student loans. These loans totaled $48 million or 12% of the Bank's total loan portfolio at December 31, 2003. Federal regulations permit federally chartered thrift institutions to make secured and unsecured consumer loans up to 35% of an institution's assets. In addition, a federal thrift has lending authority above the 35% category for certain consumer loans, property improvement loans, and loans secured by savings accounts. The Bank originates consumer loans in order to provide a wide range of financial services to its customers and because the shorter terms and normally higher interest rates on such loans help maintain a profitable spread between its average loan yield and its cost of funds.

In connection with consumer loan applications, the Bank verifies the borrower's income and reviews a credit bureau report. In addition, the relationship of the loan to the value of the collateral is considered. All automobile loan applications are reviewed and approved by the Bank. The Bank reviews the credit report of the borrower as well as the value of the unit which secures the loan.

The Bank focuses on the origination of consumer loans. Consumer loans tend to be originated at higher interest rates than conventional residential mortgage loans and for shorter terms which benefits the Bank's interest rate risk management. Consumer loans, however, tend to have a higher risk of default than residential mortgage loans. At December 31, 2003, $225,000 or 0.5% of the Bank's consumer loans were delinquent more than 90 days.

The Bank offers second mortgage loans on one- to four-family residences. At December 31, 2003, second mortgage and home equity loans totaled $25 million, or 6% of the Bank's total loan portfolio. Second mortgage loans are offered as fixed-rate loans for a term not to exceed 15 years. Such loans are only made on owner-occupied one- to four-family residences and are subject to a 75% combined loan to value ratio. The underwriting standards for second mortgage loans are the same as the Bank's standards applicable to one- to four-family residential loans.

Business Lending. Federal thrift institutions are permitted to make secured or unsecured loans for commercial, corporate, business or agricultural purposes, including the issuance of letters of credit secured by real estate, business equipment, inventories, accounts receivable and cash equivalents. The aggregate amount of such loans outstanding may not exceed 10% of such institution's assets.

The Bank makes commercial business loans on a secured basis. The terms of such loans generally do not exceed five years. The majority of these loans have floating interest rates which adjust with changes in market driven indices. The Bank's commercial business loans primarily consist of short-term loans for equipment, working capital, business expansion and inventory financing. The Bank customarily requires a personal guaranty of payment by the principals of any borrowing entity and reviews the financial statements and income tax returns of the guarantors. At December 31, 2003, the Bank had approximately $15 million outstanding in commercial business loans, which represented approximately 4% of its total loan portfolio.

Prior to 2002 the Bank purchased commercial leases; however, the Bank no longer engages in this activity. These lessees are generally small medical practitioners located throughout the United States. The average lease amount is less than $100,000. At December 31, 2003 the purchased lease portfolio totaled $1 million or 0.3% of total assets.

Loan Approval Authority and Underwriting. The Board of Directors of the Bank sets the authority to approve loans based on the amount, type of loan (i.e., secured or unsecured) and total exposure to the borrower. Where there are one or more existing loans to a borrower, the level of approval required is governed by the proposed total exposure including the new loan. The Board has approved loan authority and limits for certain of the bank's lending personnel and senior officers, including the president of the bank. Approval authority ranges from $25,000 to $500,000 for secured loans, and $5,000 to $25,000 for unsecured loans. Members of an in-house loan committee comprising the four most senior members of management approve all loans over $500,000. Any two members may combine their lending authority. A majority of the members may approve secured loans up to $1.5 million and unsecured loans up to $200,000. All loans of $1.5 million through $5 million require the approval of a Board Loan Committee composed of

four members of the Board of Directors of the Bank. All loans over $5 million or loans that cause the aggregate lending relationship to exceed $5 million must be approved by the Bank's Board of Directors.

One- to four-family residential mortgage loans are generally underwritten according to FHLMC and FNMA guidelines. For all loans originated by the Bank, upon receipt of a completed loan application from a prospective borrower, a credit report is ordered, income and certain other information is verified and, if necessary, additional financial information is requested. An appraisal of the real estate intended to secure the proposed loan is required which currently is performed by an independent appraiser designated and approved by the Bank. The Bank makes construction/permanent loans on individual properties. Funds advanced during the construction phase are held in a loan-in-process account and disbursed based upon various stages of completion. The independent appraiser or loan officer determines the stage of completion based upon its physical inspection of the construction. It is the Bank's policy to obtain title insurance or a title opinion on all real estate first mortgage loans. Borrowers must also obtain hazard or flood insurance (for loans on property located in a flood zone) prior to closing the loan. For loans in excess of 80% of the loan to value ratio, borrowers are generally required to advance funds on a monthly basis together with each payment of principal and interest to an escrow account from which the Bank makes disbursements for items such as real estate taxes and hazard insurance premiums.

Loans to One Borrower. Current regulations limit loans to one borrower in an amount equal to 15% of unimpaired capital and retained income on an unsecured basis and an additional amount equal to 10% of unimpaired capital and retained income if the loan is secured by readily marketable collateral (generally, financial instruments, not real estate) or $500,000, whichever is higher. Penalties for violations of the loan-to-one borrower statutory and regulatory restrictions include cease and desist orders, the imposition of a supervisory agreement and civil money penalties. The Bank's maximum loan-to-one borrower limit was approximately $7.0 million as of December 31, 2003.

At December 31, 2003, the Bank's five largest aggregate lending relationships had balances ranging from $4.8 to $6.6 million. At December 31, 2003, all of these loans were current.

Mortgage-Backed Securities

To supplement lending activities, the Bank invests in residential mortgage-backed securities. Although the majority of such securities are held to maturity, they can serve as collateral for borrowings and, through repayments, as a source of liquidity.

The mortgage-backed securities portfolio as of December 31, 2003, consisted of pass-through certificates issued by the Federal Home Loan Mortgage Corporation ("FHLMC") ($17 million), Government National Mortgage Association ("GNMA"), ($8 million) Federal National Mortgage Association ("FNMA") ($25 million), and real estate mortgage investment conduits formed by these same agencies ("REMICs") ($80 million.).

At December 31, 2003, the amortized cost of mortgage-backed securities totaled $131 million, or 22% of total assets, and the market value of such securities totaled approximately $132 million.

The Bank's mortgage-backed securities are so-called "pass-throughs" which represent a participation interest in a pool of single-family or multi-family mortgages, the principal and interest payments on which are passed from the mortgage originators, through intermediaries (generally quasi-governmental agencies) that pool and repackage the participation interests in the form of securities, to investors such as the Bank. Such quasi-governmental agencies, which guarantee the payment of principal and interest to investors, primarily include FHLMC, FNMA and GNMA. The REMIC securities are composed of the same loan types as the pass through certificates, but offer differing characteristics as to their expected cash flows depending on the class of such securities purchased. The Bank's REMICs are primarily "planned amortization classes" and "very accurately defined maturity classes" that, when purchased, offered a high probability of predictable cash flows.

