ANNUAL REPORT 2005

NEW CENTURY BANK

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Ken Mumma, Chairman & Chief Executive Officer

To Our Shareholders, Customers and Community

It is a pleasure to report that 2005 marked another successful year of growth for New Century Bank. Net Income grew by 14%, continuing our trend of double digit growth. Income before taxes grew by $142 thousand or 18%.

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

- Asset growth was 21% for the year
- Net loans grew by 19%
- Deposits grew by 24%
- Net interest income increased 20%
- This bank-wide progress resulted in Net Income of $912 thousand

One of the keys to success for a small bank is the ability to raise capital to fuel its growth. To continue the growth of New Century we carefully managed a capital infusion in 2005. Through successful private placements in 2005 we added $4.4 million to our equity. This infusion places us well above regulatory minimums, meaning that growth can continue. We were pleased at the receptivity of professional investors to our story.

A challenge in 2005 was the continuing flat yield curve, which exerted strong pressure on our Net Interest Margin. Competition from internet banks and startup banks in our area pushed deposit rates higher. These conditions caused significant increases in our cost of funds. During this period, we have been pleased to be able to maintain the overall Return on Assets at about the same level as 2004 by carefully managing all facets of our operation.

The ability to grow lower cost core deposits to keep pace with loan growth is critical to our ongoing success. We are continuing to expand the reach of our branch network and to build on the success of our current branches. We will be opening our fourth full service branch in Malvern/Frazer later this Spring.

The new branch will extend our model emphasizing our personalized commercial lending services, while providing the customer friendly retail experience. We are working to secure several locations in order to grow our network further.

Our goal from the beginning has been to build a strong and profitable bank, which can reward its employees and its shareholders. But we also intend to take a leadership role in building the communities we serve. To that end we have joined twenty other banks in the Community Lenders Community Development Corporation, committing half a million dollars to loans for low to moderate income housing and job creation in our market.

As it is my pleasure to recount these highlights of 2005 to you, I am very much aware that New Century Bank is a team effort.

The New Century Board of Directors continues to be intensely involved and focused on the performance of the bank.

The management team, including our new Senior Vice Presidents, Edward J. Gallagher, Robert G. Philips, and Justin R. Power, 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 2005.

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.

We also include each New Century Bank shareholder as a member of our team. We appreciate your support and recognize our responsibility to continue to grow this company into a bank of which you can be proud.

It is 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. Our participation in the Community Lenders Community Development Corporation is an example of this in action.

I like to reflect on our story as a play developing upon the stage of our community and marketplace. We can look at how the cast has been assembled, how the stage has been built, and how the acts unfold. We are looking forward to presenting the next act to you as the story of New Century Bank continues to be written.

Sincerely,

Kenneth B. Mumma

Kenneth B. Mumma
Chairman and Chief Executive Officer

Financial Highlights

Dollar amounts in thousands except per share data

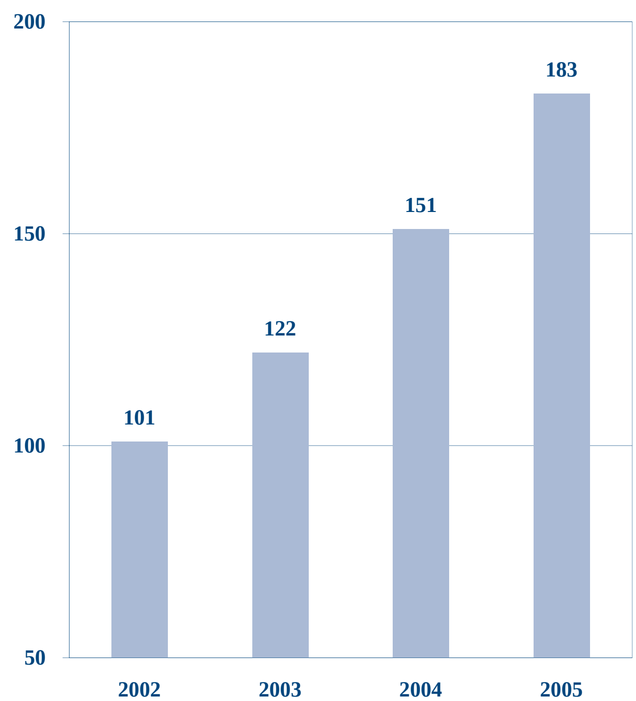
	2005	2004	2003	2002
For The Year				
Net interest income	$ 5,491	$ 4,586	$ 4,074	$ 3,240
Other income	385	422	346	246
Other expenses	4,649	3,930	3,437	2,860
Income before taxes	945	803	703	425
Net income	912	803	703	425
Earning per share	$ 0.57	$ 0.58	$ 0.55	$ 0.39
At Year End				
Total assets	$ 182,623	$ 150,837	$ 122,480	$ 101,352
Net loans	138,100	115,681	99,584	82,843
Deposits	144,601	116,320	100,911	90,167
Stockholders' equity	15,503	10,494	8,660	7,774
Selected Ratios & Share Data				
Return on average assets	0.56%	0.61%	0.65%	0.45%
Return on average equity	7.67%	8.38%	8.59%	7.02%
Book value per share	$ 7.81	$ 7.19	$ 6.61	$ 6.07
Weighted average common shares outstanding	1,595,890	1,385,911	1,288,839	1,080,237

Net Income

($ in thousands)

Total Assets

($ in thousands)



An Ongoing Mission - The Curtain Opens On Act III

As we get set to open a Malvern-Frazer branch – our fourth – we are setting up shop in a town that is home to one of our region's premier theaters, the People's Light and Theatre Company. With this branch opening, we are also witnessing a new Act in New Century's own play. Vibrant and new, Act III began during 2005. Our quarterly earnings exceeded $300 thousand for the first time. And, with new inner and outer strength, New Century Bank is poised for growth.

Looking onstage, the drama that's in progress has become interesting to arms length institutional investors, from whom we raised some $4.4 million last year. These investors, which included Univest Corporation of Souderton, were intrigued by the prospect of a bank that expects to double in size during the next three years – to be a $400 million bank with eight branches by the end of 2008. At our current size and level of maturity, we now have increased credibility, both as a financial institution and as an active presence in our local communities. As we expand our branch network, we are looking at opportunities to leverage the bank: to exert a more significant impact in our various markets, to become a more diverse institution, offering our customers a fuller range of financial services.

John Hufford III, Vice President and Nanette Medina, Assistant Vice President (Branch Manager), check construction at the new Malvern/Frazer branch.

We also raised the bank's profile in our local communities during 2005, giving us greater impact and visibility, a trend we plan to continue during the coming year.

Looking at the activity behind the scenes, we see an institution with positive retained earnings, forty-six associates, a solid infrastructure and an expanded management structure … all ready for our next phase of growth.

At this stage of the play, it may be helpful to remind our audiences – for we have a number of audiences: our customers, associates, investors and neighbors – of the preceding acts.

The Bank's Management Committee: Seated L to R: Bob Philips, Senior Vice President, Ken Mumma, Chairman & Chief Executive Officer, Ed Gallagher, Senior Vice President. Standing L to R: John Alexandra, Vice Chairman, Jim McKeighan, President, Jay Power, Senior Vice President.

First, as a 'Prologue,' Ken Mumma, a Chester County attorney, gathered a small cast of like-minded colleagues to develop a script based on his vision for a community bank:

- Our vision for the bank 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 financial 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.

The vision was developed into a business plan that inspired board members who joined the cast early on. By 1997, the set was ready for the first branch – Phoenixville/Kimberton. The key associates were ready on stage, eagerly waiting for the curtain to rise on Act I of a true community bank, whose mission was to provide excellence in banking and a leadership role in the community.

Act I : a new bank, a new vision

Onstage, the audience saw Mary Foote, Executive Director of Phoenixville's Colonial Theatre, performing the ceremonial ribbon-cutting. The cast numbered about a dozen – a small company with people wearing many hats.

This was a time of steady growth. By the summer of 1999, Ed Gallagher had joined the cast as the Phoenixville lending officer, as had Jay Power, who would become the Newtown Square lender. In keeping with our marketing philosophy, both entered the scene as experienced Vice President commercial lenders. Today, both are Senior Vice Presidents.

Meanwhile, behind the scenes, a dedicated team worked to ensure that the path to growth would be seamless. Act I drew to a close with the opening of our second branch – in Newtown Square, Delaware County, in the spring of 2000.

L to R: Cissy Cauler, Assistant Vice President (Branch Manager), Carla Edlund, Teller, Angie Epps, Assistant Branch Manager, Theresa Ivanowicz, Customer Service Representative.

L to R: Joe Swarr, Assistant Vice President (Manager Loan Administration), Sue Ann Erb, Banking Officer (Loan Document Specialist), Rob Ward, Vice President (Assistant Secretary), John Gerhart, Vice President (Commercial Loan Portfolio).

Act II : growth and consolidation

As the curtains opened on Act II, the cast had almost doubled in size – to twenty-four. This was the time that saw New Century Bank becoming profitable for the first time: we turned a $525 thousand loss in 2000 into earnings of $803 thousand in 2004. Assets also doubled in size – from $77 million at the end of 2000 to $151 million at year-end, 2004.

During this time, thanks to our seasoned and growing company, we continued a solid program of strengthening and consolidating our infrastructure. Behind the scenes, invisible to the audience, significant energy and resources were put into enhancing the bank's operations, essential to growth and to the successful opening of Act III in 2005.

The curtains closed on Act II as our Wayne, Delaware County, branch celebrated its first anniversary.

Act III : expanding the mission

John Hufford III, Vice President

Erwin Wenner, Vice President

And now, on a broadening stage and with a seasoned cast, a number of new developments are emerging. Our cast has again doubled its size since the beginning of the last act. And the 'plot' is becoming increasingly complex.

