There's Only One.
2007 ANNUAL REPORT

Kenneth B. Mumma
Chairman and Chief Executive Officer

TO OUR SHAREHOLDERS, CUSTOMERS AND COMMUNITY

It is common knowledge that 2007 was a difficult year for the financial industry as a whole and for many banks in particular. Amazingly, less than a year ago, the terms "sub-prime mortgage" and "credit crunch" were not a part of our every day lexicon. More disturbingly, during the last half of 2007, we all looked on as the world's largest banks reported stunning levels of losses often accompanied by executive management changes. It became apparent that it is not prudent for community banks like New Century Bank to be an island in such a storm. All similarly sized community banks are impacted by local and national economic trends but now the global market is affecting that category of banks directly.

New Century Bank was not exempt from the difficulties of 2007. We assure you it was a busy year with positive accomplishments to contrast with the adverse circumstances. During 2007, New Century Bank maintained our record of double-digit growth in most of the metrics that are key to banking, for example:

- Assets grew by 16%
- Net Loans grew by 20%
- Deposits grew by 21%
- Net Interest Income grew by 9%

Unfortunately, the road to those successes was not as smooth as we would have preferred. The inverted yield curve, which we have commented on previously, kept the Net Interest Margin a bit below 3 percent throughout the year. This long-lasting interest rate pattern caused all banks to compete vigorously to maintain and increase core deposits and Southeastern Pennsylvania is a particularly competitive deposit market. Welcome news for savers but it caused our Interest Expense to increase by 42 percent.

Meanwhile, loan demand was strong throughout 2007 and the asset quality of new loans continued to exceed acceptability, however the pressure on margins kept earnings below expectations. In the fourth quarter of 2007 a single investment security was caught up in the *rating agency security downgrading process* creating a net loss for the fourth quarter. When the dust settled, that particular security reported Net Income of $230,000 for 2007– a 65 percent decline from 2006. We are now certain that this security has been fully reduced in value and that no further losses will occur.

"It remains our goal to maintain strong ties to our local communities and to provide meaningful support to the many community-strengthening activities underway."

TWO THOUSAND AND SEVEN was a milestone year for New Century Bank and the community of Phoenixville, Pennsylvania. At mid-year the Bank migrated administrative headquarters to a handsome, new building in the revitalizing center of Phoenixville. This move enabled the company to bring senior officers and the entire support staff into a single building, enhancing brand presence, communications and productivity. Perhaps most importantly, it is a demonstrative statement by New Century Bank as we live up to our mission to be a positive force in rebuilding the heart of Phoenixville. There were, of course, expenses incurred in such a significant relocation but those one-time expenses were included in the 2007 financial statements and will not carry over into 2008.

The mid-summer move occupied much of our attention during 2007 but New Century Bank continued to support growth activities within our demographic. These activities included support for redevelopment programs in downtown Phoenixville, the Good Samaritan Homeless Shelter, The Colonial Theatre, People's Light and Theater, Baker Industries and numerous youth programs throughout our markets. It will remain New Century Bank's goal to maintain strong ties to our local communities and to provide meaningful support to the many community-strengthening activities that are underway within them.

The Board of Directors continues to be composed of local people who are committed to the Bank and its vision. Their guidance and skills are critical to our decision-making processes. Similarly, all officers and staff understand their responsibilities quite well and consistently work to create the best culture of customer service for new and existing customers. Furthermore, to a person, Bank employees work to improve their individual productivity so that New Century Bank's financial performance will ultimately improve.

NOW, A FINAL WORD– As this is written, it seems likely that the country is in a recessionary period of undetermined depth or duration. It is my belief that we are positioned and prepared to successfully sustain a significant economic downturn with minimal corrections. The investment portfolio has been cleansed and the quality of the loan portfolio is holding up well. It is also important to note the economic indicators that we are witnessing in early 2008. During the first quarter of 2008 the Federal Reserve lowered the Fed Funds Rate by 2 full percentage points. This means that, as existing certificates of deposit mature their renewal rate will reflect this new lower interest rate scenario. These events should help increase our Net Interest Margin as 2008 proceeds and more certificates of deposit mature. One caveat– we are being, and will continue to be, approached by borrowers seeking lower interest rates. We promise that we will treat our borrowers fairly but that we will also keep our interests in the forefront of the discussions. A primary goal is to improve our Net Interest Margin so as to post a better earnings record for you, our shareholders.

We are hopeful that this period of financial turmoil will soon level off without severe damage to our national economy. This Board and this management team pledge that we will monitor every facet of this company continuously so that it not only survives this time of difficulty but also emerges safe, sound and able to participate actively in the recovery period which will surely follow.

