NEW CENTURY BANK

2008
Annual Report

Kenneth B. Mumma
Chairman and Chief Executive Officer

WEATHERING A STORM BY STAYING TRUE TO OUR ROOTS

Although New Century Bank's 2008 losses are completely attributable to the devaluation of Wall Street securities, the Bank is not pleased with our overall performance throughout the last, volatile year.

Last year at this time no one could have predicted the approaching downfall of Lehman Brothers or Freddie Mac. In fact, last April Lehman Brothers was named one of "The BusinessWeek 50" by *BusinessWeek* magazine. New Century Bank was not the only institution shocked and significantly affected when Lehman Brothers executed bankruptcy proceedings six months later.

In spite of all that has happened in 2008, community banks like ours remain promisingly different than the Wall Street investment banks that have been in the eye of the financial storm. Amidst national bad news for the banking industry, New Century Bank continues to maintain our ten-year and counting commitment to a specific community bank mission.

Far different than the big banks that contributed to the collapse of the economy, we proactively invest in our local communities by consistently collaborating with our corporate support, time and financial contributions.

- **With our prudent underwriting standards, New Century Bank continues to be a trustworthy steward of local economies.**
- **We help our customers realistically save for specific goals like their retirements and their children's college educations.**
- **Our employees serve in volunteer and leadership roles in a number of nonprofit, civic and service organizations.**
- **We remain visible to a community of potential individual and small business customers with creative marketing that inspires confidence.**

New Century Bank fully believes that this is a time to look beyond the near collapse of our financial system and the prolonged recession in which we now find ourselves. Difficult times often provide opportunities and that is where we choose to focus our attention and effort. That being said, the capacity to take advantage of any opportunity depends now, more than ever, on capital and New Century Bank remains well capitalized with plans to increase our capital significantly in 2009.

The reality is, our borrowers have been almost universally effected by the economic downturn and, as a result, delinquent and non-performing assets increased during 2008. We did make appropriate provisions to our loan loss reserve throughout 2008 and will continue to provide solutions for our customers during this difficult time. We also remain cost conscious and recently made certain organizational changes to help us achieve a better bottom line.

The combination of proactive positioning and the deep community roots that we have planted have established a sound foundation for New Century Bank that will allow us to weather the storm and arrive prepared for better performance in 2009.

On behalf of our board and executive team, I want to thank you for your continued support and confidence.

Kenneth B. Mumma
Chairman and Chief Executive Officer

"The combination of proactive positioning and the deep community roots that we have planted have established a sound foundation for New Century Bank that will allow us to weather the storm and arrive prepared for better performance in 2009."

Kenneth B. Mumma
Chairman and Chief Executive Officer

Contents

Board of Directors

Kenneth B. Mumma, Chairman & CEO
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

Corporate Headquarters

99 Bridge Street, Phoenixville, PA 19460
Phone: 610.933.2000 Fax: 610.933.6922

Branch Locations

KIMBERTON
Pikeland Village Square
513 Kimberton Road, Phoenixville, PA 19460
Phone: 610.415.9090 Fax: 484.359.7130

MALVERN/FRAZER
Lincoln Court Shopping Center
215 Lancaster Avenue, Malvern, PA 19355
Phone: 610.251.7000 Fax: 610.251.9105

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

PHOENIXVILLE
99 Bridge Street, Phoenixville, PA 19460
Phone: 610.933.7195 Fax: 484.923.8816

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

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 2009
May 20, 2009, 9:00 AM
NEW CENTURY BANK
99 Bridge Street, Phoenixville, PA 19460

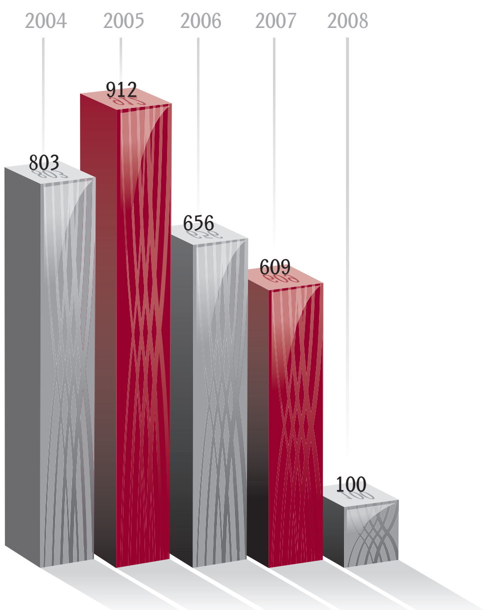
FINANCIAL HIGHLIGHTS

Dollar amounts in thousands except per share data.

