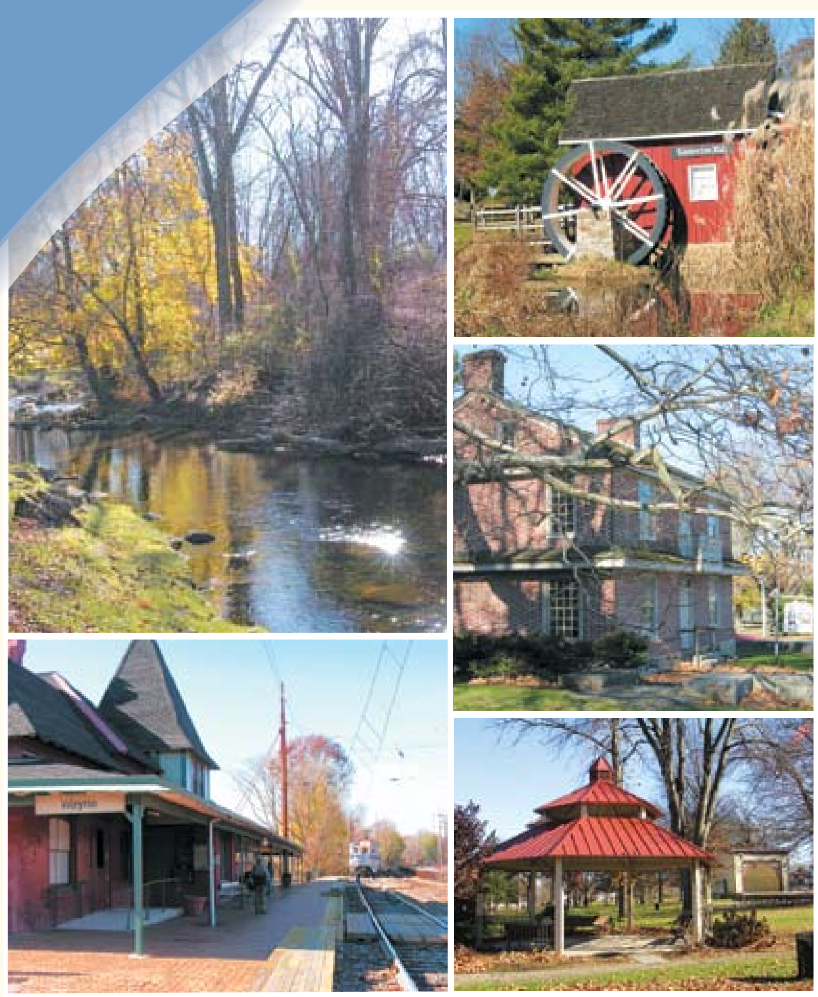
ANNUAL REPORT 2004

NEW CENTURY BANK



Committed To The Communities We Serve

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Ken Mumma, Chairman & CEO

To Our Shareholders, Customers and Community

It is a pleasure to report that 2004 marked another year of double digit growth for New Century Bank. Net Income grew by $100,000 or 14%, continuing our trend of double digit growth in Net Income. We earned $0.58 per share, a 5% gain over 2003, growing revenues while successfully opening our first new branch in five years in Wayne.

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

- ❖ Assets growth was 23% for the year
- ❖ Net loans grew by 16%
- ❖ Deposits grew by 15%
- ❖ Net interest income increased 13%
- ❖ This bank-wide progress resulted in Net Income of $803 thousand

These results are especially significant for they permitted New Century to increase capital by $1.8 million or 21% through a private placement and retained earnings. It is important for a fast growing community bank like New Century to continue to grow its capital so that it can take advantage of new opportunities. We are pleased these results are being noticed by the investment community.

Another significant step forward for the bank is that New Century began its next growth phase with its branch opening in the busy center of downtown Wayne. A grand opening reception held in June was attended by several hundred local community and business leaders, including a number of local shareholders. This new branch bank is staffed by experienced key people who have been with us, understand the New Century culture, and know how to serve customers.

We intend that this branch serve as a model for growing our network. This model will emphasize our personalized commercial lending services, while providing the customer friendly retail experience to which our customers have become accustomed. Using an existing, renovated storefront results in a small, flexible and relatively inexpensive facility. Flexibility plus low cost will allow us to be nimble in how we grow in our market. We are working to secure several locations and plan to add at least one of these branches per year for the next several years.

In an effort to seek sources of non-interest income which complement our core business, we formed a subsidiary, New Century Land Transfer, LLC to provide title insurance and real estate settlement services.

This year we have also taken some concrete steps toward demonstrating our commitment to serving our community. In the Spring we participated in the local Relay for Life to raise money for cancer research. Not only was it a significant demonstration of the

potential for our diverse community, the event raised a record sum. We have sponsored a reading program in the Phoenixville elementary schools. In addition to our financial commitment, Donald J.L. Coppedge, one of our former directors and current Community Outreach Coordinator, was instrumental in making this happen. As a final example, we were able to donate $70 thousand towards programs for pre-kindergarten children in Chester County through Pennsylvania's Education Improvement Tax Credit program.

As it is my pleasure to recount these highlights of 2004 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 2004.
- ❖ 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.

We believe that New Century Bank is building a very positive record of performance. By providing quality banking products, delivered in a friendly, professional atmosphere, this business model is building positive growth supported by strong earnings growth. We recognize that our performance gains are based on the continuing economic well being of the markets in which we operate.

It is an unalterable part of our commitment that we will continue to work hard 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 2005 to continue to earn your support.

Sincerely,

Kenneth B. Mumma

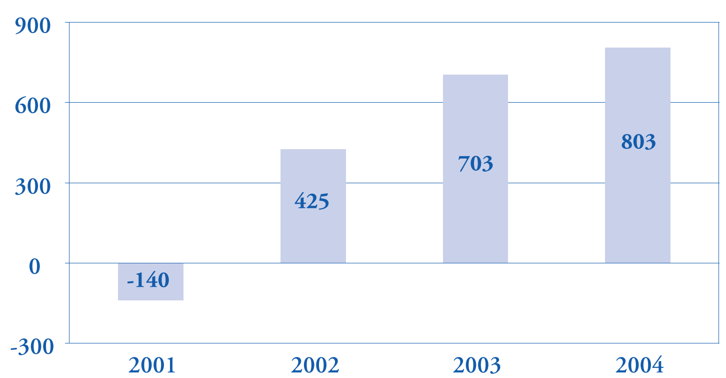
Kenneth B. Mumma
Chairman and Chief Executive Officer

Financial Highlights

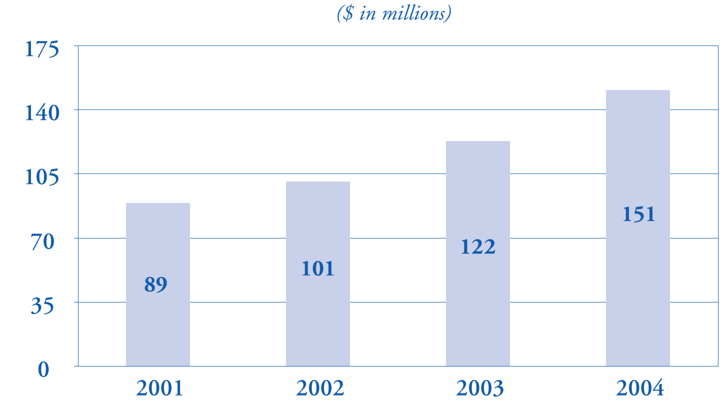
Dollar amounts in thousands except per share data.

		2004		2003	Change
For The Year					
Net interest income	$	4,586	$	4,074	13%
Other income		422		346	22%
Other expenses		3,930		3,437	14%
Net income		803		703	14%
Earnings per share		0.58		0.55	5%
At Year End					
Total assets	$	150,837	$	122,480	23%
Net loans		115,681		99,584	16%
Deposits		116,320		100,911	15%
Stockholders' equity		10,494		8,660	21%
Selected Ratios					
Return on average assets		0.61%		0.65%	
Return on average equity		8.38%		8.59%	

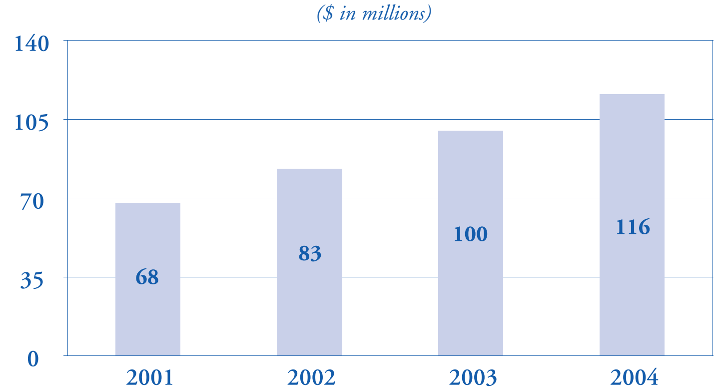
NET INCOME
($ in thousands)



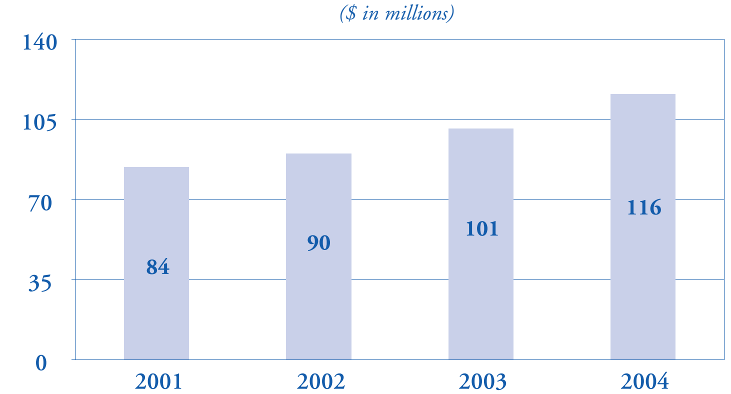
TOTAL ASSETS
($ in millions)



NET LOANS
($ in millions)



DEPOSITS
($ in millions)



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

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.

Committed to the Communities We Serve

When New Century Bank first opened its doors in 1997, it was with a mission to provide excellence in banking and a leadership role in the economic, social and cultural development of the region.

