ANNUAL REPORT 2003

WE'RE ON THE MOVE!

NEW CENTURY BANK

Table of Contents

To Our Shareholders, Customers and Community

Ken Mumma, Chairman & CEO

2003 was another year of unprecedented success for New Century Bank. We earned a record $0.55 per share, a 41% gain over 2002, growing revenues while positioning our infrastructure for expansion.

Highlights of last year's performance reflect outstanding results in virtually every segment of the business.

- ❖ Assets growth was 21% for the year
- ❖ Net loans grew by 20%
- ❖ Deposits grew by 12%
- ❖ Net interest income increased 26%
- ❖ The net interest margin grew to 3.84%, an increase of 32 basis points over 2002
- ❖ This bank wide progress resulted in Net Income of $703 thousand, a 65% gain over 2002

We take encouragement from these results for we think it indicates that the marketplace is responding quite positively to the New Century business model. This model focuses on small businesses, professionals and non-profit organizations – a community lending focus.

In addition to the highlights above, a significant investment was made in the infrastructure of the Bank to enable us to manage the high rate of growth we have been experiencing. In particular, we rented additional space in our corporate headquarters complex to provide adequate space to our Operations, Credit Administration and Accounting Departments. We also added management level staff to our Operations and Credit Administration Departments. Though expenses increased by 20%, total revenues grew by 26% and net income grew by 65%.

While these accomplishments represent progress, we continue to look forward to an even brighter future. We regard the year 2003 as an important milestone. The New Century Board and management recognize that the Bank's potential value lies in our ability to expand our network as we continue to grow our earnings.

We received approvals to open a new branch banking office in Wayne, PA. This new branch bank, located in the center of the busiest retail area in Wayne, will include an experienced commercial lender. The grand opening will occur in the second quarter of 2004 and every shareholder will be invited to come and share in the opening events.

We plan to continue adding one to two branch banking offices per year for the next several years. Our plans for expansion hinge on a network of branch banking offices designed to place experienced lenders in each community and neighborhood we serve. These branch facilities will emphasize our personalized commercial lending services, while providing the customer friendly retail experience to which our customers have become accustomed.

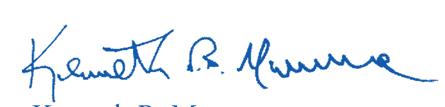
We plan to offer title insurance and real estate settlement services. This is in keeping with our commitment to investing in business lines that complement our core banking services. While providing added revenue to the Bank, these services should provide an extension of the New Century experience for our real estate lending customers.

While it is my pleasure to recount these highlights of 2003 to you, I also want to take the opportunity to remember that New Century Bank is very much a team effort.

- ❖ The New Century Board of Directors continues to be intensely involved and focused on the performance of the bank.
- ❖ The senior management team is a tested group of experienced professional bankers. Our staff is experienced and committed to serving each customer. It is because of their hard work that I can present such a positive report on 2003.
- ❖ Each of our bankers is concerned that each New Century customer have a positive banking experience. While many of our customers are our friends and neighbors, it is important that their banking experiences with us be professional, efficient and friendly.
- ❖ I also include each New Century Bank shareholder as a member of our team. We appreciate your support and recognize our responsibility to continue to grow this company into a bank of which you can be proud.

It is important that we continue to be a positive force in every community in which we have a presence. The stronger we can make the performance of New Century Bank, the better we can fulfill that part of the New Century mission. I am pleased to be able to provide this encouraging report to you. Every one of us pledges to do our best throughout 2004 to continue to earn your support.

Sincerely,



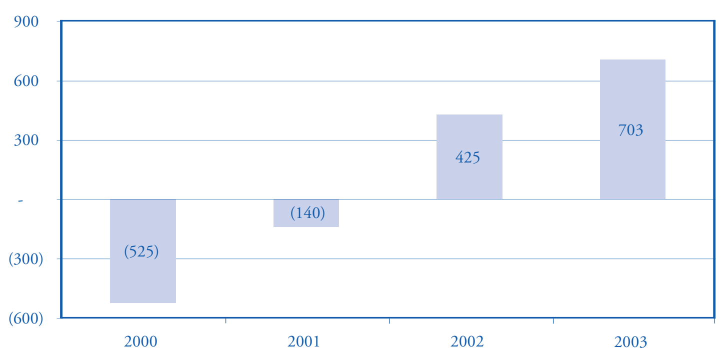
Kenneth B. Mumma
Chairman and Chief Executive Officer

Financial Highlights

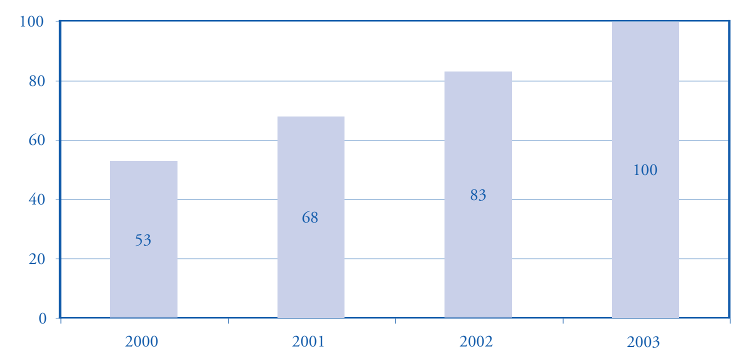
Dollar amounts in thousands except per share data.

	2003	2002	Change
For The Year			
Net interest income	$ 4,074	$ 3,240	26%
Other income	346	246	41%
Other expenses	3,437	2,860	20%
Net income	703	425	65%
Earnings per share	0.55	0.39	41%
At Year End			
Total assets	$ 122,480	$ 101,352	21%
Net loans	99,584	82,843	20%
Deposits	100,911	90,167	12%
Stockholders' equity	8,660	7,774	11%
Selected Ratios			
Return on average assets	0.65%	0.45%	
Return on average equity	8.59%	7.02%	

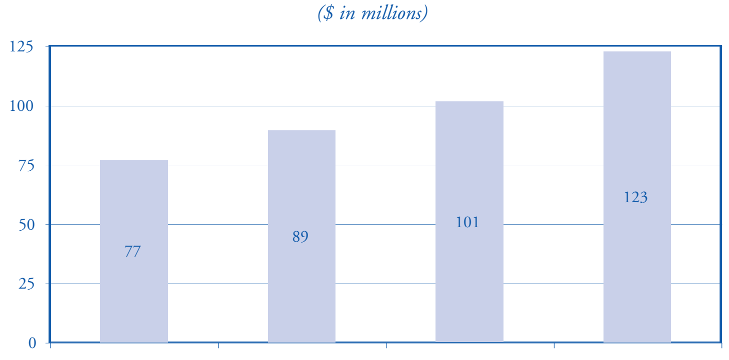
NET INCOME
($ in thousands)



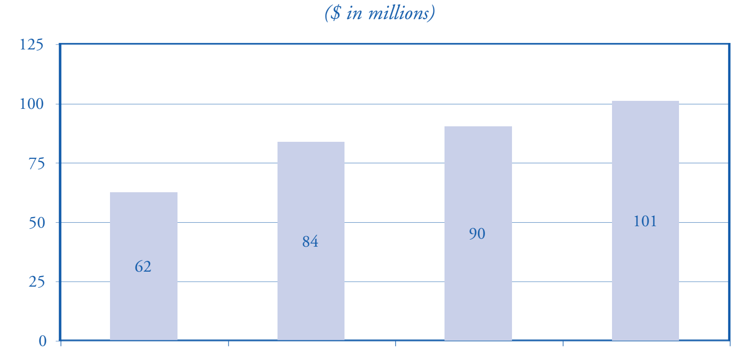
NET LOANS
($ in millions)



TOTAL ASSETS
($ in millions)



DEPOSITS
($ in millions)



Executive Officers: Ken Mumma,Chairman & CEO (seated), Jim McKeighan, President, John Alexandra, Vice Chairman & CFO.

The New Century Mission

Our vision for New Century is to serve and take a leadership role in the economic, social and cultural development of the diverse communities we serve, based on a foundation of trust and strong economic health.

Seeing our institution as part of a larger community and neighborhood, our purpose is to serve our neighbors and neighborhoods in the communities we serve.

To realize this community mission, the Bank must have the depth of resources that belong only to a financially successful institution.

We're On The Move!

In 1997, New Century embarked on a voyage, as a different kind of bank – one that's more than just another "same old". It was the first independent commercial bank to be launched in Northern Chester County in twenty-seven years.

Our strategic vision is simple and far-reaching: the restoration of premium, highly personalized banking for the community.

Mega-banks are everywhere. And people are increasingly dissatisfied with being another faceless digit in an already anonymous crowd. Our goal is community banking that knows and cares about its customers – a goal that is continuously fresh in our minds as we move forward and grow.

We see New Century as the essence of what a community bank can be: involved with the community, with a steadfast commitment to the consumers and businesses we serve. With that vision, its actuality, and our plans for major future expansion, we stand out in the marketplace against our competition.

Steady growth path. Excellent results.

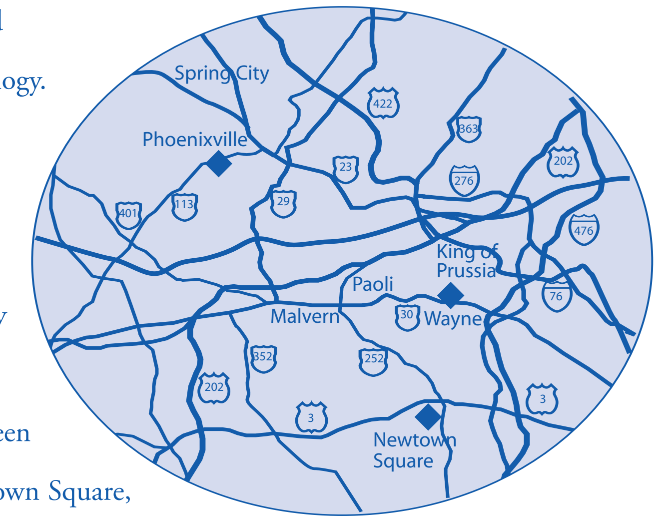
There was a keen sense of excitement in the air during the year 2003 as growth and expansion became our key words. The numbers fulfill that outlook: Fourth Quarter results are up 39% from the year 2002. Full-year results for 2003 are up 65%.

We grew to over $120 million in assets in 2003, and over $100 million in deposits.

We believe these results are due to our strategy of placing experienced Vice President level commercial loan officers in each branch office location. This on-site capability isn't "business as usual" at competing banks. Coupled with highly experienced branch managers and a carefully selected staff, New Century combines a friendly atmosphere with quality, highly responsive service.

Enthusiasm runs high in 2004.

New Century is on the brink of major growth and expansion as we spread out and build our branch network, adding at least one new branch a year over the next several years. Yet as we grow, we understand that our future lies in a managed combination of continued superior customer service, increased development and expanded technology.



Rest assured, as we expand our branch network, we will never behave like a mega-bank. We see our function within the community as bringing forward more branches, closer together, to fill the gap between Kimberton/Phoenixville and Newtown Square, as well as other markets in high-growth Chester County.

Simply put, our vision is the kind of expansion that brings our customers more convenience along with better and better service.

Kicking off the next of many new branches.