Sincerely,

Kenneth B. Mumma
Chairman and Chief Executive Officer

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2007
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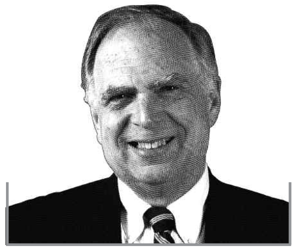


James W. McKeighan, III
President & Executive Officer

In a year when the entire banking industry is dealing with net interest margin compression, New Century Bank is managing interest expense to be

FAIR TO OUR CUSTOMERS,

and to improve our net interest margin.

New Century's banking franchise is located in

COMMUNITIES
WITH EXCELLENT DEMOGRAPHICS

that connect well to each other. It is a logical footprint where, each year, we have been able to increase our market share.

Our marketing strategy is built around our

TEAM OF EXPERIENCED BANKERS,

dedicated to providing quality service in all the markets we serve.

A STRONG PIPELINE OF NEW LOAN BUSINESS

gives New Century options to select loans that are both safe and profitable to the bank.

We believe that our headquarters office will assist us in reaching our goals by

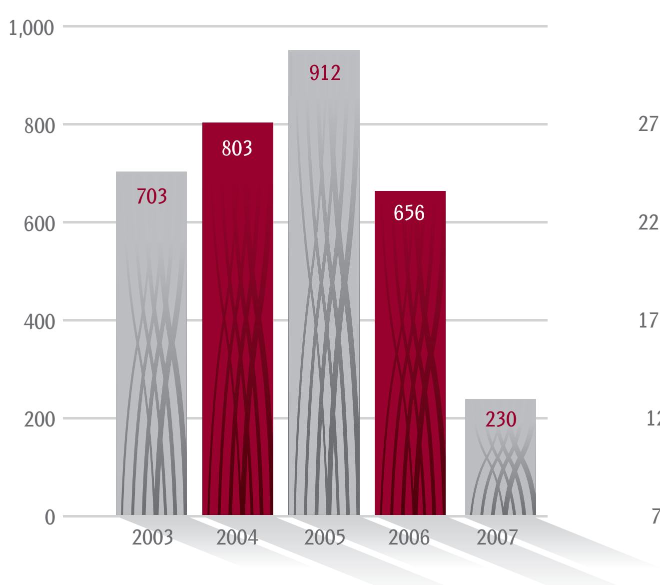
INCREASING NEW CENTURY BANK'S PRESENCE IN THE COMMUNITY.

FINANCIAL HIGHLIGHTS

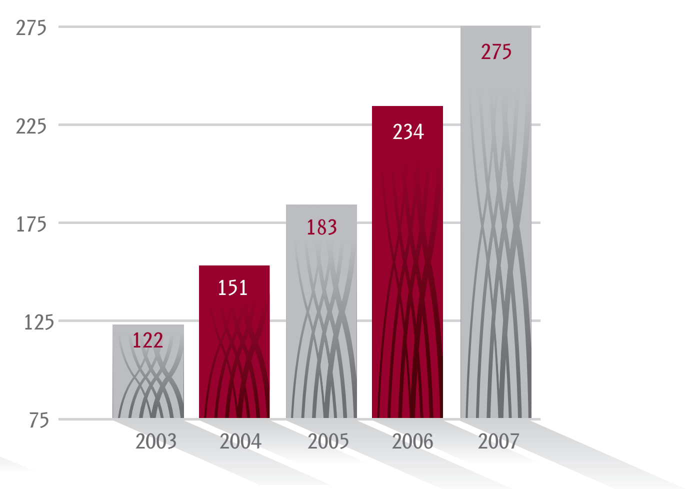
Dollar amounts in thousands except per share data.

	2007	2006	2005	2004	2003
For The Year					
Net interest income	$ 7,066	$ 6,456	$ 5,491	$ 4,586	$ 4,074
Other income	356	479	385	422	346
Other expenses	6,908	5,588	4,949	3,930	3,437
Income before taxes	70	931	945	803	703
Net income	230	656	912	803	703
Earning per share	$ 0.11	$0.33	$0.57	$0.58	$0.55
At Year-End					
Total assets	$ 272,004	$ 234,407	$ 182,623	$ 150,837	$ 122,480
Net loans	212,109	176,147	138,100	115,681	99,584
Deposits	220,345	182,433	144,601	116,320	100,911
Stockholders' equity	16,830	16,239	15,503	10,494	8,660
Selected Ratios & Per Share Data					
Return on average assets	0.09%	0.32%	0.56%	0.61%	0.65%
Return on average equity	1.40%	4.17%	7.67%	8.38%	8.59%
Book value per share	$ 8.33	$ 8.18	$ 7.81	$ 7.19	$ 6.61
Weighted average common shares outstanding	2,004,097	1,984,370	1,595,890	1,385,911	1,288,839

Net Income (in thousands)



Total Assets (in thousands)



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, 2007 and 2006, 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, 2007 and 2006, 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 25, 2008