	2008	2007	2006	2005	2004
For The Year					
Net interest income	$ 7,364	$ 7,066	$ 6,456	$ 5,491	$ 4,586
Other income	(450)	356	479	385	422
Other expenses	7,554	6,908	5,588	4,949	3,930
Income before taxes	(1,251)	70	931	945	803
Net income	(825)	230	656	912	803
Earning per share	$ (0.41)	$ 0.11	$ 0.33	$ 0.57	$ 0.58
At Year-End					
Total assets	$ 274,038	$ 272,004	$ 234,407	$ 182,623	$ 150,837
Net loans	220,876	212,109	176,147	138,100	115,681
Deposits	237,842	220,345	182,433	144,601	116,320
Stockholders' equity	16,849	16,830	16,239	15,503	10,494
Selected Ratios & Per Share Data					
Return on average assets	-0.30%	0.09%	0.32%	0.56%	0.61%
Return on average equity	-4.98%	1.40%	4.17%	7.67%	8.38%
Book value per share	$ 7.85	$ 8.33	$ 8.18	$ 7.81	$ 7.19
Weighted average common shares outstanding	2,021,078	2,004,097	1,984,370	1,595,890	1,385,911

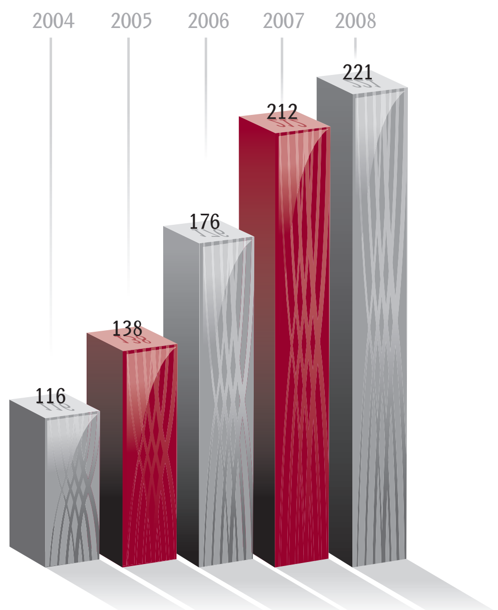
NET INCOME

(without security and OREO losses)
($ in thousands)



NET LOANS

($ in millions)



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, 2008 and 2007, 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, 2008 and 2007, 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 31, 2009

FINANCIAL STATEMENTS –
FISCAL YEARS ENDING 2008 AND 2007

STATEMENTS OF INCOME

Years Ended December 31,	2008	2007
	(dollar amounts in thousands, except per share data)	
INTEREST INCOME:		
Loans receivable, including fees	$13,644	$15,286
Securities, taxable	1,419	1,884
Securities, non-taxable	413	410
Other	26	79
Total interest income	**15,502**	17,659
INTEREST EXPENSE:		
Deposits	6,832	8,858
Borrowed funds	1,112	1,571
Subordinated debt	194	164
Total interest expense	**8,138**	10,593
Net interest income	**7,364**	7,066
PROVISION FOR LOAN LOSSES	611	444
Net interest income after provision for loan losses	**6,753**	6,622
OTHER INCOME:		
Service fees	637	526
Bank owned life insurance	218	156
Loss on sale of securities	(361)	–
Impairment charge on securities	(940)	(394)
Impairment charge on foreclosed assets	(100)	–
Other	96	68
Total other income (loss)	**(450)**	356
OTHER EXPENSES:		
Salaries and employee benefits	3,651	3,450
Occupancy	1,280	1,213
Technology, communication and bank operations	901	829
Advertising and promotion	231	321
Other	1,491	1,095
Total other expenses	**7,554**	6,908
(Loss) Income before taxes	**(1,251)**	70
Income tax benefit	**(426)**	(160)
Net (loss) income	**$(825)**	$230
BASIC / DILUTED (LOSS) INCOME PER SHARE	**$(0.41)**	$0.11

See Notes to Financial Statements

BALANCE SHEETS

	December 31, 2008	2007
	(dollar amounts in thousands, except per share data)	
ASSETS		
Cash and due from banks	$2,486	$4,911
Interest earning deposits	1,494	1,414
Federal funds sold	2,315	358
Cash and cash equivalents	**6,295**	6,683
Securities available for sale, at fair value	32,061	40,779
Securities held to maturity, at amortized cost fair value 2008- $2,382; 2007- $2,479	2,235	2,467
Loans receivable, net of allowance for loan losses 2008- $2,876; 2007- $2,460	220,876	212,109
Bank premises and equipment, net	2,764	2,798
Bank owned life insurance	4,751	4,547
Accrued interest receivable and other assets	5,056	2,621
Total assets	**$274,038**	$272,004
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES:		
DEPOSITS:		
Demand, non-interest bearing	$20,574	$21,670
Interest bearing	217,268	198,675
Total deposits	**237,842**	220,345
Borrowings	15,000	30,900
Subordinated debt	3,000	3,000
Accrued interest payable and other liabilities	1,347	929
Total liabilities	**257,189**	255,174
STOCKHOLDERS' EQUITY:		
Preferred stock, par value $1,000 per share; shares issued and outstanding 2008- 98	980	-
Common stock, par value $1.00 per share; 10,000,000 shares authorized; shares issued and outstanding 2008- 2,021,078; 2007- 2,021,078	2,021	2,021
Surplus	14,093	14,123
Retained earnings	10	835
Accumulated other comprehensive loss	(255)	(149)
Total stockholders' equity	**16,849**	16,830
Total liabilities and stockholders' equity	**$274,038**	$272,004