Providing new and bigger opportunity for New Century, our next regional branch is scheduled to open in spring 2004, in Wayne, located on Lancaster Avenue, next to the Wayne Hotel. The lender in residence will be Dick Hood, Vice President. Dick joined us over two years ago, with more than 25 years experience in banking. He will provide outstanding support and personal leadership in the Wayne Branch. Kaye Jordan, Assistant Vice President and our Newtown Square manager, will have responsibility for the retail side of the Wayne office.

Dick Hood, Vice President

Kaye Jordan, Assistant Vice President

As with our Main office in Kimberton/Phoenixville, and our Newtown Square branch, our Wayne branch will concentrate on restoring quality service, prompt decisions, flexible policies, and straightforward banking products to the community. Delivered by experienced bankers you can walk up and talk to. Who are there to answer your questions, provide help, and – yes – even return phone calls.

Our new Wayne office

With local management at the heart of our philosophy, the new Wayne branch will draw on the region's resource of seasoned banking professionals to round out its management team. And our new branch office in Wayne is just the beginning. Working to build a network of branches at convenient locations throughout the area, we plan to open one or two per year for the next several years. Northern Chester County and the western Main Line are growing at a very healthy rate. We expect to participate in that growth with a nimble approach, branching into communities where we can make a difference by providing more responsive and distinctly better service.

Every day there's an opportunity to do more.

While "growth" and "expansion" are two key words to describe our strategy going forward, our success comes down to two vital words: "customer service." Serving customers is a day-in, day-out, ongoing, never-ending, always-rewarding activity. It's a promise we make and keep every day.

High-touch, face-to-face service.

At New Century, we believe that the banking experience should put the customer first. And that the focus should be on convenience (which complements our branching strategy) and highly personal (which matches our vision). Genuine customer service has a huge payback. It builds loyalty. And you can't put a price on what loyalty accomplishes.

We are definitely going places, and happy to have you with us on the journey.

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

INTRODUCTORY OVERVIEW

DESCRIPTION OF BUSINESS AND BUSINESS STRATEGY

New Century is a community bank serving Chester County and Southeastern Pennsylvania. Management's strategy is to grow the branch network through strategically placed branches throughout the Bank's market area. This will also allow the Bank to expand its portfolio of loans to small businesses and consumers. The Bank is chartered as a commercial bank under Pennsylvania law, a member of the Federal Reserve System and FDIC-insured. It commenced operations in 1997 in Phoenixville, Chester County, PA. Its headquarters is located on a major route through a rapidly growing suburb of metropolitan Philadelphia. In 2000, the Bank opened a second branch in Newtown Square, Delaware County, PA, located on West Chester Pike in the heart of the town's business district.

The Bank recently received approval from the Pennsylvania Department of Banking to open a third branch in Wayne, Delaware County, PA. With this branch, the Bank is initiating a new phase of branch growth, and anticipates opening one or two branches a year over the next several years. Although subject to a variety of risks and contingencies—including the development of sufficient capital, the absence of negative events in the economy at large, and our ability to find desirable locations at acceptable cost—management believes that this plan will position the Bank with a viable network in eastern Chester County and surrounding areas and, combined with expanded financial services, allow the Bank to build the franchise value it needs to become an active financial presence in the region.

The Bank's operations are heavily regulated pursuant to state and Federal statutes and regulations applicable to banks chartered under the laws of Pennsylvania, to members of the Federal Reserve System, and to depositary institutions whose deposits are insured by the FDIC. Our primary supervisory authority is the Pennsylvania Banking Department, and our primary federal regulator is the Board of Governors of the Federal Reserve System – the Bank is a member of the System. These regulators regularly examine the Bank and they have the authority to prevent banks from engaging in unsafe or unsound practices in conducting their business. Federal and state banking laws and regulations govern, among other things, the scope of a bank's business, the investments a bank may make, the reserves against deposits a bank must maintain, terms of deposit accounts, loans a bank makes, the interest rates it charges and collateral it takes, the activities of a bank with respect to mergers and consolidations and the establishment of branches.

All Federally insured depository institutions are liable to pay periodic premiums, or assessments, to a deposit insurance fund organized by the Federal government to insure bank and savings association deposits, generally up to $100,000 per customer. We are insured by the Bank Insurance Fund ("BIF") administered by the FDIC, and hence are subject to periodic assessments by the FDIC to maintain the reserve level of that fund. The FDIC has authority to reduce the assessment rates whenever the ratio of its reserves to insured deposits is equal to or greater than 1.25%, and to increase deposit insurance assessments whenever that ratio is less than 1.25%. The reserve ratio for the BIF stood at 1.32% as of December 31, 2003. In addition, the Bank would be subject to an increase in its contribution rate if its capital fell below the rate required of a 'Well-Capitalized' institution. (See Note 18 of the Audited Financial Statements on pages 37-38.)

In addition to deposit insurance assessments, banks are subject to assessments to pay the interest on Financing Corporation bonds. The Financing Corporation was created by Congress to issue bonds to finance the resolution of failed thrift institutions. The FDIC sets the Financing Corporation assessment rate every quarter. The Financing Corporation assessment for us (and all other banks) for the first quarter of 2004 was an annual rate of $0.154 for each $100 of deposits.

THE BANK'S PRINCIPAL PRODUCTS AND SERVICES

The Bank engages in full-service commercial and consumer banking business and accepts time, demand and savings accounts. Time deposits include certificates of deposit, individual retirement accounts, Roth IRA accounts, and club accounts. Demand accounts include demand accounts, money market accounts and NOW accounts. Savings accounts include statement savings accounts and savings accounts requiring higher balances. In addition to accepting deposits, the Bank makes both secured and unsecured commercial and consumer loans, finances commercial transactions, provides equipment and accounts receivable financing, and makes construction and mortgage loans, including home equity loans. The Bank also provides small business loans, student loans and rents safe deposit facilities. Loan products and services are offered either directly or through referral arrangements with third parties. The Bank also offers investment advisory services through an arrangement with a local registered investment advisor. A new title insurance and real estate settlement service to be offered through a Bank subsidiary is planned for the first quarter of 2004.

MAJOR REVENUE AND CASH-GENERATION SOURCES

The Bank's major revenue source is net interest income—the difference between the interest earned on its assets (principally loans, investments and interest-earning deposits with banks) and its liabilities (principally deposits and other borrowings).

In addition, the Bank earns non-interest revenues. These include customer fees on deposits and loans, and fees for services such as wire transfers, safe-deposit boxes, commissions on title insurance, and fees for services provided to a local mortgage lender, together with gains (or losses) in securities transactions.

MATERIAL OPPORTUNITIES, CHALLENGES AND RISKS

The Bank's primary market area—Chester County and adjoining areas in Montgomery and Delaware Counties—is a fast-growing area, and, as such, provides significant opportunities for growth.

Nevertheless, the Bank faces heavy competition in making loans, taking deposits and providing other financial services and products. This competition comes principally from other banks, savings institutions, credit unions, mortgage banking companies, money market funds, other mutual funds, and insurance companies and agencies. Banking legislation in 1999 has caused additional competition due to the entrance into traditional banking fields by nonbank organizations. Many of the Bank's competitors have greater financial resources, a wider geographic presence, a wider array of services, more favorable pricing alternatives, or lower costs than the Bank. The low interest rate environment has also brought large banks and mortgage companies into the competition for small business and commercial real estate loans.

New Century's approach to meeting these challenges is to provide a high level of customized service to our customers. The continued consolidation of the banking industry offers a particular niche for community banks such as ours. As a result, New Century has a growing presence in the market place, with steadily increasing visibility. In addition to the Wayne branch being opened in the first half of 2004, the Bank is looking to add at least one branch per year over the next several years.

The current economic climate presents both challenges and opportunities for community banks like New Century. Since January, 2001, the Federal Reserve has reduced its Fed Funds target by 550 basis points—to 1.00%. This has resulted in a corresponding drop in the Prime Rate to which most of the Bank's floating rate loans are tied. Since it has caused a corresponding repricing of the Bank's deposit portfolio, net interest margin has widened considerably during both 2002 and 2003. Management believes that the Bank is well positioned in relation to the impact of future rate changes.

RECENT DEVELOPMENTS

The Bank recently received regulatory approval to open a branch in Wayne, PA. Management sees the opening of the Wayne branch—anticipated to take place during the second quarter of 2004—as the beginning of a branch expansion phase for the Bank. Successful implementation of this strategy is subject to a variety of contingencies and risks.

Although such branches are expected to add to future profitability, the initial impact of a new branch opening is to reduce earnings during the period until that branch becomes profitable. The new title insurance product should somewhat offset this impact.

There are currently a number of indications that the national economic environment in which the Bank operates may have started to move in a more positive direction. These appear, however, to be still somewhat tentative and fragile.

MATERIAL TRENDS AND UNCERTAINTIES

The Bank's earnings may be affected by domestic economic conditions and the monetary and fiscal policies of the United States Government and its agencies or instrumentalities (particularly the Federal Reserve). Furthermore, proposals to change the laws and regulations governing the operations and taxation of banks, bank holding companies and other financial institutions are frequently made in Congress, and before various bank regulatory agencies. No prediction can be made as to the likelihood of any major changes in economic policy, legislation or regulations, or the impact such changes might have on the Bank.

RESULTS OF OPERATIONS

For further information on the Bank's operating results and each of the items discussed below, including detailed tables setting forth additional financial data, see the Audited Financial Statements on pages 25-39. The following discussion is modified in its entirety by these Audited Financial Statements.

GENERAL

The following summary presents highlights of the Bank's operating results for the years ended December 31, 2003 and 2002:

	2003	2002
	(in thousands except per share data)	
Interest income	**$ 6,323**	$ 5,938
Interest expense	**2,249**	2,698
Net interest income before provision for loan losses	**4,074**	3,240
Provision for loan losses	**280**	201
Net interest income	**3,794**	3,039
Non-interest income	**346**	246
Non-interest expense	**3,437**	2,860
Net Income	**$ 703**	$ 425
Basic and diluted earnings per share	**$ 0.55**	$ 0.39

The Bank reported net income of $703 thousand for the fiscal year ended December 31, 2003. This represents an increase of 65%, or $278 thousand, when compared to $425 thousand for the fiscal year ended December 31, 2002. This improvement is primarily attributable to our loan growth, a reduction in interest expense on deposits resulting in increased net interest income. On a basic and diluted per share basis the net income was $0.55 for 2003 compared to $0.39 for 2002. The Bank's return on average assets was 0.65% in 2003 compared to 0.45% in 2002. The Bank's return on average equity was 8.59% in 2003 compared to 7.02% in 2002.

NET INTEREST INCOME

Net interest income (the difference between the interest earned on loans, investments and interest-earning deposits with banks, and interest paid on deposits and borrowed funds) is the primary source of the Bank's earnings. Net interest income was $4,074 thousand for the year ended December 31, 2003, compared to $3,240 thousand for the prior year, an increase of $834 thousand, or 26%.

Interest income on loans, investments and interest earning deposits was $6,323 thousand in 2003 compared to $5,938 thousand in 2002, an improvement of $385 thousand or 6%. Meanwhile, interest expense on deposits and borrowed funds was significantly lower: $2,249 thousand in 2003, down $449 thousand or 17% from $2,698 thousand in 2002.

The key factor for the Bank's net interest income is the net interest margin (net interest income divided by average earning assets). The Bank's net interest margin has increased to 3.84% in 2003 from 3.52% in 2002. This change is primarily attributable to fact that interest rates on the Bank's liabilities have decreased faster than those on its assets.

