York Traditions Bank

Financial Report

December 31, 2007

York Traditions Bank

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Independent Auditor's Report

To the Board of Directors
York Traditions Bank
York, Pennsylvania

We have audited the accompanying balance sheets of York Traditions Bank as of December 31, 2007 and 2006, and the related statements of income, shareholders' 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 York Traditions 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
Harrisburg, Pennsylvania
February 5, 2008

York Traditions Bank

Balance Sheets
December 31, 2007 and 2006

	2007	2006
	(In Thousands, Except Share Data)	
Assets		
Cash and due from banks	**$ 3,190**	$ 2,296
Interest bearing deposits	**279**	37
Federal funds sold	**11,180**	4,885
Cash and Cash Equivalents	**14,649**	7,218
Securities available for sale	**36,522**	28,654
Loans held for sale	**182**	580
Loans receivable, net of allowance for loan losses 2007 $1,489; 2006 $1,198	**124,720**	100,331
Restricted investment in bank stocks	**352**	301
Property and equipment, net	**2,292**	2,379
Accrued interest receivable	**703**	632
Other assets	**642**	436
Total Assets	**$180,062**	$140,531
Liabilities and Shareholders' Equity		
Liabilities		
Deposits:		
Demand, non-interest bearing	**$ 12,338**	$ 10,562
Interest bearing	**148,957**	113,049
Total Deposits	**161,295**	123,611
Other liabilities	**859**	576
Total Liabilities	**162,154**	124,187
Shareholders' Equity		
Preferred stock, par value $5 per share; 5,000,000 shares authorized and unissued	**-**	-
Common stock, par value $1 per share; 10,000,000 shares authorized; issued and outstanding 2,035,021 shares in 2007 and 2,034,021 shares in 2006	**2,035**	2,034
Surplus	**17,144**	17,104
Accumulated deficit	**(1,367)**	(2,580)
Accumulated other comprehensive income (loss)	**96**	(214)
Total Shareholders' Equity	**17,908**	16,344
Total Liabilities and Shareholders' Equity	**$180,062**	$140,531

See notes to financial statements.

York Traditions Bank

Statements of Income
Years Ended December 31, 2007 and 2006

	2007	2006
	(In Thousands)	
Interest Income		
Loans receivable, including fees	$ 8,600	$6,204
Securities, taxable	1,447	1,196
Federal funds sold and other	348	311
Total Interest Income	10,395	7,711
Interest Expense		
Deposits	5,451	3,975
Short-term borrowings	4	25
Total Interest Expense	5,455	4,000
Net Interest Income	4,940	3,711
Provision for Loan Losses	291	383
Net Interest Income after Provision for Loan Losses	4,649	3,328
Noninterest Income		
Service charges on deposits	93	76
Gain on loan sales	54	29
Other	192	135
Total Noninterest Income	339	240
Noninterest Expenses		
Salaries and employee benefits	2,296	1,955
Occupancy and equipment	756	629
Advertising and marketing	161	178
Professional fees	196	147
Data processing	226	167
Other	575	431
Total Noninterest Expenses	4,210	3,507
Income before Income Taxes	778	61
Income Tax Benefit	(435)	(147)
Net Income	$ 1,213	$ 208

See notes to financial statements.

Statements of Shareholders' Equity
Years Ended December 31, 2007 and 2006

	Common Stock	Surplus	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total
			(In Thousands)		
Balance - December 31, 2005	$1,645	$12,825	$(2,788)	$(455)	$11,227
Exercise of stock purchase warrants	389	4,253	-	-	4,642
Stock-based compensation awards	-	26	-	-	26
Comprehensive income:					
Net income	-	-	208	-	208
Change in net unrealized losses on securities available for sale, net of reclassification adjustment and tax effect	-	-	-	241	241
Total Comprehensive Income					449
Balance - December 31, 2006	2,034	17,104	(2,580)	(214)	16,344
Stock-based compensation awards	1	40	-	-	41
Comprehensive income:					
Net income	-	-	1,213	-	1,213
Change in net unrealized gains on securities available for sale, net of reclassification adjustment and tax effect	-	-	-	310	310
Total Comprehensive Income					1,523
Balance - December 31, 2007	$2,035	$17,144	$(1,367)	$ 96	$17,908

See notes to financial statements.