See Notes to Financial Statements

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

Years Ended December 31, 2008 and 2007

(dollar amounts in thousands)

	Preferred Stock	Common Stock	Surplus	Retained Earnings	Accumulated Other Comprehensive Loss	Total
BALANCE, DECEMBER 31, 2006	$-	$1,984	$13,837	$605	$(187)	$16,239
Comprehensive income:						
Net income	-	-	-	230	-	230
Change in net unrealized losses on securities available for sale, net of taxes	-	-	-	-	38	38
Total comprehensive income						268
Exercise of 36,708 stock options	-	37	286	-	-	323
BALANCE, DECEMBER 31, 2007	**$-**	**$2,021**	**$14,123**	**$835**	**$(149)**	**$16,830**
Comprehensive loss:						
Net loss	-	-	-	(825)	-	(825)
Change in net unrealized losses on securities available for sale, net of taxes	-	-	-	-	(106)	(106)
Total comprehensive loss						(931)
Preferred Stock Series A issued	980	-	(30)	-	-	950
BALANCE, DECEMBER 31, 2008	**$980**	**$2,021**	**$14,093**	**$10**	**$(255)**	**$16,849**

See Notes to Financial Statements

STATEMENTS OF CASHFLOWS

Years Ended December 31,	2008	2007
	(in thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net (loss) income	$(825)	$230
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Provision for loan losses	611	444
Provision for depreciation and amortization	846	700
Deferred income tax benefit	(17)	(372)
Net amortization of securities premiums and discounts	1	15
Loss on sale of securities	361	-
Impairment charge on securities	940	394
Impairment charge on foreclosed real estate	100	-
Earnings on investment in bank owned life insurance	(204)	(147)
Decrease (increase) in accrued interest receivable and other assets	(853)	30
Increase (decrease) in accrued interest payable and other liabilities	427	(56)
Net Cash Provided by Operating Activities	**1,387**	**1,238**
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of securities available for sale	(5,910)	(6,870)
Proceeds from maturities, calls and principal repayments on securities available for sale	8,887	9,697
Proceeds from sales of securities available for sale	4,267	2,613
Proceeds from maturities, calls and principal repayments on securities held to maturity	243	389
Net increase in loans	(11,264)	(36,881)
Purchases of bank premises and equipment	(545)	(1,416)
Purchase of life insurance	-	(4,400)
Proceeds from sale of foreclosed real estate	-	260
Net Cash Used in Investing Activities	**(4,322)**	**(36,608)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in deposits	17,497	37,912
Net decrease in short-term borrowed funds	(11,900)	(6,100)
Proceeds from long-term borrowed funds	1,000	15,000
Repayment of long-term borrowed funds	(5,000)	(10,750)
Proceeds from issuance of subordinated debt	-	1,000
Proceeds from the exercise of stock options	-	323
Proceeds from issuance of preferred stock	950	-
Net Cash Provided by Financing Activities	**2,547**	**37,385**
Net (Decrease) Increase in Cash and Cash Equivalents	**(388)**	**2,015**
Cash and Cash Equivalents - Beginning	**6,683**	**4,668**
Cash and Cash Equivalents - Ending	**$6,295**	**$6,683**
SUPPLEMENTARY CASH FLOWS INFORMATION		
Interest paid	$8,248	$10,534
Income taxes paid	$152	$240
Supplemental Schedule of Noncash Investing and Financing Activities		
Other real estate acquired in settlement of loans	$1,619	$260

See Notes to Financial Statements

NOTES TO FINANCIAL STATEMENTS – FISCAL YEARS ENDING 2008 AND 2007

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 potential impairment of goodwill and restricted stock, the valuation of deferred tax assets, and determination of other-than-temporary impairment losses on securities.

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.