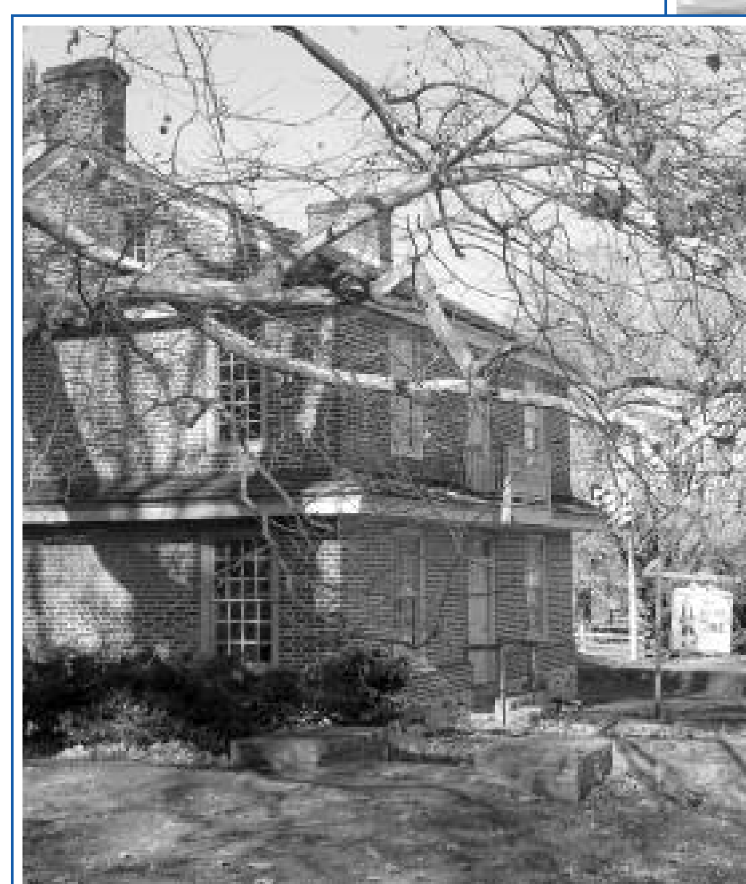
It is not surprising that its founders chose the Phoenixville/Kimberton community in Chester County. A community widely recognized for innovation and forward thinking.

From the first machine-made nails in America to the delicate and beautiful wrought iron bridge columns which revolutionized bridge building throughout the world, Phoenixville was, and remains, a center of energetic creative endeavor.

New Century Bank is proud to make its home in a community which today is experiencing a rebirth of innovative business and cultural growth. Goals which we share and to which we have a deep commitment.

Within two years of opening their main office, New Century Bank's plans for expansion, led them to the community-spirited town of Newtown Square, where in 2000 they opened their second office.

In 1681, William Penn, envisioning a "Fair land with green virgin sod", established this community as the first inland town west of Philadelphia. At the center of the original town, and still standing, the Square Inn was a popular watering hole frequented by roguish highwaymen.



Today, Newtown Square is a splendid example of the spirit of giving and of volunteer efforts where everyone lends a hand. And New Century Bank is committed to working to help preserve the rich traditions upon which Newtown Square was founded.

Providing new and bigger opportunities, New Century Bank opened their third regional branch in the summer of 2004 in Wayne, located on Lancaster Avenue, next to the Wayne Hotel.

Originally settled in the late 1600's by Quakers from Radonshire in Wales, Wayne has always been a center of innovative ideas and culture.

It was here that Lancaster Pike, the first macadamized turnpike in the world, was opened in 1795. An important stop on the 'Main Line' railroad, Wayne became and remains an energetic business community with one of the best school systems in America.

Long considered one of the finest communities in the country in which to live and raise a family, New Century Bank is committed to preserving the exceptional quality of life in Wayne.

Committed to Steady Growth

2004 was an exciting year for New Century Bank. We opened our third office in Wayne. We also expanded our Newtown Square office, adding much-needed space for our lending team and for a sizeable conference/community room.

As our financials show, it proved to be an outstanding year. Fourth quarter results were up 42% from the year 2003. Full-year results for 2004 are up 14%. We grew over $28.3 million in assets in 2004, and over $15.4 million in deposits.

We attribute these results to both our energetic commitment to the communities we serve, and to our business strategy of placing a full-time, experienced Vice President of Lending in each and every office. A decision maker who can give you answers when you need them. An asset you won't find at every bank in the area.

Committed to the Future

In 2004, New Century Bank renewed its commitment to steady growth and expansion over the next several years. We also made a commitment to continued excellence in customer service, and to increased product development and expanded technology.

Today, while we continue to fulfill these commitments, we look forward with confidence and excitement to our future growth in the rich and varied communities of the area which we are proud to call home.

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INTRODUCTORY OVERVIEW

DE6&5,37,21 2) BU6,1(66 $1' BU6,1(66 6TRATEGY

New Century is a community bank serving Chester County and Southeastern Pennsylvania. ManDJHPHQW¶VVWUDWHJ\LVWRJURZWKHEUDQFKQHWZRUN through strategically placed branches throughout WKH%DQN¶VPDUNHWDUHD7KLVZLOODOVRDOORZWKH Bank to expand its portfolio of loans to small EXVLQHVVHVDQGFRQVXPHUV7KH%DQNLVFKDUWHUHG 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. 7he Bank opened a branch on West Chester Pike in Newtown Square, Delaware County, PA in 2000 and one on Lancaster Avenue in Wayne, Delaware County, PA in, 2004. Each branch is in the heart of the business district in its town.

With the opening of the Wayne branch, the Bank has initiated a new phase of branch growth, and anticipates opening one or two branches per year over the next several years. Although subject to a YDULHW\RIULVNVDQGFRQWLQJHQFLHV² LQFOXGLQJWKH raising of sufficient capital, the absence of negative events in the economy at large, and the ability WRILQGGHVLUDEOHORFDWLRQVDWDQDFFHSWDEOHFRVW² 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.

7KH%DQN¶VRSHUDWLRQVDUHKHDYLO\UHJXODWHGSXUsuant 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 depository institutions whose deposits are insured by the FDIC. Our primary supervisory authority is the Pennsylvania Department of Banking, and our primary federal regulator is the Board of Governors of the Federal Reserve S\VWHP ± WKH%DQNLVDPHPEHURIWKH 6\VWHP 7KHVHUHJXODWRUVUHJXODUO\H[DPLQHWKH 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 custRPHU7KH%DQNLVLQVXUHGE\WKH%DQN,QVXUDQFH)XQG ³%,)´ DQGPLQLVWHUHGE\WKH)',& DQG hence is subject to periodic assessments by the FDIC to maintain the reserve level of that fund. 7he 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 WKDWUDWLRLVOHVVWKDQ 7KHUHVHUYHUDWLRIRU the BIF stood at 1.30% as of December 31, 2004. In addition, the Bank would be subject to an increase in its contribution rate if its capital fell beORZWKHUDWHUHTXLUHGRI Dµ HOO&DSLWDOL]HG¶LQVWLtution. See Note 17 of the Audited Financial Statements on pages 39-40.

In addition to deposit insurance assessments, banks are subject to assessments to pay the interest RQ)LQDQFLQJ &RUSRUDWLRQERQGV7KH)LQDQFing Corporation was created by Congress to issue bonds to finance the resolution of failed thrift insWLWXWLRQV7KH)',& VHWVWKH)LQDQFLQJ &RUSRUDWLRQDVVHVVPHQWUDWHHYHU\ TXDUWHU7KH)LQDQFLQJ Corporation assessment for all banks for the first quarter of 2005 was an annual rate of $0.144 for each $100 of deposits, compared to $0.146 for the fourth quarter of 2004.

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. Transaction 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 and 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 title insurance and real estate settlement service is offered through a Bank subsidiary.

MAJOR REVENUE AND CASH-GENERATION SOURCES

7KH%DQN¶VP DMRUUHYHQXHVRXUFHLVQHWLQWHUHVW income² WKHdifference between the interest earned on its assets (principally loans, investments and interest-earning deposits with banks) and its liabilities (principally deposits, other borrowings and subordinated debt).

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

TKH%DQN¶VSULP DU\ P DUNeWDUH3 &KHVWHU&RXQW and GDMRLQing areas in Montgomery and Delaware &RXQWLHV² LVDIDVWJURZLQJ DUHD DQG DVVXFK SUR vides 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 BDQN¶VFRP SHWLWRUVKDYHJUHDWHUILQDQFLDOUH sources, 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.

1HZ &HQWXU\¶VDSSURDFKWRP HHWLQJ WKHVHFKDO lenges is to provide a high level of customized service to its customers. The continued consolidation of the banking industry offers a particular niche for community banks such as ours. As a UHVXOW1HZ &HQWXU\ KDVDJURZLQJ SUHVHQFHLQ WKH market place, with steadily increasing visibility. 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 1HZ &HQWXU\ $ IWHUDSHULRGZKHQ WKH)HGHUDO5H VHUYHNHSWWKH)HGHUDO)XQGVWDUJHWDWDIRUW\ HDU low, it has increased that target by 125 basis points GXULQJ ² WR DWHDUHQG 7KLVKDVUH sulted in a corresponding increase between June and December of 2004 in the Prime Rate, to which P RVWRI WKH%DQN¶VIORDWLQJ UDWHORDQVDUHWLHG 7KH resulting income gain was offset by a corresponding UHFRJQLWLRQ RI WKH%DQN¶VGHSRVLWSRUWIROLR DQG the issuance of $2 million of subordinated debt. As a result, net interest margin decreased slightly during 2004. Management believes that the Bank is well positioned in relation to the impact of future rate increases.

Management sees the opening of the Wayne branch as the beginning of a branch expansion phase for the Bank. 6XFFHVVIXOLP SOHP HQWDWLRQ RI WKLVSODQ\ LVVXEMHFWWRD 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 until that branch becomes profitable.

MATERIAL TRENDS AND UNCERTAINTIES

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

7KH%DQN¶VHDUQLQJVPD\ EHDIIHFWHGE\ GRP HVWLF 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.

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) RUIXUWKHULQIRUP DWLRQRQWKH%DQN¶VRSHUDWLQJ UHVXOWVDQGHDFKRI WKHLWHP VGLVFXVVHGEHORZ LQFOXGLQJ GH tailed tables setting forth additional financial data, see the Audited Financial Statements on pages 27-41. The following discussion is modified in its entirety by these Audited Financial Statements.

GENERAL

7KHIROORZLQJ VXP P DU\ SUHVHQWVKLJKOLJKWVRI WKH%DQN¶VRSHUDWLQJ UHVXOWVIRUWKH\HDUVHQGHG' HFHP EHU DQG

	2004	
	(in thousands except per share data)	
Interest income	$ 7,092	$
Interest expense	2,506	2,249
Net interest income before provision for loan losses	**4,586**	4,074
Provision for loan losses	275	280
Net interest income	**4,311**	
Non-interest income	422	
Non-interest expense	3,930	
Net Income	**$ 803**	$
Basic and diluted earnings per share	**$ 0.58**	$ 0.55

7KH%DQN UHSRUWHG QHWLQFRP HRI WKRXVDQGIRU WKHILVFDO\ HDUHQGHG' HFHP EHU 7KLV represents an increase of 14%, or $100 thousand, when compaUHG WR WKRXVDQGIRUWKHILVFDO\ HDU HQGHG' HFHP EHU 7KLVLP SURYHP HQWLV primarily attributable to loan growth, resulting in increased net interest income. On a basic and diluted per share basis the net income was $0.58 for 2004 FRP SDUHGWR IRU 7KH%DQN¶VUHWXUQRQ average assets was 0.61% in 2004 compared to LQ UHIOHFWLQJ WKHIDFWWKDWDVVHWVJUHZ IDVWHUWKDQ HDUQLQJV 7KH%DQN¶VUHWXUQRQDYHUDJH equLW\ ZDV LQ FRP SDUHGWR LQ UHIOHFWLQJ WKHIDFWWKDWEHFDXVHRI WKHVWRFN VDOHV equity grew faster than earnings.