The following table sets forth the carrying value of the Bank's mortgage-backed securities held in portfolio at the dates indicated.

At December 31,

	2003	2002	2001
	(In thousands)		
Held to maturity:			
GNMA-fixed rate	$ 8,007	$ 18,278	$ 29,877
FHLMC ARMs	71	91	131
FHLMC-fixed rate	8,336	21,779	34,869
FNMA-fixed rate	7,205	11,781	15,739
REMICs	11	2,519	12,550
Other mortgage-backed securities	--	144	201
Total mortgage-backed securities held to maturity	$ 23,630	$ 54,592	$ 93,367
Available-for-sale:			
FHLMC	$ 8,525	$ 699	$ 1,108
FNMA	18,385	11,878	22,459
GNMA	--	--	5,515
REMICs	79,864	102,666	70,681
Total mortgage-backed securities available-for-sale	$106,774	$115,243	$ 99,763

Mortgage-Backed Securities Maturity. The following table sets forth the maturity and the weighted average coupon ("WAC") of the Bank's mortgage-backed securities portfolio at December 31, 2003. The table does not include estimated prepayments. Adjustable-rate mortgage-backed securities are shown as maturing based on contractual maturities.

	Contractual Held To Maturity Maturities Due	WAC	Contractual Available -For-Sale Maturities Due	WAC
	(Dollars in thousands)			
Less than 1 year	$ 21	9.25%	$ 49	7.00%
1 to 3 years	78	7.89	3,828	4.00
3 to 5 years	2,456	7.36	410	7.16
5 to 10 years	1,428	7.13	38,116	5.71
10 to 20 years	2,283	5.66	42,932	4.74
Over 20 years	17,364	6.51	21,439	4.71
Total mortgage-backed securities	$ 23,630	6.56%	$106,774	5.06%

Non-Performing and Problem Assets

Loan Collection. When a borrower fails to make a required payment on a loan, the Bank takes a number of steps to have the borrower cure the delinquency and restore the loan to current status. In the case of residential mortgage loans and consumer loans, the Bank generally sends the borrower a written notice of non-payment after the loan is 15 days past due. In the event payment is not then received, additional letters and phone calls are made. If the loan is still not brought current and it becomes necessary for the Bank to take legal action, which typically occurs after a loan is delinquent more than 90 days, the Bank will commence foreclosure proceedings against any real property that secures the loan and attempt to repossess any personal property that secures a consumer loan. If a foreclosure action is instituted and the loan is not brought current, paid in full, or refinanced before the foreclosure sale, the real property securing the loan generally is sold at foreclosure.

In the case of commercial real estate and multi-family loans, and construction loans, the Bank generally attempts to contact the borrower by telephone after any loan payment is ten days past due and a senior loan officer reviews all collection efforts made if payment is not received after the loan is 30 days past due. Decisions as to when to commence foreclosure actions for commercial real estate and multi-family loans and construction loans are made on a case by case basis. The Bank may consider loan work-out arrangements with these types of borrowers in certain circumstances.

On mortgage loans or loan participations purchased by the Bank, the Bank receives monthly reports from its loan servicers with which it monitors the loan portfolio. Based upon servicing agreements with the servicers of the loan, the Bank relies upon the servicer to contact delinquent borrowers, collect delinquent amounts and to initiate foreclosure proceedings, when necessary, all in accordance with applicable laws, regulations and the terms of the servicing agreements between the Bank and its servicing agents. At December 31, 2003 the Bank used third-party servicers to service $94.3 million in mortgage loans, including one servicer that serviced $73.4 million. All of the Bank's third-party mortgage loan servicers are regulated financial institutions or are approved by either HUD, FNMA, or FHLMC to service loans on their behalf.

Delinquent Loans. Generally, the Bank reserves for uncollected interest on loans past due more than 90 days; these loans are included in the table of nonaccrual loans below. Loans also are placed on a nonaccrual status when, in the judgment of management, the probability of collection of interest is deemed to be insufficient to warrant further collection. When a loan is placed on nonaccrual status, previously accrued but unpaid interest is deducted from interest income and the further accrual of interest ceases unless the underlying facts that prompted a nonaccrual determination are deemed to have improved significantly.

Non-Performing Assets. The following table sets forth information regarding non-accrual loans and real estate owned by the Bank at the dates indicated. The Bank had no loans contractually past due more than 90 days for which accrued interest has been recorded.

Non-performing assets	At December 31,				
	2003	2002	2001	2000	1999
	(Dollars in thousands)				

Loans accounted for on a non-accrual basis:					
Mortgage loans:					
One- to four-family	$1,549	$1,013	$1,821	$ 869	$ 880
Commercial real estate and multi-family	296	1,677	1,725	180	24
Consumer and other	503	1,132	230	421	413
Total non-accrual loans	2,348	3,822	3,776	1,470	1,317
Real estate owned, net	868	84	30	176	546
Total non-performing assets	$3,216	$3,906	$3,806	$1,646	$1,863
Total non-accrual loans to loans	0.58%	1.03%	0.99%	0.41%	0.45%
Total non-accrual loans to total assets	0.39%	0.53%	0.53%	0.20%	0.18%
Total non-performing assets to total assets	0.53%	0.54%	0.54%	0.23%	0.26%

At December 31, 2003, the Bank had no foreign loans and no loan concentrations exceeding 10% of total loans not disclosed in above the table. "Loan concentrations" are considered to exist when there are amounts loaned to a multiple number of borrowers engaged in similar activities that would cause them to be similarly impacted by economic or other conditions. Loans recorded in the category of other real estate owned are valued at the lower of book value of loans outstanding or fair market value less cost of disposal.

At December 31, 2003, the Bank was not aware of any potential problem loans that are not otherwise included in the foregoing table. "Potential problem loans" are loans where information about possible credit problems of borrowers has caused management to have serious doubts about the borrowers' ability to comply with present repayment terms.