NON-INTEREST INCOME

In 2003, non-interest income was $346 thousand, up 41% or $100 thousand from $246 thousand in 2002. The 2003 results included $20 thousand in gains on sales of investment securities (there were no such gains in 2002). Other non-interest income consists primarily of service charges on deposit accounts and various loan fees.

NON-INTEREST EXPENSES

Total non-interest expenses of $3,437 thousand in 2003 increased 20% over the $2,860 thousand in 2002. Salaries and employee benefits represent the largest component of non-interest expenses, and were $1,772 thousand in 2003 compared to $1,418 thousand in 2002. This increase was primarily driven by staffing increases needed for the Bank's recent growth.

Occupancy expense increased 27% to $442 thousand in 2003 from $347 thousand in 2002. This increase was primarily due to the expenses of a new facility that houses the Bank's operations and accounting departments.

Technology, communications and bank operations expense increased 10% to $505 thousand in 2003 from $461 thousand in 2002. This increase is primarily attributable to increased transaction volume and the size of the Bank.

Advertising and promotion expense increased 8% to $209 thousand from $193 thousand in 2002. This increase is primarily attributable to higher expenditures to attract deposits.

Other expenses increased 15% to $509 thousand in 2003 from $441 thousand in 2002. This increase is primarily attributable to increased consulting fees and directors' fees.

INCOME TAXES

The Bank's income tax expenses of $369 thousand for 2003 and $185 thousand for 2002 resulted in reductions in the Bank's deferred tax assets, rather than as income statement line-items. At December 31, 2003, the Bank had available net operating loss carryforwards for federal income tax purposes of approximately $902 thousand which may be applied against future taxable income. These carryforwards expire though the year 2020. For further information on this topic, see Note 14 of the Audited Financial Statements on page 36.

FINANCIAL CONDITION

GENERAL

The following summary presents highlights of the Bank's financial conditions for the years ended December 31, 2003 and 2002:

	2003	2002
	(in thousands)	
Total assets	**$122,480**	$101,352
Securities available for sale	**12,849**	12,598
Loans receivable	**100,834**	83,856
Allowance for loan losses	**(1,250)**	(1,013)
Total deposits	**100,911**	90,167
Other borrowings	**12,500**	3,070
Total stockholders' equity	**8,660**	7,774

The Bank's total assets were $122.5 million at December 31, 2003. This represents a 21% increase from $101.4 million at December 31, 2002. The main components of this increase were increased loan volume and interest-bearing deposits with banks. Total liabilities were $113.8 million at December 31, 2003. This represents a 22% increase from $93.6 million at December 31, 2002. The main components of this increase were increased deposits and other borrowings. For further information on the Bank's financial condition and each of the items discussed below, including detailed tables setting forth additional financial data, see the Audited Financial Statements on pages 25-39.

INTEREST-BEARING DEPOSITS WITH BANKS

Interest-earning deposits consist mainly of deposits at the Federal Home Loan Bank of Pittsburgh . These deposits totaled $5.2 million at December 31, 2003. This represents a 117% increase from $2.4 million at December 31, 2002. This balance varies considerably from day-to-day, depending on several factors, such as variations in customer's demand deposit balances.

INVESTMENT SECURITIES

The Bank's investment securities portfolio is an important source of interest income and liquidity. It consists of mortgage-backed securities (guaranteed by an agency of the United States government), domestic corporate debt and stock of the Federal Reserve Bank and Federal Home Loan Bank of Pittsburgh. In addition to generating revenue, the Bank maintains the investment portfolio to manage interest rate risk, provide liquidity, provide collateral for other borrowings and diversify the credit risk of earning assets. The portfolio is structured to maximize net interest income, given changes in the economic environment, liquidity position and balance sheet mix.

Management determines the appropriate classification of securities at the time of purchase. In accordance with Statement of Financial Accounting Standards Statement No. 115, "Accounting for Certain Investments in Debt and Equity Securities," securities are classified as: (a) securities held to maturity based on management's intent and ability to hold them to maturity; (b) trading account securities that are bought and held principally for the purpose of selling them in the near term; and (c) securities available for sale ("AFS"). Such securities include those that may be sold in response to changes in interest rates, changes in prepayment assumptions, the need to increase regulatory capital or other similar requirements. The Bank does not necessarily intend to sell such securities, but has classified them as AFS to provide flexibility to respond to liquidity needs.

At December 31, 2003 and 2002, all of the Bank's investment securities were classified as AFS. Unrealized gains and losses on AFS securities, although excluded from the results of operations, are reported as a separate component of stockholders' equity. The Bank does not currently maintain either a "held to maturity" or a "trading account" portfolio.

Total investment securities increased slightly to $12.8 million at December 31, 2003 from $12.6 million at December 31, 2002. The investment portfolio's composition changes periodically as a result of restructuring transactions, taken primarily to manage liquidity. The Bank did not have any investment securities representing a concentration greater than 10% of stockholders' equity.

The following two tables set forth information regarding the stated maturity, average yield, and composition, of our investment security portfolio as of the dates indicated. The first table does not include amortization or anticipated prepayments on mortgage-backed securities; callable securities are included at their stated maturity dates.

AFS Securities Maturity Schedule	**December 31, 2003**		December 31, 2002	
	Fair Value (in thousands)	**Wtd. Avg. Yld.**	Fair Value (in thousands)	Wtd. Avg. Yld.
Due in one year or less	**$ 503**	**4.54%**	-	
Due after one year through five years	**1,365**	**7.32%**	1,569	6.97%
	$1,868	**6.57%**	$1,569	6.97%
Mortgage-backed securities	**9,945**	**3.93%**	10,448	4.45%
Equity securities	**1,036**	**2.41%**	581	4.33%
	$12,849	**4.19%**	$12,598	4.76%

Composition of AFS Securities	December 31, 2003	2002
	(in thousands)	
Mortgage-backed securities	**9,945**	$10,448
Corporate bonds	**1,868**	1,569
Equity securities	**1,036**	581
	$12,849	$12,598

Other borrowings were secured by the pledge of investment securities with a carrying value of $3.2 million at December 31, 2002. No investment securities were pledged at December 31, 2003.

LOANS

The loan portfolio is the Bank's principal source of interest income. The Bank's market for commercial and consumer loans includes small to medium-sized businesses and consumers in its service area. It also participates in commercial loans made by other financial institutions, subject to the Bank's Loan Policy and credit criteria appropriate to the specific situation. Loan officers are intimately involved in the loan origination and approval process. Loans and other credit facilities in excess of certain policy limits are approved by the Bank's Loan Committee.

The loan portfolio consists of commercial loans (including commercial mortgage and construction loans), residential real estate loans (including residential mortgage and construction loans) and consumer loans (including home equity loans and lines of credit and secured and unsecured consumer loans). Commercial loans and commercial mortgage loans are typically made for working capital purposes with maturities generally between one and seven years. The majority of these loans are collateralized by commercial or residential real estate and further secured by personal guarantees. Construction loans are made to individuals with expertise in the industry, or to owner occupied projects. These loans are typically on projects for which a sales contract has been executed and for which permanent mortgage financing is in place. Consumer loans include home equity, automobile and other installment loans.

Loans are primarily made to customers in Chester, Delaware and Montgomery Counties, PA. There were no concentrations of loans exceeding 10% of the Bank's total loans at either year-end 2003 or year-end 2002. Consistent with providing community-based financial services, the Bank does not attempt to diversify its loan portfolio geographically by making significant amounts of loans to borrowers outside its service area. The Bank's service area is a diverse economic and employment market with no significant dependence on any one industry or large employer. The Bank has no credit exposure to foreign borrowers or highly leveraged transactions.

Loans outstanding (net of the allowance for loan losses) grew to $99.6 million at December 31, 2003, an increase of $16.8 million or 20% from $82.8 million at December 31, 2002. The growth of the loan portfolio was generally diversified among commercial and consumer borrowers. For further information on our loans, see Note 4 of the Audited Financial Statements on page 34.

	2003	2002
	(in thousands)	
Commercial	**$78,326**	$62,817
Residential real estate loans	**8,025**	7,297
Consumer	**14,283**	13,576
Total loans	**100,634**	83,690
Unearned net loan origination cost and fees	**200**	166
Allowance for loan losses	**(1,250)**	(1,013)
Net loans	**$99,584**	$82,843

The following table sets forth information concerning the contractual maturities of the loan portfolio, net of unearned costs and fees. For amortizing loans, scheduled repayments for the maturity category in which the payment is due are not reflected below, because such information is not readily available.

Loans Maturities	**2003**	2002
	(in thousands)	
Within 1 year	**$30,575**	$18,163
After 1 year but within 5 years	**31,971**	27,925
After 5 years but within 15 years	**29,400**	26,041
Over 15 years	**8,688**	11,561
	$100,634	$83,690

CREDIT RISK

The Bank manages credit risk by maintaining diversification in its loan portfolio, by establishing and enforcing rigorous underwriting standards, by intensive collection efforts, and by establishing and performing periodic loan classification reviews of loans by the management. Management also attempts to anticipate and allow for credit risks by maintaining an adequate allowance for loan losses, to which credit losses are charged as they are incurred, and to which provisions are added periodically as management and the board of directors deems it to be appropriate.

The provision for loan losses was $280 thousand for the fiscal year ended December 31, 2003 compared to $201 thousand for the fiscal year ending December 31, 2002. The allowance for loan losses was $1,250 thousand or 1.24% of total loans at December 31, 2003 and $1,013 thousand or 1.21% of total loans at December 31, 2002. Net charge-offs of $43 thousand for the fiscal year ended December 31, 2003, compared to none for the fiscal year ending December 31, 2002.

Allowance for Loan Losses

	2003	2002
	(in thousands)	
Balance, beginning	**$1,013**	$ 812
Provision for loan losses	**280**	201
Loans charged off	**(55)**	-
Loan recoveries	**12**	-
Balance, ending	**$1,250**	$1,013

The allowance for loan losses is based on a periodic evaluation of the loan portfolio and is maintained at a level that management considers adequate to absorb estimated potential losses. Management considers a variety of factors, and recognizes the inherent risk of loss that always exists in the lending process. Management uses a disciplined methodology to estimate the appropriate level of allowance for loan losses. This methodology includes an evaluation of loss potential from individual problem credits, as well as anticipated specific and general economic factors that may adversely affect collectibility. This assessment includes a review of changes in the composition and volume of the loan portfolio, overall portfolio quality and past loss experience, review of specific problem loans, current economic conditions which may affect borrowers' ability to repay, and other factors which may warrant current recognition. In addition, the Bank's internal and external auditors, loan review auditors and various regulatory agencies periodically review the adequacy of the allowance as an integral part of their examination process. Such agencies may require the Bank to recognize additions or reductions to the allowance based on their judgments of information available to them at the time of their examination. These evaluations, however, are inherently subjective as they require material estimates, including, among others, the amounts and timing of expected future cash flows on impaired loans, estimated losses on the loan portfolio, and general amounts for historical loss experience, economic conditions, uncertainties in estimating losses and inherent risks in the various credit portfolios, all of which may be susceptible to significant change. Pursuant to Statement of Financial Accounting Standard ("SFAS") No. 114, Accounting by Creditors for Impairment of a Loan, as amended, impaired loans, consisting of non-accrual and restructured loans, are considered in the methodology for determining the allowance for credit losses. Impaired loans are generally evaluated based on the expected future cash flows or the fair value of the underlying collateral if principal repayment is expected to come from the sale or operation of such collateral.