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, borrowed funds and subordinated debt) is the primary source of the Bank's earnings. Net interest income was $4,586 thousand for the year ended ' HFHP EHU FRP SDUHGWR thousand for the prior year, an increase of $512 WKRXVDQG RU

Interest income on loans, investments and interest earning deposits was $7,092 thousand in 2004 compDUHGWR WKRXVDQGLQ DQLP provement of $769 thousand or 12%. Meanwhile, interest expense on deposits and borrowed funds was $2,506 thousand in 2004, up $257 thousand or 11% from $2,249 thousand in 2003.

The key measure of the Bank's net interest income is its net interest margin (net interest income divided by average earning assets). The Bank's net interest margin decreased to 3.59% in 2004 from 3.84% in 2003. This change is primarily attributable to lower yields on loans. While yields on interest bearing liabilities decreased, the change in mix of liabilities (including the subordinated debt) limited this reduction in comparison to the decrease in loan yields.

PROVISION FOR LOAN LOSSES

In 2004, the provision for loan losses, at $275 thousand, was down slightly from $280 thousand in 2003.

NON-INTEREST INCOME

In 2004, non-interest income was $422 thousand, up 22% or $76 thousand from $346 thousand in 2003. Service fees represents the largest component of non-interest income, and were $277 thousand in 2004, up $56 thousand or 25% from $221 thousand in 2003. This increase is primarily due to increased fees on deposit related products.

Gains on sale of securities increased $57 thousand or 285% to $77 thousand in 2004 up from $20 thousand in 2003.

Other non-interest income, at $68 thousand, was down $37 thousand or 35% from $105 thousand in 2003. This decrease is primarily due to a decrease in mortgage related income and a write-down on other real estate owned.

NON-INTEREST EXPENSES

Total non-interest expenses of $3,930 thousand in 2004 increased 14% over the $3,437 thousand in 2003. Salaries and employee benefits represent the largest component of non-interest expenses, and were $1,901 thousand in 2004 compared to $1,772 thousand in 2003, an increase of 7%. This increase was primarily driven by staffing increases needed for the Bank¶VUHFHQWJURZWK and the new Wayne branch.

Occupancy expense increased 27% to $561 thousand in 2004 from $442 thousand in 2003. This increase was primarily due to the expenses for the new branch in Wayne.

Technology, communications and bank operations expense increased 11% to $559 thousand in 2004 from $505 thousand in 2003. This increase is primarily attributable to increased transaction volume and the size of the Bank.

Advertising and promotion expense increased 33% to $278 thousand from $209 thousand in 2003. This increase is primarily attributable to higher expenditures to attract deposits and advertising the opening of the new branch.

Other expenses increased 24% to $631 thousand in 2004 from $509 thousand in 2003. This increase is primarily attributable to increased professional fees, and costs associated with other real estate owned.

INCOME TAXES

ThH%DQN¶VLQFRPHWD[H[SHQVHVRI WKRXsand for 2004 and $369 thousand for 2003 resuOWHG LQ UHGXFWLRQV LQ WKH %DQN¶V GHIHUUHG WD[assets, rather than as income statement line-items. At December 31, 2004, the Bank had available net operating loss carryforwards for federal income tax purposes of approximately $89 thousand which may be applied against future taxable income. These carryforwards expire through the year 2020. For further information on this topic, see Note 14 of the Audited Financial Statements on page 38.

) INANCIAL CONDITION

GENERAL

The following summary presents highlights of the BDQN¶VILQDQFLDOFRQGLWLRQVIRUWKH\HDUVHQGHG'H FHPEHU DQG

	2004	2003
	(in thousands)	
Total assets	**$150,837**	$122,480
SeFXULWLHVDYDLODEOHIRUVDOH	**18,685**	12,849
SeFXULWLHVKHOGWRPDWXULW	**4,761**	
/ RDQVUHFHLYDEOH	**115,681**	99,584
$ OORZDQFHIRUORDQORVVHV	**(1,376)**	(1,250)
7RWDOGHSRVLWV	**116,320**	100,911
Other borrowings	**21,500**	12,500
6XERUGLQDWHG'HEW	**2,000**	
7RWDOVWRFNKROGHUV HTXLW	**10,494**	8,660

7KH%DQN¶VWRWDODVVHWVZHUH P LOOLRQ DW' H FHPEHU 7KLVUHSUHVHQWVD LQFUHDVH IURP P LOOLRQ DW' HFHPEHU 7KHP DLQ FompRQHQWVRI WKLVLQFUHDVHZHUHLQFUHDVHGORDQDQG VHFXULWLHVYROXPHV 7RWDOOLDELOLWLHVZHUH P LO lion aW' HFHPEHU 7KLVUHSUHVHQWVD LQFUHDVHIURP P LOOLRQ DW' HFHPEHU The mDLQ FRPSRQHQWVRI Wkis LQFUHDVHwere LQFUHDVHG GHSRVLWV RWKHUERUURZLQJV DQG VXERUGLQDWHG GHEW) RUIXUWKHULQIRUPDWLRQ RQ WKH%DQN¶VILQDQFLDOFRQ GLWLRQ DQG HDFK RI WKHLWHP VGLVFXVVHG EHORZ LQFOXG LQJ GHWDLOHG WDEOHV VHWWLQJ IRUWK DGGLWLRQDOILQDQFLDO GDWD VHH WKH$ XGLWHG) LQDQFLDO6WDWHP HQWVRQ SDJHV

CASH AND DUE FROM BANKS

&DVK DQG GXHIURP EDQNVFRQVLVWVP DLQO RI YDXOW FDVK DQG FDVK LWHP VLQ WKHSURFHVVRI FROOHFWLRQ 7KHVHEDODQFHVWRWDOHG P LOOLRQ DW' HFHPEHU 7KLVUHSUHVHQWVD GHFUHDVHIURP P LOOLRQ DW' HFHPEHU 7KHVHEDODQFHVYDU FRQVLGHUDEO IURP GD WR GD GHSHQGLQJ RQ VHYHUDO IDFWRUV VXFK DVYDULDWLRQVLQ FXVWRP HUV¶GHSRVLWV ZLWK WKH%DQN

INTEREST-BEARING DEPOSITS WITH BANKS

,QWHUHVWEHDULQJ GHSRVLWVFRQVLVWP DLQO RI GHSRVLWV DWWKH) HGHUDO+ RP H/ RDQ %DQN RI 3LWWVEXUJ K 7KHVHGHSRVLWVWRWDOHG P LOOLRQ DW' HFHPEHU 7KLVUHSUHVHQWVD LQFUHDVHIURP P LOOLRQ DW' HFHPEHU 7KLVEDODQFHYDU ies FRQVLGHUDEO IURP GD WR GD GHSHQGLQJ RQ VHYHUDOIDFWRUV VXFK DVYDULDWLRQVLQ FXVWRP HUV¶ GHP DQG GHSRVLWEDODQFHV

FEDERAL FUNDS SOLD

) HGHUDOIXQGVVROGFRQVLVWP DLQO RI RYHUQLJKW LQWHUEDQN OHQGLQJ WKURXJK $ WODQWLF &HQWUDO%DQN HUV%DQN 7KHVHIXQGVWRWDOHG P LOOLRQ DW' H FHPEHU 7KHUHZHUHQR IHGHUDOIXQGV sROG DW' HFHPEHU 7KLVEDODQFHYDULHV FonVLGHUDEO IURP GD WR GD GHSHQGLQJ RQ VHY HUDOIDFWRUV VXFK DVYDULDWLRQVLQ WKHYROXP HRI ZLUHWUDQVIHUVSURFHVVHG

INVESTMENT SECURITIES

7KH%DQNVLQYHVWP HQWVHFXULWLHVSRUWIROLR LVDQ imSRUWDQWVRXUFHRI LQWHUHVWLQFRP HDQG OLTXLGLW ,WFRQVLVWVRI 8 6 7UHDVXU JRYHUQP HQWDJHQF\ anGP RUWJDJH EDFNHG VHFXULWLHV JXDUDQWHHG E\ DQ DJHQF\ RI WKH8 QLWHG 6WDWHVJRYHUQP HQW GRP HV WLF FRUSRUDWHGHEWDQG VWRFN RI WKH) HGHUDO5 H VHUYH%DQN DQG) HGHUDO+ RP H/ RDQ %DQN RI 3LWWVEXUJ K ,Q DGGLWLRQ WR JHQHUDWLQJ UHYHQXH WKH BaQNP DLQWDLQV WKHLQYHVWP HQWSRUWIROLR WR P DQ DJ HLQWHUHVWUDWHULVN SURYLGHOLTXLGLW SURYLGH FoOODWHUDOIRURWKHUERUURZLQJV DQG GLYHUVLI\ WKH FreGit ULVN RI HDUQLQJ DVVHWV 7KHSRUWIROLR LV stUXFWXUHG WR P D[LP L]HQHWLQWHUHVWLQFRP H JLYHQ FhangeVLQ WKHHFRQRP LF HQYLURQP HQWOLTXLGLW SRVLWLRQ DQG EDODQFH VKHHWP L[

0 DQDJHP HQWGHWHUP LQHV WKHDSSURSULDWHFODVVLIL FDWLRQ RI VHFXULWLHVDWWKHWLP HRI SXUFKDVH ,Q DFFRUGDQFHZLWK6WDWHP HQWRI) LQDQFLDO$ FFRXQW LQJ 6WDQGDUGV6WDWHP HQW1 R *Accounting for Certain Investments in Debt and Equity Securities*, seFXULWLHVDUHFODVVLILHGDV D VHFXULWLHVKHOG WR P DWXULW ³+ 7 0 ´ EDVHG RQ P DQDJHP HQW¶V intent DQG DELOLW WR KROG WKHP WR P DWXULW E traGLQJ DFFRXQWVHFXULWLHV WKDWDUHERXJKWDQG KHOGSULQFLSDOO IRUWKHSXUSRVHRI VHOOLQJ WKHP LQ WKHQHDUWHUP DQG F VHFXULWLHVDYDLODEOHIRUVDOH ³$) 6´ 6XFK VHFXULWLHVLQFOXGHWKRVHWKDWP D EHVROG LQ UHVSRQVHWR FKDQJHVLQ LQWHUHVWUDWHV FKDQJHVLQ SUHSD P HQWDVVXP SWLRQV WKHQHHG WR

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.