Classified Assets. OTS regulations provide for a classification system for problem assets of insured institutions which covers all problem assets. Under this classification system, problem assets of insured institutions are classified as "substandard," "doubtful," or "loss." An asset is considered "substandard" if it is inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. "Substandard" assets include those characterized by the "distinct possibility" that the insured institution will sustain "some loss" if the deficiencies are not corrected. Assets classified as "doubtful" have all of the weaknesses inherent in those classified "substandard," with the added characteristic that the weaknesses present make "collection or liquidation in full," on the basis of currently existing facts, conditions and values, "highly questionable and improbable." Assets classified as "loss" are those considered "uncollectible" and of such little value that their continuance as assets without the establishment of a specific loss reserve is not warranted. Assets designated "special mention" by management are assets included on the Bank's internal watchlist because of potential weakness but that do not currently warrant classification in one of the aforementioned categories.

When an insured institution classifies problem assets as either substandard or doubtful, it may establish general allowances for loan losses in an amount deemed prudent by management. General allowances represent loss allowances which have been established to recognize the inherent risk associated with lending activities, but which, unlike specific allowances, have not been allocated to particular problem assets. When an insured institution classifies all or a portion of a problem asset as "loss," it is required either to establish a specific allowance for losses equal to 100% of that portion of the asset so classified or to charge off such amount. An institution's determination as to the classification of its assets and the amount of its valuation allowances is subject to review by the OTS, which may order the establishment of additional general or specific loss allowances. A portion of general loss allowances established to cover possible losses related to assets classified as substandard or doubtful may be included in determining an institution's regulatory capital, while specific valuation allowances for loan losses generally do not qualify as regulatory capital.

The following table provides further information in regard to the Bank's classified assets as of December 31, 2003.

	At December 31, 2003
	(In thousands)
Special mention assets	$5,662
Substandard	3,073
Doubtful assets	146
Loss	--
Total classified assets..........	$8,881

Real Estate Owned. Real estate acquired by the Bank as a result of foreclosure, judgment or by deed in lieu of foreclosure is classified as real estate owned ("REO") until it is sold. When property is acquired it is recorded at the lower of fair value, minus estimated cost to sell, or cost. If the property subsequently decreases in estimated value from the initial recorded amount, the Bank will provide an additional valuation allowance, through a charge to earnings, if the decrease is judged by management to be temporary, or the Bank will write the property down, through a charge to earnings, to the new estimated value if the decrease is judged by management to be permanent.

The Bank records loans as in substance foreclosures if the borrower has little or no equity in the property based upon its documented current fair value and if the borrower has effectively abandoned control of the collateral or has continued to retain control of the collateral but because of the current financial status of the borrower it is doubtful the borrower will be able to repay the loan in the foreseeable future. In substance foreclosures are accounted for as loans until such time that title to the collateral is acquired by the Bank. There may be significant other expenses incurred such as attorney and other extraordinary servicing costs involved with in substance foreclosures.

Allowances for Loan Losses. The Bank provides valuation allowances for estimated losses from uncollectible loans. Management determines the adequacy of the allowance on a quarterly basis to ensure that a 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 estimate of probable losses. Several sources of data are used in making the evaluation as to the appropriateness of the allowance.

The Bank's watch list contains all loans which because of past payment history, a review of recent financial information, or other facts regarding the credit, pose a higher than normal amount of perceived risk of collection. Once a loan is deemed to pose other than a normal level of risk of collection, it moves to the classified asset list as either special mention, substandard, doubtful, or loss as required by regulatory guidelines. Classified assets also include all loans over 90 days past due according to the contractual repayment terms. These loans are automatically considered at least substandard. All loans not on the classified asset list are assigned a reserve factor that is based on the Corporation's actual loss experience over the last three years, with a small factor assigned to loans current as to their contractual payments, and an increased factor if the loan is 30 of 60 days past due. Classified loans with balances under $100,000 are typically pooled according to their underlying collateral, and a reserve factor assigned based on historical loss experience. Classified loans are evaluated on an individual basis if the loan balance exceeds $100,000. In such a case, the value of the underlying collateral, which is ordinarily real estate because of the nature of the Corporation's

predominant past lending activities, the cost of collection and disposition, and other factors are considered and an estimated reserve level is established. In establishing estimated reserves, current and projected economic conditions as they may affect the borrower and the collateral are considered. If prospects appear poor with respect to collateral disposition, for example, because of economic factors, a lower disposition value and thus a higher reserve level would be established. Similarly, the credit may be guaranteed by a governmental agency, or the collateral value may greatly exceed the loan balance such that no reserve is indicated for these loans that are nevertheless considered classified assets because of their delinquency. If a loan or a portion of a loan is judged to be unrecoverable, that amount is charged off. The calculated reserve determined using the methodologies described above is compared to the actual level of reserves; the difference reflects the imprecision of the multitude of assumptions that are made combined with the variability that can occur with a relatively small amount of troubled assets, and the reserve is maintained at reasonable levels by adjusting the provision that is charged to earnings.

The following table sets forth information with respect to the Bank's allowance for loan losses at the dates and for the periods indicated:

	For the Years Ended December 31,				
	2003	2002	2001	2000	1999
	(Dollars in thousands)				
Balance at beginning of period.......	$ 2,047	$ 1,972	$ 1,714	$ 1,917	$ 1,909
Provision for loan losses	330	988	500	410	300
Charge-offs:					
One- to four-family	(16)	(13)	--	--	--
Commercial and multi-family real estate loans	--	--	--	--	--
Consumer and other loans	(541)	(928)	(430)	(634)	(296)
Recoveries:					
One- to four-family	--	3	--	--	--
Commercial and multi-family real estate loans	--	--	--	--	--

Consumer and other loans	291	25	188	21	4
Balance at end of year	$ 2,111	$ 2,047	$ 1,972	$ 1,714	$ 1,917
Ratio of net charge-offs during the period to average loans outstanding during the period......	0.07%	0.25%	0.07%	0.20%	0.10%
Ratio of allowance for loan losses to non-performing loans at the end of the period.....	89.91%	53.56%	52.22%	116.0%	145.6%
Ratio of allowance for loan losses to loans receivable at the end of the period..........	0.52%	0.55%	0.52%	0.47%	0.66%
Ratio of allowance for loan losses and foreclosed real estate to total non-performing assets at the end of the period....	92.63%	52.41%	52.60%	114.8%	132.2%

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The following table sets forth the allocation of the Bank's allowance for loan losses by loan category and the percent of loans in each category to total loans receivable, gross, at the dates indicated. The portion of the loan loss allowance allocated to each loan category does not represent the total available for future losses which may occur within the loan category since the total loan loss allowance is a valuation reserve applicable to the entire loan portfolio.

