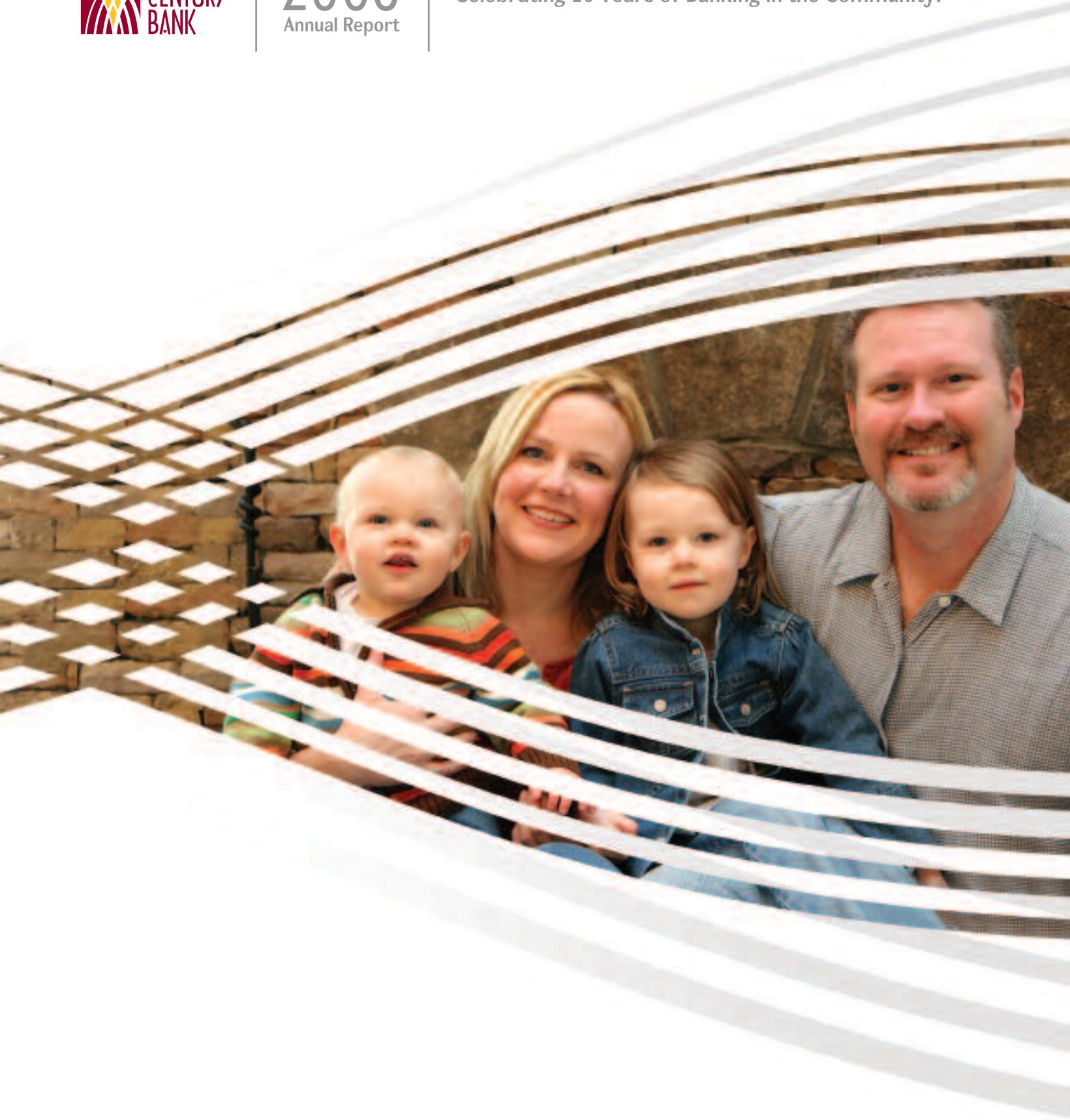




2006
Annual Report

Celebrating 10 Years of Banking in the Community.





INNOVATIVE BANKING

from people who live and work in your community.

New Century Bank delivers the old idea of a

COMMUNITY BANK

while breaking ground with new solutions to a community of customers.



INVESTING...
in community.



GOOD PEOPLE. BETTER BANKERS.™



Kenneth B. Mumma
Chairman and Chief Executive Officer

TO OUR SHAREHOLDERS, CUSTOMERS AND COMMUNITY

2006 was a remarkable year of growth for New Century Bank. At 28%, total asset growth was the strongest since our early years. Net loans also grew 28%, and deposits 26%. This growth trend continues and we do not expect it to end at any time soon.

As we move toward our 10th anniversary, the real story – the one that excites all of us – is the one lying behind the numbers, behind our recent years' growth, behind our high expectations for the future, and even behind the selective branch franchise we have developed over the last 9½ years. And that is the story of the people, the brand and the reputation we have been able to cultivate. New Century Bank's reputation lives in the people we have gathered, and our reputation breathes life into our brand.

We have cultivated a culture that values service above all – service to customers, service to associates and service to community. We have attracted a staff that understands that we have our biggest impact through the loans that we make. We have cultivated a dynamic loan generating culture – our key asset – from our front line all the way through our servicing and accounting departments. We measure our impact with relationships built and community development results.

We also measure our impact with growth of our income and shareholder value. As a result of achieving positive retained earnings in 2006, our net income was down significantly from 2005 as we paid income taxes for the first time. Net income before taxes remained relatively flat from 2005 to 2006.

2006 confronted New Century Bank and the community banking industry as a whole with significant challenges. Few of us anticipated a protracted flat to inverted yield curve, with its significant negative impact on net interest margins. Our challenge is to maintain our excellent growth trend, critical to the Bank's long term prospects, even though profitability is strained at the margin.

Note that I speak of this challenge in the present because, like many others, we do not anticipate, nor can we rely on, a significant change in the yield curve over the near term. We are in the process of exploring and implementing strategies to shift our balance sheet to a less rate sensitive position. We are focusing on our margin, not just absolute income growth. Though changes to our balance sheet may occur relatively quickly, they will take time to yield bottom line results. 2007 will, again, be a challenging year for earnings.



“New Century Bank’s reputation lives in the people we have gathered, and our reputation breathes life into our brand.”

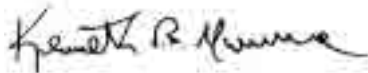
I'm glad to be able to report that, despite the extensive media coverage of the California mortgage lender New Century Financial, we have been able to maintain the confidence of our customers by taking steps to reassure them that we are a healthy, well-capitalized community Bank they can trust; and that, despite the name similarity, we have no affiliation whatsoever with the California lender.

“We have cultivated a culture that values service above all – service to customers, service to coworkers and service to community.”

The long term view, the one we are committed to, demands that we do not compromise the healthy, growing organization we have built. As we prepare to celebrate our tenth anniversary this June, we look back on a decade of robust and steady growth, of establishing the Bank's name and reputation, of building a highly skilled team of associates, with an effective and appreciated tradition of personal customer service.

We now look forward to our next decade, for we believe New Century Bank has established a solid foundation for the future. We see this as a future that will reward our associates, our communities and you, our shareholders, who make all this possible.

Sincerely,



Kenneth B. Mumma
Chairman and Chief Executive Officer



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TEN years

In 2007, New Century Bank reaches yet another milestone with the celebration of our tenth anniversary. Now, with four branches in Chester County and surrounding counties, and an asset base of a quarter of a billion dollars, we reflect on what have been ten very full years of growth for the independent, community Bank – a growth paralleled in the communities we serve.

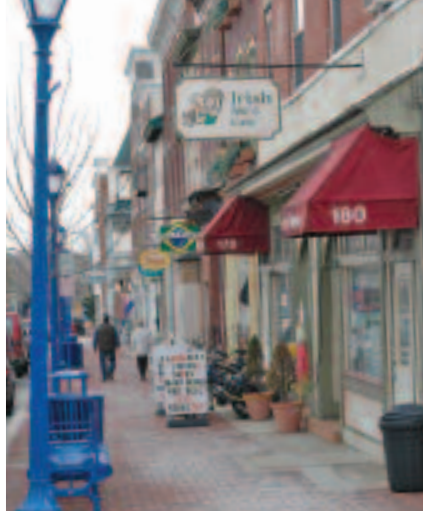
Fostering the development of our communities has been an integral part of the New Century Bank mission since we opened our first branch in 1997. We are proud to have witnessed the positive growth of the communities in and around Wayne, Malvern, Newtown Square, and particularly Phoenixville, Pennsylvania.

The much publicized and well-deserved rebirth that the town of Phoenixville has undergone during the last ten years is due to a widespread community effort. New Century Bank is proud to be a part of that community contributing to Phoenixville's rebirth. The town has truly begun 'rising from the ashes.' It's an exciting time to be a community bank in a reviving steel town.

As New Century Bank celebrates its tenth anniversary, we continue to support Phoenixville's exciting renewal as well as all of the other special communities in which we conduct business. Currently centered on the outskirts of the Phoenixville Borough, New Century Bank now plans to locate its corporate headquarters to downtown Phoenixville,

together with an additional branch. The newly constructed Gateway Building at the corner of Bridge and Starr Streets will become the New Century Bank Building and will serve as a Borough landmark for the community and the Bank.