Restricted stock which represents required investment in the capital stock of a Federal Home Loan Bank and Atlantic Central Bankers Bank, is carried at cost as of December 31, 2008 and 2007. In December 2008, the FHLB of Pittsburgh notified member banks that it was suspending dividend payments and the repurchase of capital stock. Management evaluates the restricted stock for impairment in accordance with Statement of Position (SOP) 01-6, Accounting by Certain Entities (Including Entities With Trade Receivables) That Lend to or Finance the Activities of Others. Management's determination of whether these investments are impaired is based on their assessment of the ultimate recoverability of their cost rather than by recognizing temporary declines in value. The determination of whether a decline affects the ultimate recoverability of their cost is influenced by criteria such as (1) the significance of the decline in net assets of the FHLB as compared to the capital stock amount for the FHLB and the length of time this situation has persisted, (2) commitments by the FHLB to make payments required by law or regulation and the level of such payments in relation to the operating performance of the FHLB, and (3) the impact of legislative and regulatory changes on institutions and, accordingly, on the customer base of the FHLB.

Management believes no impairment charge is necessary related to the restricted stock as of December 31, 2008.

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,

NEW CENTURY BANK

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 collectability of the total contractual principal and interest is no longer in doubt.

Allowance for Loan Losses

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

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

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

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

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

Significant Group Concentrations of Credit Risk

Most of the Bank's activities are with customers located in southeastern Pennsylvania. Note 3 discusses the types of securities that the Bank invests in. Note 4 discusses the types of lending in which the Bank engages. Although the Bank has a diversified loan portfolio, its debtors' ability to honor their contracts is influenced by the region's economy. The Bank does not have any significant concentrations to any one indus-try or customer.

Transfers of Financial Assets

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

Foreclosed Real Estate

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

NOTE 2 –
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

After foreclosure, valuations are periodically performed by management and the real estate is carried at the lower of its carrying amount or fair value less the cost to sell. Revenue and expenses from operations and changes in the valuation allowance are included in other expenses. Foreclosed real estate is included in other assets. The balance in foreclosed real estate at December 31, 2008 and 2007 was $1,519 thousand and $0, respectively.

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 2,021,078 and 2,004,097 in 2008 and 2007, respectively. The weighted average number of dilutive shares was -0- and 34,902 in 2008 and 2007, respectively. Options to purchase 46,827 shares of common stock outstanding at December 31, 2008 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, 2007, 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, 2007, 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, 2007.

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, 2008, 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 2007 financial statements have been reclassified to conform to the 2008 presentation. These reclassifications did not impact the Bank's financial position or results of operations.

NOTE 3 – INVESTMENT SECURITIES

The amortized cost and approximate fair value of available for sale and held to maturity securities as of December 31, 2008 and 2007 are summarized as follows:

December 31, 2008

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(in thousands)		
AVAILABLE FOR SALE:				
U.S. Treasury and government agency	$1,073	$13	$-	$1,086
Mortgage-backed securities	17,228	255	(420)	17,063
Asset-backed securities	2,159	30	(11)	2,178
Municipal securities	10,135	38	(286)	9,887
Corporate bonds	45	3	-	48
Equity securities	1,808	-	(9)	1,799
	$32,448	**$339**	**$(726)**	**$32,061**
HELD TO MATURITY:				
Mortgage-backed securities	$2,235	$147	$-	$2,382
	$2,235	$147	$-	$2,382

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)	20,571
Asset-backed securities	1,326	53	-	1,378
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

NOTE 3 – INVESTMENT SECURITIES (CONTINUED)

Equity securities at December 31, 2008 and 2007 include restricted investments in bank stocks of $1,793 thousand and $2,859 thousand, respectively.

The amortized cost and fair value of available for sale and held to maturity securities as of December 31, 2008, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because the securities may be called or prepaid with or without any penalties.

	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(in thousands)			
Due in one year or less	$-	$-	$-	$-
Due after one year through five years	574	583	-	-
Due after five years through ten years	2,219	2,228	-	-
Due after ten years	8,460	8,210	-	-
	11,253	11,021	-	-
Mortgage-backed securities	17,228	17,063	2,235	2,382
Asset-backed securities	2,159	2,178	-	-
Equity securities	1,808	1,799	-	-
	$32,448	**$32,061**	**$2,235**	**$2,382**

Proceeds from the sale of available for sale securities were $4,267 thousand and $2,613 thousand in 2008 and 2007, respectively. There was a loss on the sale of available for sale securities in 2008 of $361 thousand. There were no gains or losses on the sale of available for sale securities in 2007. The Bank recorded other than temporary impairment charges of $940 thousand and $394 thousand in 2008 and 2007, respectively.