FINANCIAL STATEMENTS –
FISCAL YEARS ENDING 2007 AND 2006

STATEMENTS OF INCOME

Years Ended December 31,	2007	2006
	(dollar amounts in thousands, except per share data)	
INTEREST INCOME:		
Loans receivable, including fees	**$15,286**	$11,709
Securities, taxable	**1,884**	1,870
Securities, non-taxable	**410**	263
Other	**79**	75
Total interest income	**17,659**	13,917
INTEREST EXPENSE:		
Deposits	**8,858**	5,908
Borrowed funds	**1,571**	1,394
Subordinated debt	**164**	159
Total interest expense	**10,593**	7,461
Net interest income	**7,066**	6,456
PROVISION FOR LOAN LOSSES	**444**	416
Net interest income after provision for loan losses	**6,622**	6,040
OTHER INCOME:		
Service fees	**526**	372
Bank owned life insurance	**156**	–
Impairment charge on securities	**(394)**	–
Other	**68**	107
Total other income	**356**	479
OTHER EXPENSES:		
Salaries and employee benefits	**3,433**	2,858
Occupancy	**1,268**	847
Technology, communication and bank operations	**790**	634
Advertising and promotion	**428**	486
Other	**989**	763
Total other expenses	**6,908**	5,588
Income before taxes	**70**	**931**
Income tax (benefit) provision	**(160)**	275
Net income	**$230**	$656
BASIC INCOME PER SHARE	**$0.11**	$0.33
DILUTED INCOME PER SHARE	**$0.11**	$0.32

See Notes to Financial Statements

BALANCE SHEETS

	December 31, 2007	2006
	(dollar amounts in thousands, except per share data)	
ASSETS		
Cash and due from banks	**$4,911**	$2,563
Interest earning deposits	**1,414**	1,265
Federal funds sold	**358**	840
Cash and cash equivalents	**6,683**	4,668
Securities available for sale, at fair value	**40,779**	46,588
Securities held to maturity, at amortized cost fair value 2007 $2,479 2006 $2,838	**2,467**	2,839
Loans receivable, net of allowance for loan losses 2007 $2,460 2006 $2,029	**212,109**	176,147
Bank premises and equipment, net	**2,798**	1,867
Bank owned life insurance	**4,547**	-
Accrued interest receivable and other assets	**2,621**	2,298
Total assets	**$272,004**	$234,407
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES:		
DEPOSITS:		
Demand, non-interest bearing	**$21,605**	$20,148
Interest bearing	**198,740**	162,285
Total deposits	**220,345**	182,433
Borrowings	**30,900**	32,750
Subordinated debt	**3,000**	2,000
Accrued interest payable and other liabilities	**929**	985
Total liabilities	**255,174**	218,168
STOCKHOLDERS' EQUITY:		
Common stock, par value $1.00 per share 10,000,000 shares authorized shares issued and outstanding 2007 2,021,078 2006 1,984,370	**2,021**	1,984
Surplus	**14,123**	13,837
Retained earnings	**835**	605
Accumulated other comprehensive loss	**(149)**	(187)
Total stockholders' equity	**16,830**	16,239
Total liabilities and stockholders' equity	**$272,004**	$234,407

See Notes to Financial Statements

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

Years Ended December 31, 2007 and 2006

	Common Stock	Surplus	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Loss	Total
			(dollar amounts in thousands)		
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
Comprehensive income:					
Net income	–	–	230	–	230
Change in net unrealized gains (losses) on securities available for sale, net of taxes	–	–	–	38	38
Total comprehensive income					268
Exercise of 36,708 stock options	37	286	–	–	323
BALANCE, DECEMBER 31, 2007	$2,021	$14,123	$835	$(149)	$16,830

See Notes to Financial Statements

STATEMENTS OF CASH FLOWS

Years Ended December 31,	2007	2006
	(in thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$230	$656
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	444	416
Provision for depreciation and amortization	700	646
Deferred income tax benefit	(372)	(258)
Net amortization of securities premiums and discounts	15	33
Impairment charge on securities	394	-
Net realized gain on sale of foreclosed real estate	-	(24)
Earnings on investment in bank owned life insurance	(147)	-
Increase (decrease) in accrued interest receivable and other assets	30	(312)
(Decrease) increase in accrued interest payable and other liabilities	(56)	16
Net Cash Provided by Operating Activities	1,238	1,173
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of securities available for sale	(6,870)	(23,943)
Proceeds from maturities, calls and principal repayments on securities available for sale	9,697	8,128
Proceeds from sales of securities available for sale	2,613	2,206
Proceeds from maturities, calls and principal repayments on securities held to maturity	389	1,492
Net increase in loans	(36,881)	(38,742)
Purchases of bank premises and equipment	(1,416)	(800)
Purchase of life insurance	(4,400)	-
Proceeds from sale of foreclosed real estate	260	563
Net Cash Used in Investing Activities	(36,608)	(51,096)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in deposits	37,912	37,832
Net (decrease) increase in short-term borrowed funds	(6,100)	8,950
Proceeds from long-term borrowed funds	15,000	5,000
Repayment of long-term borrowed funds	(10,750)	(750)
Proceeds from issuance of subordinated debt	1,000	-
Proceeds from the exercise of stock options	323	-
Net Cash Provided by Financing Activities	37,385	51,032
Net Increase in Cash and Cash Equivalents	2,015	1,109
CASH AND CASH EQUIVALENTS - BEGINNING	4,668	3,559
CASH AND CASH EQUIVALENTS - ENDING	$6,683	$4,668
SUPPLEMENTARY CASH FLOWS INFORMATION		
Interest paid	$10,534	$ 7,123
Income taxes paid	$240	$670
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Other real estate acquired in settlement of loans	$260	$-