	At December 31,							
	2003		2002		2001		2	
	Amount	Percent of Loans to Total Loans	Amount	Percent of Loans to Total Loans	Amount	Percent of Loans to Total Loans	Amount	Pe L To
	(Dollars in thousands)							
At end of period allocated to:								
One- to four-family ..	$ 277	68.2%	$ 119	61.3%	$ 216	58.4%	$ 97	
Commercial real estate and multi-family	1,230	18.3	1,021	23.0	1,100	24.6	835	
Construction	109	1.6	90	3.2	74	2.6	105	
Consumer and other loans	495	11.9	817	12.5	582	14.4	677	
Total allowance	$2,111	100.0%	$2,047	100.0%	$1,972	100.0%	$1,714	

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Investment Activities

The investment policy of the Bank, which is established by the Board of Directors and implemented by the Asset Liability Committee, is designed primarily to provide and maintain liquidity, to generate a favorable return on investments without incurring undue interest rate and credit risk, and to complement the Bank's lending activities. In establishing its investment strategies, the Bank considers its business and growth plans, the economic environment, the types of securities to be held and other factors. Federally chartered savings institutions have the authority to invest in various types of assets, including U.S. Treasury obligations, securities of various federal agencies, certain certificates of deposit of insured banks and savings institutions, certain bankers acceptances, repurchase agreements, loans on federal funds, and, subject to certain limits, commercial paper and mutual funds.

The following table sets forth certain information regarding the amortized cost and fair values of the Bank's investments at the dates indicated.

	At December 31,				
	2003		2002		
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortiz Cost
			(In thousands)		
Interest-earning deposits	$ 508	$ 508	$93,143	$93,143	$58,157
Investment securities held-to-maturity:					
U.S. government and agency obligations	$ 2,000	$ 2,011	$ 4,000	$ 4,125	$ --
State and political subdivisions	1,609	1,735	3,700	3,880	5,743
Corporate debt securities	6,780	7,069	6,863	7,182	4,123
Total	$10,389	$10,815	$14,563	$15,187	$ 9,866
Securities available-for-sale:					
U.S. government and agency obligations	$ 2,972	$ 2,947	$15,964	$16,084	$11,018
State and political subdivisions	10,677	10,493	453	464	--
Corporate Debt Securities	1,000	993	10,034	10,197	11,070
Mutual funds	--	--	500	498	500
Total	$14,649	$14,433	$26,951	$27,243	$22,588

Investment Portfolio Maturities

The following table sets forth certain information regarding the amortized cost, weighted average yields and maturities of the Bank's investment securities portfolio, exclusive of interest-earning deposits, at December 31, 2003. Yields on tax exempt obligations have been computed on a tax equivalent basis.

	One Year or Less		One to Five Years		Five to Ten Years		More than Ten Y	
	Amortized Cost	Average Yield	Amortized Cost	Average Yield	Amortized Cost	Average Yield	Amortized Cost	Ave Yi
							(Dollars in thousand	
U.S. government agency...	$ --	--%	$ 4,972	4.14%	$ --	--%	$ --	
Municipal obligations....	--	--	1,394	9.17	611	4.05	10,281	5
Corporate obligations....	1,004	4.03	6,776	4.23	--	--	--	
Total..................	$ 1,004	4.03%	$ 13,142	4.72%	$ 611	4.05%	$ 10,281	5

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(1) Includes $14.433 million of U.S. government agency and corporate obligations which are carried as available-for-sale at December 31, 2003. Investment securities available-for-sale are carried at fair value.

Sources of Funds

General. Deposits, borrowings, loan repayments and cash flows generated from operations are the primary sources of the Bank's funds for use in lending, investing and other general purposes.

Deposits. The Bank offers a variety of deposit accounts having a range of interest rates and terms. The Bank's deposits consist of regular savings, non-interest bearing checking, NOW checking, money market, and certificate accounts. Of the deposit accounts, $31 million or 7% consist of IRA, Keogh or SEP retirement accounts at December 31, 2003.

The flow of deposits is influenced significantly by general economic conditions, changes in money market and prevailing interest rates and competition. The Bank's deposits are primarily obtained from areas surrounding its offices, and the Bank relies primarily on customer service and long-standing relationships with customers to attract and retain these deposits. The Bank has maintained a high level of core deposits consisting of regular savings, money market, non-interest-bearing checking, and NOW checking, which has contributed to a low cost-of-funds. At December 31, 2003, core deposits amounted to 68% of total deposits.

The following table sets forth the distribution of the Bank's deposit accounts at the dates indicated and the weighted average nominal interest rates on each category of deposits presented. The Bank does not have significant amount of deposits from out-of-state sources. Management does not believe that the use of year end balances instead of average balances resulted in any material difference in the information presented.

	At December 31,						
	2003			2002			
	Amount	Percent of Total Deposits	Weighted Average Nominal Rate	Amount	Percent of Total Deposits	Weighted Average Nominal Rate	Amoun
	(Dollars in thousands)						
Transaction Accounts							
Interest-bearing checking accounts	$ 52,647	11.46	0.47%	$ 48,496	10.96	0.60%	$ 46,9
Money market accounts ...	44,688	9.73	0.91	43,677	9.87	1.00	42,5
Non-interest-bearing checking accounts	26,375	5.74	0.00	20,810	4.70	0.00	18,2
Total transaction accounts	123,710	26.93		112,983	25.53		107,7
Passbook accounts	188,673	41.07	0.94	182,813	41.31	1.51	169,5
Certificates of deposit .	146,960	32.00	2.43	146,762	33.16	2.84	144,7
Total deposits	$459,343	100.00%	1.31%	$442,558	100.00%	1.73%	$422,0

At December 31, 2003, the Bank had outstanding certificates of deposit in amounts of $100,000 or more maturing as follows:

Maturing Period	Amount (In thousands)
Three months or less.......................	$ 2,806
Over three through six months..............	2,343
Over six through 12 months.................	7,018
Over 12 months.............................	10,038
Total..................................	$ 22,205

Borrowings

Deposits are the primary source of funds of the Bank's lending and investment activities and for its general business purposes. The Bank may obtain advances from the FHLB of Pittsburgh to supplement its supply of lendable funds. Advances from the FHLB of Pittsburgh are typically secured by a pledge of the Bank's stock in the FHLB of Pittsburgh and a portion of the Bank's first mortgage loans and certain other assets. The Bank, if the need arises, may also access the Federal Reserve Bank discount window. The following tables set forth the maximum month-end balance, period ending balance, and weighted average balance of outstanding FHLB advances at the dates and for the periods indicated, together with the applicable weighted average interest rates.