NOTE 3 – INVESTMENT SECURITIES (CONTINUED)

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, 2008 and 2007 are as follows:

December 31, 2008

	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	$-	$-	$-	$-	$-	$-
Mortgage-backed securities	3,821	(222)	3,854	(198)	7,675	(420)
Asset-backed securities	1,023	(11)	-	-	1,023	(11)
Municipal securities	5,510	(286)	-	-	5,510	(286)
Corporate bonds	-	-	-	-	-	-
Equity securities	6	(9)	-	-	6	(9)
Total investment securities available for sale	**$10,360**	**$(528)**	**$3,854**	**$(198)**	**$14,214**	**$(726)**

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)**

In 2008, the Bank incurred $940 thousand in expense when it determined that the FHLMC preferred stock and the Lehman Bros. Holding floater note had been other-than-temporarily impaired. In 2007, the Bank held $500 thousand of FHLMC preferred stock with an unrealized loss of $120 thousand. Because this decline in value occurred late in 2007, the Bank was unable to determine that the loss was anything other than temporary. Therefore, no loss was realized in 2007. At December 31, 2008, there were forty three available for sale securities in the less than twelve month category and thirty two available for sale securities in the twelve month or more category. At December 31, 2007, there were thirty available for sale securities in the less than twelve months category and sixty available for sale securities in the twelve months or more category. In management's opinion, the unrealized losses reflect primarily changes in interest rates, such as but not limited to changes in economic conditions and the liquidity of the market, subsequent to the acquisition of specific securities. The Bank has the ability and intent to hold these securities until maturity or market price recovery. Management believes that as of December 31, 2008 there is no other than temporary impairment of these securities.

As of December 31, 2008, the Bank pledged securities to the Federal Reserve for $10 million and Federal Home Loan Bank for $22 million as collateral for borrowings.

NOTE 4 - LOANS RECEIVABLE

The composition of net loans receivable at December 31, 2008 and 2007 is as follows:

	2008	2007
	(in thousands)	
Commercial	$188,192	$180,926
Residential real estate loans	8,592	8,260
Consumer	26,448	24,848
Total loans	**223,232**	214,034
Unearned net loan origination costs and fees	520	535
Allowance for loan losses	(2,876)	(2,460)
Net loans	**$220,876**	**$212,109**

NOTE 5 - ALLOWANCE FOR LOAN LOSSES

The changes in the allowance for loan losses for the years ended December 31, 2008 and 2007 are as follows:

	2008	2007
	(in thousands)	
Balance, January 1	$2,460	$2,029
Provision for loan losses	611	444
Loans charged off	(195)	(14)
Recoveries	–	1
Balance, December 31	**$2,876**	$2,460

As of December 31, 2008 and 2007, the Bank had impaired loans of $5,872 thousand and $1,888 thousand, respectively, requiring an allowance for loan losses of $376 thousand and $134 thousand, respectively. During 2008 and 2007, the average recorded investment in these impaired loans was $6,042 thousand and $1,848 thousand, respectively, and the interest income recognized on impaired loans was $172 thousand and $131 thousand, respectively.

Loans on which the accrual of interest has been discontinued amounted to $4,387 thousand and $2,058 thousand at December 31, 2008 and 2007, respectively. There are $1,585 thousand and $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, 2008 and 2007, respectively.

NOTE 6 - BANK PREMISES AND EQUIPMENT

The components of bank premises and equipment at December 31, 2008 and 2007 are as follows:

	2008	2007
	(in thousands)	
Leasehold improvements	$3,105	$2,622
Furniture, fixtures and equipment	995	897
IT equipment and software	1,359	1,195
Automobiles	51	50
Construction in process	5	206
	5,515	4,970
Less accumulated depreciation	2,751	2,172
	$2,764	$2,798

NOTE 7 - DEPOSITS

The components of deposits at December 31, 2008 and 2007 are as follows:

	2008	2007
	(in thousands)	
Demand, non-interest bearing	$20,574	$21,670
Demand, interest bearing	53,326	52,759
Savings	9,213	10,442
Time, $100,000 and over	73,535	62,190
Time, other	81,194	73,284
Total deposits	**$237,842**	$220,345

At December 31, 2008, the scheduled maturities of time deposits are as follows (in thousands):

2009	$125,608
2010	22,600
2011	2,256
2012	2,657
2013	1,608
	$154,729

Included in time deposits, $100,000 and over, at December 31, 2008 and 2007 are public fund certificates of deposit of $23 million and $25 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 July 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 2013; one is an operating lease agreement which expires January 2014, but includes the option to extend the agreement for an additional five-year period; 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)

2009	$ 782
2010	708
2011	657
2012	667
2013	674
2014 & Thereafter	4,127
	$7,615

Rent expense, which includes reimbursements to the lessor for real estate taxes, was approximately $729 thousand and $731 thousand for the years ended December 31, 2008 and 2007, 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, 2008, the Bank had short-term and long-term advances from the Federal Home Loan Bank totaling $4 million and $11 million, respectively with an average interest rate of 4.47% and 3.24%, respectively. At December 31, 2007, the Bank had short-term and long-term advances from the Federal Home Loan Bank totaling $16 million and $15 million, respectively, with an average interest rate of 3.75% and 4.11%, respectively.