ASSET QUALITY

The Bank had impaired loans totaling $757 thousand and $635 thousand at December 31, 2003 and 2002, respectively. Non-performing loans, consisting of non-accruing loans and loans 90 days past due and still accruing, totaled $452 thousand and $702 thousand at December 31, 2003 and 2002, respectively. The Bank had charge offs of $55 thousand in 2003, compared with none in 2002. The Bank had recoveries of $12 thousand in 2003 and none in 2002. Other Real Estate Owned as a result of foreclosure or voluntary transfer to the Bank totaled $386 thousand at December 31, 2003 and none at December 31, 2002. These amounts are included in Other Assets on the Balance Sheet.

The table below sets forth those assets that were on non-accrual status, were 90 days past due and still accruing or other real estate owned on December 31, 2003 and 2002, respectively. These amounts represented 0.83% and 0.84%, respectively, of gross loans.

Non-Performing Assets	**2003**	2002
	(in thousands)	
Non-accrual loans	**$452**	$ 700
Loans 90 days past due and still accruing	**-**	2
Other real estate owned	**386**	-
Balance, ending	**$838**	$702

Troubled debt restructurings totaled $41 thousand and $0 at December 31, 2003 and 2002, respectively.

The Bank seeks to manage credit risk through the diversification of the loan portfolio and the application of policies and procedures designed to foster sound credit standards and monitoring practices. While various degrees of credit risk are associated with substantially all investing activities, the lending function carries the greatest degree of potential loss.

Asset quality assurance activities include careful monitoring of the borrower to include delinquent payment status and review of current borrower financial information to ensure financial strength and viability, in addition to establishing credit policies and procedures, seeking the consistent application of those policies and procedures across the organization, and adjusting policies as appropriate for changes in market conditions and applicable regulations. The risk elements which comprise asset quality include loans past due, non-accrual loans, renegotiated loans, other real estate owned and loan concentrations.

All loans are assigned risk ratings, based on an assessment of the borrower, the structure of the transaction and the available collateral and/or guarantees. All loans are monitored regularly and the risk ratings are adjusted when appropriate. This process allows the Bank to take corrective actions on a timely basis.

A regular reporting and review process is in place to provide for proper portfolio oversight and control, and for monitoring those loans which have been identified as problem credits by management, in order to assess the Bank's progress in working toward a solution, and to assist in determining an appropriate specific allowance for possible losses. All loan work-out situations involve the active participation of management, and are reported regularly to the Board of Directors.

Loan charge-offs are determined on a case-by-case basis. Loans are generally charged off when principal or interest payments are in arrears for more than ninety days, and after appropriate collection steps have been taken.

Loan policies and procedures are reviewed internally for possible revisions and changes on a regular basis. In addition, these policies and procedures, together with the loan portfolio itself, are reviewed on a periodic basis by various regulatory agencies and by the Bank's internal and external auditors as part of their examination and audit procedures.

PREMISES AND EQUIPMENT AND OTHER ASSETS

Bank premises and equipment, net of accumulated depreciation, remained substantially unchanged at $1.0 million at December 31, 2003 and $0.9 million at December 31, 2002. Other Assets increased to $1.1 million from $0.8 million, principally due to the addition of $0.4 million of other real estate owned.

For further information on our premises and equipment, see Note 6 of our Audited Financial Statements on page 34.

DEPOSITS AND BORROWED FUNDS

The Bank offers a variety of deposit accounts, including checking, savings, money market and time deposits. Deposits are obtained primarily from the Bank's service area. Total deposits grew to $100.9 million at December 31, 2003, an increase of $10.7 million or 12% from $90.2 million at December 31, 2002. This growth took place primarily in time deposit and non-interest bearing demand accounts and in personal and business non-interest bearing checking accounts.

The components of deposits at December 31, 2003 and 2002 are as follows:

	2003	2002
	(in thousands)	
Demand, non-interest bearing	**$ 12,664**	$ 9,475
Demand, interest bearing	**8,358**	9,588
Savings	**35,464**	39,042
Time, $100,000 and over	**7,860**	5,453
Time, other	**36,565**	26,609
	$100,911	$90,167

Time deposits increased $12.3 million or 39% to $44.4 million at December 31, 2003 compared to $32.1 million at December 31, 2002. Time deposits of $100,000 or more were $7.9 million at December 31, 2003 compared to $5.5 million at December 31, 2002, an increase of $2.4 million or 44%. The Bank had no brokered deposits at either December 31, 2003 or 2002. During this period, non-interest bearing demand deposits increased 34% to $12.7 million from $9.5 million. Interest bearing demand deposits decreased 13% to $8.4 million from $9.6 million. Savings deposit accounts decreased 9% to $35.5 million at December 31, 2003 from $39.0 million at December 31, 2002.

At December 31, 2003, the scheduled maturities of time deposits are as follows (in thousands):

2004	**$17,744**
2005	**10,135**
2006	**7,979**
2007	**3,795**
2008	**4,772**
	$44,425

The Bank had borrowed funds of $12.5 million at December 31, 2003 and $3.1 million at December 31, 2002. Short term advances from the Federal Home Loan Bank of Pittsburgh were $7.5 million at December 31, 2003 and $2.1 million at December 31, 2003. The contractual maturities of long-term advances for December 31, 2003 and 2002 are as follows:

	2003	2002
	(in thousands)	
2005	**$1,750**	$1,000
2006	**750**	-
2007	**750**	-
2008	**750**	-
2009 and thereafter	**1,000**	-
	$5,000	$1,000

For further information on deposits and other borrowings, see Notes 7 and 9 of our Audited Financial Statements on pages 34 and 35.

STOCKHOLDERS' EQUITY

Stockholders' equity increased by $0.9 million or 11% to $8.7 million at December 31, 2003, from $7.8 million at December 31, 2002. This increase resulted from net income of $703 thousand, $213 thousand from the issuance of 30,000 shares of common stock and from the recognition of a $30 thousand unrealized net loss on investment securities classified by the Bank as "available for sale." The unrealized gain in the bank's investment securities portfolio is subject to change with fluctuations in interest rates and the market prices of the underlying securities, and will be recognized as a component of net income only if realized through the sale of such securities prior to maturity.

Certain limitations exist on the ability of the Bank to pay cash dividends without prior approval of regulatory authorities. No cash dividends were declared or paid in 2003 or 2002. For a more detailed description of the Bank's Stockholders' Equity, see Note 11 of our Audited Financial Statements on page 35.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity for a financial institution is a measure of the financial institution's ability to fund customers' needs for borrowings and deposit withdrawals. Ensuring adequate liquidity is an objective of the Asset and Liability Management process. The management of liquidity is coordinated with the management of the Bank's interest rate sensitivity and capital position. The Bank's policy is to maintain a strong liquidity position.

The Bank maintains liquidity to meet depositors' needs for funds, to satisfy or fund loan commitments, and for other operating purposes. Its investment portfolio provides periodic cash flows through regular maturities and amortization, and can be used as collateral to secure additional liquidity funding. The Bank's principal sources of funds are shareholder capital, deposits, principal and interest payments on loans, and other funds from operations. The Bank also maintains borrowing arrangements with the Federal Home Loan Bank of Pittsburgh, as well as maintaining access to the discount window at the Federal Reserve Bank of Philadelphia, to meet short-term liquidity needs. As of December 31, 2003, the Bank's borrowing capacity with the Federal Home Loan Bank of Pittsburgh was $47.5 million, of which $12.5 million was used. The Bank had pledged no securities as collateral for these borrowings.

Cash flows from operating activities provided $1.4 million and $0.7 million for the years ended December 31, 2003 and 2002, respectively. This increase was primarily due to the increased net income in 2003 compared to 2002 together with changes in other assets and liabilities.

Cash flows from investing activities used $18.1 million and $16.9 million for the years ended December 31, 2003 and 2002, respectively. This increase is primarily due to increased investments in loans and securities in 2003 compared to 2002.

Cash flows from financing activities provided $20.4 million and $11.6 million for the years ended December 31, 2003 and 2002, respectively. The increase was primarily due to a higher increase in deposits and other borrowed funds in 2003 compared to 2002.

Overall, based on the Bank's core deposit base and available sources of borrowed funds, management believes that the Bank has adequate resources to meet its short-term and long-term cash requirements within the foreseeable future.

CAPITAL ADEQUACY

The Board of Governors of the Federal Reserve System has adopted risk-based capital and leverage ratio requirements for banks, such as New Century, that are members of the Federal Reserve System. The Pennsylvania Banking Department also sets minimum capital requirements. At December 31, 2003 and December 31, 2002, the Bank met each of its minimum capital requirements. Management believes that the Bank would be deemed "well-capitalized" for regulatory purposes as of December 31, 2003 and December 31, 2002. Banking regulators have discretion to establish an institution's classification based on other factors in addition to the institution's numeric capital levels.

Management is not aware of any developments which have occurred and which would, or would be reasonably likely to, cause our classification to be reduced below a level of "well" capitalized for regulatory purposes. The Bank's capital classification is determined pursuant to banking regulations for the purposes of applying the bank regulators' "prompt corrective action" regulations and for determining levels of deposit insurance assessments and may not constitute an accurate representation of our overall financial condition or prospects. The following table summarizes the required capital ratios and the corresponding regulatory capital positions of the Bank and the Bank for the periods or dates indicated:

	Actual			For Capital Adequacy Purposes				To Be Well Capitalized Under Prompt Corrective Action Provisions		
	Amount	Ratio		Amount		Ratio		Amount		Ratio
				(dollar amounts in thousands)						
As of December 31, 2003:										
Total capital (to risk weighted assets)	**$9,746**	**10.3%**	≥	**$7,550**	≥	**8.0%**	≥	**$9,438**	≥	**10.0%**
Tier 1 capital (to risk weighted assets)	**8,565**	**9.1**	≥	**3,775**	≥	**4.0**	≥	**5,663**	≥	**6.0**
Tier 1 capital (to average assets)	**8,565**	**7.5**	≥	**4,567**	≥	**4.0**	≥	**5,709**	≥	**5.0**
As of December 31, 2002:										
Total capital (to risk weighted assets)	$8,623	11.1%	≥	$6,232	≥	8.0%	≥	$7,790	≥	10.0%
Tier 1 capital (to risk weighted assets)	7,649	9.8	≥	3,116	≥	4.0	≥	4,674	≥	6.0
Tier 1 capital (to average assets)	7,649	7.7	≥	3,980	≥	4.0	≥	4,975	≥	5.0

In general, the Bank's capital increases with the addition of earnings to stockholders' equity, with increases in the Bank's Allowance for Loan Losses, and with sales of stock or the issuance of certain qualifying debt. Conversely, as the Bank's assets grow, its capital ratios decrease. In general, in the past few years, balance sheet growth has more than offset the increase in capital growth through earnings, sales of common stock and growth of the Allowance for Loan Losses.

The Bank does not presently have any commitments for significant capital expenditures. The Bank is not under any agreement with regulatory authorities nor is it aware of any current recommendations by the regulatory authorities which, if they were to be implemented, would have a material effect on liquidity, capital resources, or operations of the Bank.