BRIDGE STREET, THE TOWN'S MAIN THOROUGHFARE,

with its improved infrastructure, streetscapes, lighting and building facades, a variety of new, compelling restaurants, cultural venues, entertainment choices and Phoenixville's First Fridays program, has become a symbol of the Borough's rebirth. Looking back on the past ten years, one can survey Phoenixville's growth, particularly along Bridge Street, and identify many ventures for which New Century has provided financing.

Among the Bridge Street commercial ventures that New Century Bank has helped make possible are facilities for the Village Arts Center and many of the new restaurants and shops that are contributing to the distinct personality of the new Phoenixville.

Non-profit organizations receiving the Bank's support include the Good Samaritan Men's Shelter on Phoenixville's North Side. In addition to direct financing, the Bank has provided the Good Samaritan Shelter significant direct support as the lead sponsor of its annual fundraising dinner, an event that raises half of the shelter's annual budget.

Newtown Square, home to New Century Bank's second branch, is also a community that has been undergoing significant change over the past decade, as it slowly transforms from a suburban community with plentiful open space into a higher density region with numerous upscale commercial and retail ventures. This change clearly presents major opportunities. But, as with many similar suburban communities, these opportunities are inevitably accompanied by the challenge to successfully manage growth. As a business, New Century Bank faces these same opportunities and challenges, alongside the communities that we support.

New Century Bank's Main Line locations in the communities of Malvern and Wayne mirror, in many ways, the changes happening in Phoenixville and Newtown Square. There is rebirth and growth but, with those transformations come personality shifts from bedroom suburbs to thriving small business zones, sizable corporate centers and tangible residential growth.

A DECADE OF GROWTH

In both the for-profit and not-for-profit arenas, a number of entities throughout New Century Bank's service region are addressing significant growth opportunities and challenges. From construction companies upgrading mid-century buildings and companies that foster job creation, to religious, cultural and civic organizations dedicated to strengthening our communities' social fabric, New Century Bank has an explicit commitment to support local growth and opportunity.

New Century Bank's history is accompanied by examples of supporting enterprises that positively impact the community. The Bank has provided financing to a Chester County organic foods company to expand into a small chain of retail stores; financing for improvements and growth to AME, Baptist, Catholic and Presbyterian churches; financing to an organization serving individuals suffering from autism to supplement the purchase of a residential facility.



GIVING BACK EVEN MORE

New Century Bank is also collaborating with organizations to support the healthy development of our urban and rural communities. While wholeheartedly supporting the renewal of urban centers like Phoenixville, we recognize the potential challenges posed by indiscriminate development. Hence, for example, New Century Bank has partnered with the French and Pickering Creeks Conservation Trust, an organization dedicated to preserving open space in Chester County. We have also provided financing to Camphill Special Schools to purchase land to be farmed organically, as part of an educational transition program for developmentally disabled young people.

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Focus on Phoenixville: Comm

Every year, in the darkest days of December, Phoenixville, Pennsylvania – home to New Century Bank – lights up during celebration of the unique Firebird Festival. The focus of this festival is the ceremonial burning of the Phoenix, a mythical sunbird that lived for at least 500 years – in this case a beautiful wood sculpture rebuilt each year to symbolize resurrection and renewal. As legend has it, at the end its very long life, the Phoenix builds its own pyre and is consumed by sacred flames as a new Phoenix is born from the ashes. What prophetic symbolism for a small town on the road to rebirth!



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In 1783, before Phoenixville was, an iron works stood on the banks of the Schuylkill River. Looking at his furnaces from a nearby hillside one evening, so they say, the owner saw a phoenix in the flames, inspiring him to name his company the Phoenix Works. Following its incorporation in 1849, the community surrounding the factory became known as Phoenixville.

For a time the company and its community flourished. The first shot fired in the Battle of Gettysburg – and many thereafter – was from one of the 1,400 Griffen cannons made at the Phoenix Iron Works. The war

years brought many contracts for the highly successful gun but the success of the cannon was soon to be supplemented by another local invention at the mill. The fabrication, sale and utilization of the famous Phoenix Column, invented by Samuel Reeves, for whom a town park is named, “put Phoenixville on the map.”

In 1909, the Iron Works fabricated the Manhattan Bridge in New York City; and, a decade after World War II, some forty-six of the New York State Thruway bridges. Other industries also sprang up, among them a boiler works, a silk mill, a match factory, and underwear and hosiery factories. Meanwhile, the

Community

Rising from the Ashes

Colonial Theatre, opened in 1903, became home to live stage shows, vaudeville acts and musicals, including performances by world famous artists like Harry Houdini and Mary Pickford.

As with many Pennsylvania steel towns, however, the prosperity was not to last. Crippled by foreign competition, the steel works closed in the early 1980s and, losing its major employer, the town went through a period of decline. As the once-proud city of America's manufacturing belt became part of its emerging rust-belt, the steel property, with its dilapidated, rusting buildings, including the decaying Foundry building, dominated the heart of the town. The legendary Phoenix had been committed to the flames.

Fortunately, an instrumental number of individuals and organizations were actively committed to revitalizing the town, confident that, with the dawn of a new century, the Phoenix could be reborn from the ashes. True to our name – and our mission to foster well-being in the communities we serve – New Century Bank was among the visionaries focused on the town's renaissance.

Phoenixville's "Foundry Building," reborn.



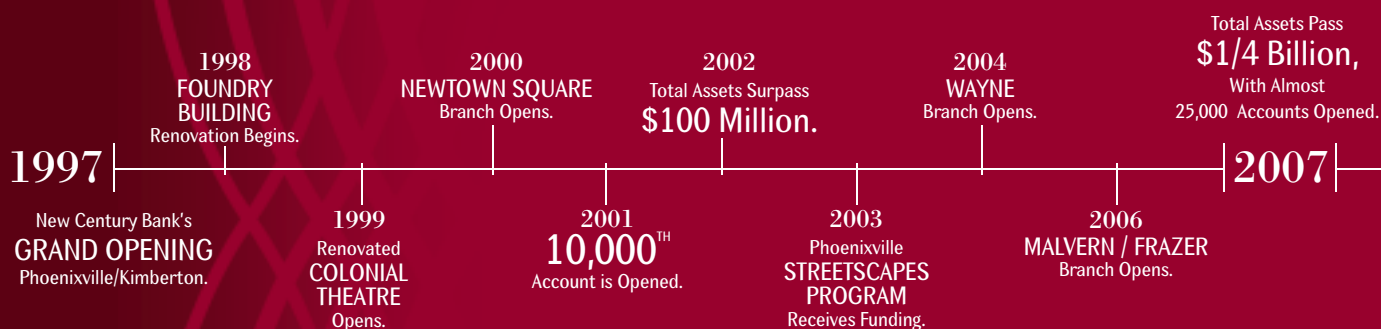
Since the dawn of the newest century, the results of various efforts to revitalize Phoenixville are sharpening in focus and becoming more clearly visible. The ongoing renovation of the Colonial Theatre, the renewal of downtown streetscapes, the new businesses and restaurants along Bridge Street, increased residential housing, elevating real estate values and, most poignantly, in the refurbished Foundry Building are all shining examples of Phoenixville's rebirth.

Like its mythical namesake, Phoenixville is truly rising from the ashes. And New Century Bank is there to encourage flight.

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10 Years & 10 Milestones



FINANCIAL HIGHLIGHTS

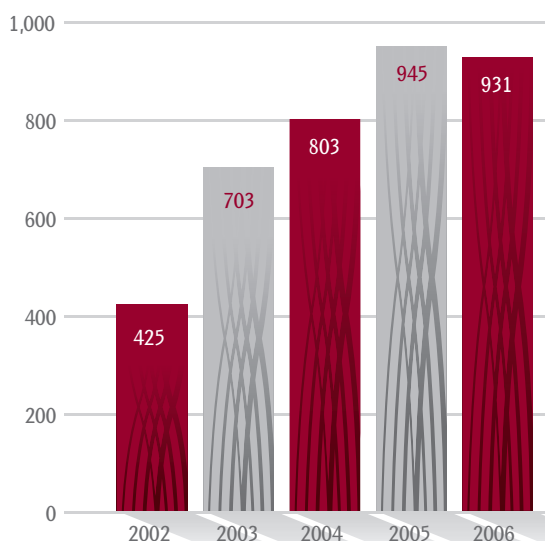
Dollar amounts in thousands except per share data.