We continue to develop our branch network based on our established philosophy of having an experienced commercial lender in every branch. In our new Malvern-Frazer office, John Hufford, Vice President, will take that role, bringing with him a decade of lending experience, much of which was spent with First National Bank of Chester County. Erwin Wenner, Vice President, joined the bank in 2005 as a commercial lender with twenty-five years of banking experience.

In addition, Mike Doyle, Vice President, joined New Century as Retail Area Manager and Branch Manager for our Newtown Square office. Mike also brought with him several decades of experience from Meridian Bank and its successors.

Seated L to R: Mike Doyle, Vice President (Area Branch Manager), Vicky Gatlin, Assistant Branch Manager.
Standing L to R: Kathy Kennedy, Teller, Ilir Demollari, Teller, Joan Higgins, Senior Customer Service Representative, Deena Reynolds, Head Teller (Customer Service Representative).

During 2005, we also expanded our senior management team – from the bank's three executive officers, Ken Mumma, Chairman and CEO, Jim McKeighan, President and Chief Lending Officer, and John Alexandra, Vice Chairman – with the promotion of Ed Gallagher, Jay Power and Bob Philips to Senior Vice President. Ed heads our Banking Franchise Development, Jay our Commercial Business Development and Bob our Finance and Treasury functions.

In developing our range of business offerings, we are looking to share the stage with partners that can help us to provide such services as trust, investment advisory, wealth management and insurance.

The opening of Act III also introduced a new element of the drama as we took the step – an unusual one in our industry – of convening a Mission Committee of the Board of Directors. The Committee's mandate is to articulate more clearly and consciously the bank's deeper mission, addressing not only our involvement as citizens in the communities we serve, but also how we do our business from the viewpoint of our standing in those communities.

We are confident that our experienced cast will leverage these many strengths, and that, as Act III unfolds, New Century will achieve a dynamic new level of impact that will be good for our customers … good for our associates … good for our communities … and good for our investors.

Good People, Good Bankers, Good Neighbors.

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

INTRODUCTORY OVERVIEW

DESCRIPTION OF BUSINESS AND BUSINESS STRATEGY

New Century is a community bank serving Chester County and Southeastern Pennsylvania. Management!s strategy is to grow the branch network through strategically placed branches throughout the Bank!s market area. This will also allow the Bank to expand its portfolio of loans to small businesses and consumers. The Bank is chartered as a commercial bank under Pennsylvania law, a member of the Federal Reserve System and is insured by the Federal Deposit Insurance Corporation (FDIC). 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. The 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 2005. The Bank plans to open a new branch on Lancaster Avenue in Malvern, Chester County, PA, in the second quarter of 2006.

The Bank anticipates opening at least one branch per year over the next several years. Although subject to a variety of risks and contingencies! including the raising of sufficient capital, the absence of negative events in the economy at large, and the ability to find desirable locations at an acceptable cost! management believes that this plan will position the Bank with a viable network in eastern Chester County and surrounding areas and, combined with expanded financial services, allow the Bank to build the franchise value it needs to become an active financial presence in the region.

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

All federally insured depository institutions are liable to pay periodic premiums, or assessments, to a deposit insurance fund organized by the federal government to insure bank and savings association deposits, generally up to $100,000 per customer. The Bank is insured by the Bank Insurance Fund (!BIF!) administered by the FDIC, and hence is subject to periodic assessments by the FDIC to maintain the reserve level of that fund. The FDIC has authority to reduce the assessment rates whenever the ratio of its reserves to insured deposits is equal to or greater than 1.25%, and to increase deposit insurance assessments whenever that ratio is less than 1.25%. The reserve ratio for the BIF stood at 1.23% as of December 31, 2005. In addition, the Bank would be subject to an increase in its contribution rate if its capital fell below the rate required of a !Well-Capitalized! institution. See Note 17 of the Audited Financial Statements on page 43.

In addition to deposit insurance assessments, banks are subject to assessments to pay the interest on Financing Corporation bonds. The Financing Corporation was created by Congress to issue bonds to finance the resolution of failed thrift institutions. The FDIC sets the Financing Corporation assessment rate every quarter. The Financing Corporation assessment for all banks for the first quarter of 2006 was an annual rate of $0.132 for each $1,000 of deposits, compared to $0.134 for the fourth quarter of 2005.

THE BANK'S PRINCIPAL PRODUCTS AND SERVICES

The Bank engages in the full-service commercial and consumer banking business and accepts time, demand and savings accounts. Time deposits include certificates of deposit, individual retirement accounts, and Roth IRA 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. A title insurance and real estate settlement service is offered through a Bank subsidiary.

MAJOR REVENUE AND CASH-GENERATION SOURCES

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

MATERIAL OPPORTUNITIES, CHALLENGES AND RISKS

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

Nevertheless, the Bank faces heavy competition in making loans, taking deposits and providing other financial services and products. This competition comes principally from other banks, savings institutions, credit unions, mortgage banking companies, money market funds, other mutual funds, and insurance companies and agencies. Banking legislation in 1999 has caused additional competition due to the entrance into traditional banking fields by nonbank organizations. Many of the Bank's competitors have greater financial resources, a wider geographic presence, a wider array of services, more favorable pricing alternatives, or lower costs than the Bank. There are a number of de novo banks in the area, which tend to be more aggressive in their pricing to attract customers and fuel their growth. Internet banks also tend to be more aggressive in their deposit rates.

New Century's approach to meeting these challenges 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 New Century. As a result, the Bank has a growing presence in the 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 New Century. After a period when the Federal Reserve kept the Federal Funds target at a forty-year low, it increased that target by 325 basis points during 2004 and 2005, from 1.00% to 4.25% at year-end, 2005. This has resulted in a corresponding increase between June of 2004 and December of 2005 in the Prime Rate, to which most of the Bank's floating rate loans are tied. The resulting income gain was offset by the corresponding repricing of the Bank's deposit and other borrowings portfolio. As a result, net interest margin decreased slightly during 2005. Management believes that the Bank is well positioned in relation to the impact of future rate increases.

Management plans to open a new branch in the Malvern area during the second quarter of 2006. This is a continuation of a branch expansion phase for the Bank. Successful implementation of this strategy is subject to a variety of contingencies and risks. Although such branches are expected to add to future profitability, the initial impact of a new branch opening is to reduce earnings 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.

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

RESULTS OF OPERATIONS

For further information on the Bank!s operating results and each of the items discussed below, including detailed tables setting forth additional financial data, see the Audited Financial Statements on pages 27 - 44. The following discussion is modified in its entirety by these Audited Financial Statements.

GENERAL

The following summary presents highlights of the Bank!s operating results for the years ended December 31, 2005 and 2004:

	2005	2004
	(in thousands, except per share data)	
Interest income	**$ 9,471**	$ 7,092
Interest expense	**3,980**	2,506
Net interest income before provision for loan losses	**5,491**	4,586
Provision for loan losses	**282**	275
Net interest income	**5,209**	4,311
Non-interest income	**385**	422
Non-interest expense	**4,649**	3,930
Income before taxes	**945**	803
Provision for income taxes	**33**	-
Net Income	**$ 912**	$ 803
Basic and diluted earnings per share	**$ 0.57**	$ 0.58

The Bank reported income before taxes of $945 thousand for the fiscal year ended December 31, 2005. This represents an increase of 18%, or $142 thousand, when compared to $803 thousand for the fiscal year ended December 31, 2004. This improvement is primarily attributable to loan growth, resulting in increased net interest income. The Bank reported a provision for income taxes for the fiscal year ended December 31, 2005, after using the estimated $89 thousand of net operating loss carryforwards for federal income tax purposes outstanding at December 31, 2004. The provision for income taxes was $33 thousand with the resulting net income of $912 thousand. On a basic and diluted per share basis, the net income was $0.57 for 2005 compared to $0.58 for 2004. On a pre-tax basis, basic and diluted per share income was $0.59 for 2005 compared to $0.58 for 2004. The Bank!s return on average assets was 0.56% in 2005 compared to 0.61% in 2004, reflecting the fact that assets grew faster than earnings. The Bank!s return on average equity was 7.67% in 2005 compared to 8.38% in 2004. With the sale of 525,000 shares of common stock, 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 $5,491 thousand for the year ended December 31, 2005, compared to $4,586 thousand for the prior year, an increase of $905 thousand, or 20%.

Interest income on loans, investments and interest earning deposits was $9,471 thousand in 2005 compared to $7,092 thousand in 2004, an improvement of $2,379 thousand or 34%. Meanwhile, interest expense on deposits and borrowed funds was $3,980 thousand in 2005, up $1,474 thousand or 59% from $2,506 thousand in 2004.

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 3.45% in 2005 from 3.59% in 2004. This decrease is primarily attributable to higher yields on loans being offset by higher costs on time deposits and borrowings and to the mix of assets and liabilities.

PROVISION FOR LOAN LOSSES

In 2005, the provision for loan losses, at $282 thousand, was up 3% or $7 thousand from $275 thousand in 2004.

NON-INTEREST INCOME

In 2005, non-interest income was $385 thousand, down 9% or $37 thousand from $422 thousand in 2004. Excluding gains on sale of securities, non-interest income in 2005 was up 12% or $40 thousand from 2004. Service fees represents the largest component of non-interest income, and were $292 thousand in 2005, up $15 thousand or 5% from $277 thousand in 2004. This increase is primarily due to increased fees on deposit related products.

There were no gains on sale of securities in 2005 compared to a $77 thousand gain in 2004.

Other non-interest income, at $93 thousand, was up $25 thousand or 37% from $68 thousand in 2004. This increase is primarily due to slightly higher mortgage related income, and the write-down on other real estate owned in 2004, compared to no write-down in 2005.