$ W HFHPEHU P LOOLRQ RI WKH %DQN¶V investment securities were classified as AFS. This represents an increase of 46% from $12.8 million at December 31, 2003. Unrealized gains and losses on AFS securities, although excluded from the results of operations, are reported as a separate component of stockholders' equity, net of the related tax effect.

$ W HFHPEHU P LOOLRQ RI WKH %DQN¶V investment securities were classified as HTM. There were no investment securities in this classification at December 31, 2003.

The Bank had no trading securities.

7 KH LQYHVWP HQW SRUWIROLR¶V FRP SRVLWLRQ FKDQJHV periodically as a result of restructuring transactions, taken primarily to manage liquidity, capital and interest rate risk. The Bank did not have any investment securities representing a concentration gUHDWHU WKDQ RI WRWDO VWRFNKROGHUV¶ HTXLW

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

	December 31, 2004		December 31, 2003	
	) air Value	**Wtd. Avg. Yld.**	Fair Value	Wtd. Avg. Yld.
	(in thousands)		(in thousands)	
AFS Securities Maturity Schedule				
Due in one year or less	-	-	$ 503	4.54%
Due after one year through five years	**253**	**6.00%**	1,365	7.32%
Due after five years through ten years	**253**	**2.42%**	-	-
	$ 506	**4.21%**	$ 1,868	6.57%
Mortgage-backed securities	**16,656**	**4.27%**	9,945	3.93%
Equity securities	**1,523**	**2.85%**	1,036	2.41%
	$18,685	**4.15%**	$12,849	4.19%

	Amortized Cost	**Wtd. Avg. Yld.**
	(in thousands)	
HTM Securities Maturity Schedule		
Due after ten years	**$ 978**	**2.88%**
	$ 978	**2.88%**
Mortgage-backed securities	**3,783**	**5.03%**
	$4,761	**4.59%**

	December 31,		**December 31,**	
	2004	2003	**2004**	2003
	(in thousands)		(in thousands)	
	Composition of AFS Securities		***Composition of HTM Securities***	
U.S. Treasury and government agency	**$ 253**	$ -	$ -	$ -
Mortgage-backed securities	**16,656**	9,945	**3,783**	-
Corporate bonds	**253**	1,868	**978**	-
Equity securities	**1,523**	1,036	-	-
	$18,685	$12,849	**$4,761**	-

No investment securities were pledged at either December 31, 2004 or 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 BaQN¶V / RDQ &RP P LWWHH

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 ORDQV &RP P HUFLDO ORDQV DQG FRP P HUFLDO P RUW gage 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. &onstruction 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. &RQVumer loans include home equity, automobile and other installment loans.

/ RDQV DUH SULP DULO P DGH WR FXVWRP HUV LQ &HQWHU ' HODZ DUH DQG 0 RQWJRP HU &RXQWLHV 3$ 7KHUH were no concentrations of loans exceeding 10% of the Bank's total loans at either year-end 2004 or yeaUHQG &RQVLVWHQW ZLWK SURYLGLQJ FRP munity-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 $115.7 million at December 31, 2004, an increase of $16.1 million or 16% from $99.6 million at December 31, 2003. 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 $ XGLWHG)LQDQFLDO 6WDWHP HQWV RQ SDJH

	2004	2003
	(in thousands)	
&RP P HUFLDO	**$ 89,978**	$78,326
Residential real estate loans	**9,214**	8,025
&RQVXP HU	**17,489**	14,283
Total loans	**116,681**	100,634
Unearned net loan origination costs and fees	**376**	200
$ OORZ DQFH IRU ORDQ ORVVHV	**(1,376)**	(1,250)
Net loans	**$ 115,681**	$99,584

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	**2004**	2003
	(in thousands)	
Within 1 year	**$ 43,158**	$30,589
$ IWHU year but within 5 yrs	**33,826**	32,085
$ IWHU yrs but within 15 yrs	**30,174**	29,473
Over 15 years	**9,899**	8,687
	$117,057	$100,834

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 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 $275 thousand for the fiscal year ended December 31, 2004 compared to $280 thousand for the fiscal year ending December 31, 2003. The allowance for loan losses was $1,376 thousand or 1.18% of total loans at December 31, 2004 and $1,250 thousand or 1.24% of total loans at December 31, 2003. Net charge-offs were $149 thousand for the fiscal year ended December 31, 2004, an increase of 247% or $106 thousand compared to the $43 thousand for the fiscal year ending December 31, 2003.

Allowance for Loan Losses

	2004	2003
	(in thousands)	
Balance, January 1	**$1,250**	$ 1,013
Provision for loan losses	**275**	280
Loans charged off	**(150)**	(55)
Recoveries	**1**	12
Balance, December 31	**$1,376**	$1,250

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 currHQWFRQGLWLRQ ,QDGGLWLRQ WKH%DQN¶VLQWHUQDO 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 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 SWDQGDUG ³6)$6´ 1R *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 $985 thousand at December 31, 2004, compared to $757 thousand at December 31, 2003. Non-performing loans, consisting of non-accruing loans and loans 90 days past due and still accruing, totaled $259 thousand at December 31, 2004, down from $452 thousand at December 31, 2003. The Bank had charge offs of $150 thousand in 2004, compared with $55 thousand in 2003. The Bank had recoveries of $1 thousand in 2004 and $12 thousand in 2003. Other Real Estate Owned as a result of foreclosure or voluntary transfer to the Bank totaled $537 thousand at December 31, 2004 and $386 thousand at December 31, 2003. 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, 2004 and 2003, respectively. These amounts represented 0.68% and 0.83%, respectively, of gross loans.

Non-Performing Assets	**2004**	2003
	(in thousands)	
Non-accrual loans	**$259**	$ 452
Loans 90 days past due and still accruing	**-**	-
Other real estate owned	**537**	386
Balance, ending	**$796**	$838

Troubled debt restructurings totaled $559 thousand and $41 thousand at December 31, 2004 and 2003, 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 to monitor those loans 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, are reviewed on a periodic basis by various regulatory agencies anGE\ WKH%DQN¶V internal, external and loan review auditors, as part of their examination and audit procedures.

PREMISES AND EQUIPMENT AND OTHER ASSETS

Bank premises and equipment, net of accumulated depreciation, increased to $1.4 million at December 31, 2004 from $1.0 million at December 31, 2003, primarily due to the opening of the Wayne branch. Other Assets increased to $1.5 million from $1.1 million, principally due to the addition of $0.2 million of other real estate owned.

For further information on our premises and equipment, see Note 6 of the Audited Financial Statements on page 36.

DEPOSITS

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 $116.3 million at December 31, 2004, an increase of $15.4 million or 15% from $100.9 million at December 31, 2003. 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, 2004 and 2003 are as follows:

	2004	2003
	(in thousands)	
Demand, non-interest bearing	**$ 14,493**	$ 12,664
Demand, interest bearing	**8,509**	8,358
Savings	**35,823**	35,464
Time, $100,000 and over	**11,915**	7,860
Time, other	**45,580**	36,565
	$116,320	$100,911

Time deposits increased $13.1 million or 30% to $57.5 million at December 31, 2004 compared to $44.4 million at December 31, 2003. Time deposits of $100,000 or more were $11.9 million at December 31, 2004 compared to $7.9 million at December 31, 2003, an increase of $4.0 million or 51%. The Bank had no brokered deposits at either December 31, 2004 or 2003. During this period, non-interest bearing demand deposits increased 14% to $14.5 million from $12.7 million. Interest bearing demand deposits increased 1% to $8.5 million from $8.4 million. Savings deposit accounts remained relatively unchanged ($35.8 million at December 31, 2004 and $35.5 million at December 31, 2003).

At December 31, 2004, the scheduled maturities of time deposits are as follows (in thousands):

2005	**$25,914**
2006	**21,410**
2007	**4,460**
2008	**4,392**
2009	**1,319**
	$57,495

Other Borrowings

The Bank had Other Borrowings of $21.5 million at December 31, 2004 a 72% increase from the $12.5 million at December 31, 2003. Short term advances from the Federal Home Loan Bank of Pittsburgh were $14.3 million at December 31, 2004 a 91% increase from the $7.5 million at December 31, 2003.

The contractual maturities of long-term advances at December 31, 2004 and 2003 were as follows:

	2004	2003
	(in thousands)	
2006	**$ 750**	$1,750
2007	**750**	750
2008	**750**	750
2009	**4,000**	750
2010	**-**	-
2011 and thereafter	**1,000**	1,000
	$7,250	$5,000

Subordinated Debt

In June, 2004, the Bank issued $2 million in floating rate subordinated debt that matures on July 23, 2014. The quarterly rate at December 31, 2004 was 4.85%. Currently, subordinated debt is includeG LQ WKH %DQN¶V 7 LHU , UHJXODWRU\ FDSLWDO requirement.

For further information on deposits, other borrowings and subordinated debt, see Notes 7 and 9 of our Audited Financial Statements on pages 36 and 37.

Stockholders' Equity

6WRFNKROGHUV¶ HTXLW\ LQFUHDVHG E\ P LOOLRQ RU 21% to $10.5 million at December 31, 2004, from $8.7 million at December 31, 2003. This increase resulted from net income of $803 thousand, the issuance of 148,701 shares of common stock ($1,115 thousand), offset by the recognition of $84 thousand in net unrealized losses on investment securities classified by the Bank as "available for sale." The unrealL]HG JDLQ LQ WKH %DQN¶V investment securities portfolio is subject to change with fluctuations in interest rates and the market prices of the underlying securities, and is 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 2004 or 2003. For a more detailed description RI WKH %DQN¶V 6WRFNKROGHUV¶ (TXLW\ VHH 1 RWH RI our Audited Financial Statements on page 37.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity for a financial institution is a measure RI WKDW LQVWLWXWLRQ¶V DELOLW\ WR IXQG FXVWRP HUV¶ QHHGV IRU ERUURZ LQJ V DQG GHSRVLW Z LWKGUDZ DOV (QVXULQJ DGHTXDWH OLTXLGLW\ LV DQ REMHFWLYH RI WKH AsVHW DQG / LDELOLW\ 0 DQDJ HP HQW SURFHVV 7 KH manaJ HP HQW RI OLTXLGLW\ LV FRRUGLQDWHG Z LWK WKH P DQDJ HP HQW RI WKH %DQN V LQWHUHVW UDWH VHQVLWLYLW\ DQG FDSLWDO SRVLWLRQ 7 KH %DQN¶V SROLF\ LV WR maintaLQ D VWURQJ OLTXLGLW\ SRVLWLRQ