	2006	2005	2004	2003	2002
For The Year					
Net interest income	\$ 6,456	\$ 5,491	\$ 4,586	\$ 4,074	\$ 3,240
Other income	479	385	422	346	246
Other expenses	5,588	4,649	3,930	3,437	2,860
Income before taxes	931	945	803	703	425
Net income	656	912	803	703	425
Earning per share	\$0.33	\$0.57	\$0.58	\$0.55	\$0.39

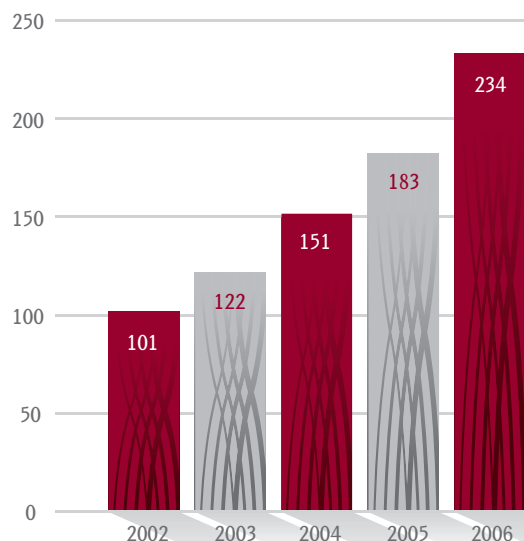
At Year-End					
Total assets	\$ 234,407	\$ 182,623	\$ 150,837	\$ 122,480	\$ 101,352
Net loans	176,147	138,100	115,681	99,584	82,843
Deposits	182,433	144,601	116,320	100,911	90,167
Stockholders' equity	16,239	15,503	10,494	8,660	7,774

Selected Ratios & Per Share Data					
Return on average assets	0.32%	0.56%	0.61%	0.65%	0.45%
Return on average equity	4.17%	7.67%	8.38%	8.59%	7.02%
Book value per share	\$ 8.18	\$ 7.81	\$ 7.19	\$ 6.61	\$ 6.07
Weighted average common shares outstanding	1,984,370	1,595,890	1,385,911	1,288,839	1,080,237

Income Before Taxes (in thousands)



Total Assets (in millions)



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

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.

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, one on Lancaster Avenue in Wayne, Delaware County, PA, in 2005, and one on Lancaster Avenue in Malvern, Chester County, PA, in 2006. The Bank plans to move its executive and administrative office to downtown Phoenixville, Chester County, PA, in the second quarter of 2007. There will also be a branch at this site.

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. In 2006, the President signed "The Federal Deposit Insurance Reform Act of 2005" (Act). The Act merged the Bank Insurance Fund (the fund the Bank was formally insured by) and the Savings Association Insurance Fund into the Deposit Insurance Fund (DIF). The Act increased the coverage limit for retirement accounts to \$250,000; established a range for the FDIC Board of Directors to set the Designated Reserve Ratio; allowed the FDIC to manage premium rates within this range; granted the FDIC Board the discretion to price deposit insurance according to risk for all insured institutions; granted a one-time initial assessment credit (the Bank is not eligible for this credit because it only applies to banks open before



December, 1996); and required the FDIC to study issues impacting the deposit insurance system. 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 must adopt a restoration plan when the ratio falls below 1.15%. The FDIC has authority to change the assessment rates or charge no assessment whenever the ratio of its reserves to insured deposits is within the range of 1.15% and 1.50%. The reserve ratio for the BIF stood at 1.21% as of December 31, 2006. The FDIC will assess insurance premiums on all banks in 2007. The Bank paid no FDIC insurance premiums in 2006. 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 41-42.

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 2007 will be at an annual rate of \$0.122 for each \$1,000 of deposits, compared to \$0.124 for the fourth quarter of 2006.

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.

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, fees for services such as wire transfers, safe deposit boxes, commissions on title insurance, and fees for mortgage originations, along with gains (or losses) on securities and other real estate owned 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. Many of the Bank's competitors have greater financial resources, wider geographic presence, 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 425 basis points, from 1.00% in June of 2004 to 5.25% in June of 2006. This has resulted in a corresponding increase between June of 2004 and June of 2006 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. Additionally, the yield curve is relatively flat, that is long term rates are similar to short term rates. The flat yield curve squeezes the Bank's net interest margin by making it harder to price fixed rate loans at a spread over the cost of current funding. As a result, net interest margin decreased during 2006. Management believes that the Bank is well positioned in relation to the impact of future rate changes.

Management plans to open a new branch in downtown Phoenixville during the third quarter of 2007. 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 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 26-43. 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, 2006 and 2005:

	2006 (in thousands, except per share data)	2005
Interest income	\$ 13,917	\$ 9,471
Interest expense	7,461	3,980
Net interest income before provision for loan losses	6,456	5,491
Provision for loan losses	416	282
Net interest income	6,040	5,209
Non-interest income	479	385
Non-interest expense	5,588	4,649
Income before taxes	931	945
Provision for income taxes	275	33
Net Income	\$ 656	\$ 912
Basic earnings per share	\$ 0.33	\$ 0.57
Diluted earnings per share	\$ 0.32	\$ 0.57



The Bank reported income before taxes of \$931 thousand for the fiscal year ended December 31, 2006. This represents a decrease of 2%, or \$14 thousand, when compared to \$945 thousand for the fiscal year ended December 31, 2005. This decline is primarily attributable to the decrease in the Bank's net interest margin to 3.20% from 3.45%. The provision for income taxes was \$275 thousand, an increase of \$242 thousand over \$33 thousand in 2005. On a basic per share basis, the net income was \$0.33 for 2006 compared to \$0.57 for 2005. On a pre-tax basis, basic per share income was \$0.47 for 2006 compared to \$0.59 for 2005. On a diluted per share basis, the net income was \$0.32 for 2006 compared to \$0.57 for 2005. On a pre-tax basis, diluted per share income was \$0.45 for 2006 compared to \$0.59 for 2005. The Bank's return on average assets was 0.32% in 2006 compared to 0.56% in 2005, reflecting the fact that assets grew faster than earnings. The Bank's return on average equity was 4.17% in 2006 compared to 7.67% in 2005. A full year of income taxes in 2006 is the primary reason for this decrease.

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 \$6,456 thousand for the year ended December 31, 2006, compared to \$5,491 thousand for the prior year, an increase of \$965 thousand, or 18%. Interest income on loans, investments and interest earning deposits was \$13,917 thousand in 2006 compared to \$9,471 thousand in 2005, an improvement of \$4,446 thousand or 47%. Meanwhile, interest expense on deposits and borrowed funds was \$7,461 thousand in 2006, up \$3,481 thousand or 87% from \$3,980 thousand in 2005.

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 3.20% in 2006 from 3.45% in 2005. 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 2006, the provision for loan losses, at \$416 thousand, was up 48% or \$134 thousand from \$282 thousand in 2005. This increase is primarily due to increase in loan volume.

NON-INTEREST INCOME

In 2006, non-interest income was \$479 thousand, up 24% or \$94 thousand from \$385 thousand in 2005. Service fees represent the largest component of non-interest income, and

were \$372 thousand in 2006, up \$80 thousand or 27% from \$292 thousand in 2005. This increase is primarily due to larger volume of checking accounts and their related fees.

Other non-interest income, at \$107 thousand, was up \$14 thousand or 15% from \$93 thousand in 2005. This increase is primarily due to the gain on other real estate owned in 2006 and slightly lower mortgage related income.

NON-INTEREST EXPENSES

Total non-interest expenses of \$5,588 thousand in 2006 increased 20% or \$939 thousand over the \$4,649 thousand in 2005. Salaries and employee benefits represent the largest component of non-interest expenses, and were \$2,858 thousand in 2006 compared to \$2,231 thousand in 2005, an increase of 28% or \$627 thousand. This increase was primarily driven by staffing increases needed for the Bank's recent growth and six months of salaries for the Malvern branch that opened in June 2006.

Occupancy expense increased 23% or \$156 thousand to \$847 thousand in 2006 from \$691 thousand in 2005. This increase was primarily due to six months of full expenses for the Malvern Branch.

Technology, communications and bank operations expense increased 10% or \$59 thousand to \$634 thousand in 2006 from \$575 thousand in 2005. This increase is primarily attributable to increased transaction volume and the size of the Bank.

Advertising and promotion expense increased 46% or \$153 thousand to \$486 thousand from \$333 thousand in 2005. This increase is primarily attributable to higher expenditures to attract deposits and the opening of the Malvern Branch.

Other expenses decreased 7% or \$56 thousand to \$763 thousand in 2006 from \$819 thousand in 2005. This decrease is primarily attributable to lower expenses related to OREO properties partially offset by increased professional fees and costs associated with other real estate owned.

INCOME TAXES

The Bank's income tax expense of \$275 thousand for 2006 represents the first time that the Bank has provided for a full year of income taxes. Previously the expense was partially offset by the Bank's net operating loss carryforwards. 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. There were no net operating loss carryforwards for federal income tax purposes at the end of 2005 or 2006. For further information on this topic, see Note 14 of the Audited Financial Statements on page 40.

FINANCIAL CONDITION

GENERAL

The following summary presents highlights of the Bank's financial condition as of December 31, 2006 and 2005:

	2006 (in thousands)	2005
Total assets	\$ 234,407	\$ 182,623
Securities available for sale	46,588	32,888
Securities held to maturity	2,839	4,333
Loans receivable, net	176,147	138,100
Allowance for loan losses	(2,029)	(1,615)
Total deposits	182,433	144,601
Other borrowings	32,750	19,550
Subordinated debt	2,000	2,000
Total stockholders' equity	16,239	15,503

The Bank's total assets were \$234.4 million at December 31, 2006. This represents a 28% increase from \$182.6 million at December 31, 2005. The main components of this change were increased loan and securities volumes. Total liabilities were \$218.2 million at December 31, 2006, up 31% from \$167.1 million at December 31, 2005. The main component of this change was increased deposits and other borrowings. For further information on the Bank's financial condition and each of the items discussed below, including detailed tables setting forth additional financial data, see the Audited Financial Statements.

CASH 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 \$2.6 million at December 31, 2006. This represents a 4% increase from \$2.5 million at December 31, 2005. These balances vary from day to day, primarily due to variations in customers' deposits with the Bank.