NON-INTEREST EXPENSES

Total non-interest expenses of $4,649 thousand in 2005 increased 18% or $719 thousand over the $3,930 thousand in 2004. Salaries and employee benefits represent the largest component of non-interest expenses, and were $2,231 thousand in 2005 compared to $1,880 thousand in 2004, an increase of 19% or $351 thousand. This increase was primarily driven by staffing increases needed for the Bank's recent growth and a full year of salaries for the Wayne branch that opened in June 2004.

Occupancy expense increased 23% or $130 thousand to $691 thousand in 2005 from $561 thousand in 2004. This increase was primarily due to a full year of expenses for the Wayne Branch, additional office space at the Main Office, and expenses for part of the year for space in Malvern.

Technology, communications and bank operations expense increased 3% or $16 thousand to $575 thousand in 2005 from $559 thousand in 2004. This increase is primarily attributable to increased transaction volume and the size of the Bank.

Advertising and promotion expense increased 20% or $55 thousand to $333 thousand from $278 thousand in 2004. This increase is primarily attributable to higher expenditures to attract deposits.

Other expenses increased 26% or $167 thousand to $819 thousand in 2005 from $652 thousand in 2004. This increase is primarily attributable to increased professional fees, and costs associated with other real estate owned.

INCOME TAXES

The Bank's income tax expense of $33 thousand for 2005 represents the first time that the Bank has provided for income taxes. Previously the expense was offset by the Bank's net operating loss carrforwards. At December 31, 2004, the Bank had available net operating loss carryforwards for federal income tax purposes of approximately $89 thousand which were applied against 2005 income. For further information on this topic, see Note 14 of the Audited Financial Statements on pages 41 - 42.

FINANCIAL CONDITION

GENERAL

The following summary presents highlights of the Bank!s financial condition for the years ended December 31, 2005 and 2004:

	2005	2004
	(in thousands)	
Total assets	**$182,623**	$150,837
Securities available for sale	**32,888**	18,685
Securities held to maturity	**4,333**	4,761
Loans receivable, net	**138,100**	115,681
Allowance for loan losses	**(1,615)**	(1,376)
Total deposits	**144,601**	116,320
Other borrowings	**19,550**	21,500
Subordinated debt	**2,000**	2,000
Total stockholders' equity	**15,503**	10,494

The Bank!s total assets were $182.6 million at December 31, 2005. This represents a 21% increase from $150.8 million at December 31, 2004. The main components of this change were increased loan and securities volumes. Total liabilities were $167.1 million at December 31, 2005, up 19% from $140.3 million at December 31, 2004. The main component of this change was increased deposits. For further information on the Bank!s financial condition and each of the items discussed below, including detailed tables setting forth additional financial data, see the Audited Financial Statements on pages 27 - 44.

CAS AND DUE FROM BANKS

Cash and due from banks consists mainly of vault cash and cash items in the process of collection. These balances totaled $2.5 million at December 31, 2005. This represents a 43% increase from $1.7 million at December 31, 2004. These balances vary from day to day, primarily due to variations in customers! deposits with the Bank.

INTEREST BEARING DEPOSITS IT BANKS

Interest-earning deposits consist mainly of deposits at the Federal Home Loan Bank of Pittsburgh. These deposits totaled $0.1 million at December 31, 2005. This represents almost a 100% decrease from $5.9 million at December 31, 2004. This balance varies from day to day, depending on several factors, such as variations in customers! deposits with the Bank and the payment of checks drawn on customers! accounts.

FEDERAL FUNDS SOLD

Federal funds sold consist of overnight interbank lending through Atlantic Central Bankers Bank. These funds totaled $1.0 million at December 31, 2005. This represents an 18% decrease from the $1.3 million at December 31, 2004. This balance varies from day-to-day, primarily due to variations in the volume of wire transfers processed.

IN ESTMENT SECURITIES

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

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

At December 31, 2005, $32.9 million of the Bank's investment securities were classified as AFS. This represents an increase of 76% from $18.7 million at December 31, 2004. 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.

At December 31, 2005, $4.3 million of the Bank's investment securities were classified as HTM. This represents a 9% decrease from $4.8 million at December 31, 2004.

The Bank had no trading account securities.

The investment portfolio's composition changes 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 greater than 10% of stockholders' equity.

The following three tables set forth information regarding the stated maturity, average yield, and compositions, 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, 2005		December 31, 2004	
	Fair Value (in thousands)	**Weighted Average Yield**	Fair Value (in thousands)	Weighted Average Yield
AFS Securities Maturity Schedule				
Due in one year or less	**$ 242**	**6.00%**	$ -	- %
Due after one year through five years	**1,497**	**4.34**	253	6.00
Due after five years through ten years	**881**	**4.75**	253	2.42
Due after ten years	**1,903**	**3.36**	-	-
	4,523	**4.10**	506	4.21
Mortgage-backed securities	**26,518**	**4.44**	16,656	4.27
Equity securities	**1,847**	**3.58**	1,523	2.85
	$32,888	**4.34%**	$18,685	4.15%

	Amortized Cost (in thousands)	**Weighted Average Yield**	Amortized Cost (in thousands)	Weighted Average Yield
HTM Securities Maturity Schedule				
Due after ten years	**$ 958**	**4.86%**	$ 978	2.88%
	958	**4.86**	978	2.88
Mortgage-backed securities	**3,375**	**5.36**	3,783	5.03
	$4,333	**5.25%**	$4,761	4.59%

	December 31,		**December 31,**	
	2005	2004	**2005**	2004
	(in thousands)		(in thousands)	
	Composition of AFS Securities		***Composition of HTM Securities***	
U.S. Treasury and government agency	**$ 1,878**	$253	**$ -**	$ -
Mortgage-backed securities	**26,518**	16,656	**3,375**	3,783
Asset-backed securities	**-**	-	**958**	978
Municipal securities	**1,903**	-	**-**	-
Corporate bonds	**742**	253	**-**	-
Equity securities	**1,847**	1,523	**-**	-
	$32,888	$18,685	**$4,333**	$4,761

No investment securities were pledged at either December 31, 2005 or December 31, 2004.

LOANS

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

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

Loans are primarily made to customers in Chester, Delaware and Montgomery Counties, PA. There were no concentrations of loans exceeding 10% of the Bank's total loans at either year-end 2005 or year-end 2004. Consistent with providing community-based financial services, the Bank does not attempt to diversify its loan portfolio geographically by making significant amounts of loans to borrowers outside its service area. The Bank's service area is a diverse economic and employment market with no significant dependence on any one industry or large employer. The Bank has no credit exposure to foreign borrowers or highly leveraged transactions.

Loans outstanding (net of the allowance for loan losses) grew to $138.1 million at December 31, 2005, an increase of $22.4 million or 19% from $115.7 million at December 31, 2004. The growth of the loan portfolio was generally diversified among commercial and consumer borrowers. For further information on our loans, see Note 4 of the Audited Financial Statements on page 38.

	2005	2004
	(in thousands)	
Commercial	**$117,904**	$89,978
Residential real estate loans	**5,311**	9,214
Consumer	**16,107**	17,489
Total loans	**139,322**	116,681
Unearned net loan origination costs and fees	**393**	376
Allowance for loan losses	**(1,615)**	(1,376)
Net loans	**$138,100**	$115,681

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.

Loan Maturities	**2005**	2004
	(in thousands)	
Within 1 year	**$ 39,584**	$43,158
After 1 year but within 5 yrs	**43,906**	33,826
After 5 yrs but within 15 yrs	**30,695**	30,174
Over 15 years	**25,530**	9,899
	$139,715	$117,057

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 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 appropriate.

The provision for loan losses was $282 thousand for the fiscal year ended December 31, 2005, compared to $275 thousand for the fiscal year ending December 31, 2004. The allowance for loan losses was $1,615 thousand or 1.16% of total loans at December 31, 2005 and $1,376 thousand or 1.18% of total loans at December 31, 2004. Net charge-offs were $43 thousand for the fiscal year ended December 31, 2005, a decrease of 71% or $106 thousand compared to the $149 thousand for the fiscal year ending December 31, 2004.

Allowance for Loan Losses

	2005	2004
	(in thousands)	
Balance, January 1	**$1,376**	$1,250
Provision for loan losses	**282**	275
Loans charged off	**(44)**	(150)
Recoveries	**1**	1
Balance, December 31	**$1,615**	$1,376

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 potential losses. Management considers a variety of factors, and recognizes the inherent risk of loss that always exists in the lending process. Management uses a disciplined methodology to estimate the appropriate level of allowance for loan losses. This methodology includes an evaluation of loss potential from individual problem credits, as well as anticipated specific and general economic factors that may adversely affect collectibility. This assessment includes a review of changes in the composition and volume of the loan portfolio, overall portfolio quality and past loss experience, review of specific problem loans, current economic conditions which may affect borrowers' ability to repay, and other factors which may warrant current recognition. In addition, the Bank's internal and external auditors, loan review auditors and various regulatory agencies periodically review the adequacy of the allowance as an integral part of their examination process. Such agencies may require the Bank to recognize additions or reductions to the allowance based on their judgments of information available 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 in 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 Standards ("SFAS") No. 114, *Accounting by Creditors for Impairment of a Loan, As Amended*, impaired loans, consisting of non-accrual and restructured loans, are considered in the methodology for determining the allowance for credit losses. Impaired loans are generally evaluated based on the expected future cash flows or the fair value of the underlying collateral if principal repayment is expected to come from the sale or operation of such collateral.