See Notes to Financial Statements

NOTE 1 - ORGANIZATION AND NATURE OF OPERATIONS

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported balances of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported balances 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 collectability 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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 improvement	3 – 25
Furniture, fixtures and equipment	5 – 10
IT equipment and software	3 – 5

Advertising Costs

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

Net Income per Share

Basic income per share represents net income divided by the weighted average number of common shares outstanding during the period. Diluted income per share reflects additional common shares that would have been outstanding if dilutive potential common shares 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 2,004,097 and 1,984,370 in 2007 and 2006, respectively. The weighted average number of dilutive shares was 34,902 and 72,625 in 2007 and 2006, respectively. Options to purchase 48,034 and 48,200 shares of common stock outstanding at December 31, 2007 and 2006, respectively, were not included in diluted earnings per share since their exercise price exceeded the fair value of the related common stock.

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, supersedes 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, 2007, 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 2006 financial statements have been reclassified to conform to the 2007 presentation. These reclassifications did not impact the Bank's financial position or results of operations.

New Accounting Standards

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"). 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. EITF 06-04 is effective 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.

In March 2007, the FASB ratified Emerging Issues Task Force Issue No. 06-10, "Accounting for Collateral Assignment Split-Dollar Life Insurance Agreements" ("EITF 06-10"). EITF 06-10 provides guidance for determining a liability for the postretirement benefit obligation as well as recognition and measurement of the associated asset on the basis of the terms of the collateral assignment agreement. EITF 06-10 is effective for fiscal years beginning after December 15, 2007. The Bank is currently assessing the impact of EITF 06-10 on its financial position and results of operations.

On September 7, 2006, the Task Force reached a conclusion on EITF Issue No. 06-5, "Accounting for Purchases of Life Insurance – Determining the Amount That Could Be Realized in Accordance with FASB Technical Bulletin No. 85-4, Accounting for Purchases of Life Insurance" ("EITF 06-5"). The scope of EITF 06-5 consists of six separate issues relating to accounting for life insurance policies purchased by entities protecting against the loss of "key persons." The six issues are clarifications of previously issued guidance on FASB Technical Bulletin No. 85-4. EITF 06-5 is effective for fiscal years beginning after December 15, 2006. EITF 06-05 did not have a material impact on the Bank's financial statements.

In July 2006, the FASB issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109" ("FIN 48") which clarifies the accounting for uncertainty in tax positions. FIN 48 requires that companies recognize in their financial statement the impact of a tax position, if that position is more likely than not of being sustained on audit, based on the technical merits of the position. In May 2007, FASB issued FIN 48-1, "Definition of Settlement in FASB Interpretation No. 48" ("FIN 48-1"), which provides guidance on how to determine whether a tax position is effectively settled for the purpose of recognizing previously unrecognized tax benefits. Upon the FASB's issuance of FIN 48-2, "Effective Date of FASB Interpretation No. 48 for Certain Nonpublic Enterprises" ("FIN 48-2") in February 2008, the provisions of FIN 48 and FIN 48-1 are effective for the Bank January 1, 2008, with the cumulative effect of the change in accounting principle recorded as an adjustment to opening retained earnings. The Bank does not expect the adoption of FIN 48 and FIN 48-1 to have a material effect on its financial position or results of operations.

FASB Statement No. 141 (R), "Business Combinations", was issued in December of 2007. This Statement establishes principles and requirements for how the acquirer of a business recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree. The Statement also provides guidance for recognizing and measuring the goodwill acquired in the business combination and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. The guidance will become effective as of the beginning of a company's fiscal year beginning after December 15, 2008. This new accounting pronouncement will impact the Bank's accounting for business combinations beginning January 1, 2009.

Staff Accounting Bulletin No. 110 (SAB 110) amends and replaces Question 6 of Section D.2 of Topic 14, "Share-Based Payment," of the Staff Accounting Bulletin series. Question 6 of Section D.2 of Topic 14 expresses the views of the staff regarding the use of the "simplified" method in developing an estimate of expected term of "plain vanilla" share options and allows usage of the "simplified" method for share option grants prior to December 31, 2007. SAB 110 allows public companies which do not have historically sufficient experience to provide a reasonable estimate to continue use of the "simplified" method for estimating the expected term of "plain vanilla" share option grants after December 31, 2007. SAB 110 is effective January 1, 2008. The Bank does not expect SAB 110 to have an impact on its financial statements.