INTEREST-BEARING DEPOSITS WITH BANKS

Interest-earning deposits consist mainly of deposits at the Federal Home Loan Bank of Pittsburgh. These deposits totaled \$1.3 million at December 31, 2006. This represents a \$1.2 million increase from \$0.1 million at December 31, 2005. 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 \$0.8 million at December 31, 2006. This represents a 19% decrease from the \$1.0 million at December 31, 2005.

This balance varies from day-to-day, primarily due to variations in the volume of wire transfers processed.

INVESTMENT 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, 2006, \$46.6 million of the Bank's investment securities were classified as AFS. This represents an increase of 42% from \$32.9 million at December 31, 2005. 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, 2006, \$2.8 million of the Bank's investment securities were classified as HTM. This represents a 34% decrease from \$4.3 million at December 31, 2005. 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.

AFS Securities Maturity Schedule	December 31, 2006		December 31, 2005	
	Fair Value (in thousands)	Weighted Average Yield	Fair Value (in thousands)	Weighted Average Yield
Due in one year or less	\$ 997	4.46%	\$ 242	6.00%
Due after one year through five years	1,226	4.51	1,497	4.34
Due after five years through ten years	3,691	6.01	881	4.75
Due after ten years	9,673	4.61	1,903	3.36
	15,587	4.93	4,523	4.10
Mortgage-backed securities	25,827	4.91	26,518	4.44
Asset-backed securities	2,562	6.41	-	-
Equity securities	2,612	5.38	1,847	3.58
Total AFS Securities	\$ 46,588	5.02%	\$ 32,888	4.34%

HTM Securities Maturity Schedule	December 31, 2006		December 31, 2005	
	Amortized Cost (in thousands)	Weighted Average Yield	Amortized Cost (in thousands)	Weighted Average Yield
Due after ten years	-	- %	\$ 958	4.86%
Mortgage-backed securities	2,839	4.62	3,375	5.36
Total HTM Securities	\$ 2,839	4.62%	\$ 4,333	5.25%

	December 31, 2006		December 31, 2005	
	(in thousands)	(in thousands)	(in thousands)	(in thousands)
	Composition of AFS Securities (at Fair Value)		Composition of HTM Securities (at Amortized Cost)	
U.S. Treasury and government agency	\$ 4,710	\$ 1,878	\$ -	\$ -
Mortgage-backed securities	25,827	26,518	2,839	3,375
Asset-backed securities	2,562	-	-	958
Municipal securities	9,383	1,903	-	-
Corporate bonds	1,494	742	-	-
Equity securities	2,612	1,847	-	-
	\$ 46,588	\$ 32,888	\$ 2,839	\$ 4,333

No investment securities were pledged at either December 31, 2006 or December 31, 2005.



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. Construc-

tion 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 2006 or year-end 2005. 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 \$176.1 million at December 31, 2006, an increase of \$38.0 million or 28% from \$138.1 million at December 31, 2005. 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 37.

	2006 (in thousands)	2005
Commercial	\$ 149,574	\$ 117,904
Residential real estate loans	6,585	5,311
Consumer	21,645	16,107
Total loans	177,804	139,322
Unearned net loan origination costs and fees	372	393
Allowance for loan losses	(2,029)	(1,615)
Net loans	\$ 176,147	\$ 138,100

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	
	2006	2005
(in thousands)		
Within 1 year	\$ 39,360	\$39,584
After 1 year but within 5 yrs	60,002	43,906
After 5 yrs but within 15 yrs	37,832	30,695
Over 15 years	40,982	25,530
Total	\$178,176	\$139,715

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 \$416 thousand for the fiscal year ended December 31, 2006, compared to \$282 thousand for the fiscal year ending December 31, 2005. The allowance for loan losses was \$2,029 thousand or 1.14% of total loans at December 31, 2006 and \$1,615 thousand or 1.16% of total loans at December 31, 2005. Net charge-offs were \$2 thousand for the fiscal year ended December 31, 2006, a decrease of 95% or \$41 thousand compared to the \$43 thousand for the fiscal year ending December 31, 2005.

	Allowance for Loan Losses	
	2006 (in thousands)	2005
Balance, January 1	\$ 1,615	\$ 1,376
Provision for loan losses	416	282
Loans charged off	(8)	(44)
Recoveries	6	1
Balance, December 31	\$ 2,029	\$ 1,615

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 \$1,061 thousand at December 31, 2006, compared to \$1,849 thousand at December 31, 2005. Non-accrual loans totaled \$742 thousand at December 31, 2006, down from \$840 thousand at December 31, 2005. The Bank had charge-offs of \$8 thousand in 2006, compared with \$44 thousand in 2005. The Bank had recoveries of \$6 thousand in 2006, compared with \$1 thousand in 2005. There was no Other Real Estate Owned as a result of foreclosure or voluntary transfer to the Bank at December 31, 2006 and \$539 thousand at December 31, 2005. 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, 2006 and 2005, respectively. These amounts represented 0.42% and 0.99%, respectively, of gross loans.

Non-Performing Assets		
	2006	2005
	(in thousands)	
Non-accrual loans	\$ 742	\$ 840
Other real estate owned	-	539
Total	\$ 742	\$ 1,379

Troubled debt restructurings totaled \$672 thousand and \$315 thousand at December 31, 2006 and 2005, 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 workout 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 EQUIPMENT AND OTHER ASSETS

Bank premises and equipment, net of accumulated depreciation, increased to \$1.9 million at December 31, 2006 from \$1.4 million at December 31, 2005. Other Assets remained unchanged at \$2.3 million at December 31, 2006 and 2005.

For further information on our premises and equipment, see Note 6 of the Audited Financial Statements on page 38.

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 \$182.4 million at December 31, 2006, an increase of \$37.8 million or 26% from \$144.6 million at December 31, 2005.

The components of deposits at December 31, 2006 and 2005 are as follows:

	2006 (in thousands)	2005
Demand, non-interest bearing	\$ 20,148	\$ 17,458
Demand, interest bearing	35,143	15,142
Savings	14,178	23,157
Time, \$100,000 and over	47,377	30,905
Time, other	65,587	57,939
Total deposits	\$ 182,433	\$ 144,601

Time deposits increased \$24.1 million or 27% to \$113.0 million at December 31, 2006 compared to \$88.8 million at December 31, 2005. Time deposits of \$100,000 or more were \$47.4 million at December 31, 2006 compared to \$30.9 million at December 31, 2005, an increase of \$16.5 million or 53%. The Bank had no brokered deposits at either December 31, 2006 or 2005. Included in time deposits, \$100,000 and over, at December 31, 2006 are public fund certificates of deposit of \$18.0 million, compared to \$12.1 million at December 31, 2005. During this period, non-interest bearing demand deposits increased \$2.7 million or 15% to \$20.1 million from \$17.5 million. Interest bearing demand deposits increased \$20.0 million or 133% to \$35.1 million from \$15.1 million. Savings deposit accounts decreased \$9.0 million or 39% to \$14.2 million at December 31, 2006 from \$23.2 million.

At December 31, 2006, the scheduled maturities of time deposits are as follows (in thousands):

2007	\$ 103,842
2008	5,905
2009	2,465
2010	590
2011	162
	\$ 112,964

OTHER BORROWINGS

The Bank had other borrowings of \$32.8 million at December 31, 2006, a 68% increase from the \$19.6 million at December 31, 2005. Short-term advances from the Federal Home Loan Bank of Pittsburgh were \$22.0 million at December 31, 2006, a 68% increase from the \$13.1 million at December 31, 2005.

The contractual maturities of long-term advances at December 31, 2006 were as follows:

	(in thousands)
2008	\$ 5,750
2009	4,000
2010	-
2011	-
2012 & Thereafter	1,000
	\$ 10,750

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, 2006 was 8.12%. 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 38-39.

STOCKHOLDERS' EQUITY

Stockholders' equity increased by \$0.7 million or 5% to \$16.2 million at December 31, 2006, from \$15.5 million at December 31, 2005. This increase resulted from net income of \$656 thousand and the change of \$80 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 2006 or 2005. For a more detailed description of the Bank's Stockholders' Equity, see Note 11 of our Audited Financial Statements on page 39.

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, 2006 and 2005.

	2006			2005	
	Number of Options (in thousands)	Wtd Avg Exercise Price		Number of Options (in thousands)	Wtd Avg Exercise Price
Outstanding at January 1	124,825	\$ 9.59	Outstanding at January 1	72,625	\$ 8.80
2006 Grants	-	-	Granted 12/20/05	29,850	11.00
Exercised	-	-	Granted 12/30/05	22,350	10.25
Forfeited	(4,000)	10.82	Exercised	-	-
Outstanding at December 31	120,825	\$ 9.54	Forfeited	-	-
Exercisable at December 31	108,592	\$ 9.42	Outstanding at December 31	124,825	\$ 9.59
			Exercisable at December 31	102,475	\$ 9.44

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, 2006, the Bank's borrowing capacity with the Federal Home Loan Bank of Pittsburgh was \$120.9 million, of which \$32.8 million was used in borrowings and \$27.4 million was used for letters of credit supporting \$18.0 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 \$1.2 million and \$1.3 million for the years ended December 31, 2006 and 2005, respectively. Lower net income, due to an increase in income taxes, was

offset by higher provision for loan losses and provision for depreciation and amortization.