Statements of Cash Flows
Years Ended December 31, 2007 and 2006

	2007	2006
	(In Thousands)	
Cash Flows from Operating Activities		
Net income	**$ 1,213**	$ 208
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	**291**	383
Provision for depreciation and amortization	**319**	271
Accretion on securities, net	**(44)**	(34)
Gain on sale of foreclosed real estate	**-**	(2)
Gain on sale of loans	**(54)**	(29)
Proceeds from sale of loans	**10,250**	5,315
Loans originated for sale	**(9,798)**	(5,866)
Deferred income tax benefit	**(435)**	(147)
Stock-based compensation expense	**41**	26
Increase in accrued interest receivable and other assets	**(2)**	(335)
Increase in other liabilities	**283**	241
Net Cash Provided by Operating Activities	**2,064**	31
Cash Flows from Investing Activities		
Proceeds from calls and paydowns of securities available for sale	**9,109**	7,383
Purchases of securities available for sale	**(16,462)**	(9,292)
Net purchase of restricted investment in bank stocks	**(51)**	(103)
Net increase in loans	**(24,680)**	(33,791)
Purchases of property and equipment	**(233)**	(1,392)
Proceeds from sale of foreclosed real estate	**-**	182
Net Cash Used in Investing Activities	**(32,317)**	(37,013)
Cash Flows from Financing Activities		
Net increase in deposits	**37,684**	29,992
Proceeds from issuance of common stock	**-**	4,642
Net Cash Provided by Financing Activities	**37,684**	34,634
Net Increase (Decrease) in Cash and Cash Equivalents	**7,431**	(2,348)
Cash and Cash Equivalents - Beginning	**7,218**	9,566
Cash and Cash Equivalents - Ending	**$14,649**	$ 7,218
Supplementary Cash Flows Information		
Interest paid	**$ 5,266**	$ 3,800

See notes to financial statements.

Note 1 - Summary of Significant Accounting Policies

The accounting policies discussed below are followed consistently by York Traditions Bank. These policies are in accordance with accounting principles generally accepted in the United States of America and conform to common practices in the banking industry.

Nature of Operations

The Bank is a Pennsylvania-chartered commercial bank, regulated by the Pennsylvania Department of Banking and the Federal Deposit Insurance Corporation, that was incorporated on March 14, 2002 and commenced operations on October 28, 2002.

The Bank operates as a traditional community bank serving the Central Pennsylvania market with an emphasis on commercial and consumer banking.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses and the valuation of deferred tax assets.

Significant Group Concentrations of Credit Risk

Most of the Bank's activities are with businesses and individuals located in Central Pennsylvania. Note 2 discusses the types of securities in the Bank's investment portfolio. Note 3 discusses the types of loans the Bank makes to its customers. The Bank does not have any significant concentrations to any one industry or customer.

Presentation of Cash Flows

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks, federal funds sold, and short-term investments purchased with a maturity date of three months or less. Generally, federal funds are purchased or sold for one day periods.

Transfers of Financial Assets

Transfers of financial assets 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.

Loans Held for Sale

Loans held for sale consist of residential mortgages and are carried at the lower of aggregate cost or fair value.

Note 1 - Summary of Significant Accounting Policies (Continued)

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 recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income. Premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Declines in the fair value of 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. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

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 and costs. Interest income is accrued on the unpaid principal balance. Loan origination fees 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 loan.

The accrual of interest is generally discontinued when the contractual payment of principal or interest has become 90 days past due or management has serious doubts about further collectibility of principal or interest, even though the loan is currently performing. A loan may remain on accrual status if it is in the process of collection and is either guaranteed or well secured. When a loan is placed on nonaccrual status, unpaid interest credited to income in the current year is reversed and unpaid interest accrued in prior years is charged against the allowance for loan losses. Interest received on nonaccrual loans generally is either applied against principal or reported as interest income, according to management's judgment as to the collectibility of principal. Generally, loans are restored to accrual status when the obligation is brought current, has performed in accordance with the contractual terms for a reasonable period of time and the ultimate collectibility of the total contractual principal and interest is no longer in doubt.

Allowance for Loan Losses

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

Note 1 - Summary of Significant Accounting Policies (Continued)

Allowance for Loan Losses (Continued)

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 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 impaired and 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 and construction 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.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation. Depreciation is computed on the straight-line method over the assets' estimated useful lives.

Restricted Investment in Bank Stocks

Restricted investment in bank stocks includes Federal Home Loan Bank (FHLB) and Atlantic Central Bankers Bank stocks. Federal law requires a member institution of the FHLB system to hold stock of its district FHLB according to a predetermined formula. The stock is carried at cost.