The maintenance of appropriate levels of capital is an important objective of the Bank's Asset and Liability Management process. Through its initial capitalization and its subsequent offerings, the Bank has continued to maintain a strong capital position. Management believes that, under current requirements and regulations, the Bank will meet its minimum capital requirements for the foreseeable future.

MARKET FOR COMMON STOCK

The Bank's Common Stock is not listed or quoted on any exchange or electronic bulletin board or other quotation service. Furthermore, there are no brokerage firms that act as a market maker in our stock. Consequently, information on current stock trading prices is not readily available. We act as our own transfer agent and offer to identify potential buyers and sellers of our stock to each other, but we do not make a market in our own stock or attempt to negotiate prices for trades of our stock. At December 31, 2003, there were approximately 292 stockholders who owned the 1.3 million shares of common stock outstanding.

Based on the limited information available to us, private sales of our Common Stock occurred at prices between $7.50 to $8.00 during 2003 and 2002, with the last known transaction at $7.50. This quoted price is limited only to those transactions known by management and there may, in fact, have been additional transactions of which management is unaware, and such transactions could have occurred at higher or lower prices.

OFF BALANCE SHEET ARRANGEMENTS

The Bank is a party to financial instruments and other commitments with off-balance sheet risks. Financial instruments with off-balance sheet risks are incurred in the normal course of our business to meet the financing needs of our customers. These financial instruments include commitments to extend credit, including unused portions of lines of credit, and standby letters of credit. Those instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the balance sheet.

Our exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit is represented by the contractual amount of those instruments. The Bank uses the same credit policies in making commitments and conditional obligations as for on-balance sheet instruments. Since they involve credit risk similar to extending a loan, they are subject to the Bank's Credit Policy.

As of December 31, 2003 and December 31, 2002, the following off-balance sheet commitments, financial instruments and other arrangements were outstanding:

	2003	2002
	(in thousands)	
Commitments to fund loans	**$ 3,555**	$ 1,998
Unfunded commitments under lines of credit	**14,531**	10,846
Letters of credit	**570**	626

Commitments to fund loans, unfunded commitments under lines of credit and letters of credit are agreements to extend credit to or for the benefit of a customer in the ordinary course of the Bank's business.

Commitments to fund loans and unfunded commitments under lines of credit may be obligations of the Bank as long as there is no violation of any condition established in the contract. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. We evaluate 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 our management's credit evaluation. Collateral held varies but may include personal or commercial real estate, accounts receivable, inventory and equipment.

Outstanding letters of credit written are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Letters of credit may obligate the Bank to fund draws under those letters of credit whether or not a customer continues to meet the conditions of the extension of credit. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers.

OTHER OFF-BALANCE SHEET ARRANGEMENTS

Our other off-balance sheet arrangements include operating leases for Bank premises. We lease the premises for our main banking office and operations center, as well as two branches, under operating lease agreements with various terms and at various rentals. Each lease differs as to whether the Bank has one or more renewal options and on what terms. Future payment obligations for real estate leases are further described in the table "Contractual Obligations" below.

CONTRACTUAL OBLIGATIONS

Set forth in the following table are the Bank's known contractual obligations, as of December 31, 2003 for noncancellable minimum leases. Approximate future minimum payments under these leases by year are as follows:

2004	**$ 256**
2005	**230**
2006	**238**
2007	**246**
2008	**248**
2009 and thereafter	**16**
	$ 1,234

INTEREST RATE SENSITIVITY

The largest component of the Bank's total income is net interest income, and the majority of its financial instruments are composed of interest rate-sensitive assets and liabilities with various terms and maturities. One of the primary objectives of management is to maximize net interest income while minimizing interest rate risk. Interest rate risk is derived from timing differences in the repricing of assets and liabilities, loan prepayments, deposit withdrawals, and differences in lending and funding rates. The Bank's Asset-Liability Committee actively seeks to monitor and control the mix of interest rate-sensitive - assets and interest rate-sensitive liabilities.

One measure of interest rate risk is the balance sheet gap ratio, which is defined as the difference between the dollar volume of interest-earning assets and interest-bearing liabilities maturing or repricing within a specified period of time as a percentage of total assets. The Bank uses an "income statement" gap ratio. To create an "income statement" gap, the balance sheet gap is adjusted by weighting each line item based on its anticipated rate sensitivity. The primary tool of measurement for quantifying our interest rate exposure is our Earnings Change Ratio (ECR) analysis. The ECR analysis provides a display of the balance sheet gap, weighted by the appropriate rate sensitivity factor, to define the impact on the income statement from 100 basis-point changes in the Prime Rate published in The Wall Street Journal. The analysis assumes an immediate and parallel change in all rates, and calculates the effect of the change for the next 12-month period. A positive gap results when the volume of interest rate-sensitive assets exceeds that of interest rate-sensitive liabilities within comparable time periods. A negative gap results when the volume of interest rate-sensitive liabilities exceeds that of interest rate-sensitive assets within comparable time periods.

	Prime down 100bp			Prime up 100bp		
	Balance sheet gap (1)	ECR (2)	Income statement gap	Balance sheet gap (1)	ECR (2)	Income statement gap
Rate sensitive assets						
Loans						
Maturing	$50,555	*100%*	$50,555	$41,546	*100%*	$41,546
Repricing	13,786	*100%*	13,786	13,786	*100%*	13,786
Securities						
Principal cash flows						
Corporates	250	*67%*	168	250	*67%*	168
Mortgage-backed securities (fixed)	1,015	*67%*	680	344	*67%*	230
Collateralized mortgage obligations (fixed)	356	*67%*	239	0	*67%*	0
Interest bearing balances	5,196	*102%*	5,300	5,196	*102%*	5,300
Floating rate						
Collateralized mortgage obligations (floating)	467	*67%*	313	309	*67%*	207
Adjustable rate mortgages	2,066	*78%*	1,618	2,066	*78%*	1,618
Total rate sensitive assets	$73,691		$72,659	$63,497		$62,855
Rate sensitive liabilities						
Savings	$35,464	*11%*	$3,901	$35,464	*11%*	$3,901
Money market	4,277	*38%*	1,625	4,277	*38%*	1,625
NOW	4,081	*29%*	1,183	4,081	*29%*	1,183
Other borrowed money	7,508	*100%*	7,508	7,508	*100%*	7,508
CDs >100M	2,831	*102%*	2,888	2,831	*102%*	2,888
CDs <100M	14,913	*97%*	14,466	14,913	*97%*	14,466
Total rate sensitive liabilities	$69,074		$31,571	$69,074		$31,571
Rate sensitivity gap (assets-liabilities)	4,617		41,088	(5,577)		31,284
Total assets	$122,503		$122,503	$122,503		$122,503
Gap as a % of total assets	3.8%		33.5%	-4.6%		25.5%

As indicated in the table above, the one-year income statement gap position at December 31, 2003 was a positive 33.5% if the prime rate falls 100 basis points and positive 25.5% if the prime rate rises 100 basis points. Generally, a financial institution with a negative gap position will most likely experience increases in net interest income during periods of falling interest rates and decreases in net interest income during periods of rising rates. A financial institution with a positive gap position will most likely experience increases in net interest income during periods of rising interest rates and decreases in net interest income during periods of falling rates.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

In management's opinion, the most critical accounting policies impacting our financial statements are as follows:

1. *Determination of the allowance for loan losses.*

Loan loss allowance policies involve significant judgments and assumptions by management which may have a material impact on the carrying value of net loans and, potentially, on the net income recognized by the Bank from period to period. For a description of the Bank's accounting policies in connection with its allowance for loan losses, see "Credit Risk" on page 15.

Management uses significant estimates to determine the allowance for loan losses. Since the allowance for loan losses is dependent, to a great extent, on conditions that may be beyond the Bank's control, it is at least reasonably possible that management's estimate of the allowance for loan losses and actual results could differ in the near term.

2. *Accrual and recognition of interest on loans.*

These policies involve significant judgments and assumptions by management, which may have a material impact on the interest income recognized by the Bank from period to period. For a description of the Bank's accounting policies in connection with accrual and recognition of interest on loans, see "Asset Quality" on page 16.

3. *Realization of deferred income tax items.*

Estimates of deferred tax assets and deferred tax liabilities make up the asset category titled "net deferred taxes." These estimates involve significant judgments and assumptions by management, which may have a material impact on the carrying value of net deferred tax assets for financial reporting purposes. For a more detailed description of these items and estimates, see Note 14 to the Audited Financial Statements on page 36.

4. *Fair value of financial instruments.*

SFAS No. 107, "Disclosures about Fair Value of Financial Instruments", requires disclosure of the estimated fair value of an entity's assets and liabilities considered to be financial instruments. For the Bank, as for most financial institutions, the majority of its assets and liabilities are considered to be financial instruments as defined in SFAS No. 107. However, many of such instruments lack an available trading market as characterized by a willing buyer and willing seller engaging in an exchange transaction. Also, it is the Bank's general practice and intent to hold its financial instruments to maturity and to not engage in trading or sales activities. Therefore, the Bank had to use significant estimations and present value calculations to prepare this disclosure.

Changes in 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.

Fair values have been estimated using data that management considered the best available and estimation methodologies deemed suitable for the pertinent category of financial instrument. The estimation methodologies, resulting fair values and recorded carrying amounts at December 31, 2003 and 2002, were as listed in Note 19 to the Audited Financial Statements on pages 38-39.

The Notes to the Bank's Audited Financial Statements, including Note 2 on pages 29-32, identify other significant accounting policies used in the development and presentation of its financial statements. This discussion and analysis, the significant accounting policies, and other financial statement disclosures identify and address key variables and other qualitative and quantitative factors that are necessary for an understanding and evaluation of the Bank and its results of operations.

LEGAL PROCEEDINGS

There are no pending legal proceedings to which the Bank is a party other than litigation incident to the ordinary business. In addition, there are no such proceedings known by the Bank to be contemplated by any governmental authorities.

FORWARD-LOOKING STATEMENTS

Certain statements in this report, including any which are not statements of historical fact, may constitute "forward-looking statements" within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act. Without limiting the foregoing, the words "expect", "anticipate", "plan", "believe", "seek", "estimate", "predict", "internal" and similar words are intended to identify expressions that may be forward-looking statements. Forward-looking statements involve certain risks and uncertainties, and actual results may differ materially from those contemplated by such statements. For example, actual results may be adversely affected by the following possibilities: (1) competitive pressures among financial institutions may increase; (2) changes in interest rates may reduce banking interest margins; (3) general economic conditions and real estate values may be less favorable than contemplated; (4) adverse legislation or regulatory requirements may be adopted; (5) other unexpected contingencies may arise. Many of these factors are beyond the Bank's ability to control or predict. Readers of this report are accordingly cautioned not to place undue reliance on forward-looking statements. The Bank disclaims any intent or obligation to update publicly any of the forward-looking statements herein, whether in response to new information, future events or otherwise.