Staff Accounting Bulletin No. 109 (SAB 109), "Written Loan Commitments Recorded at Fair Value Through Earnings" expresses the views of the staff regarding written loan commitments that are accounted for at fair value through earnings under generally accepted accounting principles. To make the staff's views consistent with current authoritative accounting guidance, the SAB revises and rescinds portions of SAB No. 105, "Application of Accounting Principles to Loan Commitments." Specifically, the SAB revises the SEC staff's views on incorporating expected net future cash flows related to loan servicing activities in the fair value measurement of a written loan commitment. The SAB retains the staff's views on incorporating expected net future cash flows related to internally-developed intangible assets in the fair value measurement of a written loan commitment. The staff expects registrants to apply the views in Question 1 of SAB 109 on a prospective basis to derivative loan commitments issued or modified in fiscal quarters beginning after December 15, 2007. The Bank does not expect SAB 109 to have a material impact on its financial statements.

In December 2007, the FASB issued proposed FASB Staff Position (FSP) 157-b, "Effective Date of FASB Statement No. 157," that would permit a one-year deferral in applying the measurement provisions of Statement No. 157 to non-financial assets and non-financial liabilities (non-financial items) that are not recognized or disclosed at fair value in an entity's financial statements on a recurring basis (at least annually). Therefore, if the change in fair value of a non-financial item is not re-quired to be recognized or disclosed in the financial statements on an annual basis or more frequently, the effective date of application of Statement 157 to that item is deferred until fiscal years beginning after November 15, 2008 and interim periods within those fiscal years. This deferral does not apply, however, to an entity that applies Statement 157 in interim or annual financial statements before proposed FSP 157-b is finalized. The Bank is currently evaluating the impact, if any, that the adoption of FSP 157-b will have on the Bank's operating income or net earnings.

In June 2007, the Emerging Issues Task Force (EITF) reached a consensus on Issue No. 06-11, "Accounting for Income Tax Benefits of Dividends on Share-Based Payment Awards" ("EITF 06-11"). EITF 06-11 states that an entity should recognize a realized tax benefit associated with dividends on nonvested equity shares, nonvested equity share units and outstanding equity share options charged to retained earnings as an increase in additional paid in capital. The amount recognized in additional paid in capital should be included in the pool of excess tax benefits available to absorb potential future tax deficiencies on share-based payment awards. EITF 06-11 should be applied prospectively to income tax benefits of dividends on equity-classified share-based payment awards that are declared in fiscal years beginning after December 15, 2007. The Bank expects that EITF 06-11 will not have an impact on its 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, 2007 and 2006 are summarized as follows:

December 31, 2007

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(in thousands)		
AVAILABLE FOR SALE:				
U.S. Treasury and government agency	$3,021	$26	$(8)	$3,039
Mortgage-backed securities	20,689	77	(196)	20,570
Asset-backed securities	1,326	53	-	1,379
Municipal securities	10,164	35	(61)	10,138
Corporate bonds	2,446	-	(32)	2,414
Equity securities	3,359	-	(120)	3,239
	$41,005	**$191**	**$(417)**	**$40,779**
HELD TO MATURITY:				
Mortgage-backed securities	$2,467	$12	$-	$2,479
	$2,467	$12	$-	$2,479

December 31, 2006

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(in thousands)		
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

Equity securities at December 31, 2007 and 2006 include restricted investments in bank stocks of $2,858,750 and $2,611,600, respectively.

The amortized cost and fair value of available for sale and held to maturity securities as of December 31, 2007, 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.

NOTE 3 – INVESTMENT SECURITIES (CONTINUED)

	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(in thousands)			
Due in one year or less	$500	$498	$-	$-
Due after one year through five years	1,589	1,569	-	-
Due after five years through ten years	3,302	3,314	-	-
Due after ten years	10,240	10,210	-	-
	15,631	15,591	-	-
Mortgage-backed securities	20,689	20,570	2,467	2,479
Asset-backed securities	1,326	1,379	-	-
Equity securities	3,359	3,239	-	-
	$41,005	**$40,779**	**$2,467**	**$2,479**

Proceeds from the sale of available for sale securities were $2,613,000 and $2,206,000 in 2007 and 2006, respectively. There were no gains or losses on the sale of available for sale securities in 2007 or 2006. At December 31, 2007, the Bank concluded that a sub-prime, asset-backed security was other-than-temporarily impaired. An impairment charge of $394,000 was recorded related to this security in 2007. There was no such impairment writedown in 2006.