	At December 31,		
	2003	2002	2001
	(Dollars in thousands)		
FHLB advances and other borrowings	$ 86,853	$ 207,359	$ 223,359
Weighted average interest rate	2.98%	5.46%	5.46%

	Years Ended December 31,		
	2003	2002	2001
	(Dollars in thousands)		
Maximum balance of FHLB advances and other borrowings outstanding	$ 207,359	$ 222,359	$ 259,821
Weighted average balance of FHLB advances and other borrowings outstanding	$ 162,695	$ 218,578	$ 229,473
Weighted average interest rate of FHLB advances and other borrowings	5.08%	5.46%	5.53%

Subsidiary Activity

The Bank is permitted to invest up to 2% of its assets in the capital stock of, or secured or unsecured loans to, subsidiary corporations, with an additional investment of 1% of assets when such additional investment is utilized primarily for community development purposes. Under such limitations, as of December 31, 2003, the Bank was authorized to invest up to approximately $12.1 million in the stock of, or loans to, service corporations (based upon the 2% limitation). In addition, the Bank can designate a subsidiary as an operating subsidiary, in which there is no percentage of assets investment limitation, if it engages only in activities in which it would be permissible for the Bank to engage. At December 31, 2003, the Bank had one subsidiary, Third Delaware Corporation. Third Delaware Corporation is a wholly-owned operating subsidiary of the Bank and was formed in 1998 for the purpose of investing in marketable securities. At December 31, 2003, the Bank had $118 million invested in Third Delaware Corporation.

Personnel

As of December 31, 2003, the Bank had 161 full-time and 20 part-time employees. None of the Bank's employees are represented by a collective bargaining group. The Bank believes that its relationship with its employees is good.

Executive Officers of the Registrant

Executive Officers of the Company and the Bank:

Kent C. Lufkin currently serves as President and Chief Executive Officer of the Company and the Bank and was appointed to such offices effective June 30, 2003. Mr. Lufkin joined the Bank in 2000 and formerly served as Senior Vice President and Retail Banking Officer. Prior to that, Mr. Lufkin was President and Chief Executive Officer of Roebling Bank in Roebling, New Jersey since 1996.

Dennis R. Stewart has been Executive Vice President and Chief Financial Officer of the Bank and the Company since July 2003, and Senior Vice President and Chief Financial Officer of the Bank and the Company since 1999. Prior to that, Mr. Stewart served as Executive Vice President and Chief Financial Officer of First Coastal Bank in Virginia Beach, Virginia, where he had been employed since 1990.

Elizabeth Davidson Maier is Senior Vice President and Secretary of the Bank and the Company and has been with the Bank since 1964. Ms. Maier has been an officer of the Bank since 1974. Prior to that, Ms. Maier held various positions at the Bank.

Floyd P. Haggar has been with the Bank since 1998. Mr. Haggar currently serves as Senior Vice President and Chief Lending Officer of the Bank. His prior experience includes four years as Senior Vice President and Senior Loan Officer at Carnegie Bank in Princeton, New Jersey.

Cynthia G. Mullen has been Senior Vice President and Retail Banking Officer of the Bank since July 2003. Previously she was a twenty-three year employee of Commonwealth Bank in Norristown, Pennsylvania, holding a variety of positions, including Vice President of Traditional Banking.

The remaining information relating to Directors and Executive Officers of the Registrant is incorporated herein by reference to the Registrant's Proxy Statement for the 2004 Annual Meeting of Stockholders.

REGULATION

Set forth below is a brief description of all material laws and regulations which relate to the regulation of the Bank and the Company. The description does not purport to be complete and is qualified in its entirety by reference to applicable laws and regulations.

On July 30, 2002, President Bush signed into law the Sarbanes-Oxley Act of 2002 (the "Act"). The Securities and Exchange Commission (the "SEC") has promulgated new regulations pursuant to the Act and may continue to propose additional implementing or clarifying regulations as necessary in furtherance of the Act. The passage of the Act by Congress and the implementation of new regulations by the SEC subject publicly-traded companies to additional and more cumbersome reporting regulations and disclosure. Compliance with the Act and corresponding regulations may increase the Company's expenses.

Company Regulation

General. The Company is a unitary savings and loan holding company subject to regulatory oversight by the OTS. As such, the Company is required to register and file reports with the OTS and is subject to regulation and examination by the OTS. In addition, the OTS has enforcement authority over the Company and its non-savings association subsidiaries, should such subsidiaries be formed, which also permits the OTS to restrict or prohibit activities that are determined to be a serious risk to the subsidiary savings association. This regulation and oversight is intended primarily for the protection of the depositors of the Bank and not for the benefit of stockholders of the Company. The Company is also required to file certain reports with, and otherwise comply with, the rules and regulations of the OTS and the SEC.

Financial Modernization. The Gramm-Leach-Bliley Act ("GLB") permits qualifying bank holding companies to become financial holding companies and thereby affiliate with securities firms and insurance companies and engage in other activities that are financial in nature. GLB defines "financial in nature" to include securities underwriting, dealing and market making; sponsoring mutual funds and investment companies; insurance underwriting and agency; merchant banking activities; and activities that the Federal Reserve Board has determined to be closely related to banking. A qualifying national bank also may engage, subject to limitations on investment, in activities that are financial in nature, other than insurance underwriting, insurance company portfolio investment, real estate development, and real estate investment, through a financial subsidiary of the bank.

GLB also prohibits new unitary thrift holding companies from engaging in nonfinancial activities or from affiliating with a nonfinancial entity. As a grandfathered unitary thrift holding company, the Company has retained its authority to engage in nonfinancial activities.

QTL Test. As a unitary savings and loan holding company, the Company generally is not subject to activity restrictions, provided the Bank satisfies the QTL test. If the Company acquires control of another savings association as a separate subsidiary, it would become a multiple savings and loan holding company, and the activities of the Company and any of its subsidiaries (other than the Bank or any other SAIF-insured savings association) would become subject to restrictions applicable to bank holding companies unless such other associations each also qualify as a QTL and were acquired in a supervisory acquisition.

Bank Regulation

General. As a federally chartered, SAIF-insured savings association, the Bank is subject to extensive regulation by the OTS and the FDIC. Lending activities and other investments must comply with various federal statutory and regulatory requirements. The Bank is also subject to certain reserve requirements promulgated by the Federal Reserve Board.

The OTS, in conjunction with the FDIC, regularly examines the Bank and prepares reports for the consideration of the Bank's Board of Directors on any deficiencies that they find in the Bank's operations. The Bank's relationship with its depositors and borrowers is also regulated to a great extent by federal law, especially in such matters as the ownership of savings accounts and the form and content of the Bank's mortgage documents.