Investing activities used \$51.1 million and \$37.3 million for the years ended December 31, 2006 and 2005, respectively. This increase is primarily due to increased investments in loans and securities in 2006 compared to 2005.

Financing activities provided \$51.0 million and \$30.7 million for the years ended December 31, 2006 and 2005, respectively. The increase was primarily due to increased deposits and short term borrowed funds, offset by no issuance of common stock, in 2006 compared to 2005.

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

CAPITAL ADEQUACY

The Board of Governors of the Federal Reserve System has adopted risk-based capital and leverage ratio requirements for banks like New Century that are members of the Federal Reserve System. The Pennsylvania Department of Banking also sets minimum capital requirements. At December 31, 2006 and December 31, 2005, 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, 2006 and December 31, 2005. Banking regulators have discretion to establish an institution's classi-

fication 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 (in thousands)	Ratio	Amount	Ratio
As of December 31, 2006:						
Total capital (to risk weighted assets)	\$ 20,456	12.4%	≥ \$ 13,245	≥ 8.0%	≥ \$ 16,556	≥ 10.0%
Tier 1 capital (to risk weighted assets)	16,427	9.9	≥ 6,622	≥ 4.0	≥ 9,934	≥ 6.0
Tier 1 capital (to average assets)	16,427	7.2	≥ 9,121	≥ 4.0	≥ 11,401	≥ 5.0
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

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, 2006, there were approximately 299 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 \$9.25 per share during 2006 and at between \$7.50 and \$9.25 per share during 2005. 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.

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, 2006 and December 31, 2005, the following off-balance sheet commitments, financial instruments and other arrangements were outstanding:

	2006	2005
	(in thousands)	
Commitments to fund loans	\$ 437	\$ 4,388
Unfunded commitments under lines of credit	31,941	28,950
Letters of credit	871	346

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.

OTHER OFF-BALANCE SHEET 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, 2006, the Bank's approximate future non-cancellable minimum payments under these leases, by year, were as follows:

Lease Commitments (in thousands)	
2007	\$ 588
2008	653
2009	498
2010	407
2011	352
2012 & Thereafter	4,024
	\$ 6,522

On December 11, 2006, the Bank entered into a lease for corporate offices scheduled to begin on April 1, 2007 and expire on March 31, 2022, with two six year options to extend this agreement. The minimum annual payments under this lease range from \$337,020 at the beginning of the lease and \$414,300 at the end of the initial lease term. The Bank will be receiving sublease payments on its former corporate offices of \$246,930 for the period from July 1, 2007 through January 31, 2009, the remaining term of this lease. The future minimum payments net of this sublease are reflected in the table above.

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, 2007, based upon the assets, liabilities and off-balance sheet financial instruments in existence at December 31, 2006. 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, 2007, resulting from changes in interest rates.

Net Change in Net Interest Income	
Rate Shocks	% Change
Up 3%	-7.5%
Up 2%	-5.5%
Up 1%	-2.9%
Down 1%	0.6%
Down 2%	1.8%
Down 3%	3.1%

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, 2006, resulting from shocks to interest rates.

Percent Change Economic Value of Equity		
Rate Shocks	From Base	EVE Assets
Up 3%	-37.4%	-2.9%
Up 2%	-25.0%	-1.9%
Up 1%	-12.5%	-0.9%
Down 1%	5.1%	0.3%
Down 2%	8.2%	0.5%
Down 3%	8.4%	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 re-price 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, 2006, 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, 2006, 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, 2006	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	\$ 2.1	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2.1
Securities	3.5	2.4	4.5	11.4	8.0	19.6	49.4
Loans receivable	84.7	6.5	7.8	33.0	28.9	15.2	176.1
Total interest earning assets	90.3	8.9	12.3	44.4	36.9	34.8	227.6
Non interest earning assets	-	-	-	-	-	6.8	6.8
Total assets	\$ 90.3	\$ 8.9	\$ 12.3	\$ 44.4	\$ 36.9	\$ 41.6	\$ 234.4
Other interest bearing deposits	\$ 29.1	\$ -	\$ -	\$ -	\$ -	\$ 20.2	\$ 49.3
Time deposits	31.1	28.6	44.1	8.4	0.8	-	113.0
Other borrowings	26.3	0.8	-	4.8	-	0.9	32.8
Subordinated debt	2.0	-	-	-	-	-	2.0
Total interest bearing liabilities	88.5	29.4	44.1	13.2	0.8	21.1	197.1
Non interest bearing liabilities	-	-	-	-	-	21.1	21.1
Stockholders' equity	-	-	-	-	-	16.2	16.2
Total liabilities and equity	\$ 88.5	\$ 29.4	\$ 44.1	\$ 13.2	\$ 0.8	\$ 58.4	\$ 234.4
Interest sensitivity gap	\$ 1.8	(\$ 20.5)	(\$ 31.8)	\$ 31.2	\$ 36.1	(\$ 16.8)	
Cumulative interest sensitivity gap	\$ 1.8	(\$ 18.7)	(\$ 50.5)	(\$ 19.3)	\$ 16.8	\$ -	
Cumulative interest sensitivity gap to total assets	1%	-8%	-22%	-8%	7%	- %	
Cumulative interest earning assets to cumulative interest bearing liabilities	102%	84%	69%	89%	110%	115%	

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 & ESTIMATES

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

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 17-18.

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.

ACCUAL AND RECOGNITION OF INTEREST ON LOANS.

These policies involve significant judgments and assumptions by management, which may have a material impact on the interest income recognized by the Bank from period to period. For a description of the Bank's accounting policies in connection with accrual and recognition of interest on loans, see "Asset Quality" on page 18.

REALIZATION OF DEFERRED INCOME TAX ITEMS.

Estimates of deferred tax assets and deferred tax liabilities make up the asset category titled "Net Deferred Taxes." These estimates involve significant judgments and assumptions by management, which may have a material impact on the carrying value of net deferred tax assets for financial reporting purposes. For a more detailed description of these items and estimates, see Note 14 of the Audited Financial Statements on page 40.

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 35-37.

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 instruments. The estimation methodologies, resulting fair values and recorded carrying amounts at December 31, 2006 and 2005, were as listed in Note 18 of the Audited Financial Statements on pages 42-43.

The Notes to the Bank's Audited Financial Statements, including Note 2 on pages 31-34, identify other significant accounting policies used in the development and presentation of its financial statements. This discussion and analysis, the significant accounting policies, and other financial statement disclosures identify and address key variables and other qualitative and quantitative factors that are necessary for an understanding and evaluation of the Bank and its results of operations.

LEGAL PROCEEDINGS

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



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, 2006 and 2005, and the related statements of income, changes in 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, 2006 and 2005, 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
March 20, 2007

FINANCIAL STATEMENTS – FISCAL YEARS ENDING 2006 AND 2005

STATEMENTS OF INCOME

Years Ended December 31,	2006 (in thousands, except per share data)	2005
INTEREST INCOME:		
Loans receivable, including fees	\$11,709	\$8,053
Securities, taxable	1,870	1,373
Securities, non-taxable	263	1
Other	75	44
Total interest income	13,917	9,471
INTEREST EXPENSE:		
Deposits	5,908	3,035
Other borrowed funds	1,553	945
Total interest expense	7,461	3,980
Net interest income	6,456	5,491
Provision for loan losses	416	282
Net interest income after provision for loan losses	6,040	5,209
OTHER INCOME:		
Service fees	372	292
Other	107	93
Total other income	479	385
OTHER EXPENSES:		
Salaries and employee benefits	2,858	2,231
Occupancy	847	691
Technology, communication and bank operations	634	575
Advertising and promotion	486	333
Other	763	819
Total other expenses	5,588	4,649
Income before taxes	931	945
Provision for income taxes	275	33
Net income	\$ 656	\$ 912
BASIC EARNINGS PER SHARE	\$ 0.33	\$ 0.57
DILUTED EARNINGS PER SHARE	\$ 0.32	\$ 0.57

FINANCIAL STATEMENTS – FISCAL YEARS ENDING 2006 AND 2005

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BALANCE SHEETS

December 31, 2006
(in thousands, except per share data) 2005

ASSETS:		
Cash and due from banks	\$ 2,563	\$ 2,467
Interest earning deposits	1,265	55
Federal funds sold	840	1,037
Cash and cash equivalents	4,668	3,559
Securities available for sale, at fair value	46,588	32,888
Securities held to maturity, at amortized cost fair value 2006 \$2,838; 2005 \$4,309	2,839	4,333
Loans receivable, net of allowance for loan losses 2006 \$2,029; 2005 \$1,615	176,147	138,100
Bank premises and equipment, net	1,867	1,434
Accrued interest receivable and other assets	2,298	2,309
Total assets	\$234,407	\$182,623
LIABILITIES AND STOCKHOLDERS' EQUITY:		
LIABILITIES:		
DEPOSITS:		
Demand, non-interest bearing	\$ 20,148	\$ 17,458
Interest bearing	162,285	127,143
Total deposits	182,433	144,601
Other borrowings	32,750	19,550
Subordinated debt	2,000	2,000
Accrued interest payable and other liabilities	985	969
Total liabilities	218,168	167,120
STOCKHOLDERS' EQUITY:		
Common stock, par value \$1.00 per share 10,000,000 shares authorized; shares issued and outstanding 1,984,370	1,984	1,984
Surplus	13,837	13,837
Retained earnings (accumulated deficit)	605	(51)
Accumulated other comprehensive loss	(187)	(267)
Total stockholders' equity	16,239	15,503
Total liabilities and stockholders' equity	\$234,407	\$182,623