ASSET QUALITY

The Bank had impaired loans totaling $1,849 thousand at December 31, 2005, compared to $985 thousand at December 31, 2004. Non-accrual loans totaled $840 thousand at December 31, 2005, up from $259 thousand at December 31, 2004. The Bank had charge-offs of $44 thousand in 2005, compared with $150 thousand in 2004. The Bank had recoveries of $1 thousand in both 2005 and 2004. Other Real Estate Owned as a result of foreclosure or voluntary transfer to the Bank totaled $539 thousand at December 31, 2005 and $537 thousand at December 31, 2004. These amounts are included in Other Assets on the Balance Sheets.

The table below sets forth those assets that were on non-accrual status and other real estate owned on December 31, 2005 and 2004, respectively. These amounts represented 0.99% and 0.68%, respectively, of gross loans.

Non-Performing Assets	**2005**	2004
	(in thousands)	
Non-accrual loans	**$840**	$ 259
Other real estate owned	**539**	537
Balance, ending	**$1,379**	$796

Troubled debt restructurings totaled $315 thousand and $559 thousand at December 31, 2005 and 2004, 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 borrower payment status and a review of borrower current financial information to ensure financial strength and viability. The Bank has established credit policies and procedures, seeks the consistent application of those policies and procedures across the organization, and adjusts 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. This process is designed 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 is likely to be unrecoverable 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 and by the Bank!s internal, external and loan review auditors, as part of their examination and audit procedures.

PREMISES AND E. UIPMENT AND OT ER ASSETS

Bank premises and equipment, net of accumulated depreciation, was unchanged at $1.4 million at December 31, 2005 and 2004. Other Assets increased to $2.3 million from $1.5 million, principally due to higher accrued interest and the reduction of the valuation allowance for deferred taxes.

For further information on our premises and equipment, see Note 6 of the Audited Financial Statements on page 39.

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 $144.6 million at December 31, 2005, an increase of $28.3 million or 24% from $116.3 million at December 31, 2004.

The components of deposits at December 31, 2005 and 2004 are as follows:

	2005	2004
	(in thousands)	
Demand, non-interest bearing	**$ 17,458**	$ 14,493
Demand, interest bearing	**15,142**	8,509
Savings	**23,157**	35,823
Time, $100,000 and over	**30,905**	11,915
Time, other	**57,939**	45,580
	$144,601	$116,320

Time deposits increased $31.3 million or 55% to $88.8 million at December 31, 2005 compared to $57.5 million at December 31, 2004. Time deposits of $100,000 or more were $30.9 million at December 31, 2005 compared to $11.9 million at December 31, 2004, an increase of $19.0 million or 159%. The Bank had no brokered deposits at either December 31, 2005 or 2004. Included in time deposits, $100,000 and over, at December 31, 2005 are public fund certificates of deposit of $12.1 million, compared to none at December 31, 2004. During this period, non-interest bearing demand deposits increased $3.0 million or 20% to $17.5 million from $14.5 million. Interest bearing demand deposits increased $6.6 million or 78% to $15.1 million from $8.5 million. Savings deposit accounts decreased $12.6 million or 35% to $23.2 million at December 31, 2005 from $35.8 million.

At December 31, 2005, the scheduled maturities of time deposits are as follows (in thousands):

2006	**$71,230**
2007	**11,261**
2008	**3,841**
2009	**1,430**
2010	**1,082**
	$88,844

OTHER BORROWINGS

The Bank had other borrowings of $19.6 million at December 31, 2005, a 9% decrease from the $21.5 million at December 31, 2004. Short-term advances from the Federal Home Loan Bank of Pittsburgh were $13.1 million at December 31, 2005, an 8% decrease from the $14.3 million at December 31, 2004.

The contractual maturities of long-term advances at December 31, 2005 were as follows:

	2005
	(in thousands)
2007	**$ 750**
2008	**750**
2009	**4,000**
2010	**-**
2011	**-**
2012 and thereafter	**1,000**
	$6,500

SUBORDINATED DEBT

In June, 2004, the Bank issued $2 million in floating rate subordinated debt that matures on July 23, 2014. The quarterly interest rate at December 31, 2005 was 6.94%. Currently, subordinated debt is included in the Bank's Tier II regulatory capital requirement.

For further information on deposits, other borrowings and subordinated debt see Notes 7 and 9 of our Audited Financial Statements on pages 39 and 40.

STOCKHOLDERS' EQUITY

Stockholders' equity increased by $5.0 million or 48% to $15.5 million at December 31, 2005, from $10.5 million at December 31, 2004. This increase resulted from net income of $912 thousand, the issuance of 525,535 shares of common stock, net of expenses, for $4,375 thousand, offset by the change of $278 thousand in net unrealized losses on investment securities classified by the Bank as "available for sale." The unrealized loss in the Bank's investment securities portfolio is subject to change with fluctuations in interest rates and the market prices of the underlying securities, and is recognized as a component of net income only if realized through the sale of such securities prior to maturity or the security would become other-than-temporarily impaired.

There are certain limitations on the ability of the Bank to pay cash dividends without prior approval of regulatory authorities. No cash dividends were declared or paid in 2005 or 2004. For a more detailed description of the Bank's Stockholders' Equity, see Note 11 of our Audited Financial Statements on page 40.

STOCK OPTION PLAN

During 2004, the stockholders of the Bank approved the 2004 Incentive Equity and Deferred Compensation Plan ("Plan"), the purpose of which is to promote the success and enhance the value of the Bank by providing members of the Board of Directors, employees, officers, and executives of the Bank with an 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 such individuals. Stock options granted normally vest over three years.

The Plan is administered by the Compensation Committee of the Board of Directors. It provides for the grant of options, some or all of which may be structured to qualify as Incentive Stock Options if granted to employees, and for the grant of stock appreciation rights ("SARS"), restricted stock and unrestricted stock, up to a total of 200,000 shares of Common Stock. The Plan replaces the Stock Option Plan approved in 1997 ("1997 Plan"), which provided for an aggregate of 112,500 shares of common stock to be granted.

The following summarizes changes in stock options outstanding under the 2004 Incentive Equity and Deferred Compensation Plan and the 1997 Plan for the years ended December 31, 2005 and 2004.

	2005	
	Number Of Options	**Wtd Avg Exercise Price**
Outstanding at January 1	**72,625**	**$ 8.80**
Granted 12/20/05	**29,850**	**11.00**
Granted 12/30/05	**22,350**	**10.25**
Exercised	-	-
Forfeited	-	-
Outstanding at December 31	**124,825**	**$ 9.59**
Exercisable at December 31	**102,475**	**$ 9.44**

	2004	
	Number Of Options	Wtd Avg Exercise Price
Outstanding at January 1	72,625	$ 8.80
Exercised	-	-
Forfeited	-	-
Outstanding at December 31	72,625	$ 8.80
Exercisable at December 31	72,625	$ 8.80

The weighted-average remaining contractual life of the above options is approximately 5.1 years.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity for a financial institution is a measure of that institution!s ability to meet depositors! needs for funds, to satisfy or fund loan commitments, and for other operating purposes. Ensuring adequate liquidity is an objective of the Asset / Liability Management process. The management of liquidity is coordinated with the management of the Bank's interest rate sensitivity and capital position. The Bank!s policy is to maintain a strong liquidity position.

The Bank!s investment portfolio provides periodic cash flows through regular maturities and amortization, and can be used as collateral to secure additional liquidity funding. The Bank!s principal sources of funds are shareholder capital, deposits, debt issuance, principal and interest payments on loans, and other funds from operations. The Bank also maintains borrowing arrangements with the Federal Home Loan Bank of Pittsburgh, as well as access to the discount window at the Federal Reserve Bank of Philadelphia, to meet short-term liquidity needs. As of December 31, 2005, the Bank!s borrowing capacity with the Federal Home Loan Bank of Pittsburgh was $96.1 million, of which $19.6 million was used in borrowings and $12.3 million was used for letters of credit supporting $12.1 million in public fund certificates of deposit. The Bank had pledged no securities as collateral for these borrowings and letters of credit.

Operating activities provided $1.3 million and $1.1 million for the years ended December 31, 2005 and 2004, respectively. This increase was primarily due to the increase in net income, changes in other liabilities offset somewhat by reduced gains on the sale of securities and foreclosed real estate, and changes in other assets, in 2005 compared to 2004.

Investing activities used $37.3 million and $27.7 million for the years ended December 31, 2005 and 2004, respectively. This increase is primarily due to increased investments in loans and securities in 2005 compared to 2004.

Financing activities provided $30.7 million and $27.5 million for the years ended December 31, 2005 and 2004, respectively. The increase was primarily due to increased deposits and the issuance of common stock offset by the decrease in short term borrowed funds, repayment on long-term borrowed funds, and no issuance of subordinated debt, in 2005 compared to 2004.

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

CAPITAL ADE. UACY

The Board of Governors of the Federal Reserve System has adopted risk-based capital and leverage ratio requirements for banks like New Century that are members of the Federal Reserve System. The Pennsylvania Department of Banking also sets minimum capital requirements. At December 31, 2005 and December 31, 2004, the Bank met each of its minimum capital requirements. Management believes that the Bank would be deemed !well capitalized! for regulatory purposes as of December 31, 2005 and December 31, 2004. Banking regulators have discretion to establish an institution!s classification based on other factors, in addition to the institution!s numeric capital levels.