The contractual maturities of fixed rate long-term advances at December 31, 2008 are as follows:

	2008 (in thousands)
2013	$ 1,000
2014 & Thereafter	10,000
	$11,000

The Bank has a total borrowing capacity with the Federal Home Loan Bank and Federal Reserve Bank of Philadelphia of approximately $61 million and $10 million, respectively. The public fund certificates of deposit discussed in Note 7, are backed by a $23 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 totaling $89 million.

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, 2008, the quarterly interest rate was 4.18%. 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, 2008 and 2007 were approximately $60 thousand and $55 thousand, respectively.

NOTE 11 - STOCKHOLDERS' EQUITY

During 2008, the Bank issued $980 thousand in 10% Series A Non-Cumulative Perpetual Convertible Preferred Stock. This stock pays a 10% dividend that is non-cumulative. The preferred shares will convert to common stock on November 15, 2013 or under certain circumstances, at an earlier date. The Pennsylvania Department of Banking has certain restrictions for paying dividends on all classes of stock. There were $30 thousand of expenses related to the issuance of the preferred stock in 2008.

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 (loss) are unrealized holding gains (losses), net of deferred taxes, on securities available for sale.

NOTE 12 – COMPREHENSIVE INCOME (CONTINUED)

Year Ended December 31,	2008	2007
	(in thousands)	
Unrealized holding gains (losses) on available for sale securities	$(1,462)	$57
Reclassification adjustment for losses recognized in income on available for sale securities	1,301	–
Net unrealized gains (losses)	**(161)**	**57**
Income tax effect	55	(19)
Net of tax amount	**$(106)**	**$38**

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, 2008 and 2007:

	2008		2007	
	Number of Options	Wtd Avg Exercise Price	Number of Options	Wtd Avg Exercise Price
Outstanding at beginning of Year	**48,034**	**$10.67**	**120,825**	**$9.54**
Exercised	–	–	(36,708)	8.80
Forfeited	(1,207)	10.96	(36,083)	8.81
Outstanding at December 31	**46,827**	**$10.66**	**48,034**	**$10.67**
Exercisable at December 31	**46,827**	**$10.94**	**42,001**	**$10.75**

No stock options were granted in either 2008 or 2007. The weighted average remaining contractual life of the outstanding stock options at December 31, 2008 is approximately 7 years. The aggregate intrinsic value of options outstanding was $0 as of December 31, 2008.

NOTE 14 – FEDERAL INCOME TAXES

In December 2008, the Financial Accounting Standards Board issued FASB Staff Position (FSP) FIN 48-3, Effective Date of FASB Interpretation No. 48 for Certain Nonpublic Enterprises. The FSP defers the effective date of FASB Interpretation No. 48 (FIN 48), Accounting for Uncertainty in Income Taxes, to be effective for fiscal years beginning after December 15, 2008 for certain nonpublic enterprises. The FSP requires a nonpublic enterprise that elects to defer the application of FIN 48 to explicitly disclose that fact and also requires the disclosure of the enterprise's accounting policy for evaluating uncertain tax positions for each set of financial statements where the deferral applies.

The Bank has elected to defer the application of FIN 48. For the years ended December 31, 2008 and 2007 the Bank has accounted for uncertain tax positions in accordance with Statement of Financial Accounting Standards No. 5, Accounting for Contingencies.

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

	2008	2007
	(in thousands)	
Current	$ (409)	$ 212
Deferred	(17)	(372)
	$ (426)	**$ (160)**

The components of the net deferred tax asset at December 31, 2008 and 2007 are as follows:

	2008	2007
	(in thousands)	
DEFERRED TAX ASSETS:		
Allowance for loan losses	$978	$836
Net unrealized losses on securities	132	77
Bank premises and equipment	193	104
Impairment charge on securities	216	134
Miscellaneous	20	-
Total deferred tax assets	**1,539**	1,151
Valuation allowance	(360)	-
Total deferred tax assets, net of valuation allowance	**1,179**	1,151
DEFERRED TAX LIABILITIES:		
Cash basis conversion	-	(44)
Total deferred tax liabilities	-	**(44)**
Net deferred tax asset	**$1,179**	$1,107

In 2008 the Bank generated net operating income tax losses of approximately $1.1 million which are available to be carried back to prior open tax years. The Bank recognizes deferred tax assets and liabilities for the future tax consequences related to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, and for tax credits. The deferred tax assets, net of valuation allowances, totaled $1.1 million ($132 thousand related to available for sale investment securities and $1.4 million related to reversals of temporary differences) at December 31, 2008 and December 31, 2007, respectively.