The Bank must file reports with the OTS and the FDIC concerning its activities and financial condition, in addition to obtaining regulatory approvals prior to entering into certain transactions such as mergers with or acquisitions of other savings institutions. This regulation and supervision establishes a comprehensive framework of activities in which an institution can engage and is intended primarily for the protection of the SAIF and depositors. The regulatory structure also gives the regulatory authorities extensive discretion in connection with their supervisory and enforcement activities and examination policies, including policies with respect to the classification of assets and the establishment of adequate loan loss reserves for regulatory purposes. Any change in such regulations, whether by the OTS, the FDIC or the Congress could have a material adverse impact on the Company, the Bank and their operations. The Company is also required to file certain reports with, and otherwise comply with, the rules and regulations of the OTS and the SEC.

Insurance of Deposit Accounts. The Bank's deposit accounts are insured by the SAIF to a maximum of $100,000 for each insured member (as defined by law and regulation). The FDIC has the authority, should it initiate proceedings to terminate an institution's deposit insurance, to suspend the insurance of any such institution without tangible capital. However, if a savings association has positive capital when it includes qualifying intangible assets, the FDIC cannot suspend deposit insurance unless capital declines materially, the institution fails to enter into and remain in compliance with an approved capital plan or the institution is operating in an unsafe or unsound manner.

Regardless of an institution's capital level, insurance of deposits may be terminated by the FDIC upon a finding that the institution has engaged in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC or the institution's primary regulator. The management of the Bank is unaware of any practice, condition or violation that might lead to termination of its deposit insurance.

The FDIC charges an annual assessment for the insurance of deposits based on the risk a particular institution poses to its deposit insurance fund. This risk classification is based on an institution's capital group and supervisory subgroup assignment.

Regulatory Capital Requirements. OTS capital regulations require savings institutions to meet three capital standards: (1) tangible capital equal to 1.5% of total adjusted assets, (2) a leverage ratio (core capital) equal to at least 4% of total adjusted assets and (3) a risk-based capital requirement equal to 8.0% of total risk-weighted assets. In addition, the OTS prompt corrective action regulation provides that a savings institution that has a leverage capital ratio of less than 4% (3% for institutions receiving the highest examination rating) will be deemed to be "undercapitalized" and may be subject to certain restrictions.

At December 31, 2003, the Bank was in compliance with all of its regulatory capital requirements.

Dividend and Other Capital Distribution Limitations. The Bank may not declare or pay a cash dividend on its capital stock if the effect thereof would be to reduce the regulatory capital of the Bank below the amount required for the liquidation account established at the time of the Bank's mutual-to-stock conversion.

Savings associations that would remain at least adequately capitalized following the capital distribution, and that meet other specified requirements, are not required to file a notice or application for capital distributions (such as cash dividends) declared below specified amounts. Savings associations which are eligible for expedited treatment under current OTS regulations are not required to file an application with the OTS if (i) the savings association would remain at least adequately capitalized following the capital distribution and (ii) the amount of capital distribution does not exceed an amount equal to the savings association's net income for that year to date, plus the savings association's retained net income for the previous two calendar years. Thus, only undistributed net income for the prior two years may be distributed in addition to the current year's undistributed net income without the filing of an application with the OTS. Savings associations which do not qualify for expedited treatment or which desire to make a capital distribution in excess of the specified amount, must file an application with, and obtain the approval of, the OTS prior to making the capital distribution. A savings association such as the Bank that is a subsidiary of a savings and loan holding company, and under certain other circumstances, must file a notice with OTS prior to making the capital distribution.

Qualified Thrift Lender Test. The Home Owners' Loan Act ("HOLA"), as amended, requires savings institutions to meet a QTL test. If the Bank maintains an appropriate level of Qualified Thrift Investments (primarily residential mortgages and related investments, including certain mortgage-backed securities) ("QTIs") and otherwise qualifies as a QTL, it will continue to enjoy full borrowing privileges from the FHLB of Pittsburgh. The required percentage of QTIs is 65% of portfolio assets (defined as all assets minus intangible assets, property used by the institution in conducting its business and liquid assets equal to 10% of total assets). Certain assets are subject to a percentage limitation of 20% of portfolio assets. In addition, savings associations may include shares of stock of the FHLBs, FNMA and FHLMC as qualifying QTIs. The FDICIA also amended the method for measuring compliance with the QTL test to be on a monthly basis in nine out of every 12 months, as opposed to on a daily or weekly average of QTIs. As of December 31, 2003, the Bank was in compliance with its QTL requirement with 78% of its assets invested in QTIs.

Federal Home Loan Bank System. The Bank is a member of the FHLB of Pittsburgh, one of 12 regional FHLBs that administer the home financing credit function of savings associations. Each FHLB serves as a reserve or central bank for its members within its assigned region. It is funded primarily from proceeds derived from the sale of consolidated obligations of the FHLB System. It makes loans to members (i.e., advances) in accordance with policies and procedures established by the Board of Directors of the FHLB.

As a member, the Bank is required to purchase and maintain stock in the FHLB of Pittsburgh in an amount equal to at least 1% of its aggregate unpaid residential mortgage loans, home purchase contracts or similar obligations at the beginning of each year. At December 31, 2003, the Bank had $6.8 million in FHLB stock, which was in compliance with this requirement.

Federal Reserve System. The Federal Reserve Board requires all depository institutions to maintain non-interest bearing reserves at specified levels against their transaction accounts (primarily checking, NOW and Super NOW checking accounts) and non-personal time deposits. The balances maintained to meet the reserve requirements imposed by the Federal Reserve Board may be used to satisfy the liquidity requirements that are imposed by the OTS. At December 31, 2003, the Bank's total transaction accounts required a reserve level of $4.7 million which was offset by the Bank's vault cash on hand and cash on deposit at the Federal Reserve Bank of Philadelphia.

Savings associations have authority to borrow from the Federal Reserve Bank "discount window," but Federal Reserve policy generally requires savings associations to exhaust all OTS sources before borrowing from the Federal Reserve System. The Bank had no such borrowings at December 31, 2003.

Item 2. Properties

The Company is located and conducts its business at 3 Penns Trail, Newtown, Pennsylvania. At December 31, 2003, the Bank operated from its administrative offices and fourteen branch offices located in Philadelphia and Bucks Counties, Pennsylvania and Mercer County, New Jersey. The Bank also owns two parcels of land and a building behind its Doylestown branch office. The parcel with the building is available to be leased to a third-party and the other parcel is used as a parking lot for employees of the Bank and tenants. The net book value of the two lots was $100,000. In addition, a subsidiary of the Company, Penns Trail Development Corporation, owns investment property with a book value of $761,000.