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

Years Ended December 31, 2006 and 2005

	Common Stock	Surplus	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income (Loss)	Total
(in thousands, except per share data)					
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, net of taxes	-	-	-	(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
Comprehensive income:					
Net income	-	-	656	-	656
Change in net unrealized gains (losses) on securities available for sale, net of taxes	-	-	-	80	80
Total comprehensive income					736
BALANCE, DECEMBER 31, 2006	\$1,984	\$13,837	\$605	\$(187)	\$16,239

FINANCIAL STATEMENTS — FISCAL YEARS ENDING 2006 AND 2005

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See Notes to Financial Statements

STATEMENTS OF CASH FLOWS

Years Ended December 31,	2006	2005
	(in thousands,)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 656	\$ 912
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	416	282
Provision for depreciation and amortization	646	287
Net amortization of securities premiums and discounts	33	28
Net realized gain on sale of foreclosed real estate	(24)	-
Increase in accrued interest receivable and other assets	(570)	(700)
Increase in accrued interest payable and other liabilities	16	446
Net Cash Provided by Operating Activities	1,173	1,255
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of securities available for sale	(23,943)	(21,651)
Proceeds from maturities, calls and principal repayments on securities available for sale	8,128	5,663
Proceeds from sales of securities available for sale	2,206	1,325
Proceeds from maturities, calls and principal repayments on securities held to maturity	1,492	439
Net increase in loans	(38,742)	(22,701)
Purchases of bank premises and equipment	(800)	(334)
Proceeds from sale of foreclosed real estate	563	-
Net Cash Used in Investing Activities	(51,096)	(37,259)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in deposits	37,832	28,281
Net increase (decrease) in short term borrowed funds	8,950	(1,200)
Proceeds from long-term borrowed funds	5,000	-
Repayment of long-term borrowed funds	(750)	(750)
Proceeds from issuance of common stock	-	4,375
Net Cash Provided by Financing Activities	51,032	30,706
Net Increase (Decrease) in Cash and Cash Equivalents	1,109	(5,298)
CASH AND CASH EQUIVALENTS - BEGINNING	3,559	8,857
CASH AND CASH EQUIVALENTS - ENDING	\$ 4,668	\$ 3,559
SUPPLEMENTARY CASH FLOWS INFORMATION		
Interest paid	\$ 7,123	\$ 3,851
Income taxes paid	\$ 670	\$ 150

NOTES TO FINANCIAL STATEMENTS —

FISCAL YEARS ENDING DECEMBER 31, 2006 AND 2005

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 and recorded at the trade date. Premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Equity securities include restricted stock of the Federal Reserve Bank and Federal Home Loan Bank, which are carried at cost.

Securities classified as held to maturity are those debt securities the Bank has both the intent and ability to hold to maturity regardless of changes in market conditions, liquidity needs or changes in general economic conditions. These securities are carried at cost, adjusted for the amortization of premium and accretion of discount, computed by a method which approximates the interest method over the terms of the securities.

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 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.

**NOTE 2 –
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

Allowance for Loan Losses

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

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

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 & Equipment	5 - 10
IT Equipment & Software	3 - 5

**NOTE 2 –
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

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 weighted average number of shares of common stock outstanding was 1,984,370 and 1,595,890 in 2006 and 2005, respectively. The weighted average number of dilutive shares was 72,625 and 0 in 2006 and 2005, 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

Prior to January 1, 2006, the Bank's stock option plan was accounted for under the recognition and measurement provisions of APB Opinion No. 25 (Opinion 25), *"Accounting for Stock Issued to Employees,"* and related interpretations, as permitted by FASB Statement No. 123, *"Accounting for Stock Based Compensation."* No stock-based employee compensation cost was recognized in the Bank's statements of income through December 31, 2005, as all options granted under the plan had an exercise price equal to the market value of the underlying common stock on the date of the grant. Effective January 1, 2006, the Bank adopted the fair value recognition provisions of FASB Statement No. 123(R), *"Share Based Payment,"* prospectively. Statement No. 123(R) replaces Statement No. 123, supercedes APB Opinion No. 25 and requires compensation costs related to share-based payment transactions to be recognized in the financial statements over the period that an employee provides service in exchange for the award. Statement No. 123(R) requires that companies that utilized

the minimum value method under Statement No. 123 adopt the new fair value accounting prospectively for new or modified grants on or after January 1, 2006.

Prospective adoption means that awards granted in earlier years continue to be accounted for using the existing accounting, typically APB Opinion No. 25. For the year ended December 31, 2006, there were no options granted.

Off-Balance Sheet Financial Instruments

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

Reclassifications

Certain amounts reported in the 2005 financial statements have been reclassified to conform to the 2006 presentation. These reclassifications did not impact the Bank's financial position or results of operations.

New Accounting Standards

In October 2006, the Financial Accounting Standards Board ("FASB") issued FASB Staff Position No. 123(R)-6, *"Technical Corrections of FASB Statement No. 123(R)"* ("FSP 123(R)-6"). FSP 123(R)-6 amends SFAS No. 123(R) to exempt nonpublic entities from disclosing the aggregate intrinsic value of outstanding fully vested share options (or share units) and share options expected to vest, to revise the computation of minimum compensation cost that must be recognized, to indicate that at the date that the illustrative awards were no longer probable of vesting, any previously recognized compensation cost should have been reversed, and to amend the definition of short-term inducement to exclude an offer to settle an award. The Bank does not expect the adoption of FSP 123(R)-6 to have a material impact on its financial condition, results of operations or cash flows.

In October 2006, the FASB issued FASB Staff Position No. 123(R)-5, *"Amendment of FASB Staff Position FAS123(R)-1"* ("FSP 123(R)-5"). FSP 123(R)-5 amends FSP 123(R)-1 for equity instruments that were originally issued as employee compensation and then modified, with such modification made solely to reflect an equity restructuring that occurs when the holders are no longer employees. The Bank does not expect the adoption of FSP 123(R)-5 to have a material impact on its financial condition, results of operations or cash flows.

In September 2006, the FASB's Emerging Issues Task Force (EITF) issued EITF Issue No. 06-4, *"Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split Dollar Life Insurance Arrangements"* ("EITF 06-4").

**NOTE 2 –
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

EITF 06-4 requires the recognition of a liability related to the postretirement benefits covered by an endorsement split-dollar life insurance arrangement. The consensus highlights that the employer (who is also the policyholder) has a liability for the benefit it is providing to its employee. As such, if the policyholder has agreed to maintain the insurance policy in force for the employee's benefit during his or her retirement, then the liability recognized during the employee's active service period should be based on the future cost of insurance to be incurred during the employee's retirement. Alternatively, if the policy holder has agreed to provide the employee with a death benefit, then the liability for the future death benefit should be recognized by following the guidance in SFAS No. 106 or Accounting Principles Board (APB) Opinion No. 12, as appropriate. For transition, an entity can choose to apply the guidance using either of the following approaches: (a) a change

in accounting principle through retrospective application to all periods presented or (b) a change in accounting principle through a cumulative-effect adjustment to the balance in retained earnings at the beginning of the year of adoption. The disclosures are required in fiscal years beginning after December 15, 2007, with early adoption permitted. The Bank does not believe that the implementation of this guidance will have a material impact on the Bank's financial statements.

In February 2007, the FASB issued SFAS No. 159, *"The Fair Value Option for Financial Assets and Financial Liabilities-Including an amendment of FASB Statement No. 115."* SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value. Unrealized gains and losses on items for which the fair value option has been elected will be recognized in earnings at each subsequent reporting date. SFAS No. 159 is effective for the Bank January 1, 2008. The Bank is evaluating the impact that the adoption of SFAS No. 159 will have on our financial statements.

**NOTE 3 –
INVESTMENT SECURITIES**

The amortized cost and approximate fair value of available for sale and held to maturity securities as of December 31, 2006 and 2005 are summarized as follows:

December 31, 2006

	Amortized Cost	Gross Unrealized Gains (in thousands)	Gross Unrealized Losses	Fair Value
AVAILABLE FOR SALE:				
U.S. Treasury and government agency	\$4,709	\$13	\$(12)	\$4,710
Mortgage-backed securities	26,156	50	(397)	25,827
Asset-backed securities	2,567	16	(21)	2,562
Municipal securities	9,324	67	(8)	9,383
Corporate bonds	1,503	-	(9)	1,494
Equity securities	2,612	-	-	2,612
	\$46,871	\$146	\$(429)	\$46,588
HELD TO MATURITY:				
Mortgage-backed securities	\$2,839	\$4	\$(5)	\$2,838

December 31, 2005

	Amortized Cost	Gross Unrealized Gains (in thousands)	Gross Unrealized Losses	Fair Value
AVAILABLE FOR SALE:				
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
HELD TO MATURITY:				
Mortgage-backed securities	\$3,375	\$-	\$(23)	\$3,352
Asset-backed securities	958	-	(1)	957
	\$4,333	\$-	\$(24)	\$4,309

**NOTE 3 –
INVESTMENT SECURITIES (CONTINUED)**

The amortized cost and fair value of available for sale and held to maturity securities as of December 31, 2006, 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	\$1,000	\$997	\$-	\$-
Due after one year through five years	1,236	1,226	-	-
Due after five years through ten years	3,686	3,691	-	-
Due after ten years	9,614	9,673	-	-
	15,536	15,587	-	-
Mortgage-backed securities	26,156	25,827	2,839	2,838
Asset-backed securities	2,567	2,562	-	-
Equity securities	2,612	2,612	-	-
	\$46,871	\$46,588	\$2,839	\$2,838

Proceeds from the sale of available for sale securities were \$2,206,000 and \$1,325,000 in 2006 and 2005, respectively. There were no gains or losses on the sale of available for sale securities in 2006 or 2005.