Beard Miller Company LLP
Certified Public Accountants and Consultants

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
New Century Bank
Phoenixville, Pennsylvania

We have audited the accompanying balance sheets of New Century Bank as of December 31, 2003 and 2002, and the related statements of income, stockholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Bank'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 financial position of New Century Bank as of December 31, 2003 and 2002, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Beard Miller Company LLP

Reading, Pennsylvania
February 6, 2004

BALANCE SHEETS

December 31,	**2003**	2002
	(dollar amounts in thousands)	
ASSETS		
Cash and due from banks	**$ 2,739**	$ 1,858
Interest bearing deposits	**5,196**	2,402
Cash and cash equivalents	**7,935**	4,260
Securities available for sale	**12,849**	12,598
Loans receivable, net of allowance for loan losses 2003 $1,250; 2002 $1,013	**99,584**	82,843
Bank premises and equipment, net	**980**	890
Accrued interest receivable and other assets	**1,132**	761
Total assets	**$122,480**	$101,352
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Deposits:		
Demand, non-interest bearing	**$ 12,664**	$ 9,475
Interest bearing	**88,247**	80,692
Total deposits	**100,911**	90,167
Other borrowings	**12,500**	3,070
Accrued interest payable and other liabilities	**409**	341
Total liabilities	**$113,820**	$ 93,578
Stockholders' equity:		
Common stock, par value $1.00 per share; authorized 10,000,000 shares; issued and outstanding as of 2003 1,310,134; 2002 1,280,134 shares	**1,310**	1,280
Surplus	**9,021**	8,838
Accumulated deficit	**(1,766)**	(2,469)
Accumulated other comprehensive income	**95**	125
Total stockholders' equity	**8,660**	7,774
Total liabilities and stockholders' equity	**$122,480**	$101,352

See Notes to Financial Statements

STATEMENTS OF INCOME

Years Ended December 31,	2003	2002
	(dollar amounts in thousands, except per share data)	
Interest income:		
Loans receivable, including fees	**$5,805**	$5,224
Securities, taxable	**490**	640
Other	**28**	74
Total interest income	**6,323**	5,938
Interest expense:		
Deposits	**2,122**	2,661
Other borrowed funds	**127**	37
Total interest expense	**2,249**	2,698
Net interest income	**4,074**	3,240
Provision for loan losses	**280**	201
Net interest income after provision for loan losses	**3,794**	3,039
Other income:		
Service fees	**221**	179
Gain on sale of securities	**20**	-
Other	**105**	67
Total other income	**346**	246
Other expenses:		
Salaries and employee benefits	**1,772**	1,418
Occupancy	**442**	347
Technology, communication and bank operations	**505**	461
Advertising and promotion	**209**	193
Other	**509**	441
Total other expenses	**3,437**	2,860
Net income	**$ 703**	$ 425
Basic and diluted income per share	**$ 0.55**	$ 0.39

See Notes to Financial Statements

STATEMENTS OF STOCKHOLDERS' EQUITY

Years Ended December 31, 2003 and December 31, 2002

	Common Stock	Surplus	Accumulated Deficit	Accumulated Other Comprehensive Income	Total
			(dollar amounts in thousands)		
Balance, December 31, 2001	$1,009	$7,162	$(2,894)	$ 19	$5,296
Comprehensive income:					
Net income	-	-	425	-	425
Change in net unrealized gains (losses) on securities available for sale	-	-	-	106	106
Total comprehensive income					531
Issuance of 271,236 shares of common stock	271	1,676	-	-	1,947
Balance, December 31, 2002	1,280	8,838	(2,469)	125	7,774
Comprehensive income:					
Net income	**-**	**-**	**703**	-	**703**
Change in net unrealized gains (losses) on securities available for sale	**-**	**-**	-	**(30)**	**(30)**
Total comprehensive income					**673**
Issuance of 30,000 shares of common stock	**30**	**183**	-	**-**	**213**
Balance, December 31, 2003	**$1,310**	**$9,021**	**$(1,766)**	**$ 95**	**$8,660**

See Notes to Financial Statements

Years Ended December 31,	2003	2002
	(in thousands)	
Cash Flows from Operating Activities		
Net income	**$ 703**	$ 425
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	**280**	201
Provision for depreciation and amortization	**234**	227
Net amortization of securities premiums and discounts	**94**	79
Net realized gain on sale of securities	**(20)**	-
Decrease (increase) in accrued interest receivable and other assets	**30**	(229)
Increase (decrease) in accrued interest payable and other liabilities	**68**	(52)
Net Cash Provided by Operating Activities	**1,389**	651
Cash Flows from Investing Activities		
Purchases of securities available for sale	**(8,662)**	(5,727)
Proceeds from maturities, calls and principal repayments on securities available for sale	**5,789**	4,022
Proceeds from sales of securities available for sale	**2,503**	238
Net increase in loans	**(17,407)**	(15,329)
Purchases of bank premises and equipment	**(324)**	(139)
Net Cash Used in Investing Activities	**(18,101)**	(16,935)
Cash Flows from Financing Activities		
Net increase in deposits	**10,744**	6,552
Net increase in other short term borrowed funds	**5,430**	2,070
Proceeds from other long term borrowed funds	**4,000**	1,000
Proceeds from issuance of common stock	**213**	1,947
Net Cash Provided by Financing Activities	**20,387**	11,569
Net Increase (Decrease) in Cash and Cash Equivalents	**3,675**	(4,715)
Cash and Cash Equivalents - Beginning	**4,260**	8,975
Cash and Cash Equivalents - Ending	**$ 7,935**	$ 4,260
Supplementary Cash Flows Information		
Interest paid	**$ 2,263**	$ 2,775
Other real estate acquired in settement of loans	**$ 386**	-

See Notes to Financial Statements

NOTE 1: ORGANIZATION AND NATURE OF OPERATIONS

New Century Bank was incorporated March 25, 1994 under the laws of the Commonwealth of Pennsylvania and is a Pennsylvania state chartered bank. The Bank commenced operations on June 26, 1997 and provides full banking services. The Bank is subject to regulation of the Pennsylvania Department of Banking and the Federal Reserve Bank. The area served by the Bank is principally the western suburbs of Philadelphia, Pennsylvania.

NOTE 2 - SUMMARY OF ACCOUNTING POLICIES

Estimates

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

Presentation of Cash Flows

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks and interest-bearing deposits with banks with a maturity date of three months or less.

Securities

Management determines the appropriate classification of debt securities at the time of purchase and re-evaluates such designation as of each balance sheet date.

Securities classified as available for sale are those securities that the Bank intends to hold for an indefinite period of time but not necessarily to maturity. Securities available for sale are carried at fair value. Unrealized gains or losses are reported as increases or decreases in other comprehensive income, net of the related deferred tax effect. Realized gains or losses, determined on the basis of the cost of the specific securities sold, are included in earnings. Premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Equity securities include restricted stock of the Federal Reserve Bank and Federal Home Loan Bank, which are carried at cost.

Securities classified as held to maturity are those debt securities the Bank has both the intent and ability to hold to maturity regardless of changes in market conditions, liquidity needs or changes in general economic conditions. These securities are carried at cost adjusted for the amortization of premium and accretion of discount, computed by a method which approximates the interest method over the terms of the securities. At December 31, 2003 and 2002, the Bank had no securities classified as held to maturity.

Loans Receivable

Loans receivable that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are stated at their outstanding unpaid principal balances, net of an allowance for loan losses and any deferred fees. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized as an adjustment of the yield (interest income) of the related loans. The Bank is generally amortizing these amounts over the contractual life of the loan.

The accrual of interest is generally discontinued when the contractual payment of principal or interest has become 90 days past due or management has serious doubts about further collectibility of principal or interest, even though the loan is currently performing. A loan may remain on accrual status if it is in the process of collection and is either guaranteed or well secured. When a loan is placed on nonaccrual status, unpaid interest credited to income in the current year is reversed and unpaid interest accrued in prior years is charged against the allowance for loan losses. Interest received on nonaccrual loans generally is either applied against principal or reported as interest income, according to management's judgment as to the collectibility of principal. Generally, loans are restored to accrual status when the obligation is brought current, has performed in accordance with the contractual terms for a reasonable period of time and the ultimate collectibility of the total contractual principal and interest is no longer in doubt.

NOTE 2 - SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

Allowance for Loan Losses

The allowance for loan losses is established through provisions for loan losses charged against income. Loans deemed to be uncollectible are charged against the allowance for loan losses, and subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is maintained at a level considered adequate to provide for losses that can be reasonably anticipated. Management's periodic evaluation of the adequacy of the allowance is based on the Bank's past loan loss experience, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral, composition of the loan portfolio, current economic conditions and other relevant factors. This evaluation is inherently subjective as it requires material estimates that may be susceptible to significant change, including the amounts and timing of future cash flows expected to be received on impaired loans.

The allowance consists of specific, general and unallocated components. The specific component relates to loans that are classified as doubtful, substandard or special mention. For such loans that are also classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers non-classified loans and is based on historical loss experience adjusted for qualitative factors. An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

A loan is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan by loan basis for commercial loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price or the fair value of the collateral if the loan is collateral dependent.

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Bank does not separately identify individual consumer and residential loans for impairment disclosures.

Significant Group Concentrations of Credit Risk

Most of the Bank's activities are with customers located in southeastern Pennsylvania. Note 3 discusses the types of securities that the Bank invests in. Note 4 discusses the types of lending that the Bank engages in. The Bank does not have any significant concentrations to any one industry or customer.

Transfers of Financial Assets

Transfers of financial assets, including loan participations sold, are accounted for as sales, when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Bank, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Bank does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Foreclosed Real Estate

Real estate properties acquired through, or in lieu of, loan foreclosure are initially recorded at fair value less cost to sell at the date of foreclosure establishing a new cost basis.

NOTE 2 - SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

After foreclosure, valuations are periodically performed by management and the real estate is carried at the lower of its carrying amount or fair value less the cost to sell. Revenue and expenses from operations and changes in the valuation allowance are included in other expenses.

Foreclosed real estate is included in other assets.

Bank Premises and Equipment

Bank premises and equipment are stated at cost less accumulated depreciation. Depreciation is computed on the straight-line method over the following estimated useful lives of the related assets:

	Years
Leasehold improvements	5 – 22
Furniture, fixtures and equipment	5 – 10
Computer equipment and data processing software	3 - 5

Advertising Costs

The Bank follows the policy of charging the costs of advertising to expense as incurred.

Net Income per Share

Basic income per share represents net income divided by the weighted-average number of common shares outstanding during the period. Diluted income per share reflects additional common shares that would have been outstanding if dilutive potential common shares (stock options) had been issued, as well as any adjustments to income that would result from the assumed issuance. The effect of stock options was not dilutive for any periods presented. The weighted-average number of shares of common stock outstanding was 1,288,839 and 1,080,237 in 2003 and 2002, respectively.

Income Taxes

Deferred income taxes are provided on the liability method whereby deferred tax assets are recognized for deductible temporary differences and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and net operating loss carryforwards and their tax basis. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

Stock Options

Statement of Financial Accounting Standards (SFAS) No. 123, "Accounting for Stock-Based Compensation," contains a fair value-based method for valuing stock-based compensation that entities may use, which measures compensation cost at the grant date based on the fair value of the award. Compensation is then recognized over the service period, which is usually the vesting period. Alternatively, the standard permits entities to continue accounting for employee stock options and similar equity instruments under Accounting Principles Board (APB) Opinion 25, "Accounting for Stock Issued to Employees." Entities that continue to account for stock options using APB Opinion 25 are required to make pro forma disclosures of net income and earnings per share, as if the fair value-based method of accounting defined in SFAS No. 123 had been applied. The Bank has elected to account for its employee stock option plans under APB Opinion 25. Accordingly, no compensation cost has been recognized for options granted.