Management is not aware of any developments that have occurred and that would, or would be reasonably likely to, cause our classification to be reduced below a level of "well capitalized" for regulatory purposes. The Bank's capital classification is determined pursuant to banking regulations for the purposes of applying the bank regulators' "prompt corrective action" regulations, and for determining levels of deposit insurance assessments, and may not constitute an accurate representation of our overall financial condition or prospects. The following table summarizes the required capital ratios and the corresponding regulatory capital positions of the Bank 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, 2005:												
Total capital (to risk weighted assets)	**$19,385**	**14.6 %**	≥	**$10,612**	≥	**8.0 %**		≥	**$13,265**	≥	**10.0 %**	
Tier 1 capital (to risk weighted assets)	**15,770**	**11.9**	≥	**5,306**	≥	**4.0**		≥	**7,959**	≥	**6.0**	
Tier 1 capital (to average assets)	**15,770**	**8.9**	≥	**7,073**	≥	**4.0**		≥	**8,841**	≥	**5.0**	
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	

In general, the Bank's capital increases with the addition of earnings to stockholders' equity, with increases in the Bank's Allowance for Loan Losses, and with sales of stock or the issuance of certain qualifying debt, such as the subordinated debt the Bank issued in 2004; this latter is included in Tier II and total capital. Conversely, as the Bank's assets grow, its capital ratios decrease. In general, in the past few years, balance sheet growth has been offset by increases in capital through earnings, sales of common stock, debt issuance and growth of the Allowance for Loan Losses.

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

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

MARKET FOR COMMON STOCK

The Bank's Common Stock is not listed or quoted on any exchange or electronic bulletin board or other quotation service. Furthermore, there are no brokerage firms that act as market makers in the Bank's stock. Consequently, information on current stock trading prices is not readily available. The Bank acts as its own transfer agent and offers to introduce 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, 2005, there were approximately 306 stockholders who owned the 2.0 million shares of common stock outstanding.

Based on the information available to us, private sales of our Common Stock occurred at between $7.50 and $9.25 per share during 2005 and at $8.00 in 2004. 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 133,334 shares of common stock at $7.50 per share and 392,201 shares of common stock at $9.25 per share during 2005, both through private placements.

OFF-BALANCE SHEET ARRANGEMENTS

The Bank is a party to financial instruments and other commitments with off-balance sheet risks. Financial instruments with off-balance sheet risks are incurred in the normal course of 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 sheets.

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 and other underwriting standards.

As of December 31, 2005 and December 31, 2004, the following off-balance sheet commitments, financial instruments and other arrangements were outstanding:

	2005	2004
	(in thousands)	
Commitments to fund loans	**$ 4,388**	$ 1,980
Unfunded commitments under lines of credit	**28,950**	25,301
Letters of credit	**346**	389

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

Commitments to fund loans and unfunded commitments under lines of credit may be obligations of the Bank as long as there is no violation of any condition established in the contract. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. We evaluate each customer!s creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank upon extension of credit, is based on management!s credit evaluation. Collateral held varies but may include personal or commercial real estate, accounts receivable, inventory and equipment.

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

OT ER OFF BALANCE S EET ARRANGEMENTS

Other off-balance sheet arrangements include operating leases for Bank premises. The Bank leases the premises for its corporate headquarters and main banking office, as well as two branches and a potential branch or loan production office, under operating lease agreements with various terms and at various rentals. Each lease differs as to whether the Bank has one or more renewal options and on what terms. As of December 31, 2005, the Bank!s approximate future noncancellable minimum payments under these leases, by year, were as follows:

	(in thousands)
2006	**$ 425**
2007	**439**
2008	**445**
2009	**165**
2010	**60**
	$ 1,534

INTEREST RATE SENSITIVITY

The largest component of the Bank!s total income is 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 differences in lending and funding rates. The Bank's Asset/Liability Committee actively seeks to monitor and control the mix of interest rate sensitive assets and interest rate sensitive liabilities.

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 time 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 estimated the net interest income for the year ending December 31, 2006, based upon the assets, liabilities and off-balance sheet financial instruments in existence at December 31, 2005. 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 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%	10.1%
Up 2%	7.5%
Up 1%	3.7%
Down 1%	-0.4%
Down 2%	-3.9%
Down 3%	-6.3%

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 of EVE in relation to a constant rate environment. This method of measurement primarily evaluates the longer term repricing risks and options 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, 2005 resulting from shocks to interest rates.

Percent change Economic Value of Equity

Rate Shocks	From base	EVE assets
Up 3%	-18.3%	-1.5%
Up 2%	-11.5%	-0.9%
Up 1%	-5.8%	-0.5%
Down 1%	8.7%	0.7%
Down 2%	8.3%	0.6%
Down 3%	7.4%	0.5%

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, 2005, 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, 2005, 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 and fixed rate loans, and as a result of contractual rate adjustments on adjustable rate loans.

	At December 31, 2005						
	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	$ 0.9	$ 0.2	$ -	$ -	$ -	$ -	$ 1.1
Securities	4.5	2.1	4.8	12.1	3.5	10.2	37.2
Loans receivable	72.6	12.5	15.7	21.8	7.7	9.4	139.7
Total interest earning assets	78.0	14.8	20.5	33.9	11.2	19.6	178.0
Non interest earning assets	-	-	-	-	-	4.6	4.6
Total assets	$ 78.0	$ 14.8	$ 20.5	$ 33.9	$ 11.2	$ 24.2	$ 182.6
Other interest bearing deposits	$ 3.5	$ -	$ -	$ -	$ -	$ 34.8	$ 38.3
Time deposits	17.0	21.7	32.6	15.1	2.4	-	88.8
Other borrowings	12.3	0.8	-	0.8	4.7	1.0	19.6
Subordinated debt	2.0	-	-	-	-	-	2.0
Total interest bearing liabilities	34.8	22.5	32.6	15.9	7.1	35.8	148.7
Non interest bearing liabilities	-	-	-	-	-	18.4	18.4
Stockholder's equity	-	-	-	-	-	15.5	15.5
Total liabilities and equity	$ 34.8	$ 22.5	$ 32.6	$ 15.9	$ 7.1	$ 69.7	$ 182.6
Interest sensitivity gap	$ 43.2	($7.7)	($12.1)	$ 18.0	$ 4.1	($45.5)	
Cumulative interest sensitivity gap	$ 43.2	$ 35.5	$ 23.4	$ 41.4	$ 45.5	$ -	
Cumulative interest sensitivity gap to total assets	24%	19%	13%	23%	25%	0%	
Cumulative interest earning assets to cumulative interest bearing liabilities	224%	162%	126%	139%	140%	120%	

As shown above, the Bank has a positive cumulative gap (cumulative interest sensitive assets are greater than cumulative 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.

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 assets, 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 assumptions used in the model.

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 16-17.

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 17-18.

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 pages 41 - 42.

4. *Determination of other-than-temporary impairment 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. For a more detailed description of these items and estimates, see Note 3 of the Audited Financial Statements on pages 36 - 38.

5. *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 these 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 estimates 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, 2005 and 2004, were as listed in Note 18 of the Audited Financial Statements on pages 43 - 44.

The Notes to the Bank's Audited Financial Statements, including Note 2 on pages 32 - 36, 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.

FORWARD-LOOKING STATEMENTS

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

bmc

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, 2005 and 2004, 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, 2005 and 2004, 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

Beard Miller Company LLP
Reading, Pennsylvania
February 10, 2006

STATEMENTS OF INCOME

Years Ended December 31,	2005	2004
	(dollar amounts in thousands, except per share data)	
Interest income:		
Loans receivable, including fees	**$8,053**	$6,379
Securities, taxable	**1,374**	670
Other	**44**	43
Total interest income	**9,471**	7,092
Interest expense:		
Deposits	**3,035**	2,186
Other borrowed funds	**945**	320
Total interest expense	**3,980**	2,506
Net interest income	**5,491**	4,586
Provision for loan losses	**282**	275
Net interest income after provision for loan losses	**5,209**	4,311
Other income:		
Service fees	**292**	277
Gain on sale of securities	**-**	77
Other	**93**	68
Total other income	**385**	422
Other expenses:		
Salaries and employee benefits	**2,231**	1,880
Occupancy	**691**	561
Technology, communication and bank operations	**575**	559
Advertising and promotion	**333**	278
Other	**819**	652
Total other expenses	**4,649**	3,930
Income before taxes	**945**	803
Provision for income taxes	**33**	-
Net income	**$ 912**	$ 803
Basic and diluted income per share	**$ 0.57**	$ 0.58

See Notes to Financial Statements

BALANCE SHEETS

December 31,	2005	2004
	(dollar amounts in thousands, except per share data)	
ASSETS		
Cash and due from banks	$ 2,467	$ 1,731
Interest earning deposits	55	5,857
Federal funds sold	1,037	1,269
Cash and cash equivalents	3,559	8,857
Securities available for sale, at fair value	32,888	18,685
Securities held to maturity, at amortized cost fair value 2005 $4,309; 2004 $4,876	4,333	4,761
Loans receivable, net of allowance for loan losses 2005 $1,615; 2004 $1,376	138,100	115,681
Bank premises and equipment, net	1,434	1,387
Accrued interest receivable and other assets	2,309	1,466
Total assets	$182,623	$150,837
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Deposits:		
Demand, non-interest bearing	$ 17,458	$ 14,493
Interest bearing	127,143	101,827
Total deposits	144,601	116,320
Other borrowings	19,550	21,500
Subordinated debt	2,000	2,000
Accrued interest payable and other liabilities	969	523
Total liabilities	167,120	140,343
Stockholders' equity:		
Common stock, par value $1.00 per share; 10,000,000 shares authorized; shares issued and outstanding 2005 1,984,370; 2004 1,458,835	1,984	1,459
Surplus	13,837	9,987
Accumulated deficit	(51)	(963)
Accumulated other comprehensive income (loss)	(267)	11
Total stockholders' equity	15,503	10,494
Total liabilities and stockholders' equity	$182,623	$150,837

See Notes to Financial Statements

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

Years Ended December 31, 2005 and December 31, 2004

	Common Stock	Surplus	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total
			(dollar amounts in thousands)		
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
Comprehensive income:					
Net income	**-**	**-**	**912**	**-**	**912**
Change in net unrealized gains (losses) on securities available for sale	**-**	**-**	**-**	**(278)**	**(278)**
Total comprehensive income					**634**
Issuance of 525,535 shares of common stock	**525**	**3,850**	**-**	**-**	**4,375**
Balance, December 31, 2005	**$1,984**	**$13,837**	**$(51)**	**$(267)**	**$15,503**