Note 1 - Summary of Significant Accounting Policies (Continued)

Advertising Costs

The Bank follows the policy of charging the costs of advertising to expense as incurred. Advertising costs totaled $79,000 and $66,000 for the years ended December 31, 2007 and 2006, respectively.

Stock Based Compensation

The Bank follows the provisions of SFAS No. 123R, "Share-Based Payment," to account for its stock compensation plans. This statement requires an entity to recognize the expense of employee services received in share-based payment transactions and measure the expense based on the grant date fair value of the award. The expense is recognized over the period during which an employee is required to provide service in exchange for the award. Stock-based compensation expense for the years ended December 31, 2007 and 2006 totaled $41,000 and $26,000, respectively.

Income Taxes

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

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.

Comprehensive Income

Accounting principles generally accepted in the United States of America require that recognized revenue, expenses, gains and losses be included in net income. Although certain changes in assets and liabilities, such as unrealized gains and losses on securities available for sale, 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.

Note 1 - Summary of Significant Accounting Policies (Continued)

Comprehensive Income (Continued)

The components of other comprehensive income for the years ended December 31, 2007 and 2006 are as follows:

	2007	2006
	(In Thousands)	
Unrealized holding gains on securities available for sale	**$470**	$130
Tax effect	**(160)**	111
Net of Tax Amount	**$310**	$241

Note 2 - Securities Available for Sale

A summary of amortized cost and fair values of securities as of December 31, 2007 and 2006 is as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(In Thousands)		
December 31, 2007				
U.S. Agency securities	**$11,200**	**$104**	**$ 4**	**$11,300**
Mortgage-backed securities	**25,177**	**160**	**115**	**25,222**
	$36,377	**$264**	**$119**	**$36,522**
December 31, 2006				
U.S. Agency securities	$ 9,423	$ 7	$ 43	$ 9,387
Mortgage-backed securities	19,556	18	307	19,267
	$28,979	$25	$350	$28,654

There were no sales of securities in 2007 and 2006.

Note 2 - Securities Available for Sale (Continued)

The amortized cost and fair value of 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 penalty.

	Amortized Cost	Fair Value
	(In Thousands)	
Due in one year or less	$ 1,770	$ 1,769
Due after one year through five years	9,430	9,531
Mortgage-backed securities	25,177	25,222
	$36,377	$36,522

The following tables show the Bank's securities' 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:

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
			(In Thousands)			
December 31, 2007						
U.S. Agency securities	$ -	$ -	$ 995	$ 4	$ 995	$ 4
Mortgage-backed securities	1,430	10	6,816	105	8,246	115
	$1,430	$10	$ 7,811	$109	$ 9,241	$119
December 31, 2006						
U.S. Agency securities	$ -	$ -	$ 4,151	$ 43	$ 4,151	$ 43
Mortgage-backed securities	4,677	31	10,724	276	15,401	307
	$4,677	$31	$14,875	$319	$19,552	$350

The 2007 unrealized losses relate principally to changes in interest rates subsequent to the acquisition of specific securities. Credit risk for these securities is minimal. As management has the intent and ability to hold debt securities until recovery, no declines are deemed to be other-than-temporary. At December 31, 2007, the Bank had 33 securities in an unrealized loss position, none of which exceeded 8% of the security's carrying amount.

Note 3 - Loans Receivable

The composition of net loans receivable consists of the following as of December 31, 2007 and 2006:

	2007	2006
	(In Thousands)	
Commercial	**$ 38,810**	$ 33,660
Consumer	**1,391**	1,113
Real estate:		
Construction	**11,231**	7,528
Farmland	**1,283**	1,317
Residential	**28,399**	23,629
Home equity lines of credit	**7,014**	5,533
Commercial	**37,821**	28,373
Lease financing receivables, net	**260**	376
Total Loans	**126,209**	101,529
Allowance for loan losses	**(1,489)**	(1,198)
Net Loans	**$124,720**	$100,331

The above amounts are recorded net of unamortized deferred fees of $33,000 at December 31, 2007 and $25,000 at December 31, 2006.

As of December 31, 2007 and 2006, loans serviced for the benefit of others were $16,476,000 and $19,950,000, respectively.