Off-Balance Sheet Financial Instruments

In the ordinary course of business, the Bank has entered into off-balance sheet financial instruments consisting of commitments to extend credit and letters of credit. Such financial instruments are recorded in the balance sheet when they are funded.

Reclassifications

Certain amounts reported in the 2002 financial statements have been reclassified to conform with the 2003 presentation. These reclassifications did not impact the Bank's financial condition or results of operations.

New Accounting Standards

In November 2002, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 45 (FIN 45), "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." This Interpretation expands the disclosures to be made by a

NOTE 2 - SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

guarantor in its financial statements about its obligations under certain guarantees and requires the guarantor to recognize a liability for the fair value of an obligation assumed under certain specified guarantees. Under FIN 45, the Bank does not issue any guarantees that would require liability recognition or disclosure, other than its standby letters of credit, as discussed in Note 16. Adoption of FIN 45 did not have a significant impact on the Bank's financial condition or results of operations.

In January 2003, the Financial Accounting Standards Board issued FASB Interpretation No. 46, "Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51." FIN 46 was revised in December 2003. This Interpretation provides new guidance for the consolidation of variable interest entities (VIEs) and requires such entities to be consolidated by their primary beneficiaries if the entities do not effectively disperse risk among parties involved. The Interpretation also adds disclosure requirements for investors that are involved with unconsolidated VIEs. The disclosure requirements apply to all financial statements issued after December 31, 2003. The consolidation requirements apply to companies that have interests in special-purpose entities for periods ending after December 15, 2003. Consolidation of other types of VIEs is required in financial statements for periods ending after March 15, 2004. The adoption of this Interpretation did not have and is not expected to have an impact on the Bank's financial condition or results of operations.

In April 2003, the Financial Accounting Standards Board (FASB) issued Statement No. 149, "Amendment of Statement No. 133, Accounting for Derivative Instruments and Hedging Activities." This Statement clarifies the definition of a derivative and incorporates certain decisions made by the Board as part of the Derivatives Implementation Group process. This Statement is effective for contracts entered into or modified and for hedging relationships designated after June 30, 2003 and should be applied prospectively. The provisions of the Statement that relate to implementation issues addressed by the Derivatives Implementation Group that have been effective should continue to be applied in accordance with their respective dates. Adoption of this standard did not have an impact on the Bank's financial condition or results of operations.

In May 2003, the Financial Accounting Standards Board issued Statement No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." This Statement requires that an issuer classify a financial instrument that is within its scope as a liability. Many of these instruments were previously classified as equity. This Statement was effective for financial instruments entered into or modified after May 31, 2003 and otherwise was effective beginning July 1, 2003. The adoption of this standard did not have an impact on the Bank's financial condition or results of operations.

NOTE 3 - SECURITIES AVAILABLE FOR SALE

The amortized cost and approximate fair value of securities available for sale as of December 31, 2003 and 2002 are summarized as follows:

	December 31, 2003			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in thousands)			
Mortgage-backed securities	$ 9,915	$100	$(70)	9,945
Corporate bonds	1,753	115	-	1,868
Equity securities	1,036	-	-	1,036
	$12,704	$215	$(70)	$12,849

NOTE 3 - SECURITIES AVAILABLE FOR SALE (CONTINUED)

	December 31, 2002			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(in thousands)		
Mortgage-backed securities	$10,324	$144	$(20)	$10,448
Corporate bonds	1,503	66	-	1,569
Equity securities	581	-	-	581
	$12,408	$210	$(20)	$12,598

The amortized cost and fair value of securities available for sale as of December 31, 2003, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because the securities may be called or prepaid with or without any penalties.

	Amortized Cost	Fair Value
	(in thousands)	
Due in one year or less	$ 500	$ 503
Due after one year through five years	1,253	1,365
	$1,753	$1,868
Mortgage-backed securities	9,915	9,945
Equity securities	1,036	1,036
	$12,704	$12,849

Gross securities gains of $20,000 were recognized on the sales of available for sale securities in 2003. No gains or losses were recognized on the sales of available for sale securities in 2002.

The Bank's investments' gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at December 31, 2003 are as follows:

	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
			(in thousands)			
Mortgage-backed securities	**$ 4,335**	**$ (64)**	**$ 508**	**$ (6)**	**$ 4,843**	**$ (70)**

The securities in the above table are agency mortgage-backed securities that have been temporarily impaired due to interest rate changes. There are thirteen securities in the less than twelve months category and four in the twelve months or more category. The Bank has the ability and intent to hold these securities until maturity or market price recovery. Management believes that there is no permanent impairment of these securities.

NOTE 4 - LOANS RECEIVABLE

The composition of net loans receivable at December 31, 2003 and 2002 is as follows:

	2003	2002
	(in thousands)	
Commercial	**$ 78,326**	$ 62,817
Residential real estate loans	**8,025**	7,297
Consumer	**14,283**	13,576
Total loans	**100,634**	83,690
Unearned net loan origination cost and fees	**200**	166
Allowance for loan losses	**(1,250)**	(1,013)
Net loans	**$ 99,584**	$ 82,843

NOTE 5 - ALLOWANCE FOR LOAN LOSSES

The changes in the allowance for loan losses for the years ended December 31, 2003 and 2002 are as follows:

	2003	2002
	(in thousands)	
Balance, beginning	**$1,013**	$ 812
Provision for loan losses	**280**	201
Loans charged off	**(55)**	-
Loan recoveries	**12**	-
Balance, ending	**$1,250**	$1,013

As of December 31, 2003 and 2002, the Bank had impaired loans of $757,000 and $635,000, respectively, requiring an allowance for loan losses of $149,000 and $136,000, respectively. As of December 31, 2003 and 2002, the average recorded investment in these impaired loans was $807,000 and $634,000, respectively, and the interest income recognized on impaired loans was $49,000 and $-0-, respectively.

Loans on which the accrual of interest has been discontinued amounted to $452,000 and $700,000 at December 31, 2003 and 2002, respectively. Loan balances past due 90 days or more and still accruing interest, but which management expects will eventually be paid in full, amount to $-0- and $2,000 at December 31, 2003 and 2002, respectively.

NOTE 6 - BANK PREMISES AND EQUIPMENT

The components of bank premises and equipment at December 31, 2003 and 2002 are as follows:

	2003	2002
	(in thousands)	
Leasehold improvements	**$ 944**	$ 825
Furniture, fixtures and equipment	**359**	249
Computer equipment and data processing software	**728**	633
	2,031	1,707
Less accumulated depreciation	**1,051**	817
	$ 980	$ 890

NOTE 7 - DEPOSITS

The components of deposits at December 31, 2003 and 2002 are as follows:

	2003	2002
	(in thousands)	
Demand, non-interest bearing	**$ 12,664**	$ 9,475
Demand, interest bearing	**8,358**	9,588
Savings	**35,464**	39,042
Time, $100,000 and over	**7,860**	5,453
Time, other	**36,565**	26,609
	$100,911	$90,167

At December 31, 2003, the scheduled maturities of time deposits are as follows (in thousands):

2004	**$17,744**
2005	**10,135**
2006	**7,979**
2007	**3,795**
2008	**4,772**
	$44,425

NOTE 8 - LEASE COMMITMENTS AND TOTAL RENTAL EXPENSE

The Bank leases the premises for its banking office and operations center under operating lease agreements expiring January 2009, with an option to extend the lease agreement for two additional five-year

NOTE 8 - LEASE COMMITMENTS AND TOTAL RENTAL EXPENSE (CONTINUED)

lease terms. The Bank also leases two branch locations: one is under an operating lease agreement which expires July 2004 and the other is under an operating lease agreement which expires November 2008.

Approximate future noncancellable minimum lease payments by year are as follows (in thousands):

2004	**$ 256**
2005	**230**
2006	**238**
2007	**246**
2008	**248**
2009 and thereafter	**16**
	$ 1,234

Rent expense, which includes reimbursements to the lessor for real estate taxes, was approximately $208,000 and $147,000 for years ended December 31, 2003 and 2002, respectively.

NOTE 9 - OTHER BORROWED FUNDS

At December 31, 2003, the Bank had long term and short-term advances from the Federal Home Loan Bank totaling $5,000,000 and $7,500,000, respectively with an average interest rate of 2.88% and 1.13%, respectively. At December 31, 2002, the Bank had long term and short term advances from the Federal Home Loan Bank totaling $1,000,000 and $2,070,000, respectively, with an average interest rate of 4.07% and 1.35%, respectively.

The contractual maturities of fixed rate long-term advances for 2003 and 2002 are as follows:

	December 31	
	2003	2002
	(in thousands)	
2005	**$1,750**	$1,000
2006	**750**	-
2007	**750**	-
2008	**750**	-
2009 and thereafter	**1,000**	-
	$5,000	$1,000

The Bank has a total borrowing capacity with the Federal Home Loan Bank of approximately $47,500,000. Advances from the Federal Home Loan Bank are secured by certain qualifying assets of the Bank.

NOTE 10 - EMPLOYEE BENEFIT PLAN

The Bank has a 401(k) profit sharing plan whereby eligible employees may contribute up to 15% of their salary to the Plan. The Bank provides a matching contribution equal to 40% of the first 7% of the contribution made by the employee. Employer contributions for the years ended December 31, 2003 and 2002 were approximately $20,000 and $18,000, respectively.

NOTE 11 - STOCKHOLDERS' EQUITY

During 2003, the Bank raised $213,000 in capital in its stock offering through the sale of 30,000 shares of common stock at a price of 7.50 per share, net of $12,000 in offering expenses.

During 2002, the Bank raised $1,947,000 in capital in its rights offering through the sale of 271,236 shares of common stock at a price of $8.00 per share, net of $223,000 in offering expenses.

NOTE 12 - COMPREHENSIVE INCOME

Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Although certain changes in assets and liabilities, such as unrealized gains and losses on available for sale securities, are reported as a separate component of the equity section of the balance sheet, such items, along with net income, are components of comprehensive income.

The only components of other comprehensive income are unrealized holding gains, net of gains included in net income, on securities available for sale.

NOTE 12 - COMPREHENSIVE INCOME (CONTINUED)

	Years Ended December 31, 2003	2002
	(in thousands)	
Unrealized holding (losses) gains on available for sale securities	**$ (25)**	$ 162
Reclassification adjustment for gains realized in income on available for sale securities	**20**	-
Net unrealized gains (losses)	**(45)**	162
Income tax effect	**15**	(56)
Net of tax amount	**$ (30)**	$ 106

NOTE 13 - STOCK OPTION PLAN

The Bank has a Stock Option Plan, the purpose of which is to give employees and non-employee directors an opportunity to acquire shares of common stock, to provide an incentive for employees and non-employee directors to continue to promote the best interests of the Bank and enhance its long-term performance, and to provide an incentive for employees and non-employee directors to associate or remain associated with the Bank. Some or all of the stock options granted to employees (but not non-employee directors) pursuant to this Plan may, but need not, be structured to qualify as Incentive Stock Options.

The Plan is administered by the board of directors. The aggregate number of shares of common stock available for grant under the Plan is 112,500 and is subject to adjustment for any increase or decrease in the number of shares of issued common stock resulting from a division or consolidation of shares.