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, 2006 and 2005 are as follows:

December 31, 2006

	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(in thousands)					
AVAILABLE FOR SALE:						
U.S. Treasury and government agency	\$2,226	\$(10)	\$498	\$(2)	\$2,724	\$(12)
Mortgage-backed securities	2,828	(10)	16,589	(369)	19,417	(379)
Asset-backed securities	1,880	(21)	-	-	1,880	(21)
Municipal securities	2,503	(8)	-	-	2,503	(8)
Corporate bonds	995	(8)	499	(1)	1,494	(9)
Total investment securities available for sale	10,432	(57)	17,586	(372)	28,018	(429)
HELD TO MATURITY:						
Mortgage-backed securities	1,426	(5)	-	-	1,426	(5)
Total investment securities held to maturity	1,426	(5)	-	-	1,426	(5)
Total investment securities available for sale and held to maturity	\$ 11,858	\$(62)	\$ 17,586	\$(372)	\$ 29,444	\$(434)

December 31, 2005

	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(in thousands)					
AVAILABLE FOR SALE:						
U.S. Treasury and government agency	\$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)
HELD TO MATURITY:						
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)

These securities have been temporarily impaired due to interest rate changes. At December 31, 2006, there were twenty five available for sale securities and two held to maturity securities in the less than twelve months category, while the twelve months or more category had sixty-four available for sale securities and zero held to maturity securities. At December 31, 2005, there were forty-nine available for sale securities and three held to maturity securities in the less than twelve months category, while the twelve months or more category had twenty-six available for sale securities and one held to maturity security. The Bank has the ability and intent to hold these securities until maturity or market price recovery. Management believes that there is no other than temporary impairment of these securities.

NOTE 4 - LOANS RECEIVABLE

The composition of net loans receivable at December 31, 2006 and 2005 is as follows:

	2006	2005
	(in thousands)	
Commercial	\$ 149,574	\$ 117,904
Residential real estate loans	6,585	5,311
Consumer	21,645	16,107
Total loans	177,804	139,322
Unearned net loan origination costs and fees	372	393
Allowance for loan losses	(2,029)	(1,615)
Net loans	\$ 176,147	\$ 138,100

NOTE 5 - ALLOWANCE FOR LOAN LOSSES

The changes in the allowance for loan losses for the years ended December 31, 2006 and 2005 are as follows:

	2006	2005
	(in thousands)	
Balance, January 1	\$1,615	\$1,376
Provision for loan losses	416	282
Loans charged off	(8)	(44)
Recoveries	6	1
Balance, December 31	\$2,029	\$1,615

As of December 31, 2006 and 2005, the Bank had impaired loans of \$1,061 thousand and \$1,849 thousand, respectively, requiring an allowance for loan losses of \$127 thousand and \$82 thousand, respectively. During 2006 and 2005, the average recorded investment in these impaired loans was \$1,097 thousand and \$1,906 thousand, respectively, and the interest income recognized on impaired loans was \$107 thousand and \$118 thousand, respectively.

Loans on which the accrual of interest has been discontinued amounted to \$742 thousand and \$840 thousand at December 31, 2006 and 2005, 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, 2006 and 2005.

NOTE 6 - BANK PREMISES AND EQUIPMENT

The components of bank premises and equipment at December 31, 2006 and 2005 are as follows:

	2006 (in thousands)	2005
Leasehold improvements	\$1,839	\$1,382
Furniture, fixtures and equipment	754	559
IT equipment and software	1,168	1,012
Automobiles	47	24
Construction in process	13	43
	3,821	3,020
Less accumulated depreciation	1,954	1,586
	\$1,867	\$1,434

NOTE 7 - DEPOSITS

The components of deposits at December 31, 2006 and 2005 are as follows:

	2006 (in thousands)	2005
Demand, non-interest bearing	\$20,148	\$17,458
Demand, interest bearing	35,143	15,142
Savings	14,178	23,157
Time, \$100,000 and over	47,377	30,905
Time, other	65,587	57,939
Total deposits	\$182,433	\$144,601

At December 31, 2006, the scheduled maturities of time deposits are as follows (in thousands):

2007	\$103,842
2008	5,905
2009	2,465
2010	590
2011	162
	\$112,964

Included in time deposits, \$100,000 and over, at December 31, 2006 and 2005 are public fund certificates of deposit of \$18.0 million and \$12.1 million, 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:

2007	\$ 588
2008	653
2009	498
2010	407
2011	352
2012 & Thereafter	4,024
	\$6,522

On December 11, 2006, the Bank entered into a lease for corporate offices scheduled to begin on April 1, 2007 and expire on March 31, 2022, with two six year options to extend this agreement. The minimum annual payments under this lease range from \$337,020 at the beginning of the lease and \$414,300 at the end of the initial lease term. The Bank will be receiving sublease payments on its former corporate offices of \$246,930 for the period from July 1, 2007 through January 31, 2009, the remaining term of this lease. The future minimum payments net of this sublease are reflected in the table above.

Rent expense, which includes reimbursements to the lessor for real estate taxes, was approximately \$430 thousand and \$368 thousand for the years ended December 31, 2006 and 2005, respectively.

NOTE 9 - OTHER BORROWINGS AND SUBORDINATED DEBT

At December 31, 2006, the Bank had short-term and long-term advances from the Federal Home Loan Bank totaling \$22,000 thousand and \$10,750 thousand, respectively with an average interest rate of 5.30% and 4.50%, respectively. 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.

The contractual maturities of fixed rate long-term advances at December 31, 2006 are as follows:

	(in thousands)
2008	\$ 5,750
2009	4,000
2010	-
2011	-
2012 & Thereafter	1,000
	\$ 10,750



**NOTE 9 -
OTHER BORROWINGS AND SUBORDINATED DEBT
(CONTINUED)**

The Bank has a total borrowing capacity with the Federal Home Loan Bank of approximately \$120.9 million. The public fund certificates of deposit discussed in Note 7, are backed by a \$27.4 million 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, 2006, the quarterly rate was 8.12%. 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 50% of the first 6% of the contribution made by the employee. Employer contributions for the years ended December 31, 2006 and 2005 were approximately \$39 thousand and \$30 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.

**NOTE 12 -
COMPREHENSIVE INCOME**

Generally accepted accounting principles in the United States of America require that revenue, expenses, gains and losses are to 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.

Year Ended December 31,	2006	2005
	(in thousands)	
Unrealized holding gains (losses) on available for sale securities	\$ 122	\$(421)
Reclassification adjustment for gains realized in income on available for sale securities	-	-
Net unrealized gains (losses)	122	(421)
Income tax effect	(42)	143
Net of tax amount	\$ 80	\$ (278)

**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 stock-holders 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.

**NOTE 13 -
STOCK OPTION PLAN (CONTINUED)**

Under the 2004 Plan, the Bank issued to its directors and employees stock options to purchase 52,200 to directors and employees at a weighted average price of \$10.68 per share, which expire ten years from the grant date.

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, 2006 and 2005.

	2006		2005	
	Number of Options	Wtd Avg Exercise Price	Number of Options	Wtd Avg Exercise Price
Outstanding at January 1	124,825	\$ 9.59	72,625	\$ 8.80
Granted 12/20/05	-	-	29,850	11.00
Granted 12/30/05	-	-	22,350	10.25
Exercised	-	-	-	-
Forfeited	(4,000)	10.82	-	-
Outstanding at December 31	120,825	\$ 9.54	124,825	\$ 9.59
Exercisable at December 31	108,592	\$ 9.42	102,475	\$ 9.44

The weighted-average remaining contractual life of the above option is approximately 4 years.

The weighted-average fair value for stock options granted during 2005 was \$2.80. There were no stock options granted in 2006. 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	- %

**NOTE 14 -
FEDERAL INCOME TAXES**

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

	2006	2005
	(in thousands)	
Current	\$ 533	\$ 433
Deferred	(258)	(370)
Benefit from the utilization of net operating loss carry forwards	-	(30)
	\$ 275	\$ 33

The components of the net deferred tax asset (liability) at December 31, 2006 and 2005 are as follows:

	2006	2005
	(in thousands)	
DEFERRED TAX ASSETS:		
Allowance for loan losses	\$ 690	\$ 549
Net unrealized losses on securities	96	138
Total deferred tax assets	786	687
DEFERRED TAX LIABILITIES:		
Bank premises and equipment	57	(16)
Cash basis conversion	(89)	(133)
Total deferred tax liabilities	(32)	(149)
Net deferred tax asset	\$ 754	\$ 538

The Bank determined that it was not required to establish a valuation allowance for deferred tax assets at December 31, 2006 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, 2006 and 2005, related party loans totaled approximately \$1,711 thousand and \$3,285 thousand, respectively. During 2006, new loans and advances to such related parties totaled \$1,057 thousand and repayments totaled \$2,631 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, 2006 and 2005, the following financial instruments were outstanding whose contract amounts represent credit risk:

	2006	2005
	(in thousands)	
Commitments to fund loans	\$ 437	\$ 4,388
Unfunded commitments under lines of credit	31,941	28,950
Letters of credit	871	346

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, 2006 and 2005 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, 2006 was \$25 thousand and at December 31, 2005 it was approximately \$49 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, 2006 and 2005, that the Bank meets all capital adequacy requirements to which it is subject.