The following table sets forth certain information regarding the Bank's operating properties:

Location	Leased or Owned	Location	Leased Owned
ADMINISTRATIVE OFFICE Newtown Office 3 Penns Trail Newtown, PA 18940	Owned	OPERATIONS OFFICE Operations Center 62 Walker Lane Newtown, PA 18940(1)	Owned
BRANCH OFFICES Frankford Office 4625 Frankford Avenue Philadelphia, PA 19124	Leased	Newtown Office 950 Newtown Yardley Road Newtown, PA 18940	Lease
Ewing Office 2075 Pennington Road Ewing, NJ 08618	Owned	Mayfair Office Roosevelt Blvd. at Unruh Philadelphia, PA 19149	Owned
Hamilton Office 1850 Route 33 Hamilton Square, NJ 08690	Owned	Doylestown Office 60 North Main Street Doylestown, PA 18901	Owned

Fishtown Office York & Memphis Streets Philadelphia, PA 19125	Owned	Feasterville Office Buck Hotel Complex Feasterville, PA 19053	Lease
Cross Keys Office 834 North Easton Highway Doylestown, PA 18901	Owned	Quakerbridge Office 590 Lawrence Square Blvd. Lawrenceville, NJ 08648	Lease
Bridesburg Office Orthodox & Almond Streets Philadelphia, PA 19137	Owned	Woodhaven Office Knights Road Center 4014 Woodhaven Road Philadelphia, PA 19154	Lease
New Britain Office 600 Town Center New Britain, PA 18901	Leased	Northern Liberties Office 905 North 2nd Street Philadelphia, PA 19123	Lease

(1) This office serves as the computer operations center, check processing area, training center, mail processing and storage center for the Bank.

Item 3. Legal Proceedings

Neither the Company nor its subsidiaries are involved in any pending legal proceedings, other than routine legal matters occurring in the ordinary course of business, which in the aggregate involve amounts which are believed by management to be immaterial to the consolidated financial condition or results of operations of the Company.

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

None.

PART II

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

Information relating to the market for Registrant's common equity and related stockholder matters appears under the section captioned "Stock Market Information" in the Registrant's 2003 Annual Report to Stockholders and is incorporated herein by reference.

Item 6. Selected Financial Data

The above-captioned information appears under the section captioned "Selected Financial and Other Data" in the Registrant's 2003 Annual Report to Stockholders and is incorporated herein by reference.

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

The information under the section captioned "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Registrant's 2003 Annual Report to Stockholders is incorporated herein by reference.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

Asset and Liability Management

Managing Interest Rate Risk. Interest rate risk is defined as the sensitivity of the Bank's current and future earnings as well as its capital to changes in the level of market interest rates. The Bank's exposure to interest rate risk results from, among other things, the difference in maturities in interest-earning assets and interest-bearing liabilities. Since the Bank's assets currently have a longer maturity than its liabilities, the Bank's earnings could be negatively impacted during a period of rising interest rates and conversely, positively impacted during a period of falling interest rates. The relationship between the interest rate sensitivity of the Bank's assets and liabilities is continually monitored by management. In this regard, the Bank emphasizes the origination of shorter term or adjustable rate assets for portfolio.

The Bank utilizes its investment and mortgage-backed security portfolios to generate additional interest income and in managing its liquidity. These securities are readily marketable and provide the Bank with a cash flow stream to fund asset growth or liability maturities.

A significant portion of the Bank's assets has been funded with CDs including jumbo CDs. Unlike other deposit products such as checking and savings accounts, CDs carry a high degree of interest rate sensitivity and, therefore, their renewal will vary based on the competitiveness of the Bank's interest rates. At December 31, 2003, approximately 32% of the Bank's deposits were CDs.

The Bank utilizes borrowings from the FHLB in managing its interest rate risk and as a tool to augment deposits in funding asset growth. The Bank may utilize these funding sources to better match its longer term repricing assets (i.e., between one and five years).

The nature of the Bank's current operations is such that it is not subject to foreign currency exchange or commodity price risk. Additionally, neither the Company nor the Bank owns any trading assets. At December 31, 2003, the Bank did not have any hedging transactions in place such as interest rate swaps, caps, or floors.

As part of its interest rate risk management, the Bank uses the Interest Rate Risk Exposure Report, which is generated quarterly by the OTS. This report forecasts changes in the Bank's market value of portfolio equity ("MVPE") under alternative interest rate environments. The MVPE is defined as the net present value of the Bank's existing assets, liabilities and off-balance sheet instruments. The calculated estimates of change in MVPE at December 31, 2003 are as follows:

	MVPE	
Change in Interest Rates (1)	Amount	% Change
	(In Thousands)	

+300 Basis Points	$ 43,395	-44%
+200 Basis Points	$ 54,954	-29%
+100 Basis Points	$ 66,554	-14%
Flat Rates	$ 77,479	0%
-100 Basis Points	$ 83,333	+8%

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(1) The -200 and -300 bp scenarios are not shown due to the low interest rate environment.

Management believes that the assumptions utilized by OTS in evaluating the vulnerability of the Company's capital to changes in interest rates are reasonable; however, the interest rate sensitivity of the Bank's assets and liabilities as well as the estimated effect of changes in interest rates on MVPE could vary substantially if different assumptions are used or actual experience differs from the experience on which the assumptions were based.

In the event the Bank should measure an excessive decline in its MVPE as the result of an immediate and sustained change in interest rate, it has a number of options which it could utilize to remedy that situation. The Bank could restructure its investment portfolio through sale or purchase of securities with more favorable repricing attributes. It could also emphasize loan products with appropriate maturities or repricing attributes, or it could attract deposits or obtain borrowings with desired maturities.

Item 8. Financial Statements and Supplementary Data

The Consolidated Financial Statements of TF Financial Corporation and its subsidiaries included in the Registrant's 2003 Annual Report to Stockholders are incorporated herein by reference.

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

None.

Item 9A. Controls and Procedures

(a) Evaluation of disclosure controls and procedures. Based on their evaluation of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act")), the Company's principal executive officer and principal financial officer have concluded that as of the end of the period covered by this Annual Report on Form 10-K such disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms.

(b) Changes in internal control over financial reporting. During the last quarter of the year under report there was no change in the Company's internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART III

Item 10. Directors and Executive Officers of the Registrant

The information contained under the sections captioned "Proposal 1 - Election of Directors -- General Information and Nominees" and "-- Biographical Information" and "Additional Information About Directors and Executive Officers -- Section 16(a) Beneficial Ownership Reporting Compliance" in the Registrant's definitive proxy statement for the Registrant's 2004 Annual Meeting of Stockholders (the "Proxy Statement") is incorporated herein by reference.