7 hH %DQN P DLQWDLQV OLTXLGLW\ WR P HHW GHSRVLWRUV¶ needs for funds, to satisfy or fund loan commitP HQWV DQG IRU RWKHU RSHUDWLQJ SXUSRVHV , WV LQ YHVWP HQW SRUWIROLR SURYLGHV SHULRGLF FDVK IORZ V WKURXJ K UHJ XODU P DWXULWLHV DQG DP RUWL]DWLRQ DQG cDQ EH XVHG DV FROODWHUDO WR VHFXUH DGGLWLRQDO OLquidiW\ IXQGLQJ 7 KH %DQN¶V SULQFLSDO VRXUFHV RI fuQGV DUH VKDUHKROGHU FDSLWDO GHSRVLW GHEW LVVX ance, SULQFLSDO DQG LQWHUHVW SD\ P HQWV RQ ORDQV DQG RWKHU IXQGV IURP RSHUDWLRQV 7 KH %DQN DOVR maintaLQV ERUURZ LQJ DUUDQJ HP HQW Z LWK WKH) HG HUDO + RP H / RDQ %DQN RI 3LWWVEXUJ K DV Z HOO DV access WR WKH GLVFRXQW Z LQGRZ DW WKH) HGHUDO 5 H VHUYH %DQN RI 3KLODGHOSKLD WR P HHW VKRUW WHUP liTXLGLW\ QHHGV $ V RI ' HFHP EHU WKH %DQN¶V ERUURZ LQJ FDSDFLW\ Z LWK WKH) HGHUDO HoP H / RDQ %DQN RI 3LWWVEXUJ K Z DV P LO OLRQ RI Z KLFK P LOOLRQ Z DV XVHG 7 KH %DQN KDG SOHGJ HG QR VHFXULWLHV DV FROODWHUDO IRU WKHVH ERUURZ LQJ V

Cash flRZ V IURP RSHUDWLQJ DFWLYLWLHV SURYLGHG P LOOLRQ DQG P LOOLRQ IRU WKH \ HDUV HQGHG ' ecemEeU DQG , resSHFWLYHO\ 7 KLV decrease Z DV SULP DULO\ GXH WR WKH FKDQJ HV LQ othHU DVVHWV DQG OLDELOLWLHV DQG J DLQV RQ WKH VDOH RI securities and foreclosed real estate offset someZ hat E\ LQFUHDVHG QHW LQFRP H LQ FRP SDUHG tR

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&DVK IORZ V IURP ILQDQFLQJ DFWLYLWLHV SURYLGHG P LOOLRQ DQG P LOOLRQ IRU WKH \ HDUV enGHG ' HFHP EHU DQG UHVSHFWLYHO\ 7 KH LQFUHDVH Z DV SULP DULO\ GXH WR D KLJ KHU LQ FUHDVH LQ GHSRVLWV DQG WKH LVVXDQFH RI VXERUGL QDWHG GHEW DQG FRP P RQ VWRFN LQ FRP SDUHG to

O YHUDOO EDVHG RQ WKH %DQN V FRUH GHSRVLW EDVH DQG DYDLODEOH VRXUFHV RI ERUURZ HG IXQGV P DQDJ HP HQW EHOLHYHV WKDW WKH %DQN KDV DGHTXDWH UHVRXUFHV WR meet LWV VKRUW WHUP DQG ORQJ WHUP FDVK UHTXLUH menWV Z LWKLQ WKH IRUHVHHDEOH IXWXUH

Capital Adequacy

7 KH %RDUG RI * RYHUQRUV RI WKH) HGHUDO 5 HVHUYH S\ VWHP KDV DGRSWHG ULVN EDVHG FDSLWDO DQG OHYHU aJ H UDWLR UHTXLUHP HQWV IRU EDQNV VXFK DV 1 HZ CenWXU\ WKDW DUH P HP EHUV RI WKH) HGHUDO 5 HVHUYH 6\ VWHP 7 KH 3 HQQV\ OYDQLD %DQNLQJ ' HSDUWP HQW aOVR VHWV P LQLP XP FDSLWDO UHTXLUHP HQWV $ W ' H FHP EHU DQG ' HFHP EHU WKH %DQN P HW HDFK RI LWV P LQLP XP FDSLWDO UHTXLUH P HQWV 0 DQDJ HP HQW EHOLHYHV WKDW WKH %DQN Z RXOG EH GHHP HG ³ Z HOO FDSLWDOL]HG´ IRU UHJ XODWRU\ SXU SRVHV DV RI ' HFHP EHU DQG ' HFHP EHU %DQNLQJ UHJ XODWRUV KDYH GLVFUHWLRQ WR HVWDE OLVK DQ LQVWLWXWLRQ¶V FODVVLILFDWLRQ EDVHG RQ RWKHU IDFWRUV LQ DGGLWLRQ WR WKH LQVWLWXWLRQ¶V QXP HULF FDSLWDO OHYHOV

0 anaJ HP HQW LV QRW DZ DUH RI DQ\ GHYHORSP HQW Z KLFK KDYH RFFXUUHG DQG Z KLFK Z RXOG RU Z RXOG Ee UHDVRQDEO\ OLNHO\ WR FDXVH RXU FODVVLILFDWLRQ WR EH UHGXFHG EHORZ D OHYHO RI ³ Z HOO´ FDSLWDOL]HG IRU rHJ XODWRU\ SXUSRVHV 7 KH %DQN¶V FDSLWDO FODVVLIL cation is GHWHUP LQHG SXUVXDQW WR EDQNLQJ UHJ XOD tions IRU WKH SXUSRVHV RI DSSO\ LQJ WKH EDQN UHJ XOD WRUV¶ ³ SURP SW FRUUHFWLYH DFWLRQ´ UHJ XODWLRQV DQG for deWHUP LQLQJ OHYHOV RI GHSRVLW LQVXUDQFH DV sessmentV DQG P D\ QRW FRQVWLWXWH DQ DFFXUDWH UHS resentaWLRQ RI RXU RYHUDOO ILQDQFLDO FRQGLWLRQ RU SURVSHFWV

The following table summarizes the required capital ratios and the corresponding regulatory capital positions of 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, 2004:										
Total capital (to risk weighted assets)	**$13,859**	**12.4 %**	≥	**$8,948**	≥	**8.0 %**	≥	**$11,186**	≥	**10.0 %**
Tier 1 capital (to risk weighted assets)	**10,483**	**9.4**	≥	**4,474**	≥	**4.0**	≥	**6,711**	≥	**6.0**
Tier 1 capital (to average assets)	**10,483**	**7.4**	≥	**5,698**	≥	**4.0**	≥	**7,122**	≥	**5.0**
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

,QJHQHUDO WKH%DQN¶VFDSLWDOLQFUHDVHVZLWK WKH DGGLWLRQ RI HDUQLQJV WR WRFNKROGHUV¶ HTXLW\ ZLWK LQFUHDVHVLQ WKH%DQN¶V$ OORZ DQFHIRU/ RDQ/ RVVHV and with sales of stock or the issuance of certain qualifying debt, such as the subordinated debt the Bank issued in June, 2004, which is included in Tier I, DQG WRWDOFDSLWDO &RQYHUVHO\ DVWKH%DQN¶V 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, debt is-VXDQFHDQG JURZ WK RI WKH$ OORZ DQFHIRU/ RDQ / osses.

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 DQIP SRUWDQWREMHFWLYHRI WKH%DQNV$ VVHWDQG/ L ability 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 market makers in our stock. Consequently, information on current stock trading prices is not readily available. The Bank acts as its own transfer agent and offers to identify potential buyers and sellers of our stock to each other, but does not make a market in its own stock or attempt to negotiate prices for trades of its stock. At December 31, 2004, there were approximately 299 stockholders who owned the 1.5 million shares of common stock outstanding.

Based on the information available to us, private sales of our Common Stock occurred at $8.00 during 2004; there were no such sales in 2003. This quoted price is limited only to those private 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. In addition, the Bank issued 148,701 shares of common stock at $7.50 per share during 2004, through a private placement.

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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 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.

With commitments to extend credit, our exposure to credit loss in the event of nonperformance by the other party to the financial instrument 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, 2004 and December 31, 2003, the following off-balance sheet commitments, financial instruments and other arrangements were outstanding:

	2004	2003
	(in thousands)	
Commitments to fund loans	**$ 1,980**	$ 3,555
Unfunded commitments under lines of credit	**25,301**	14,531
Letters of credit	**389**	570

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 FXVWRP HULQ WKHRUGLQDU\ FRXUVHRI WKH%DQN¶V 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 customH¶V creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank upon extension of FUHGLWLVEDVHGRQRXUPDQDJHPHQW¶VFUHGLWHYDOXD tion. 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 corporate headquarters and main banking office, 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 WHUP V $ VRI ' HFHP EHU WKH%DQN¶VDS proximate future noncancellable minimum payments under these leases, by year, were as follows:

	(in thousands)
2005	**$ 302**
2006	**312**
2007	**322**
2008	**326**
2009	**68**
	$ 1,330

INTEREST RATE SENSITIVITY

TKHODUJHVWFRPSRQHQWRI WKH%DQN¶VWRWDOLQFRPHLV net interest income, and the majority of its financial instruments are 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 differenceVLQOHQGLQJ DQG IXQGLQJ UDWHV 7KH%DQN¶V

Asset-Liability Committee actively seeks to monitor and control the mix of interest rate sensitive assets and interest rate sensitive liabilities.

The Bank uses two complementary methods to analyze and measure interest rate sensitivity as part of the overall management of interest rate risk. They are income simulation modeling and estimates of economic value of equity. The combination of these two methods provides a reasonably comprehensive summary of the levels of interest rate risk of the Bank's exposure to market factors and changes in interest rate environments.

Income simulation modeling is used to measure the Bank's interest rate sensitivity and manage its interest rate risk. Income simulation considers not only the impact of changing market interest rates upon forecasted net interest income, but also other factors such as yield curve relationships, the volume and mix of assets and liabilities, customer preferences and general market conditions.

Through the use of income simulation modeling, the Bank has calculated an estimate of net interest income for the year ending December 31, 2005, based upon the assets, liabilities and off balance sheet financial instruments in existence at December 31, 2004. The Bank has also estimated changes to that estimated net interest income based upon interest rates rising or falling immediately (rate shocks). Rate shocks assume that all interest rates increase or decrease evenly immediately. The following table reflects the estimated percentage change in estimated net interest income for the year ending December 31, 2005, resulting from changes in interest rates.

Net change in net interest income

Rate Shocks	% Change
Up 3%	1.0%
Up 2%	2.3%
Up 1%	1.5%
Down 1%	-4.2%
Down 2%	-4.3%
Down 3%	-12.7%

Economic value of equity (EVE) estimates the discounted present value of asset and liability cash flows. Discount rates are based upon market prices for comparable assets and liabilities. Upward and downward rate shocks are used to measure volatility in relation to such interest rate movements in relation to an unchanged environment. This method of measurement primarily evaluates the longer term repricing risks and opportunities in the Bank's balance sheet. The following table reflects the estimated EVE at risk and the ratio of EVE to EVE adjusted assets at December 31, 2004 resulting from shocks to interest rates.