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, 2007 and 2006 are as follows:

December 31, 2007

	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	$-	$-	$636	$(8)	$636	$(8)
Mortgage-backed securities	1,571	(13)	12,880	(183)	14,451	(196)
Municipal securities	5,160	(61)	-	-	5,160	(61)
Corporate bonds	933	(12)	1,481	(20)	2,414	(32)
Equity securities	380	(120)	-	-	380	(120)
Total investment securities available for sale	**$8,044**	**$(206)**	**$14,997**	**$(211)**	**$ 23,041**	**$ (417)**

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)**

These securities have been temporarily impaired primarily due to interest rate changes and a lack of liquidity in the market. The Bank has $500 thousand of FHLMC preferred stock with an unrealized loss of $120 thousand. Substantially the entire decline in value of the preferred stock occurred in late 2007, and the Bank has concluded that the impairment of such preferred stock at December 31, 2007 was the result of the recent issuance of new higher-yielding preferred stock by the government-sponsored agency in response to the current housing market decline. As such, the Bank believes it is too soon to conclude that such unrealized losses were other than temporary. At December 31, 2007, there were thirty available for sale securities and zero held to maturity securities in the less than twelve months category, while the twelve months or more category had sixty available for sale securities and zero held to maturity securities. 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, 2007 and 2006 is as follows:

	2007	2006
	(in thousands)	
Commercial	$180,926	$149,574
Residential real estate loans	8,260	6,585
Consumer	24,848	21,645
Total loans	214,034	**177,804**
Unearned net loan origination costs and fees	535	372
Allowance for loan losses	(2,460)	(2,029)
Net loans	**$212,109**	**$176,147**

NOTE 5 - ALLOWANCE FOR LOAN LOSSES

The changes in the allowance for loan losses for the years ended December 31, 2007 and 2006 are as follows:

	2007	2006
	(in thousands)	
Balance, January 1	$2,029	$1,615
Provision for loan losses	444	416
Loans charged off	(14)	(8)
Recoveries	1	6
Balance, December 31	**$2,460**	**$2,029**

As of December 31, 2007 and 2006, the Bank had impaired loans of $1,888 thousand and $1,061 thousand, respectively, requiring an allowance for loan losses of $134 thousand and $127 thousand, respectively. During 2007 and 2006, the average recorded investment in these impaired loans was $1,848 thousand and $1,097 thousand, respectively, and the interest income recognized on impaired loans was $131 thousand and $107 thousand, respectively.

Loans on which the accrual of interest has been discontinued amounted to $2,058 thousand and $742 thousand at December 31, 2007 and 2006, respectively. There are $11 thousand of 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, 2007 and none at December 31, 2006.

NOTE 6 - BANK PREMISES AND EQUIPMENT

The components of bank premises and equipment at December 31, 2007 and 2006 are as follows:

	2007	2006
	(in thousands)	
Leasehold improvements	$2,622	$1,839
Furniture, fixtures and equipment	897	754
IT equipment and software	1,195	1,168
Automobiles	50	47
Construction in process	206	13
	4,970	**3,821**
Less accumulated depreciation	2,172	1,954
	$2,798	**$1,867**

NOTE 7 - DEPOSITS

The components of deposits at December 31, 2007 and 2006 are as follows:

	2007	2006
	(in thousands)	
Demand, non-interest bearing	$21,605	$20,148
Demand, interest bearing	52,825	35,143
Savings	10,441	14,178
Time, $100,000 and over	62,190	47,377
Time, other	73,284	65,587
Total deposits	**$220,345**	**$182,433**

At December 31, 2007, the scheduled maturities of time deposits are as follows (in thousands):

2008	$126,391
2009	3,716
2010	2,883
2011	168
2012	2,316
	$135,474

Included in time deposits, $100,000 and over, at December 31, 2007 and 2006 are public fund certificates of deposit of $25.0 million and $18.0 million, respectively. These certificates of deposit have a maturity of less than one year.

NOTE 8 - LEASE COMMITMENTS AND TOTAL RENTAL EXPENSE

In 2007, the Bank moved its corporate office and operations center into a new facility and leases the premises under an operating lease agreement expiring March 2022, with an option to extend the agreement for two additional six-year periods. The Bank also leases four branch locations: one is under an operating lease agreement which expires November 2008, but includes the option to extend the agreement for an additional five-year period; one is an operating lease agreement which expires January 2009, but includes the option to extend the agreement for two additional five-year periods; one is under an operating lease agreement which expires July 2009, but includes the option to extend the lease for an additional five- year period; the last is an operating lease which expires August 2010, but includes the option to extend the agreement for three additional five-year periods.

Approximate future non-cancellable minimum lease payments by year are as follows (in thousands):

2008	$ 741
2009	578
2010	486
2011	430
2012	436
2013 & Thereafter	4,558
	$7,229

Rent expense, which includes reimbursements to the lessor for real estate taxes, was approximately $731 thousand and $430 thousand for the years ended December 31, 2007 and 2006, respectively. Included in 2007 rent expense was $178 thousand related to incentives included in the new lease contract, which will be amortized over the term of the lease.