See Notes to Financial Statements

STATEMENTS OF CASH FLOWS

Years Ended December 31,	2005	2004
	(in thousands)	
Cash Flows from Operating Activities		
Net income	**$ 912**	$ 803
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	**282**	275
Provision for depreciation and amortization	**287**	248
Net amortization of securities premiums and discounts	**28**	(33)
Net realized gain on sale of securities	**-**	(77)
Net realized gain on sale of foreclosed real estate	**-**	(41)
Increase in accrued interest receivable and other assets	**(700)**	(232)
Increase in accrued interest payable and other liabilities	**446**	114
Net Cash Provided by Operating Activities	**1,255**	1,057
Cash Flows from Investing Activities		
Purchases of securities available for sale	**(21,651)**	(10,036)
Proceeds from maturities, calls and principal repayments on securities available for sale	**5,663**	2,787
Proceeds from sales of securities available for sale	**1,325**	1,395
Purchases of securities held to maturity	**-**	(4,822)
Proceeds from maturities, calls and principal repayments on securities	**-**	-
held to maturity	**439**	61
Net increase in loans	**(22,701)**	(16,572)
Purchases of bank premises and equipment	**(334)**	(655)
Proceeds from sale of foreclosed real estate	**-**	183
Net Cash Used in Investing Activities	**(37,259)**	(27,659)
Cash Flows from Financing Activities		
Net increase in deposits	**28,281**	15,409
Net increase (decrease) in short term borrowed funds	**(1,200)**	6,750
Proceeds from long term borrowed funds	**-**	4,000
Repayment of long term borrowed funds	**(750)**	(1,750)
Proceeds from issuance of subordinated debt	**-**	2,000
Proceeds from issuance of common stock	**4,375**	1,115
Net Cash Provided by Financing Activities	**30,706**	27,524
Net Increase (Decrease) in Cash and Cash Equivalents	**(5,298)**	922
Cash and Cash Equivalents - Beginning	**8,857**	7,935
Cash and Cash Equivalents - Ending	**$ 3,559**	$ 8,857
Supplementary Cash Flows Information		
Interest paid	**$ 3,851**	$ 2,442
Income taxes paid	**$ 150**	-
Supplemental Schedule of Noncash Investing and Financing Activities		
Other real estate acquired in settement of loans	**-**	$ 200

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 SIGNIFICANT 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, the valuation of deferred tax assets, and determination of other-than-temporary impairment losses.

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 well secured. When a loan is placed on nonaccrual status, unpaid interest credited to income is reversed. Interest received on nonaccrual loans is applied against principal until all principal has been repaid. Thereafter, interest payments are recognized as income until all unpaid

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

interest has been received. Generally, loans are restored to accrual status when the obligation is brought current, has performed in accordance with the contractual terms for a minimum of six months 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 reasonably anticipated. Management's periodic evaluation of the adequacy of the allowance is based on the Bank's past loan loss experience, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral, composition of the loan portfolio, current economic conditions and other relevant factors. This evaluation is inherently subjective as it requires material estimates that may be susceptible to significant 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 on historical loss experience adjusted for qualitative factors. An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

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

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

Significant Group Concentrations of Credit Risk

Most of the Bank's activities are with customers located in southeastern Pennsylvania. Note 3 discusses the types of securities that the Bank invests in. Note 4 discusses the types of lending in which the Bank engages. 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 pledge or exchange the transferred assets, and (3) the Bank does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Foreclosed Real Estate

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

NOTE 2 ! SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Foreclosed real estate is included in other assets.

Bank Premises and Equipment

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

	Years
Leasehold improvements	3 ! 22
Furniture, fixtures and equipment	5 ! 10
IT equipment and software	3 ! 5

Advertising Costs

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

Net Income per Share

Basic income per share represents net income divided by the weighted-average number of common shares outstanding during the period. Diluted income per share reflects additional common shares that would have been outstanding if dilutive potential common shares (stock options) had been issued, as well as any adjustments to income that would result from the assumed issuance. The effect of stock options was not dilutive for any periods presented. The weighted-average number of shares of common stock outstanding was 1,595,890 and 1,385,911 in 2005 and 2004, respectively.

Income Taxes

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

Stock Based Compensation

The Bank accounts for its stock option plans under the recognition and measurement principles of APB Opinion No. 25, *Accounting for Stock Issued to Employees*, and related interpretations. No stock-based employee compensation cost is reflected in net income, as all options granted under the plans had an exercise price equal to the market value of the underlying common stock on the date of grant. The following table illustrates the effect on net income if the Bank had applied the fair value recognition provisions of FASB Statement No. 123, *Accounting for Stock-Based Compensation*, to stock-based compensation for the years ended December 31, 2005 and 2004:

	Years Ended December 31, 2005	2004
	(in thousands, except per share data)	
Net income, as reported	**912**	803
Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	**(57)**	-
Pro forma net income	**855**	803
Pro forma net income per share (basic and diluted)	**0.54**	0.58

The weighted-average fair value for stock options granted during 2005 was $2.80. There were no stock options granted in 2004. The Bank used the Black-Scholes option pricing model using the minimum value method to calculate the grant-date fair value. The following significant weighted-average assumptions were used:

	2005
Risk-free interest rate	**4.39%**
Expected life	**7 years**
Expected volatility	**0.10%**
Expected dividends	**0.00%**

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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reclassifications

Certain amounts reported in the 2004 financial statements have been reclassified to conform with the 2005 presentation. These reclassifications did not impact the Bank's financial position or results of operations.

New Accounting Standards

In December 2003, the Accounting Standards Executive Committee issued Statement of Position 03-3 (SOP 03-3), *Accounting for Certain Loans or Debt Securities Acquired in a Transfer*. SOP 03-3 addresses accounting for differences between contractual cash flows and cash flows expected to be collected from an investor's initial investment in loans or debt securities acquired in a transfer, including business combinations, if those differences are attributable, at least in part, to credit quality. SOP 03-3 is effective for loans and debt securities acquired in fiscal years beginning after December 15, 2004. The Bank adopted the provisions of SOP 03-3 effective January 1, 2005, and the initial implementation did not have a material effect on the Bank's financial position or results of operations.

In December 2004, the Financial Accounting Standards 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 impact of adoption of this statement on the Bank's financial position and results of operations will be determined by share based payments granted in future periods.

In March 2004, the FASB's Emerging Issues Task Force (EITF) reached a consensus on Issue No. 03-1, *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments*. EITF 03-1 provides guidance on other-than-temporary impairment models for marketable debt and equity securities accounted for under SFAS 115 and non-marketable equity securities accounted for under the cost method. The EITF developed a basic three-step model to evaluate whether an investment is other-than-temporarily impaired. In November 2005, the FASB approved the issuance of FASB Staff Position FAS No. 115-1 and FAS 124-1, *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments*. The FSP addresses when an investment is considered impaired, whether the impairment is other-than-temporary and the measurement of an impairment loss. The FSP also includes accounting considerations subsequent to the recognition of an other-than-temporary impairment and requires certain disclosures about unrealized losses that have not been recognized as other-than-temporary. The FSP is effective for reporting periods beginning after December 15, 2005 with earlier application permitted.

In October 2005, the FASB issued FSP FAS 123R-2, *Practical Accommodation to the Application of Grant Date as Defined in FAS 123R* (*FSP 123R-2*). FSP 123R-2 provides guidance on the application of grant date as defined in SFAS No. 123R. In accordance with this standard a grant date of an award exists if a) the award is a unilateral grant and b) the key terms and conditions of the award are expected to be communicated to an individual recipient within a relatively short time period from the date of approval. We will adopt this standard when we adopt SFAS No. 123R, and it will not have a material impact on our financial position or results of operations.

In November 2005, the FASB issued final FASB Staff Position FAS No. 123R-3, *Transition Election Related to Accounting for the Tax Effects of Share-Based Payment Awards*. The FSP provides an alternative method of calculating excess tax benefits (the APIC pool) from the method defined in FAS 123R for share-based payments. A one-time election to adopt the transition method in this FSP is available to those entities adopting FAS 123R using either the modified retrospective or modified prospective method. Up to one year from the initial adoption of FAS 123R or effective date of the FSP is provided to make this one-time election. However, until an entity makes its election, it must follow the guidance in FAS 123R. FSP 123R-3 is effective upon initial adoption of FAS 123R and will become effective for the Bank in fiscal year 2006. The Bank is currently evaluating the potential impact of calculating the APIC pool with this alternative method and has not determined which method the Bank will adopt, nor the expected impact on our consolidated financial position or results of operations.

NOTE 2 ! SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

In May 2005, FASB issued SFAS 154, *Accounting Changes and Error Corrections*. The Statement requires retroactive application of a voluntary change in accounting principle to prior period financial statements unless it is impracticable. SFAS 154 also requires that a change in method of depreciation, amortization, or depletion for long-lived, non-financial assets be accounted for as a change in accounting estimate that is affected by a change in accounting principle. SFAS 154 replaces APB Opinion 20, *Accounting Changes*, and SFAS 3, *Reporting Accounting Changes in Interim Financial Statements*. SFAS 154 will be effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. Management currently believes that adoption of the provisions of SFAS 154 will not have a material impact on the Bank!s financial position or results of operations.

In July 2005, the FASB issued a proposed interpretation of FAS 109, *Accounting for Income Taxes* to clarify certain aspects of accounting for uncertain tax positions, including issues relating to the recognition and measurement of those tax positions. If adopted as proposed, any adjustment required to be recorded as a result of adopting the interpretation would be reflected as a cumulative effect from a change in accounting principle. The Bank is currently in the process of determining the impact of adoption of the interpretation as proposed on the Bank!s financial position or results of operations.