In connection with the initial stock offering, the Bank issued to the Incorporators options to acquire 60,750 shares of common stock (the "Options"). The Options are exercisable at a price of $8.80 per share and will expire ten years from the date the Bank received its charter. In addition, the Bank granted to two of its executive officers stock options to purchase 11,875 shares of common stock at $8.80 per share which expire ten years from the date the Bank received its charter. There were no options granted or exercised in 2003 or 2002. The pro forma disclosures required under SFAS No. 123, "Accounting for Stock-Based Compensation," have been omitted as all options outstanding were fully vested by 2000.

NOTE 14 - FEDERAL INCOME TAXES

The components of income tax expense for the years ended December 31 are as follows:

	2003	2002
	(in thousands)	
Current	**$ 369**	$ 185
Benefit from the utilization of net operating loss carryforwards	**(369)**	(185)
	$ -	$ -

The components of the net deferred tax asset (liability) at December 31, 2003 and 2002 are as follows:

	2003	2002
	(in thousands)	
Deferred tax assets:		
Allowance for loan losses	**$ 425**	$ 344
Other	**22**	7
Net operating loss carryforwards	**307**	670
	754	1,021
Valuation allowance	**587**	827
Total deferred tax assets, net of valuation allowance	**167**	194
Deferred tax liabilities:		
Bank premises and equipment	**(1)**	(2)
Cash basis conversion	**(159)**	(189)
Net unrealized gains on securities	**(49)**	(65)
Other	**(7)**	(3)
Total deferred tax liabilities	**(216)**	(259)
Net deferred tax liability	**$ (49)**	$ (65)

The Bank has net operating loss carryforwards available for federal income tax purposes of approximately $902,000 expiring through the year 2020.

NOTE 15 - TRANSACTIONS WITH EXECUTIVE OFFICERS, DIRECTORS AND PRINCIPAL STOCKHOLDERS

The Bank has had, and may be expected to have in the future, banking transactions in the ordinary course of business with its executive officers, directors, principal stockholders, their immediate families and affiliated companies (commonly referred to as related parties), on the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with others. At December 31, 2003 and 2002, related party loans totaled approximately $2,076,000 and $2,271,000, respectively. During 2003, new loans and advances to such related parties totaled $367,000 and repayments totaled $562,000.

NOTE 16 - FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK

The Bank is a party to 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 letters of credit. Those instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the balance sheet.

The Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit is represented by the contractual amount of those instruments. The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments.

At December 31, 2003 and 2002, the following financial instruments were outstanding whose contract amounts represent credit risk:

	2003	2002
	(in thousands)	
Commitments to fund loans	**$ 3,555**	$ 1,998
Unfunded commitments under lines of credit	**14,531**	10,846
Letters of credit	**570**	626

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. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. The Bank evaluates each customer's credit worthiness 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. Collateral held varies but may include personal or commercial real estate, accounts receivable, inventory and equipment.

Outstanding letters of credit written are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. The majority of these standby letters of credit expire within the next twelve months. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending other loan commitments. The Bank requires collateral supporting these letters of credit as deemed necessary. Management believes that the proceeds obtained through a liquidation of such collateral would be sufficient to cover the maximum potential amount of future payments required under the corresponding guarantees. The current amount of the liability as of December 31, 2003 for guarantees under standby letters of credit issued is not material.

NOTE 17 - CONCENTRATION OF CREDIT RISK

The Bank grants commercial, residential and consumer loans to customers primarily located in the western suburbs of Philadelphia, Pennsylvania. The concentration of credit by type of loan is set forth in Note 4. Although the Bank has a diversified loan portfolio, its debtors' ability to honor their contracts is influenced by the region's economy.

NOTE 18 - REGULATORY MATTERS

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet the minimum capital requirements can initiate certain mandatory and possibly additional discretionary-actions by regulators that, if undertaken, could have a direct material effect on the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities and certain

NOTE 18 - REGULATORY MATTERS (CONTINUED)

off-balance sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth 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, as of December 31, 2003 and 2002, that the Bank meets all capital adequacy requirements to which it is subject.

As of December 31, 2003, the Bank was well capitalized under the regulatory framework for prompt corrective action. The Bank must maintain minimum total risk-based, Tier 1 risk-based and Tier 1 leverage ratios set forth in the table. There are no conditions or events since that notification that management believes have changed the Bank's category.

The Bank's actual capital amounts and ratios at December 31, 2003 and 2002 are also presented below:

	Actual		For Capital Adequacy Purposes				To Be Well Capitalized Under Prompt Corrective Action Provisions			
	Amount	Ratio		Amount		Ratio		Amount		Ratio
			(dollar amounts in thousands)							
As of December 31, 2003:										
Total capital (to risk weighted assets)	**$9,746**	**10.3%**	≥	**$7,550**	≥	**8.0%**	≥	**$9,438**	≥	**10.0%**
Tier 1 capital (to risk weighted assets)	**8,565**	**9.1**	≥	**3,775**	≥	**4.0**	≥	**5,663**	≥	**6.0**
Tier 1 capital (to average assets)	**8,565**	**7.5**	≥	**4,567**	≥	**4.0**	≥	**5,709**	≥	**5.0**
As of December 31, 2002:										
Total capital (to risk weighted assets)	$8,623	11.1%	≥	$6,232	≥	8.0%	≥	$7,790	≥	10.0%
Tier 1 capital (to risk weighted assets)	7,649	9.8	≥	3,116	≥	4.0	≥	4,674	≥	6.0
Tier 1 capital (to average assets)	7,649	7.7	≥	3,980	≥	4.0	≥	4,975	≥	5.0

The Bank is subject to certain restrictions on the amount of dividends that it may declare due to regulatory considerations. The Pennsylvania Banking Code provides that cash dividends may be declared and paid only out of accumulated net earnings.

NOTE 19 - DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

Management uses its best judgment in estimating the fair value of the Bank's financial instruments; however, there are inherent weaknesses in any estimation technique. Therefore, for substantially all financial instruments, the fair value estimates herein are not necessarily indicative of the amounts the Bank could have realized in a sales transaction on December 31, 2003. The estimated fair value amounts have been measured as of December 31, 2003 and have not been re-evaluated or updated for purposes of these financial statements subsequent to that date. As such, the estimated fair values of these financial instruments subsequent to December 31, 2003 may be different than the amounts reported at year end.

The following information should not be interpreted as an estimate of the fair value of the entire Bank since a fair value calculation is only provided for a limited portion of the Bank's assets and liabilities. Due to a wide range of valuation techniques and the degree of subjectivity used in making the estimates, comparisons between the Bank's disclosures and those of other companies may not be meaningful. The following methods and assumptions were used to estimate the fair value of the Bank's financial instruments at December 31, 2003:

NOTE 19 - DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

The following assumptions were used to estimate the fair value of the Bank's financial instruments:

Cash and Cash Equivalents

For cash and cash equivalents, the carrying amount is a reasonable estimate of fair value.

Securities

The fair value of securities is based on quoted market prices, where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable securities. The investment in Federal Home Loan Bank of Pittsburgh and Federal Reserve Bank stock is restricted as to its resale and its cost, accordingly, is a reasonable estimate of the fair value.

Loans Receivable, Net

The fair value of loans is estimated based on present values of cash flows using interest rates currently offered for loans with similar terms to borrowers of similar credit quality.

Accrued Interest Receivable and Payable

The carrying amount of accrued interest receivable and payable approximates fair value.

Deposits

The fair value of demand deposits, savings accounts and money market demand accounts is the amount reported in the financial statements. The fair value of certificates of deposit is based on the present value estimate using rates currently offered for deposits with similar remaining maturities.

Borrowings

The fair value of short-term borrowings approximate their carrying value.

The fair value of long-term borrowings is estimated using discounted cash flow analyses, based on rates currently available for borrowings with similar terms and remaining maturities.

Commitments to Extend Credit and Letters of Credit

The majority of the Bank's commitments to extend credit and letters of credit carry current market interest rates if converted to loans. Because commitments to extend credit are generally unassignable by either the Bank or the borrower, they only have value to the Bank and the borrower. The estimated fair value approximates the recorded deferred fee amounts, if any, which are not significant.

The carrying amounts and estimated fair values of the Bank's financial instruments at December 31, 2003 and 2002 were as follows:

	December 31,			
	2003		2002	
	Carrying	Fair Value	Carrying	Fair Value
	(in thousands)			
Assets:				
Cash and cash equivalents	**$ 7,935**	**$ 7,935**	$ 4,260	$ 4,260
Securities available for sale	**12,849**	**12,849**	12,598	12,598
Loans receivable, net	**99,584**	**99,458**	82,843	83,259
Accrued interest receivable	**681**	**681**	630	630
Liabilities:				
Deposits	**$ 100,911**	**$ 101,901**	$ 90,167	$ 90,243
Borrowings	**12,500**	**11,974**	3,070	3,075
Accrued interest payable	**180**	**180**	194	194
Off-balance sheet financial				
Commitments to extend credit and letters of credit	**-**	**-**	-	-

Corporate Information

Board of Directors

Kenneth B. Mumma,
Chairman & CEO

John Alexandra

Joseph I. Bishop

Stanley J. Conover

Donald J.L. Coppedge

William Kronenberg, III

James W. McKeighan, III

David A. Schwartz

John J. Sickler

Executive Officers

Kenneth B. Mumma,
Chairman & CEO

James W. McKeighan, III,
President

John Alexandra,
Vice Chairman & CFO

Officers

Robert G. Philips,
Controller

Patricia A. Debo,
Vice President

Edward J. Gallagher,
Vice President

Richard G. Hood,
Vice President

Justin R. Power,
Vice President

Kerry J. Seibert,
Vice President

Robert S. Ward,
Vice President

Cesidia A. Cauler,
Assistant Vice President

Kaye R. Jordan,
Assistant Vice President

Carole M. Agresta,
Banking Officer

Janet M. Batten,
Operations Officer

Doan M. Dang,
Accounting Officer

Frederick A. Durr,
Loan Administration Officer

Staff

Peter M. Alvarez

Neal R. Bodnar

Carla T. Edlund

Angelia E. Epps

Ruth L. Hammers

Joan A. Higgins

Brian M. Houy

Jami L. Kelso

Kathleen Kennedy

Monica A. Kopacz

Kristen M. Madsen

Leigh E. McKeighan

Regina M. Missanelli

Deborah A. O'Neill

Dana L. Reinhart

Michele E. Touhey-Wilkinson

Rochelle L. Thompson

Corporate Headquarters

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800.849.4809

Banking Locations

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Phoenixville, PA 19460
Phone: 610.933.2000
Fax: 610.933.5220

Newtown Square
St. Albans Shopping Center
3557 West Chester Pike
Newtown Square, PA 19073
Phone: 610.356.4000
Fax: 610.356.2005

Wayne (Opening 2nd Quarter 2004)
153 East Lancaster Avenue
Wayne, PA 19087
Phone: 610.995.0040

Independent Auditors

Beard Miller Company LLP
2609 Keiser Blvd.
Reading, PA 19603

Investor Information

For other investor information, please contact:
Kenneth B. Mumma, Chairman & CEO
by phone: 610.933.2271 or e-mail:
KMumma@NewCenturyBank.com

Annual Meeting of Shareholders 2004

Wednesday, May 19, 2004 at 11:00 a.m.
The Farmhouse at People's Light & Theater Company, 39 Conestoga Road,
Malvern, PA 19355

NEW CENTURY BANK

WWW.NEWCENTURYBANK.COM