Management evaluated the deferred tax assets for recoverability using a consistent approach which considers the relative impact of negative and positive evidence, including historical profitability and projections of future reversals of temporary differences and future taxable income. The Bank is required to establish a valuation allowance for deferred tax assets and record a charge to income or stockholders' equity if management determines, based on available evidence at the time the determination is made, that it is more likely than not that some portion or all of the deferred tax assets will not be realized. In evaluating the need for a valuation allowance, the Bank estimates future taxable income based on management approved business plans and ongoing tax planning strategies. This process involves significant management judgment about assumptions that are subject to change from period to period based on changes in tax laws or variances between projected operating performance, actual results and other factors.

As of December 31, 2008, the Bank did not have a cumulative book taxable loss position for the three-year period. For purposes of establishing a deferred tax valuation allowance, this cumulative book taxable loss position is considered significant objective evidence that the Bank may not be able to realize some portion of the deferred tax assets in the future. The Bank established a valuation allowance for the deferred tax asset amount of $360 thousand as of December 31, 2008. The remaining deferred tax asset of $1.1 million is related to projected reversals of temporary differences in 2009 that are projected to be carried back to a prior open years.

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, 2008 and 2007, related party loans totaled approximately $4 thousand and $3,016 thousand, respectively. During 2008, new loans and advances to such related parties totaled $10 thousand and repayments totaled $3,022 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, 2008 and 2007, the following financial instruments were outstanding whose contract amounts represent credit risk:

	2008	2007
	(in thousands)	
Commitments to fund loans	$ 4,900	$ 11,232
Unfunded commitments under lines of credit	20,735	23,542
Letters of credit	1,203	2,466

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, 2008 and 2007 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, 2008 was $25 thousand and at December 31, 2007 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, 2008 and 2007, that the Bank meets all capital adequacy requirements to which it is subject.

As of December 31, 2008, 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, 2008 and 2007 are also presented at right:

NOTE 17 - REGULATORY MATTERS (CONTINUED)

	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, 2008:						
Total capital (to risk weighted assets)	$ 22,825	10.5%	≥ $17,395	≥ 8.0%	≥ $21,743	≥ 10.0
Tier 1 capital (to risk weighted assets)	17,105	7.9	≥ 8,697	≥ 4.0	≥ 13,046	≥ 6.0
Tier 1 capital (to average assets)	17,105	6.2	≥ 11,012	≥ 4.0	≥ 13,765	≥ 5.0
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

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 the dates indicated. The estimated fair value amounts have been measured as of their respective year-ends and have not been re-evaluated or updated for purposes of these financial statements subsequent to those respective dates. As such, the estimated fair values of these financial instruments subsequent to the respective reporting dates may be different than the amounts reported at each year-end.

In September 2006, the Financial Accounting Standards Board ("FASB") issued Statement No. 157, Fair Value Measurements ("SFAS 157"), which defines fair value, establishes a framework for measuring fair value under GAAP, and expands disclosures about fair value measurements. SFAS 157 applies to other accounting pronouncements that require or permit fair value measurements. The Bank adopted SFAS 157 effective for its fiscal year beginning January 1, 2008.

In December 2007, the FASB issued FASB Staff Position 157-2, Effective Date of FASB Statement No. 157 ("FSP 157-2"). FSP 157-2 delays the effective date of SFAS 157 for all non-financial assets and liabilities, except those that are recognized or disclosed at fair value on a recurring basis (at least annually) to fiscal years beginning after November 15, 2008 and interim periods within those fiscal years.

As such, the Bank only partially adopted the provisions of SFAS 157, and will begin to account and report for non-financial assets and liabilities in 2009. In October 2008, the FASB issued FASB Staff Position 157-3, Determining the Fair Value of a Financial Asset When the Market for that Asset is Not Active ("FSP 157-3"), to clarify the application of the provisions of SFAS 157 in an inactive market and how an entity would determine fair value in an inactive market. FSP 157-3 is effective immediately and applies to the Bank's December 31, 2008 financial statements. The adoption of SFAS 157 and FSP 157-3 had no impact on the amounts reported in the financial statements.

SFAS 157 establishes a fair value hierarchy that prioritizes the inputs to valuation methods used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

The three levels of the fair value hierarchy under SFAS 157 are as follows:

Level 1:
Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

Level 2:
Quoted prices in markets that are not active, or inputs that are observable either directly or indirectly, for substantially the full term of the asset or liability.

Level 3:
Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e., supported with little or no market activity).