In June 2005, the EITF reached a consensus on Issue No. 05-6, *Determining the Amortization Period of Leasehold Improvements Purchased after Lease Inspection or Acquired in a Business Combination* (EITF 05-6). The guidance requires that leasehold improvements acquired in a business combination or purchased subsequent to the inception of a lease be amortized over the shorter of the useful life of the assets or a term that includes required lease periods and renewals that are reasonably assured at the date of the business combination or purchase. This guidance is applicable only to leasehold improvements that are purchased or acquired in reporting periods beginning after June 29, 2005. The adoption of this pronouncement did not have an impact on the Bank!s financial position or results of operations.

NOTE 3 ! INVESTMENT SECURITIES

The amortized cost and approximate fair value of available for sale and held to maturity securities as of December 31, 2005 and 2004 are summarized as follows:

	December 31, 2005			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in thousands)			
A # '# ' ,(S#'				
U.S. Treasury and government agency	$ 1,872	$ 9	$ (3)	$ 1,878
Mortgage-backed securities	26,921	18	(421)	26,518
Municipal securities	1,903	-	-	1,903
Corporate bonds	750	-	(8)	742
Equity securities	1,847	-	-	1,847
	$ 33,293	$ 27	$ (432)	$ 32,888
'&!(M#! !$				
Mortgage-backed securities	$ 3,375	$ -	$ (23)	$ 3,352
Asset-backed securities	958	-	(1)	957
	$ 4,333	$ -	$ (24)	$ 4,309

NOTE 3 – INVESTMENT SECURITIES (CONTINUED)

	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
Asset-backed securities	978	-	(6)	972
	$ 4,761	$ 121	$ (6)	$ 4,876

The amortized cost and fair value of available for sale and held to maturity securities as of December 31, 2005, 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	**$ 250**	**$ 242**	**$ -**	**$ -**
Due after one year through five years	**1,500**	**1,497**	**-**	**-**
Due after five years through ten years	**872**	**881**	**-**	**-**
Due after ten years	**1,903**	**1,903**	**958**	**957**
	4,525	**4,523**	**958**	**957**
Mortgage-backed securities	**26,921**	**26,518**	**3,375**	**3,352**
Equity securities	**1,847**	**1,847**	**-**	**-**
	$ 33,293	**$ 32,888**	**$ 4,333**	**$ 4,309**

There were no gains or losses on the sale of available for sale securities in 2005. Gross securities gains of $77 thousand were recognized on the sales of available for sale securities in 2004.

The Bank's investments' gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at December 31, 2005 and 2004 are as follows:

	December 31, 2005					
	Less than 12 months		**12 months or more**		**Total**	
	Fair Value	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
A # '# ' ,(S#'			(in thousands)			
U.S. Treasury and government agency	**$ 997**	**$ (3)**	**$ -**	**$ -**	**$ 997**	**$ (3)**
Mortgage-backed securities	**14,994**	**(223)**	**7,515**	**(198)**	**22,509**	**(421)**
Corporate bonds	**242**	**(8)**	**-**	**-**	**242**	**(8)**
Total investment securities available for sale	**16,233**	**(234)**	**7,515**	**(198)**	**23,748**	**(432)**
'&!(M#! !$						
Mortgage-backed securities	**3,352**	**(23)**	**-**	**-**	**3,352**	**(23)**
Asset-backed securities	**-**	**-**	**958**	**(1)**	**958**	**(1)**
Total investment securities held to maturity	**3,352**	**(23)**	**958**	**(1)**	**4,310**	**(24)**
Total investment securities available for sale and held to maturity	**$ 19,585**	**$ (257)**	**$ 8,473**	**$ (199)**	**$ 28,058**	**$ (456)**

	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)			
A # '# ' ,(S#'						
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)
'&!(M#! !$						
Asset-backed securities	972	(6)	-	-	972	(6)
Total investment securities available for sale and held to maturity	$ 6,007	$ (42)	$ 2,934	$ (49)	$ 8,941	$ (91)

These securities have been temporarily impaired due to interest rate changes. At December 31, 2005, there are forty nine available for sale securities and three held to maturity securities in the less than twelve months category. There are twenty-six available for sale securities and one held to maturity security 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, 2005 and 2004 is as follows:

	2005	2004
	(in thousands)	
Commercial	**$ 117,904**	$ 89,978
Residential real estate loans	**5,311**	9,214
Consumer	**16,107**	17,489
Total loans	**139,322**	116,681
Unearned net loan origination costs and fees	**393**	376
Allowance for loan losses	**(1,615)**	(1,376)
Net loans	**$ 138,100**	115,681

NOTE 5 - ALLOWANCE FOR LOAN LOSSES

The changes in the allowance for loan losses for the years ended December 31, 2005 and 2004 are as follows:

	2005	2004
	(in thousands)	
Balance, January 1	**$1,376**	$1,250
Provision for loan losses	**282**	275
Loans charged off	**(44)**	(150)
Recoveries	**1**	1
Balance, December 31	**$1,615**	$1,376

As of December 31, 2005 and 2004, the Bank had impaired loans of $1,849 thousand and $985 thousand, respectively, requiring an allowance for loan losses of $82 thousand and $104 thousand, respectively. During 2005 and 2004, the average recorded investment in these impaired loans was $1,906 thousand and $1,020 thousand, respectively, and the interest income recognized on impaired loans was $118 thousand and $88 thousand, respectively.

Loans on which the accrual of interest has been discontinued amounted to $840 thousand and $259 thousand at December 31, 2005 and 2004, 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, 2005 and 2004.

NOTE 6 - BANK PREMISES AND EQUIPMENT

The components of bank premises and equipment at December 31, 2005 and 2004 are as follows:

	2005	2004
	(in thousands)	
Leasehold improvements	**$1,382**	$1,323
Furniture, fixtures and equipment	**559**	506
IT equipment and software	**1,012**	847
Automobiles	**24**	-
Construction in process	**43**	10
	3,020	2,686
Less accumulated depreciation	**1,586**	1,299
	$1,434	$1,387

NOTE 7 - DEPOSITS

The components of deposits at December 31, 2005 and 2004 are as follows:

	2005	2004
	(in thousands)	
Demand, non-interest bearing	**$17,458**	$14,493
Demand, interest bearing	**15,142**	8,509
Savings	**23,157**	35,823
Time, $100,000 and over	**30,905**	11,915
Time, other	**57,939**	45,580
Total deposits	**$144,601**	$116,320

At December 31, 2005, the scheduled maturities of time deposits are as follows (in thousands):

2006	**$71,230**
2007	**11,261**
2008	**3,841**
2009	**1,430**
2010	**1,082**
	$88,844

Included in time deposits, $100,000 and over, at December 31, 2005 and 2004 are public fund certificates of deposit of $12.1 million and $0, respectively. These certificates of deposit have a maturity of less than one year.

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. The Bank also leases a potential branch or loan production office site: it is under an operating lease agreement which expires August 2010.

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

	(in thousands)
2006	**$ 425**
2007	**439**
2008	**445**
2009	**165**
2010	**60**
	$ 1,534

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

Rent expense, which includes reimbursements to the lessor for real estate taxes, was approximately $386 thousand and $282 thousand for the years ended December 31, 2005 and 2004, respectively.

NOTE 9 - OTHER BORROWINGS AND SUBORDINATED DEBT

At December 31, 2005, the Bank had long-term and short-term advances from the Federal Home Loan Bank totaling $6,500 thousand and $13,050 thousand, respectively with an average interest rate of 3.94% and 4.12%, respectively. 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.

The contractual maturities of fixed rate long-term advances at December 31, 2005 are as follows:

	2005 (in thousands)
2007	750
2008	750
2009	4,000
2010	-
2011	-
2012 and thereafter	1,000
	$6,500

The Bank has a total borrowing capacity with the Federal Home Loan Bank of approximately $96.1 million. The public fund certificates of deposit discussed in Note 7, are backed by a letter of credit issued at the Federal Home Loan Bank. 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, 2005, the quarterly rate was 6.94%. 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, 2005 and 2004 were approximately $30 thousand and $23 thousand, respectively.

NOTE 11 - STOCKHOLDERS! EQUITY

During 2005, the Bank raised $4,375 thousand in capital through the sale of 525,535 shares of common stock at an average price of $8.81 per share, net of $253 thousand of offering expenses.

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

NOTE 12 - COMPREHENSIVE INCOME

Accounting principles generally accepted in the United States of America 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 (losses), net of gains included in net income, on securities available for sale.

	Years Ended December 31, 2005 (in thousands)	2004
Unrealized holding losses on available for sale securities	$ (421)	$(51)
Reclassification adjustment for gains realized in income on available for sale securities	-	77
Net unrealized losses	(421)	(128)
Income tax effect	143	44
Net of tax amount	$ (278)	$ (84)

NOTE 13 - STOCK OPTION PLAN

During 2004, the stockholders of the Bank approved the 2004 Incentive Equity and Deferred Compensation Plan ("Plan"), the purpose of which is to promote the success and enhance the value of the Bank by linking the personal interests of the members of the Board of Directors and the Bank's employees, officers and executives to those of the Bank's stockholders and by providing such individuals with an 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. Stock options granted normally vest over three years.

The Plan is administered by the Compensation Committee of the Board of Directors. It provides for the grant of options, some or all of which may be structured to qualify as Incentive Stock Options if granted to employees, and for the grant of stock appreciation rights ("SARS"), restricted stock and unrestricted stock up to a total of 200,000 shares of Common Stock. The Plan replaces the Stock Option Plan approved in 1997 ("1997 Plan"), which provided for an aggregate of 112,500 shares of common stock to be granted.