Percent change EVE equity

Rate Shocks	From base	EVE assets
Up 3%	-30.6%	-2.5%
Up 2%	-15.4%	-1.2%
Up 1%	-8.2%	-0.6%
Down 1%	-2.8%	-0.3%
Down 2%	1.1%	-0.1%
Down 3%	-9.1%	-1.0%

The matching of assets and liabilities may be analyzed by examining the extent to which such assets and liabilities are interest rate sensitive and by monitoring a bank's interest rate sensitivity "gap." An asset or liability is said to be interest rate sensitive within a specific time period if it will mature or reprice within that time period. The interest rate sensitivity gap is defined as the difference between the amount of interest-earning assets maturing or repricing within a specific time period and the amount of interest-bearing liabilities maturing or repricing within that time period.

The following table sets forth the amounts of interest-earning assets and interest-bearing liabilities outstanding at December 31, 2004, which are anticipated, based upon certain assumptions, to reprice or mature in each of the future time periods shown. Except as stated below, the amount of assets and liabilities shown which reprice or mature during a particular period were determined in accordance with the earlier of term to repricing or the contractual maturity of the asset or liability. The table sets forth an approximation of the projected repricing of assets and liabilities at December 31, 2004, on the basis of contractual maturities, anticipated prepayments, and scheduled rate adjustments within a three-month period and subsequent selected time intervals. The loan amounts in the table reflect principal balances expected to be repaid and/or repriced as a result of contractual amortization and anticipated prepayments of adjustable rate loans and fixed rate loans and as a result of contractual rate adjustments on adjustable rate loans.

	At December 31, 2004						
	3 mths. or less	3 to 6 months	6 to 12 months	1 to 3 years	3 to 5 years	over 5 years	Total
				(in millions)			
Interest earning deposits	5.7	1.5	-	-	-	-	7.1
Securities	4.0	0.9	4.0	6.0	2.1	5.0	21.9
Loans receivable	40.3	15.9	16.3	31.4	7.6	5.6	117.1
Total interest earning assets	50.0	18.3	20.3	37.4	9.7	10.5	146.1
Non interest earning assets	-	-	-	-	-	4.7	4.7
Total assets	50.0	18.3	20.3	37.4	9.7	15.3	150.8
Other interest bearing deposits	4.2	-	-	-	-	40.1	44.3
Time deposits	5.6	8.1	12.2	25.9	5.7	-	57.5
Other borrowings	13.5	0.8	-	1.5	4.8	1.0	21.5
Subordinated debt	2.0	-	-	-	-	-	2.0
Total interest bearing liabilities	25.2	8.9	12.2	27.4	10.5	41.1	125.3
Non interest bearing liabilities	-	-	-	-	-	15.1	15.1
Stockholder's equity	-	-	-	-	-	10.5	10.5
Total liabilities and equity	25.2	8.9	12.2	27.4	10.5	66.6	150.8
Interest sensitivity gap	24.7	9.4	8.1	10.0	(0.8)	(51.4)	
Cumulative interest sensitivity gap	24.7	34.1	42.2	52.2	51.4	(0.0)	
Cumulative interest sensitivity gap to total assets	16%	23%	28%	35%	34%	0%	
Cumulative interest earning assets to cumulative interest bearing liabilities	198%	200%	191%	171%	161%	117%	

As shown above, the Bank has a positive gap (interest sensitive assets are greater than interest sensitive liabilities) within the next year, which generally indicates that an increase in rates may lead to an increase in net interest income and a decrease in rates may lead to a decrease in net interest income. Interest sensitivity gap analysis measures whether assets or liabilities may reprice but does not capture the ability to reprice or the range of potential repricing on assets or liabilities. Thus indications based on a positive or negative gap position need to be analyzed in conjunction with other interest rate risk management tools.

The Bank's management believes that the assumptions and combination of methods utilized in evaluating estimated net interest income are reasonable. However, the interest rate sensitivity of the Bank's asset liabilities and off balance sheet financial instruments, as well as the estimated effect of changes in interest rates on estimated net interest income, could vary substantially if different assumptions are used or actual experience differs from the experience on which the assumptions were based.

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 pages 15-16.

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 pages 16-17.

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 of the Audited Financial Statements on page 38.

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, 2004 and 2003, were as listed in Note 18 of the Audited Financial Statements on pages 40-41.

The Notes to the Bank's Audited Financial Statements, including Note 2 on pages 31-34, 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 course of business. In addition, there are no such proceedings known by the Bank to be contemplated by any governmental authorities.

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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, 2004 and 2003, 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, 2004 and 2003, 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 11, 2005

STATEMENT OF INCOME

Years Ended December 31,	**2004**	2003
	(dollar amounts in thousands, except per share data)	
Interest income:		
Loans receivable, including fees	**$6,379**	$5,805
Securities, taxable	**670**	490
Other	**43**	28
Total interest income	**7,092**	6,323
Interest expense:		
Deposits	**2,186**	2,122
Other borrowed funds	**320**	127
Total interest expense	**2,506**	2,249
Net interest income	**4,586**	4,074
Provision for loan losses	**275**	280
Net interest income after provision for loan losses	**4,311**	3,794
Other income:		
Service fees	**277**	221
Gain on sale of securities	**77**	20
Other	**68**	105
Total other income	**422**	346
Other expenses:		
Salaries and employee benefits	**1,901**	1,772
Occupancy	**561**	442
Technology, communication and bank operations	**559**	505
Advertising and promotion	**278**	209
Other	**631**	509
Total other expenses	**3,930**	3,437
Net income	**$ 803**	$ 703
Basic and diluted income per share	**$ 0.58**	$ 0.55

See Notes to Financial Statements

BALANCE SHEET

December 31,	2004	2003
	(dollar amounts in thousands)	
ASSETS		
Cash and due from banks	**$ 1,731**	$ 2,666
Interest earning deposits	**5,857**	5,269
Federal funds sold	**1,269**	-
Cash and cash equivalents	**8,857**	7,935
Securities available for sale, at fair value	**18,685**	12,849
Securities held to maturity, at amortized cost fair value 2004 $4,876	**4,761**	-
Loans receivable, net of allowance for loan losses 2004 $1,376; 2003 $1,250	**115,681**	99,584
Bank premises and equipment, net	**1,387**	980
Accrued interest receivable and other assets	**1,466**	1,132
Total assets	**$150,837**	$122,480
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Deposits:		
Demand, non-interest bearing	**$ 14,493**	$ 12,664
Interest bearing	**101,827**	88,247
Total deposits	**116,320**	100,911
Other borrowings	**21,500**	12,500
Subordinated debt	**2,000**	-
Accrued interest payable and other liabilities	**523**	409
Total liabilities	**140,343**	113,820
Stockholders' equity:		
Common stock, par value $1.00 per share; 10,000,000 shares authorized; shares issued and outstanding 2004 1,458,835; 2003 1,310,134	**1,459**	1,310
Surplus	**9,987**	9,021
Accumulated deficit	**(963)**	(1,766)
Accumulated other comprehensive income	**11**	95
Total stockholders' equity	**10,494**	8,660
Total liabilities and stockholders' equity	**$150,837**	$122,480

See Notes to Financial Statements.

STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

Years Ended December 31, 2004 and December 31, 2003	Common Stock	Surplus	Accumulated Deficit	Accumulated Other Comprehensive Income	Total
			(dollar amounts in thousands)		
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
Comprehensive income:					
Net income	-	-	**803**	-	**803**
Change in net unrealized gains (losses) on securities available for sale	-	-	-	**(84)**	**(84)**
Total comprehensive income					**719**
Issuance of 148,701 shares of common stock	**149**	**966**	-	-	**1,115**
Balance, December 31, 2004	**$1,459**	**$9,987**	**$(963)**	**$ 11**	**$10,494**

See Notes to Financial Statements

STATEMENT OF CASH FLOWS

Years Ended December 31,	2004	2003
	(in thousands)	
Cash Flows from Operating Activities		
Net income	**$ 803**	$ 703
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	**275**	280
Provision for depreciation and amortization	**248**	234
Net amortization of securities premiums and discounts	**(33)**	94
Net realized gain on sale of securities	**(77)**	(20)
Net realized gain on sale of foreclosed real estate	**(41)**	-
Decrease (increase) in accrued interest receivable and other assets	**(232)**	30
Increase (decrease) in accrued interest payable and other liabilities	**114**	68
Net Cash Provided by Operating Activities	**1,057**	1,389
Cash Flows from Investing Activities		
Purchases of securities available for sale	**(10,036)**	(8,662)
Proceeds from maturities, calls and principal repayments on securities available for sale	**2,787**	5,789
Proceeds from sales of securities available for sale	**1,395**	2,503
Purchases of securities held to maturity	**(4,822)**	-
Proceeds from maturities, calls and principal repayments on securities	**-**	-
held to maturity	**61**	-
Net increase in loans	**(16,572)**	(17,407)
Purchases of bank premises and equipment	**(655)**	(324)
Proceeds from sale of foreclosed real estate	**183**	-
Net Cash Used in Investing Activities	**(27,659)**	(18,101)
Cash Flows from Financing Activities		
Net increase in deposits	**15,409**	10,744
Net increase in short term borrowed funds	**6,750**	5,430
Proceeds from long term borrowed funds	**4,000**	4,000
Repayment of long term borrowed funds	**(1,750)**	-
Proceeds from issuance of subordinated debt	**2,000**	-
Proceeds from issuance of common stock	**1,115**	213
Net Cash Provided by Financing Activities	**27,524**	20,387
Net Increase in Cash and Cash Equivalents	**922**	3,675
Cash and Cash Equivalents - Beginning	**7,935**	4,260
Cash and Cash Equivalents - Ending	**$ 8,857**	$ 7,935
Supplementary Cash Flows Information		
Interest paid	**$ 2,442**	$ 2,263
Supplemental Schedule of Noncash Investing and Financing Activities		
Other real estate acquired in settement of loans	**$ 200**	$ 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. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses and the valuation of deferred tax assets.

Presentation of Cash Flows

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

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. Gains and losses on the sale of available for sale securities are recorded on the trade date and are determined using the specific identification method.

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.

Declines in the fair value of held-to-maturity and available-for-sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses. In estimating other-than-temporary impairment losses, management considers (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Bank to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

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 loans.

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 in-cRPH DFFRUGLQJ WR PDQDJHPHQW¶V MXGJPHQW DV WR WKH

NOTE 2 - SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

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.

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 UHDVRQDEO\ DQWLFLSDWHG 0 DQDJHPHQW¶V SHULRGLF evaluation of the adequacy of the allowance is based on the %DQN¶V SDVW ORDQ ORVV H[SHULHQFH NQRZQ DQG inherent risks in the portfolio, adverse situations that PD\ DIIHFW WKH ERUURZHU¶V DELOLW\ WR UHSD\ WKH HVWL-mated 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 revision as more information becomes available.