As of December 31, 2006, 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, 2006 and 2005 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, 2006:						
Total capital (to risk weighted assets)	\$ 20,456	12.4%	≥ \$ 13,245	≥ 8.0%	≥ \$ 16,556	≥ 10.0%
Tier 1 capital (to risk weighted assets)	16,427	9.9	≥ 6,622	≥ 4.0	≥ 9,934	≥ 6.0
Tier 1 capital (to average assets)	16,427	7.2	≥ 9,121	≥ 4.0	≥ 11,401	≥ 5.0
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

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, 2006 or 2005. The estimated fair value amounts have been measured as of December 31, 2006 and 2005 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, 2006 and 2005 may be different than the amounts reported at year end.

The following information should not be interpreted as an estimate of the fair value of the entire Bank since a fair value calculation is only provided for a limited portion of the Bank's assets and liabilities.

Due to a wide range of valuation techniques and the degree of subjectivity used in making the estimates, comparisons between the Bank's disclosures and those of other companies may not be meaningful.

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, 2006 and 2005 were as follows:

December 31,	2006		2005	
	Carrying	Fair Value	Carrying	Fair Value
	(in thousands)			
ASSETS:				
Cash and cash equivalents	\$ 4,668	\$ 4,668	\$ 3,559	\$ 3,559
Securities available for sale	46,588	46,588	32,888	32,888
Securities held to maturity	2,839	2,838	4,333	4,309
Loans receivable, net	176,147	176,014	138,100	135,892
Accrued interest receivable	1,558	1,558	1,091	1,091
LIABILITIES:				
Deposits	182,433	178,615	144,601	144,003
Borrowings	34,750	34,635	21,550	21,470
Accrued interest payable	711	711	373	373
OFF-BALANCE SHEET FINANCIAL:				
Commitments to extend credit and letters of credit	-	-	-	-

BOARD OF DIRECTORS

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 John Alexandra, Vice Chairman
 Joseph I. Bishop
 Stanley J. Conover
 Christine M. Huston
 William Kronenberg, III
 Mary MacKinnon
 James W. McKeighan, III, President
 John J. Sickler
 T. Lawrence Way

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 Stephen M. Bellas, Vice President
 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
 Thomas J. Jastrem, Senior Vice President
 Kaye R. Jordan, Assistant Vice President
 Carla J. Levy, 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, Senior Vice President
 Erwin K. Wenner, Vice President
 Kathleen A. Wolfe, Senior Vice President

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 Jennifer R. Adams
 Thomas P. Adams
 Matthew A. Albrecht
 Natasha R. Address
 Norma I. Berrios
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 Jean Ann M. Curry
 Patricia A. Daly
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 Angelia E. Epps
 Denise V. Gatlin
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 Theresa Ivanowicz
 Jami L. Kelso
 Kathleen Kennedy
 Theresa T. Kochel
 Monica A. Kopacz
 Kristen M. Madsen
 Lauren N. Mandrusiak
 Ellen M. Markoski
 Regina M. Missanelli
 Myngo R. Nelson
 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.



EXECUTIVE OFFICERS



Kenneth B. Mumma
 Chairman & Chief Executive Officer



James W. McKeighan, III
 President



John Alexandra
 Vice Chairman

“We recognize that the Bank’s vitality depends on the vitality of our communities; and that our growth presents opportunities and challenges that parallel those of our communities.”

Jim McKeighan, President

MANAGEMENT COMMITTEE

Left to Right: Ed Gallagher, Senior Vice President, Jim McKeighan, President, Bob Philips, Senior Vice President, Ken Mumma, Chairman & Chief Executive Officer, Kathy Wolfe, Senior Vice President, John Alexandra, Vice Chairman, Jay Power, Senior Vice President, Rob Ward, Senior Vice President





ADMINISTRATIVE DEPARTMENTS & KIMBERTON / PHOENIXVILLE BRANCH

The historic region in and around the borough of Phoenixville is where New Century Bank started and where we are most deeply rooted.



Top Left: Loan and Credit Departments
Top Right: Accounting, Deposit Administration and Information Technology Departments
Bottom: Kimberton Branch Staff

MANAGE-
MENTS
DISCUS-
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NEWTOWN SQUARE & MALVERN / FRAZER BRANCHES

Densely populated Newtown Square and the Malvern / Frazer areas offer the Bank significant opportunities in growing suburbs.

Top: Newtown Square Branch and Staff

Bottom: Malvern Staff and Branch





WAYNE BRANCH

Unlike most suburban centers, the Main Line town of Wayne still affords pedestrian shopping and banking in a quaint village atmosphere. The surrounding area offers New Century Bank a mix of consumer and small business opportunity.

Left: Wayne's community bank

Right, top and bottom: Wayne Branch Staff and inside the refurbished location.

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



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CONTINUED FROM PAGE 7

In order to foster development in all of our market segments, New Century Bank has made a \$500,000 investment in the Community Lenders Community Development Corporation (CLCDC), a non-profit consortium of banks that promotes and facilitates community revitalization through financing housing and community development programs for low and moderate income households in Chester, Bucks, Montgomery and Delaware Counties. New Century Bank will be making a further CLCDC investment in 2007. Thus far, those funds have contributed to the consortium's loans for an apartment development for low income senior citizens in Elkins Park, PA; for the acquisition and rehabilitation of a building in Norristown, PA; for lease to Legal Aid of Southeastern PA (a provider of free or low-cost legal services to low-income clients); a loan for a cultural center in downtown Pottstown, PA; and a loan for a 73-unit apartment complex for low income senior citizens.

Further demonstrating our commitment to the communities we call home, New Century Bank made charitable contributions of more than \$130,000 during 2006. Recipients of major grants included the Phoenixville Community Education Foundation, People's Light and Theatre Company, the Kimber-ton Waldorf School, and the Owen J. Roberts School District Education Foundation. In addition, the Bank made over seventy smaller contributions to a wide variety of worthy organizations in Delaware, Chester and Montgomery Counties. The Bank's ability to make some of these contributions was supported through two Commonwealth of Pennsylvania tax-credit programs.

BRANCHING OUT

A notable 2006 milestone for New Century Bank was the opening of our fourth branch, serving the Malvern and Frazer communities. The branch is located in the Lincoln Court Shopping Center on Lancaster Avenue (Route 30) in Malvern, a location with high visibility and excellent consumer exposure. Some two hundred people attended the festive June opening reception where the promotion included giving away a new car and a year's supply of gasoline. The ceremony's honorary

ribbon-cutter was Abigail Adams, Artistic Director of the People's Light and Theatre, a first-class theater company that has been a fixture in the Malvern cultural scene for several decades.

As New Century Bank now grows into a second decade of life, we remain confident that we will continue to achieve the objectives that have made us a strong local, independent Bank. We fully recognize that the Bank's continued positive growth depends on the positive growth of our communities. And that our support of that growth is good for our customers, good for our associates and good for our investors.



THE BANK'S CORE CUSTOMERS

In addition to providing financing to the explicitly community-focused organizations mentioned above, New Century Bank's core business customers comprise the many neighborhood ventures throughout our service area that appreciate New Century Bank's customized service and competitive products—professionals (doctors, dentists, attorneys, insurance agents and accountants); craftsmen (builders, plumbers and electricians); service providers (computer consultants, fuel oil firms and funeral homes); as well as the paint store and ice cream parlor. Viewed collectively, such ventures also make a significant impact in our communities.

The new Malvern / Frazer Branch in the Lincoln Court Shopping Center.



New Century Bank's lending team: Uniquely qualified to offer superior services and solutions for Southeastern Pennsylvania consumers and businesses.



INVESTING...

in business.



GOOD PEOPLE. BETTER BANKERS.™



CORPORATE HEADQUARTERS

513 Kimberton Road, Phoenixville, PA 19460
Phone: 610.933.2000 Fax: 610.933.6922

BRANCH LOCATIONS

KIMBERTON

Pikeland Village Square
513 Kimberton Road, Phoenixville, PA 19460
Phone: 610.933.2000 Fax: 484.359.7130

NEWTOWN SQUARE

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

WAYNE

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

MALVERN/FRAZER

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

TELEPHONE BANKING:

610.935.1983 or 800.849.4809

INDEPENDENT AUDITORS

BEARD MILLER COMPANY LLP
Reading, Pennsylvania

INVESTOR INFORMATION

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KMumma@NewCenturyBank.com

ANNUAL MEETING OF SHAREHOLDERS 2007

Tuesday, May 15, 2007 at 9 AM.
Columbia Station
4 Bridge Street
Phoenixville, PA 19460

GOOD PEOPLE. BETTER BANKERS.™



KIMBERTON / PHOENIXVILLE ♦ NEWTOWN SQUARE ♦ WAYNE ♦ MALVERN / FRAZER

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