NOTE 9 - OTHER BORROWINGS AND SUBORDINATED DEBT

At December 31, 2007, the Bank had short-term and long-term advances from the Federal Home Loan Bank totaling $15,900 thousand and $15,000 thousand, respectively with an average interest rate of 3.75% and 4.11%, respectively. At December 31, 2006, the Bank had long-term and short-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.

The contractual maturities of fixed rate long-term advances at December 31, 2007 are as follows:

	2007 (in thousands)
2009	$9,000
2013 & Thereafter	6,000
	$15,000

The Bank has a total borrowing capacity with the Federal Home Loan Bank of approximately $136.2 million. The public fund certificates of deposit discussed in Note 7, are backed by a $43.5 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, 2007, the quarterly interest rate was 7.90%. The note matures in the third quarter 2014.

The Bank issued a subordinated term note during the fourth quarter of 2007. The note was issued for $1.0 million at a fixed rate of 7.50% per annum. Quarterly interest payments are made on this note in January, April, July and October. The note matures in the fourth quarter 2017 but may convert to non-voting common stock in the fourth quarter 2010.

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, 2007 and 2006 were approximately $55 thousand and $39 thousand, respectively.

NOTE 11 - STOCKHOLDERS' EQUITY

During 2007, the Bank raised $323 thousand in capital when holders of options that were going to expire purchased 36,708 shares of common stock at an average price of $8.80 per share.

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 deferred taxes, on securities available for sale.

Year Ended December 31,	2007	2006
	(in thousands)	
Unrealized holding gains on available for sale securities	$57	$122
Reclassification adjustment for gains realized in income on available for sale securities	-	-
Net unrealized gains	57	122
Income tax effect	(19)	(42)
Net of tax amount	$38	$80

NOTE 13 - STOCK OPTION PLAN

During 2004, the stockholders of the Bank approved the 2004 Incentive Equity and Deferred Compensation Plan ("Plan"), the purpose of which is to promote the success and enhance the value of the Bank by linking the personal interests of the members of the Board of Directors and the Bank's employees, officers and executives to those of the Bank's stockholders and by providing such individuals with an incentive for outstanding performance in order to generate superior returns to stockholders of the Bank. The Plan is further intended to provide flexibility to the Bank in its ability to motivate, attract and retain the services of members of the Board of Directors, employees, officers and executives of the Bank. Stock options granted normally vest over three years.

The Plan is administered by the Compensation Committee of the Board of Directors. It provides for the grant of options, some or all of which may be structured to qualify as Incentive Stock Options if granted to employees, and for the grant of stock appreciation rights ("SARS"), restricted stock and unrestricted stock up to a total of 200,000 shares of Common Stock. The Plan replaced 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 as well as granted to two of its executive officers stock options to purchase 11,875 shares of common stock. The options issued have either been exercised at a price of $8.80 per share or have expired. The remaining 39,875 shares of Common Stock otherwise available under the 1997 Plan ceased to be available for grant when the 2004 Plan was approved.

Under the 2004 Plan, the Bank issued to its employees stock options to purchase 52,200 shares 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, 2007 and 2006:

	2007		2006	
	Number of Options	Wtd Avg Exercise Price	Number of Options	Wtd Avg Exercise Price
Outstanding at January 1	**120,825**	**$9.54**	124,825	$9.59
Exercised	(36,708)	8.80	-	-
Forfeited	(36,083)	8.81	(4,000)	10.82
Outstanding at December 31	**48,034**	**$10.67**	120,825	$9.54
Exercisable at December 31	**42,001**	**$10.75**	108,592	$9.42

No stock options were granted in either 2007 or 2006. The weighted average remaining contractual life of the outstanding stock options at December 31, 2007 is approximately 8 years. The aggregate intrinsic value of options outstanding was $0 as of December 31, 2007.

NOTE 14 -
FEDERAL INCOME TAXES

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

	2007	2006
	(in thousands)	
Current	$212	$533
Deferred	(372)	(258)
	$(160)	**$275**

The components of the net deferred tax asset at December 31, 2007 and 2006 are as follows:

	2007	2006
	(in thousands)	
DEFERRED TAX ASSETS:		
Allowance for loan losses	$836	$690
Net unrealized losses on securities	77	96
Bank premises and equipment	104	57
Impairment charge on securities	134	-
Total deferred tax assets	**1,151**	**843**
DEFERRED TAX LIABILITIES:		
Cash basis conversion	(44)	(89)
Total deferred tax liabilities	**(44)**	**(89)**
Net deferred tax asset	**$1,107**	**$754**

The Bank determined that it was not required to establish a valuation allowance for deferred tax assets at December 31, 2007 since it is more likely than not that the deferred tax asset will be realized through 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, 2007 and 2006, related party loans totaled approximately $3,016 thousand and $1,711 thousand, respectively. During 2007, new loans and advances to such related parties totaled $1,478 thousand and repayments totaled $173 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, 2007 and 2006, the following financial instruments were outstanding whose contract amounts represent credit risk:

	2007	2006
	(in thousands)	
Commitments to fund loans	$11,232	$437
Unfunded commitments under lines of credit	23,542	31,941
Letters of credit	2,466	871

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, 2007 and 2006 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, 2007 was $25 thousand and at December 31, 2006 it was approximately $25 thousand.