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 RQ KLVWRULFDO ORVV H[SHULHQFH DGMXVWHG IRU TXDOLWDWLYH factors. An unallocated component is maintained to FRYHU XQFHUWDLQWLHV WKDW FRXOG DIIHFW PDQDJHPHQW¶V 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 SD\PHQW ZKHQ GXH / RDQV WKDW H[SHULHQFH LQVLJQLIL cant 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 dela\ WKH UHDVRQV IRU WKH GHOD\ WKH ERUURZHU¶V SULRU 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 comP HUFLDO ORDQV E\ HLWKHU WKH SUHVHQW YDOXH RI H[SHFWHG IXWXUH FDVK IORZV GLVFRXQWHG DW WKH ORDQ¶V HIIHFWLYH iQWHUHVW UDWH WKH ORDQ¶V REWDLQDEOH PDUNHW SULFH RU WKH 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, unless such loans are the subject of a restructuring agreement.

Significant Group Concentrations of Credit Risk

0 RVW RI WKH %DQN¶V DFWLYLWLHV DUH ZLWK FXVWRPHUV OR-cated 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. Although the Bank has a diversified loan portfolio, its debtors' ability to honor their contracts is influenced by the region's economy. 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 pOHGJH RU H[FKDQJH WKH WUDQVIHUUHG DVVHWV DQG WKH 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
/ HDVHKROG LP SURYHP HQW	±
FuUQLWXUH IL[WXUHV DQG HTXLSP HQW	±
IT equipP HQW DQG VRIWZ DUH	±

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 outsWDQGLQJ Z DV DQG LQ DQG UHVSHFWLYHO\

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 *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 AcFRXQWLQJ 3 ULQFLSOHV %RDUG $3% 2 SLQLRQ *Accounting for Stock Issued to Employees*. Entities that continue to account for stock options using APB 2 SLQLRQ DUH UHTXLUHG WR P DNH SUR IRUP D GLVFOR-sures of net income and earnings per share, as if the fair value-based method of accounting defined in 6) $ 6 1 R KDG EHHQ DSSOLHG 7 KH %DQN KDV elected to account for its employee stock option plans uQGHU $3% 2 SLQLRQ $ FFRUGLQJO\ QR FRP SHQVD-tion 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

&HUWDLQ DP RXQWV UHSRUWHG LQ WKH ILQDQFLDO VWDWH-ments have been reclassified to conform with the SUHVHQWDWLRQ 7 KHVH UHFODVVLILFDWLRQV GLG QRW impact the Bank's financial condition or results of operations.

New Accounting Standards

, Q ' HFHP EHU 7 KH $ FFRXQWLQJ 6 WDQGDUGV ([HFXWLYH &RP P LWWHH LVVXHG 6 WDWHP HQW RI 3 RVLWLRQ (62 3 *Accounting for Certain Loans or Debt Securities Acquired in a Transfer* 62 3 DGG-dresses accounting for differences between contractual cash flows and cash flows expected to be colOHFWHG IURP DQ LQYHVWRU¶V LQLWLDO LQYHVWP HQW LQ ORDQV or debt securities acquired in a transfer, including business combinations, if those differences are attribXWDEOH DW OHDVW LQ SDUW WR FUHGLW TXDOLW\ 62 3 LV effective for loans for debt securities acquired in fiscal year VEHJLQQLQJ DIWHU ' HFHP EHU 7 KH Bank aGRSWHG WKH SURYLVLRQV RI 62 3 HIIHFWLYH JanuaU\ DQG WKH LQLWLDO LP SOHP HQWDWLRQ GLG QRW KDYH D P DWHULDO HIIHFW RQ WKH %DQN¶V ILQDQFLDO condition or results of operations.

NOTE 2 - SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

In December 2004, the Financial Account Standard Board (FASB) issued Statement No. 123(R), *Share-Based Payment*. Statement No. 123(R) revised Statement No. 123, *Accounting for Stock-Based Compensation*, and supersedes APB Opinion No. 25, *Accounting for Stock Issued to Employees*, and its related implementation guidance. Statement No. 123(R) will require compensation costs related to share-based payment transactions to be recognized in the financial statements (with limited exceptions). The amount of compensation cost will be measured based on the grant-date fair value of the equity or liability instruments issued. Compensation cost will be recognized over the period that an employee provides service in exchange for the award. This statement is effective for years beginning after December 31, 2005. The Bank is currently evaluating the impact of this standard on its financial condition and results of operations.

NOTE ±,NVESTMENT SECURITIES

The amortized cost and approximate fair value of available for sale and held to maturity securities as of December 31, 2004 and 2003 are summarized as follows:

December 31, 2004	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in thousands)			
Available for Sale:				
U.S. Treasury and government agency	$ 254	$ -	$ (1)	$ 253
Mortgage-backed securities	16,641	99	(84)	16,656
Corporate bonds	250	3	-	253
Equity securities	1,523	-	-	1,523
	$ 18,668	$ 102	$ (85)	$ 18,685
Held to Maturity:				
Mortgage-backed securities	$ 3,783	$ 121	$ -	$ 3,904
Corporate bonds	978	-	(6)	972
	$ 4,761	$ 121	$ (6)	$ 4,876

December 31, 2003	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in thousands)			
Available for Sale:				
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 ±,NVESTMENT SECURITIES (CONTINUED)

The amortized cost and fair value of available for sale and held to maturity securities as of December 31, 2004, 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.

	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(in thousands)			
Due in one year or less	$ -	$ -	$ -	$ -
Due after one year through five years	250	253	-	-
Due after five years through ten years	254	253	-	-
Due after ten years	-	-	978	972
	$ 504	$ 506	$ 978	$ 972
Mortgage-backed securities	16,641	16,656	3,783	3,904
Equity securities	1,523	1,523	-	-
	$ 18,668	$ 18,685	$ 4,761	$ 4,876

Gross securities gains of $77 thousand and $20 thousand were recognized on the sales of available for sale securities in 2004 and 2003, respectively.

7KH %DQN¶V LQYHVWPHQWV JURVV XQUHDOL]HG ORVVHV DQG IDLU YDOXH DJJUHJDWHG E\ LQYHVWPHQW FDWHJRU\ DQG OHQJWK RI time that individual securities have been in a continuous unrealized loss position, at December 31, 2004 are as follows:

December 31, 2004	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(in thousands)					
Available for sale:						
U.S. Treasury and government agency	$ -	$ -	$ 253	$ (1)	$ 253	$ (1)
Mortgage-backed securities	5,035	(36)	2,681	(48)	7,716	(84)
Total investment securities available for sale	$ 5,035	$ (36)	$ 2,934	$ (49)	$ 7,969	$ (85)
Held to maturity:						
Corporate bonds	$ 972	$ (6)	$ -	$ -	$ 972	$ (6)

The securities in the above table have been temporarily impaired due to interest rate changes. There are eighteen available for sale securities and one held to maturity security in the less than twelve months category. There are eleven available for sale securities 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, 2004 and 2003 is as follows:

	2004	2003
	(in thousands)	
Commercial	**$ 89,978**	$ 78,326
Residential real estate loans	**9,214**	8,025
Consumer	**17,489**	14,283
Total loans	**116,681**	100,634
Unearned net loan origination cost and fees	**376**	200
Allowance for loan losses	**(1,376)**	(1,250)
Net loans	**$ 115,681**	$ 99,584

NOTE 5 - ALLOWANCE FOR LOAN LOSSES

The changes in the allowance for loan losses for the years ended December 31, 2004 and 2003 are as follows:

	2004	2003
	(in thousands)	
Balance, January 1	**$1,250**	$1,013
Provision for loan losses	**275**	280
Loans charged off	**(150)**	(55)
Recoveries	**1**	12
Balance, December 31	**$1,376**	$1,250

As of December 31, 2004 and 2003, the Bank had impaired loans of $985 thousand and $757 thousand, respectively, requiring an allowance for loan losses of $104 thousand and $149 thousand, respectively. As of December 31, 2004 and 2003, the average recorded investment in these impaired loans was $1,020 thousand and $807 thousand, respectively, and the interest income recognized on impaired loans was $88 thousand and $49 thousand, respectively.

Loans on which the accrual of interest has been discontinued amounted to $259 thousand and $452 thousand at December 31, 2004 and 2003, respectively. There are no loans with balances past due 90 days or more and still accruing interest, but which management expects will eventually be paid in full, at December 31, 2004 and 2003.

NOTE 6 - BANK PREMISES AND EQUIPMENT

The components of bank premises and equipment at December 31, 2004 and 2003 are as follows:

	2004	2003
	(in thousands)	
Leasehold improvements	**$ 1,323**	$ 944
Furniture, fixtures and equipment	**506**	359
IT equipment and software	**847**	728
Construction in process	**10**	-
	2,686	2,031
Less accumulated depreciation	**1,299**	1,051
	$ 1,387	$ 980

NOTE 7 - DEPOSITS

The components of deposits at December 31, 2004 and 2003 are as follows:

	2004	2003
	(in thousands)	
Demand, non-interest bearing	**$ 14,493**	$ 12,664
Demand, interest bearing	**8,509**	8,358
Savings	**35,823**	35,464
Time, $100,000 and over	**11,915**	7,860
Time, other	**45,580**	36,565
	$116,320	$100,911

At December 31, 2004, the scheduled maturities of time deposits are as follows (in thousands):

2005	**$25,914**
2006	**21,410**
2007	**4,460**
2008	**4,392**
2009	**1,319**
	$57,495

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 these agreements for three additional five-year lease terms. The Bank also leases two branch locations: one is under an operating lease agreement which expires November 2008 and the other is under an operating lease agreement which expires July 2009.

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

Approximate future noncancellable minimum lease payments by year are as follows:

	(in thousands)
2005	**$ 302**
2006	**312**
2007	**322**
2008	**326**
2009	**68**
	$ 1,330

Rent expense, which includes reimbursements to the lessor for real estate taxes, was approximately $282 thousand and $208 thousand for years ended December 31, 2004 and 2003, respectively.

NOTE 9 - OTHER BORROWINGS AND SUBORDINATED DEBT

At December 31, 2004, the Bank had long-term and short-term advances from the Federal Home Loan Bank totaling $7,250 thousand and $14,250 thousand, respectively with an average interest rate of 3.73% and 2.34%, respectively. At December 31, 2003, the Bank had long-term and short-term advances from the Federal Home Loan Bank totaling $5.0 million and $7.5 million, respectively, with an average interest rate of 2.88% and 1.13%, respectively.

The contractual maturities of fixed rate long-term advances for 2004 and 2003 are as follows:

	2004	2003
	(in thousands)	
2006	**$ 750**	$1,750
2007	**750**	750
2008	**750**	750
2009	**4,000**	750
2010	**-**	-
2011 and thereafter	**1,000**	1,000
	$7,250	$5,000

The Bank has a total borrowing capacity with the Federal Home Loan Bank of approximately $69.3 million. Advances from the Federal Home Loan Bank are secured by certain qualifying assets of the Bank.