Note 4 - Allowance for Loan Losses

The changes in the allowance for loan losses consist of the following for the years ended December 31, 2007 and 2006:

	2007	2006
	(In Thousands)	
Balance, beginning	**$1,198**	$ 815
Provision for loan losses	**291**	383
Balance, ending	**$1,489**	$1,198

The Bank had no loans on nonaccrual or loans past due 90 days or more and still accruing interest at December 31, 2007 and 2006.

Note 4 - Allowance for Loan Losses (Continued)

The following is a summary of information pertaining to impaired loans at and for the years ended December 31:

	2007	2006
	(In Thousands)	
Impaired loans without a valuation allowance	$ -	$ 30
Impaired loans with a valuation allowance	1,372	983
Total Impaired Loans	$1,372	$1,013
Valuation allowance related to impaired loans	$ 295	$ 266
Average investment in impaired loans	$1,190	$87
Interest income recognized on impaired loans	$ 100	$ 2
Interest recognized on a cash basis	$ 106	$ 1

No additional funds are committed to be advanced in connection with impaired loans. As of December 31, 2007 and 2006, there was restructured loans of $965,000 and $-0-, respectively.

Note 5 - Property and Equipment

The components of property and equipment consist of the following as of December 31, 2007 and 2006:

	2007	2006
	(In Thousands)	
Land	$ 200	$ 200
Building and leasehold improvements	1,838	1,839
Furniture, fixtures and equipment	905	755
Software	309	254
Construction in process	28	-
	3,280	3,048
Accumulated depreciation	(988)	(669)
	$2,292	$2,379

The Bank is implementing a new core processing system which they will install in March 2008. The total cost is expected to be approximately $277,000, of which $-0- has been incurred through December 31, 2007.

Note 6 - Deposits

The components of deposits consist of the following as of December 31, 2007 and 2006:

	2007	2006
	(In Thousands)	
Demand, non-interest bearing	**$ 12,338**	$ 10,562
Demand, interest bearing	**17,471**	17,448
Savings and money market	**50,009**	30,950
Time, $100,000 and over	**29,766**	28,362
Time, other	**51,711**	36,289
Total Deposits	**$161,295**	$123,611

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

2008	**$66,095**
2009	**10,898**
2010	**1,833**
2011	**1,455**
2012	**1,196**
	$81,477

Note 7 - Borrowings and Lease Commitments

The Bank has a $2,000,000 secured and a $2,000,000 unsecured federal funds line of credit with Atlantic Central Bankers Bank. As of December 31, 2007 and 2006, $-0- was outstanding under either line of credit. $2,513,000 of securities available for sale are held in safekeeping at Atlantic Central Bankers Bank to collateralize the secured federal funds line. The Bank also has an agreement with the Federal Home Loan Bank of Pittsburgh (FHLB) which allows for borrowings up to a percentage of qualifying assets. At December 31, 2007, the Bank had a maximum borrowing capacity of $83,365,000, of which $-0- was outstanding. There were no FHLB borrowings at December 31, 2007 and 2006.

The Bank leases two of its branch office facilities under ten-year renewable operating leases. The rental expense under such leases amounted to $263,000 in 2007 and $226,000 in 2006.

Future minimum lease payments by year on these leases are as follows (in thousands):

2008	**$ 339**
2009	**345**
2010	**348**
2011	**351**
2012	**354**
Thereafter	**486**
	$2,223

Note 8 - Federal Income Taxes

The components of income tax expense (benefit) for the years ended December 31, 2007 and 2006 are as follows:

	2007	2006
	(In Thousands)	
Federal:		
Current	$ -	$ -
Deferred	(435)	(147)
	$(435)	$(147)

The components of the net deferred tax asset consist of the following as of December 31, 2007 and 2006:

	2007	2006
	(In Thousands)	
Deferred tax assets:		
Allowance for loan losses	$377	$ 278
Start-up costs	-	17
Net operating loss carryforward	415	815
Unrealized holding losses on available for sale securities	-	111
Other	8	4
	800	1,225
Valuation allowance	-	(721)
Total Deferred Tax Assets, Net of Valuation Allowance	800	504
Deferred tax liabilities:		
Furniture, software and equipment	(30)	(48)
Cash basis conversion	(188)	(200)
Unrealized holding gains on available for sale securities	(49)	-
Total Deferred Tax Liabilities	(267)	(248)
Net Deferred Tax Asset	$533	$ 256

A tax benefit of $435,000 in 2007 and $147,000 in 2006 was recognized attributable to the reversal of the valuation allowance. The Bank has a net operating loss carryforward available for federal income tax purposes of $1,219,000 which begins to expire in 2022. The valuation allowance decreased $721,000 and $184,000 during 2007 and 2006, respectively.