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

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth below) of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets and of Tier 1 capital to average assets. Management believes, as of December 31, 2007 and 2006, that the Bank meets all capital adequacy requirements to which it is subject.

As of December 31, 2007, 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.

NOTE 17 – REGULATORY MATTERS (CONTINUED)

The Bank's actual capital amounts and ratios at December 31, 2007 and 2006 are also presented below:

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount (dollar amounts in thousands)	Ratio	Amount	Ratio
As of December 31, 2007:						
Total capital (to risk weighted assets)	$ 22,360	10.6%	≥$ 16,837	≥ 8.0%	≥ $ 21,047	≥ 10.0%
Tier 1 capital (to risk weighted assets)	16,900	8.0	≥ 8,419	≥ 4.0	≥ 12,628	≥ 6.0
Tier 1 capital (to average assets)	16,900	6.2	≥ 10,863	≥ 4.0	≥ 13,579	≥ 5.0
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

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, 2007 or 2006. The estimated fair value amounts have been measured as of December 31, 2007 and 2006 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, 2007 and 2006 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.

Standby letters of credit issued on the Bank's behalf

The Bank has issued public fund certificates of deposit that are backed by letters of credit issued at the Federal Home Loan Bank. The Bank doesn't foresee the need to utilize these letters of credit. 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, 2007 and 2006 were as follows:

December 31,	2007		2006	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
		(in thousands)		
ASSETS:				
Cash and cash equivalents	$6,683	$6,683	$4,668	$4,668
Securities available for sale	40,779	40,779	46,588	46,588
Securities held to maturity	2,467	2,479	2,839	2,838
Loans receivable, net	212,109	210,211	176,147	176,014
Accrued interest receivable	1,793	1,793	1,558	1,558
LIABILITIES:				
Deposits	220,345	220,820	182,433	178,615
Borrowings	33,900	33,955	34,750	34,635
Accrued interest payable	770	770	711	711
OFF-BALANCE SHEET FINANCIAL:				
Commitments to extend credit and letters of credit	–	–	–	–
Standby letters of credit issued on the Bank's behalf	–	–	–	–

NEW CENTURY BANK

BOARD OF DIRECTORS

Kenneth B. Mumma, Chairman & Chief Executive Officer
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

OFFICERS

Carole M. Agresta, Banking Officer
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
Denise V. Gatlin, Banking Officer
John S. Gerhart, Vice President
Richard G. Hood, Vice President
John A. Hufford, III, Vice President
Thomas J. Jastrem, Senior Vice President
Carla J. Levy, Vice President
Nanette J. Medina, Assistant Vice President
Yvonne M. O'Halloran, Banking Officer
Robert G. Philips, Senior Vice President
Justin R. Power, Senior Vice President
Sheryl H. Shindel, Assistant Vice President
Joseph M. Swarr, Vice President
Robert S. Ward, Senior Vice President
Erwin K. Wenner, Vice President
Kathleen A. Wolfe, Senior Vice President

STAFF

Donna J. Abel
Jennifer R. Adams
Thomas P. Adams
Matthew A. Albrecht
Natasha R. Andress
Deena M. Bhrim
Carolyn L. Colsher
Jean Ann M. Curry
Patricia A. Daly
Ilir Demollari
Robert H. DeYoung
Jennifer T. Duppel
Carla T. Edlund
Angelia E. Epps
Joanne C. Gagliardi
Gwenn L. Gannon
Ruth L. Hammers
Kevin J. Heiser
Joan A. Higgins
Theresa Ivanowicz
Jami L. Kelso
Kathleen Kennedy
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Lauren N. Mandrusiak
Michael C. McCarrie
Regina M. Missanelli
Myngo R. Nelson
Michael B. Patton
Lauren J. Peto
Dana L. Reinhart
Jason R. Siderio
Elaine K. Snyder
Michael C. Stick
Michele E. Touhey-Wilkinson
Brenton G. Wallace, Jr.

CORPORATE HEADQUARTERS

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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

Kenneth B. Mumma, Chairman & CEO
Phone: 610.933.2271 or E-mail:
KMumma@NewCenturyBank.com

ANNUAL MEETING OF SHAREHOLDERS 2008

May 21, 2008, 9:00 AM
NEW CENTURY BANK
99 Bridge Street
Phoenixville, PA 19460

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KIMBERTON ♦ MALVERN ♦ NEWTOWN SQUARE ♦ PHOENIXVILLE ♦ WAYNE

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