Under the 1997 Plan, the Bank, in connection with 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 share and will expire ten years from the date the Bank received its charter. In addition, the Bank granted to two of its executive officers stock options to purchase 11,875 shares of common stock at $8.80 per share which expire ten years from the date the Bank received its charter. The remaining 39,875 shares of Common Stock otherwise available under the 1997 Plan ceased to be available for grant when the new Plan was approved.

The following summarizes changes in stock options outstanding under the 2004 Incentive Equity and Deferred Compensation Plan and the 1997 Stock Option Plan for the years ended December 31, 2005 and 2004.

	2005		2004	
	Number Of Options	**Wtd Avg Exercise Price**	Number Of Options	Wtd Avg Exercise Price
Outstanding at January 1	**72,625**	**8.80**	72,625	8.80
Granted 12/20/05	**29,850**	**11.00**	-	-
Granted 12/30/05	**22,350**	**10.25**	-	-
Exercised	**-**	**-**	-	-
Forfeited	**-**	**-**	-	-
Outstanding at December 31	**124,825**	**9.59**	72,625	8.80
Exercisable at December 31	**102,475**	**9.44**	72,625	8.80

The weighted-average remaining contractual life of the above options is approximately 5.1 years.

NOTE 14 - FEDERAL INCOME TAXES

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

	2005	2004
	(in thousands)	
Current	**$ 433**	$ 295
Deferred	**(370)**	-
Benefit from the utilization of net operating loss carryforwards	**(30)**	(295)
	$ 33	$ -

NOTE 14 - FEDERAL INCOME TAXES (CONTINUED)

The components of the net deferred tax asset (liability) at December 31, 2005 and 2004 are as follows:

	2005	2004
	(in thousands)	
Deferred tax assets:		
Allowance for loan losses	**$ 549**	$ 468
Other	**-**	19
Net unrealized losses on securities	**138**	-
Net operating loss carryforwards	**-**	30
	687	517
Valuation allowance	**-**	307
Total deferred tax assets, net of valuation allowance	**687**	210
Deferred tax liabilities:		
Bank premises and equipment	**(16)**	(32)
Cash basis conversion	**(133)**	(178)
Net unrealized gains on securities	**-**	(6)
Total deferred tax liabilities	**(149)**	(216)
Net deferred tax asset/liability	**$ 538**	$ (6)

The Bank determined that it was not required to establish a valuation allowance for deferred tax assets at December 31, 2005 since it is more likely than not that the deferred tax asset will be realized through future reversals of existing taxable temporary differences and to a lesser extent, future taxable income.

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, 2005 and 2004, related party loans totaled approximately $3,285 thousand and $2,506 thousand, respectively. During 2005, new loans and advances to such related parties totaled $1,893 thousand and repayments totaled $1,114 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 sheets.

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, 2005 and 2004, the following financial instruments were outstanding whose contract amounts represent credit risk:

	2005	2004
	(in thousands)	
Commitments to fund loans	**$ 4,388**	$ 1,980
Unfunded commitments under lines of credit	**28,950**	25,301
Letters of credit	**346**	389

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements.

Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. The Bank evaluates each customer!s credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank upon extension of credit, is based on management!s credit evaluation. Collateral held varies but may include personal or commercial real estate, accounts receivable, inventory and equipment.

Outstanding letters of credit written are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. The majority of these standby letters of credit expire within the next twelve months. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending other loan commitments. The Bank requires collateral supporting these letters of credit as deemed necessary. Management believes that the proceeds obtained through a liquidation of such collateral would be sufficient to cover the maximum potential amount of future payments required under the corresponding guarantees. The current amount of the liabilities as of December 31, 2005 and 2004 for guarantees under standby letters of credit issued is not material.

NOTE 17 - REGULATORY MATTERS

The Bank is required to maintain reserves, in the form of cash and balances with the Federal Reserve Bank, against its deposit liabilities. The approximate amount of required reserves at December 31, 2005 was $49 thousand and at December 31, 2004 it was approximately $25 thousand.

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

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth below) of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets and of Tier 1 capital to average assets. Management believes, as of December 31, 2005 and 2004, that the Bank meets all capital adequacy requirements to which it is subject.

As of December 31, 2005, 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 the Bank's category.

The Bank's actual capital amounts and ratios at December 31, 2005 and 2004 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, 2005:						
Total capital (to risk weighted assets)	**$19,385**	**14.6 %**	≥ **$10,612**	≥ **8.0 %**	≥ **$13,265**	≥ **10.0 %**
Tier 1 capital (to risk weighted assets)	**15,770**	**11.9**	≥ **5,306**	≥ **4.0**	≥ **7,959**	≥ **6.0**
Tier 1 capital (to average assets)	**15,770**	**8.9**	≥ **7,073**	≥ **4.0**	≥ **8,841**	≥ **5.0**
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

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 fair value of the Bank's financial instruments; however, there are inherent weaknesses in any estimation technique. Therefore, for substantially all financial instruments, the fair value estimates herein are not necessarily indicative of the amounts the Bank could have realized in a sales transaction on December 31, 2005 or 2004. The estimated fair value amounts have been measured as of December 31, 2005 and 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, 2005 and 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 limited portion of the Bank's assets and liabilities.

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

Due to a wide range of valuation techniques and the degree of subjectivity used in making the estimates, comparisons between the Bank!s disclosures and those of other companies may not be meaningful. The following methods and assumptions were used to estimate the fair value of the Bank!s financial instruments at December 31, 2005 and 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.

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

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

The carrying amounts and estimated fair values of the Bank!s financial instruments at December 31, 2005 and 2004 were as follows:

	December 31,			
	2005		2004	
	Carrying	Fair Value	Carrying	Fair Value
	(in thousands)			
Assets:				
Cash and cash equivalents	**$ 3,559**	**$ 3,559**	$ 8,857	$ 8,857
Securities available for sale	**32,888**	**32,888**	18,685	18,685
Securities held to maturity	**4,333**	**4,309**	4,761	4,876
Loans receivable, net	**138,100**	**135,892**	115,681	114,815
Accrued interest receivable	**1,091**	**1,091**	763	763
Liabilities:				
Deposits	**144,601**	**144,003**	116,320	116,029
Borrowings	**21,550**	**21,470**	23,500	23,705
Accrued interest payable	**373**	**373**	244	244
Off-balance sheet financial				
Commitments to extend credit and letters of credit	-	-	-	-

Corporate Information

Board of Directors

Kenneth B. Mumma
Chairman & Chief Executive Officer

John Alexandra

Joseph I. Bishop

Stanley J. Conover

Christine M. Huston

William Kronenberg, III

Mary MacKinnon

James W. McKeighan, III

John J. Sickler

T. Lawrence Way

Executive Officers

Kenneth B. Mumma
Chairman & Chief Executive Officer

James W. McKeighan, III
President

John Alexandra
Vice Chairman

Officers

Carole M. Agresta
Banking Officer

Janet M. Batten
Operations Officer

Cesidia A. Cauler
Assistant Vice President

Doan M. Dang
Banking Officer

Michael J. Doyle Sr.
Vice President

Sue Ann Erb
Banking Officer

Edward J. Gallagher
Senior Vice President

John S. Gerhart
Vice President

Richard G. Hood
Vice President

John A. Hufford, III
Vice President

Kaye R. Jordan
Assistant Vice President

Nanette J. Medina
Assistant Vice President

Robert G. Philips
Senior Vice President

Justin R. Power
Senior Vice President

Joseph M. Swarr
Assistant Vice President

Robert S. Ward
Vice President

Erwin K. Wenner
Vice President

Kathleen A. Wolfe
Vice President

Staff

Jennifer R. Adams

Norma I. Berrios

Carolyn L. Colsher

Ilir Demollari

Jennifer T. Duppel

Carla T. Edlund

Angelia E. Epps

Denise V. Gatlin

Ruth L. Hammers

Joan A. Higgins

Theresa Ivanowicz

Jami L. Kelso

Kathleen Kennedy

Theresa T. Kochel

Monica A. Kopacz

Kristen M. Madsen

Lauren N. Mandrusiak

Angelina S. Oh

Michael B. Patton

Lauren J. Peto

Dana L. Reinhart

Deena M. Reynolds

Jason R. Siderio

Elaine K. Snyder

Michael C. Stick

Michele E. Touhey-Wilkinson

Brenton G. Wallace, Jr.

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Wayne

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Phone: 610.995.0040 • Fax: 610.995.0043

Coming soon:

Malvern/Frazer

Lincoln Court Shopping Center
Lancaster Avenue, Malvern, PA 19355
Phone: 610.251.7000

Website: www.NewCenturyBank.com
Telephone banking:
610.935.1983 or 800.849.4809

Independent Auditors
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For other investor information, please contact:
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Annual Meeting of Shareholders 2006
Wednesday, May 17, 2006
The Farmhouse at People's Light &
Theatre Company, 39 Conestoga Road,
Malvern, PA 19355

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When you visit our Newtown Square office, you'll meet Jay Power, Senior Vice President, who is joined by Mike Doyle, branch manager and retail manager of our growing branch network. In Wayne, stop by and say hello to Dick Hood, Vice President.

Together, with Jim McKeighan, President of New Century Bank, they are all ready today to help you analyze your business banking needs, and keep more of your money where it belongs . . . in your business.

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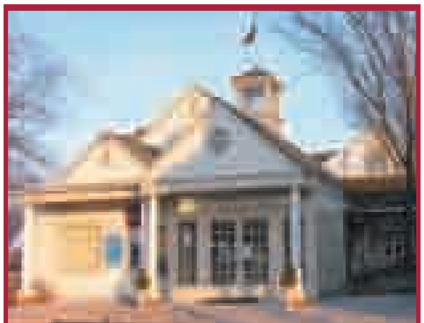

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