The Bank issued a subordinated term note during the second quarter of 2004. The note was issued for $2.0 million at a floating rate based upon the three-month LIBOR rate, determined quarterly, plus 2.75% per annum. Quarterly interest payments are made on this note in January, April, July and October. At December 31, 2004, the quarterly rate was 4.85%. The note matures in the third quarter 2014.

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, 2004 and 2003 were approximately $23 thousand and $20 thousand, respectively.

NOTE 11 - STOCKHOLDERS¶(QUITY

During 2004, the Bank raised $1,115 thousand in capital through the sale of 148,701 shares of common stock at a price of $7.50 per share.

During 2003, the Bank raised $213 thousand 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 thousand 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,	
	2004	2003
	(in thousands)	
Unrealized holding losses on available for sale securities	**$ (51)**	$(25)
Reclassification adjustment for gains realized in income on available for sale securities	**77**	20
Net unrealized losses	**(128)**	(45)
Income tax effect	**44**	15
Net of tax amount	**$ (84)**	$ (30)

NOTE 13 - STOCK OPTION PLAN

During 2004, the stockholders of the Bank approved the 2004 Incentive Equity and Deferred Compensa- tioQ3OODQ ³3ODQ´ WKHSXUSRVHRI ZKLFKLVWRSUR mote the success and enhance the value of the Bank by linking the personal interests of the members of the Board of Directors and the BanN¶VHPSOR\HHV RIILFHUVDQGH[HFXWLYHVWRWKRVHRI WKH%DQN¶VWRFN KROGHUVDQGE\ SURYLGLQJ VXFKLQGLYLGXDOVZLWKDQ incentive for outstanding performance in order to generate superior returns to stockholders of the Bank. The Plan is further intended to provide flexibility to the Bank in its ability to motivate, attract and retain the services of members of the Board of Directors, employees, officers and executives of the Bank.

The Plan is administered by the Compensation Committee of the Board of Directors. It provides for WKHJUDQWRI RSWLRQV VRPHRUDOORI ZKLFKPD\ EH structured to qualify as Incentive Stock Options if granted to employees, and for the grant of stock ap- SUHFLDWLRQULJKWV ³6$56´ UHVWULFWHG VWRFNDQG XQUH stricted stock up to a total of 200,000 shares of Common Stock. The Plan replaces the Stock Option 3ODQDSSURYHGLQ ³ 3ODQ´ ZKLFKSUR vided for an aggregate of 112,500 shares of common stock to be granted.

UQGHUWKH 3ODQ WKH%DQN LQFRQQHFWLRQZLWK the initial stock offering, issued to the Incorporators options to acquire 60,750 shares of common stock. These options are exercisable at a price of $8.80 per VKDUHDQGZLOOH[SLUHWHQ\HDUVIURP WKHGDWHWKH Bank received its charter. In addition, the Bank JUDQWHGWRWZRRI LWVH[HFXWLYHRIILFHUVWRFNRSWLRQV to purchase 11,875 shares of common stock at $8.80 SHUVKDUHZKLFKH[SLUHWHQ\HDUVIURP WKHGDWHWKH Bank received its charter. The remaining 39,875 VKDUHVRI &RPPRQ6WRFNRWKHUZLVHDYDLODEOHXQGHU the 1997 Plan ceased to EHDYDLODEOHIRUJUDQWZKHQ the neZ 3ODQZDVDSSURYHG

TheUHZHUHQRRSWLRQVJUDQWHGRUH[HUFLVHGXQGHUWKH QHZ 3ODQRUWKH 3ODQLQ RU 7KHSUR IRUP DGLVFORVXUHVUHTXLUHGXQGHU6)$6 1R *Accounting for Stock-Based Compensation*, have been omitted as all options outstanding under the 3ODQZHUHIXOO\ YHVWHGE\

NOTE 14 - FEDERAL INCOME TAXES

The components of income tax expense for the years enGHG'HFHPEHU DUHDVIROORZV

	2004	2003
	(in thousands)	
Current	**$ 295**	$ 369
Benefit from the utilization of net RSHUDWLQJ ORVVFDUU\IRUZDUGV	**(295)**	(369)
	$ -	$ -

The components of the net deferred tax asset (liability) DW'HFHPEHU DQG DUHDVIROORZV

	2004	2003
	(in thousands)	
'HIHUUHGWD[DVVHWV		
$OORZDQFHIRUORDQORVVHV	**$ 468**	$ 425
Other	**19**	22
1HWRSHUDWLQJ ORVVFDUU\IRUZDUGV	**30**	307
	517	754
ValXDWLRQDOORZDQFH	**307**	587
Total deferred tax assets, QHWRI YDOXDWLRQDOORZDQFH	**210**	167
'HIHUUHGWD[OLDELOLWLHV		
Bank premises and equipment	**(32)**	(1)
Cash basis conversion	**(178)**	(159)
securities	**(6)**	(49)
Other	**-**	(7)
Total deferred tax liabilities	**(216)**	(216)
Net deferred tax liability	**$ (6)**	$ (49)

7KH%DQNKDVQHWRSHUDWLQJ ORVVFDUU\IRUZDUGVDYDLO able for federal income tax purposes of approximately $89 thousand 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, 2004 and 2003, related party loans totaled approximately $2,570 thousand and $2,222 thousand, respectively. During 2004, new loans and advances to such related parties totaled $1,023 thousand and repayments totaled $675 thousand.

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, 2004 and 2003, the following financial instruments were outstanding whose contract amounts represent credit risk:

	2004	2003
	(in thousands)	
Commitments to fund loans	**$ 1,980**	$ 3,555
Unfunded commitment under lines of credit	**25,301**	14,531
Letters of credit	**389**	570

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 fHH 7KH%DQNHYDOXDWHVHDFKFXVWRPHU¶VFUHGLW worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank upRQH[WHQVLRQRI FUHGLWLVEDVHGRQPDQDJHPHQW¶V 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, 2004 for guarantees under standby letters of credit issued is not material.

NOTE 17 - 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 RQWKH%DQN¶VILQDQFLDOVWDWHPHQWV 8QGHUFDSLWDO adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative PHDVXUHVRI WKH%DQN¶VDVVHWV OLDELOLWLHVDQGFHUWDLQ off-balance sheet items as calculated under regulatory accounting practices. The %DQN¶VFDSLWDODPRXQWVDQG 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, 2004 and 2003, that the Bank meets all capital adequacy requirements to which it is subject.

NOTE 17 - REGULATORY MATTERS (CONTINUED)

As of December 31, 2004, the most recent notification received from federal banking agencies categorized the Bank as 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 WKH%DQN¶VFDWJRU\

The %DQN¶VDFWXDOFDSLWDODPRXQWVDQGUDWLRVDW December 31, 2004 and 2003 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, 2004:						
Total capital (to risk weighted assets)	**$13,859**	**12.4 %**	≥ **$8,948**	≥ **8.0 %**	≥ **$11,186**	≥ **10.0 %**
Tier 1 capital (to risk weighted assets)	**10,483**	**9.4**	≥ **4,474**	≥ **4.0**	≥ **6,711**	≥ **6.0**
Tier 1 capital (to average assets)	**10,483**	**7.4**	≥ **5,698**	≥ **4.0**	≥ **7,122**	≥ **5.0**
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

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 18 - DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

Management uses its best judgment in estimating the IDLUYDOXHRIWKH%DQN¶VILQDQFLDOLQVWUXPHQWV+RZ ever, 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, 2004. The estimated fair value amounts have been measured as of December 31, 2004 and have not been reevaluated 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, 2004 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 OLPLWHGSRUWLRQRIWKH%DQN¶VDVVHWVDQGOLDELOLWLHV

Due to a wide range of valuation techniques and the degree of subjectivity used in making the estimates, comSDULVRQVEHWZHHQWKH%DQN¶VGLVFORVXUHVDQG those of other companies may not be meaningful. The following methods and assumptions were used to HVWLPDWHWKHIDLUYDOXHRIWKH%DQN¶VILQDQFLDOLQVWUX ments at December 31, 2004:

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.

NOTE 18 - DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

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 approximates 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

7KHDPRXQWRIWKH%DQN¶VFRPPLWPHQWVWRH[WHQG 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 BaQN¶VILQDQFLDOLQVWUXPHQWVDW'HFHPEHU anG ZHUHDVIROORZV

	' HFHP EHU			
	Carrying	Fair Value	Carrying	Fair Value
	(in thousands)			
AsseW				
Cash and cash equivalents	**$ 8,857**	**$ 8,857**		
Securities available for sale	**18,685**	**18,685**		
Securities held to maturity	**4,761**	**4,876**	-	-
Loans receivable, net	**115,681**	**114,815**		
Accrued interest receivable	**763**	**763**		
/ LDELOLWLHV				
' HSRVLWV	**116,320**	**116,029**		
Borrowings	**23,500**	**23,705**		
Accrued interest payable	**244**	**244**		
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

Christine M. Huston

William Kronenberg, III

Mary MacKinnon

James W. McKeighan, III

John J. Sickler

Executive Officers

Kenneth B. Mumma,
Chairman & CEO

James W. McKeighan, III,
President

John Alexandra,
Vice Chairman & CFO

Officers

Lori M. Adamski,
Vice President

Carole M. Agresta,
Banking Officer

Janet M. Batten,
Operations Officer

Cesidia A. Cauler,
Assistant Vice President

Doan M. Dang,
Accounting Officer

Patricia A. Debo,
Vice President

Sue Ann Erb,
Banking Officer

Edward J. Gallagher,
Vice President

John S. Gerhart,
Assistant Vice President

Richard G. Hood,
Vice President

Kaye R. Jordan,
Assistant Vice President

Virginia MacVeigh,
Assistant Vice President

Robert G. Philips,
Treasurer

Justin R. Power,
Vice President

Lisa L. Schmoke,
Controller

Robert S. Ward,
Vice President

Staff

Jennifer R. Adams

Carolyn L. Colsher

Carla T. Edlund

Angelia E. Epps

Denise V. Gatlin

Ruth L. Hammers

Joan A. Higgins

Brian M. Houy

Kristie L. Ingram

Jami L. Kelso

Kathleen Kennedy

Monica A. Kopacz

Kristen M. Madsen

Deborah A. O'Neill

Angelina S. Oh

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Deena M. Reynolds

Elaine K. Snyder

Michael C. Stick

Michele E. Touhey-Wilkinson

Rochelle L. Thompson

Camele Voce

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Newtown Square, PA 19073
Phone: 610.356.4000 • Fax: 610.356.2005

Wayne

153 East Lancaster Avenue,Wayne, PA 19087
Phone: 610.995.0040 • Fax: 610.995.0043

Website: NewCenturyBank.com

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610.935.1983 or 800.849.4809

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KMumma@NewCenturyBank.com

Annual Meeting of Shareholders 2005
Wednesday, May 18, 2005 at 11:00 a.m.
The Farmhouse at People's Light &
Theater Company, 39 Conestoga Road,
Malvern, PA 19355

Good People. Good Bankers.

NEW CENTURY BANK

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