An asset's or liability's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

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

For financial assets measured at fair value on a recurring basis, the fair value measurements by level within the fair value hierarchy used at December 31, 2008 are as follows:

Description	December 31, 2008	(Level 1) Quoted Prices in Active Markets for Identical Assets	(Level 2) Significant Other Observable Inputs	(Level 3) Significant Unobservable Inputs
		(in thousands)		
Securities available for sale	$32,061	$905	$31,156	$-

For financial assets measured at fair value on a nonrecurring basis, the fair value measurements by level within the fair value hierarchy used at December 31, 2008 are as follows:

Description	December 31, 2008	(Level 1) Quoted Prices in Active Markets for Identical Assets	(Level 2) Significant Other Observable Inputs	(Level 3) Significant Unobservable Inputs
		(in thousands)		
Impaired Loans	$5,496	$-	$-	$5,496

As discussed above, the Bank has delayed its disclosure requirements of non-financial assets and liabilities. Certain real estate owned with write-downs subsequent to foreclosure are carried at fair value at the balance sheet date for which the Bank has not yet adopted the provisions of SFAS 157.

The following information should not be interpreted as an estimate of the fair value of the entire Bank since a fair value calculation is only provided for a limited portion of the Bank's assets and liabilities. Due to a wide range of valuation techniques and the degree of subjectivity used in making the estimates, comparisons between the Bank's disclosures and those of other companies may not be meaningful. The following methods and assumptions were used to estimate the fair values of the Bank's financial instruments at December 31, 2008 and 2007:

Cash and Cash Equivalents (carried at cost):

The carrying amounts reported in the balance sheet for cash and short-term instruments approximate those assets' fair values.

Securities

The fair value of securities available for sale (carried at fair value) and held to maturity (carried at amortized cost) are determined by obtaining quoted market prices on nationally recognized securities exchanges (Level 1), or matrix pricing (Level 2), which is a mathematical technique used widely in the industry to value debt securities without relying exclusively on quoted market prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted prices.

The carrying amount of restricted investment in bank stock approximates fair value, and considers the limited marketability of such securities.

Loans Receivable (carried at cost):

The fair values of loans are estimated using discounted cash flow analyses, using market rates at the balance sheet date that reflect the credit and interest rate-risk inherent in the loans. Projected future cash flows are calculated based upon contractual maturity or call dates, projected repayments and prepayments of principal. Generally, for variable rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values.

Impaired Loans (carried at fair value):

Impaired loans are those that are accounted for under FASB Statement No. 114, Accounting by Creditors for Impairment of a Loan ("SFAS 114"), in which the Bank has measured impairment generally based on the fair value of the loan's collateral. Fair value is generally determined based upon independent third-party appraisals of the properties, or discounted cash flows based upon the expected proceeds. These assets are included as Level 3 fair values, based upon the lowest level of input that is significant to the fair value measurements.

Accrued Interest Receivable and Payable (carried at cost):

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

Deposit Liabilities (carried at cost):

The fair values disclosed for demand deposits (e.g., interest and noninterest checking, passbook savings and money market accounts) are, by definition, equal to the amount payable on demand at the reporting date (i.e., their carrying amounts). Fair values for fixed-rate certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered in the market on certificates to a schedule of aggregated expected monthly maturities on time deposits.

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

Short-Term Borrowings (carried at cost):

The carrying amounts of short-term borrowings approximate their fair values.

Long-Term Debt (carried at cost):

Fair values of FHLB advances are estimated using discounted cash flow analysis, based on quoted prices for new FHLB advances with similar credit risk characteristics, terms and remaining maturity. These prices obtained from this active market represent a market value that is deemed to represent the transfer price if the liability were assumed by a third party.

Subordinated Debt (carried at cost):

Fair values of subordinated debt are estimated using discounted cash flow analysis, based on market rates currently offered on such debt with similar credit risk characteristics, terms and remaining maturity.

Off-balance sheet financial instruments (disclosed at cost):

Fair values for the Bank's off-balance sheet financial instruments (lending commitments and letters of credit) are based on fees currently charged in the market to enter into similar agreements, taking into account, the remaining terms of the agreements and the counterparties' credit standing.

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 does not foresee the need to utilize these letters of credit. The estimated fair value approximates the recorded deferred fee amounts, which are not significant.

The estimated fair values of the Bank's financial instruments were as follows at December 31, 2008 and 2007.

December 31,	2008		2007	
(in thousands)	Carrying Amount	Fair Value	Carrying Amount	Fair Value
ASSETS:				
Cash and cash equivalents	$6,295	$6,295	$6,683	$6,683
Securities available for sale	32,061	32,061	40,779	40,779
Securities held to maturity	2,235	2,382	2,467	2,479
Loans receivable, net	220,876	221,211	212,109	210,211
Accrued interest receivable	1,542	1,542	1,793	1,793
LIABILITIES:				
Deposits	237,842	240,084	220,345	220,820
Borrowings	18,000	20,156	33,900	33,955
Accrued interest payable	660	660	770	770
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

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