Additional information concerning executive officers is included under "Item 1. Business -- Executive Officers of the Registrant."

The Company has adopted a Code of Ethics that applies to its principal executive officer, principal financial officer, principal accounting officer or persons performing such functions. The Code of Ethics can be obtained without charge by sending a written request to the Corporate Secretary, TF Financial Corporation, 3 Penns Trail, Newtown, Pennsylvania 18940.

Item 11. Executive Compensation

The information relating to executive compensation is incorporated herein by reference to the information contained under the section captioned "Director and Executive Officer Compensation" in the Registrant's Proxy Statement.

Item 12. Security Ownership of Certain Beneficial Owners and Management

(a) Security Ownership of Certain Beneficial Owners

Information required by this item is incorporated herein by reference to the Section captioned "Voting Securities and Principal Holders Thereof" in the Registrant's Proxy Statement.

(b) Security Ownership of Management

Information required by this item is incorporated herein by reference to the section captioned "Proposal 1 -- Election of Directors" in the Registrant's Proxy Statement.

(c) Management of the Company knows of no arrangements, including any pledge by any person of securities of the Company, the operation of which may at a subsequent date result in a change in control of the registrant.

(d) Securities Authorized for Issuance Under Equity Compensation Plans

Set forth below is information as of December 31, 2003 with respect to compensation plans under which equity securities of the Registrant are authorized for issuance.

EQUITY COMPENSATION PLAN INFORMATION

	(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	Num rema future c (e refl
Equity compensation plans approved by shareholders(1).........	560,714	$15.43	
Equity compensation plans not approved by shareholders(2).....	25,000	14.75	
TOTAL...........................	585,714	$15.40	

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(1) Plans approved by stockholders include: TF Financial Corporation 1994 Stock Option Plan, TF Financial Corporation 1997 Stock Option Plan.

(2) Plans not approved by stockholders include: TF Financial Corporation 1996 Directors Stock Option Plan For information regarding the material features of these plans, see Note A8 to the Consolidated Financial Statements included as part of Exhibit 13 to this report.

Item 13. Certain Relationships and Related Transactions

The information relating to certain relationships and related transactions is incorporated herein by reference to the information contained under the section captioned "Additional Information About Directors and Executive Officers -- Certain Relationships and Related Transactions" in the Registrant's Proxy Statement.

Item 14. Principal Accounting Fees and Services

The information relating to this item is incorporated herein by reference to the information contained under the section captioned "Principal Accounting Firm Fees" in the Registrant's Proxy Statement.

PART IV

Item 15. Exhibits, Financial Statements and Reports on Form 8-K

(a) The following documents are filed as a part of this report:

(1) The following financial statements and the report of the independent auditor of the Company included in the Company's 2003 Annual Report to Stockholders are incorporated herein by reference.

Independent Auditors' Report
Consolidated Statements of Financial Position as of December 31, 2003 and 2002
Consolidated Statements of Earnings For the Years Ended December 31, 2003, 2002 and 2001
Consolidated Statement of Changes in Stockholders' Equity and Comprehensive Income for the Years Ended December 31, 2003, 2002 and 2001
Consolidated Statements of Cash Flows for the Years Ended December 31, 2003, 2002 and 2001
Notes to Consolidated Financial Statements

The remaining information appearing in the Annual Report to Stockholders is not deemed to be filed as part of this report, except as expressly provided herein.

(2) All schedules are omitted because they are not required or applicable, or the required information is shown in the consolidated financial statements or the notes thereto.

(3) Exhibits

(a) The following exhibits are filed as part of this report.

3.1	Certificate of Incorporation of TF Financial Corporation (1)
3.2	Bylaws of TF Financial Corporation (1)
4.0	Stock Certificate of TF Financial Corporation (1)
4.1	The Company's Rights Agreement dated November 22, 1995 (2)
10.1	Third Federal Savings and Loan Association Management Stock Bonus Plan (1)
10.2	TF Financial Corporation 1994 Stock Option Plan (1)
10.3	Third Federal Savings Bank Directors Consultation and Retirement Plan (3)
10.4	TF Financial Corporation Incentive Compensation Plan (3)
10.5	Severance Agreement with Kent C. Lufkin (4)
10.6	Severance Agreement with Floyd P. Haggar (4)
10.7	Severance Agreement with Dennis R. Stewart (5)
10.8	TF Financial Corporation 1997 Stock Option Plan (6)
10.9	Severance Agreement with Robert N. Dusek (7)
10.10	TF Financial Corporation 1996 Directors Stock Option Plan (8)
10.11	Retirement and Non-Competition Agreement with John R. Stranford
10.12	Employment Agreement with John R. Stranford
13.0	2003 Annual Report to Stockholders
21.0	Subsidiary Information
23.0	Consent of Independent Auditor
31.0	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.0	Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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(1) Incorporated herein by reference from the Exhibits to Form S-1, Registration Statement, File No. 33-76960.
(2) Incorporated herein by reference to the Registrants Form 8-A filed with the Securities and Exchange Commission on November 22, 1995.
(3) Incorporated herein by reference to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1995.
(4) Incorporated herein by reference to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2000.
(5) Incorporated herein by reference to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1999.
(6) Incorporated herein by reference to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1997.
(7) Incorporated herein by reference to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2001.
(8) Incorporated herein by reference to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2002.

(b) Reports on Form 8-K.

On October 28, 2003 the Company filed Form 8-K wherein the Company included the press release announcing the Company's earnings for the third quarter of 2003.

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SIGNATURES

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

TF FINANCIAL CORPORATION

Dated: March 26, 2004

By: /s/ Kent C. Lufkin

Kent C. Lufkin
President, Chief Executive Officer
(Duly Authorized Representative)

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this Report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated as of March 26, 2004.

By: /s/ Kent C. Lufkin	By: /s/ Dennis R. Stewart
Kent C. Lufkin	Dennis R. Stewart

President, Chief Executive Officer (Principal Executive Officer)	Executive Vice President, Chief Financial Officer and Treasurer (Principal Financial and Accounting Officer)
By: /s/ Carl F. Gregory Carl F. Gregory Director	By: /s/ Robert N. Dusek Robert N. Dusek Chairman of the Board
By: /s/ Dennis L. McCartney Dennis L. McCartney Director	By: /s/ George A. Olsen George A. Olsen Director
By: /s/ Albert M. Tantala Albert M. Tantala Director	By: /s/ John R. Stranford John R. Stranford Director