Note 9 - Transactions with Executive Officers, Directors and Affiliated Companies

The Bank has had, and may be expected to have in the future, banking transactions with its executive officers, directors, their immediate families and affiliated companies (commonly referred to as related parties). As of December 31, 2007 and 2006, related party loans totaled $1,546,000 and $2,160,000, respectively. During 2007, loan advances and repayments totaled $-0- and $614,000, respectively.

The Bank leases its main office from a related party under a ten-year renewable lease. During 2007 and 2006, $185,000 and $148,000, respectively, was paid to the related party for rent, taxes and maintenance charges. Additionally, the Bank paid a related party $149,000 in 2006 for certain construction costs and leasehold improvements.

The Bank receives network and computer support services from a related party. In addition, the Bank also purchases computer equipment and software. Total payments to this related party in 2007 were $155,000 and in 2006 were $96,000.

Note 10 - 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. Such commitments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheet.

The Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit is represented by the contractual amount of those instruments. The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments. The amount of collateral obtained, if deemed necessary, is based on our credit evaluation of the counter-party. Collateral held varies but may include cash, accounts receivable, inventory, equipment and real estate.

The following financial instruments were outstanding whose contract amounts represent credit risk as of December 31, 2007 and 2006:

	2007	**2006**
	(In Thousands)	
Commitments to grant loans	**$12,984**	$ 3,134
Unfunded commitments under lines of credit	**29,030**	20,202
Letters of credit	**8,006**	1,985
	$50,020	$25,321

Note 10 - Financial Instruments with Off-Balance Sheet Risk (Continued)

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 loan facilities to customers. The Bank requires collateral supporting these letters of credit as deemed necessary. Management believes that the proceeds through a liquidation of such collateral would be sufficient to cover the maximum potential amount of future payments required under the corresponding guarantees. The amount of the liability as of December 31, 2007 and 2006 for guarantees under standby letters of credit is not material.

Note 11 - Employee Benefit Plan

The Bank provides a defined contribution 401(k) retirement plan that covers eligible employees. The Bank's matching contribution is 100% of each participant's elective contribution up to 4% of employee compensation. The expense of this plan included in salaries and employee benefits was $66,000 in 2007 and $47,000 in 2006.

Note 12 - Warrants and Stock-Based Compensation Plans

The Bank issued stock purchase warrants in connection with its initial stock offering, giving certain organizers the right to purchase a total of 62,500 shares of common stock at the initial offering price of $8 per share. These warrants were granted in consideration of the risks undertaken by the organizers, are exercisable in full and expire in October 2012. During 2006, 6,250 of these warrants were exercised. At December 31, 2007, 56,250 warrants remained outstanding.

The Bank issued 450,000 stock purchase warrants during 2005 in connection with its secondary stock offering. For each share of stock purchased during the offering, the investor was issued a warrant to purchase an additional share for $12.00 each. These warrants were only exercisable beginning October 2, 2006 and through December 29, 2006. During 2006, 382,695 of these warrants were exercised.

Note 12 - Warrants and Stock-Based Compensation Plans (Continued)

Under the 2002 Directors' Compensation Plan (the "Directors Plan"), each initial Director who is not an employee of the Bank was granted an option to purchase 1,250 shares of common stock at the fair market value on the date the option was granted. Thereafter, each additional non-employee Director is entitled to a grant of an option to purchase 500 shares of common stock, upon their initial election or appointment to the Board. Additionally, as annual compensation for serving on the Board, as soon as practical after each annual meeting of shareholders, each non-employee Director is granted an option to purchase 500 shares of common stock (300 shares prior to the period ending with the 2007 annual meeting of shareholders) if the Director attended at least 75% of the meetings of the Board during the time period commencing on the date of the last annual meeting of shareholders, or on the date such Director was appointed to the Board, and ending on the date of the most recent annual meeting of shareholders. All options granted under the Director's Plan shall be immediately exercisable, other than the options granted to the initial non-employee Directors, one-fourth of which vested immediately and the remainder will vest over a three-year period, and shall expire no later than ten years from the date of the grant. In any year following the first year in which the Bank's audited year-end financial statements reflect net income for the year, a Director eligible to receive options may elect to receive in lieu of such options $5,000 in cash.

Under the 2002 Equity Incentive Stock Option Plan and the 2006 Stock Incentive Plan, employees are eligible to receive options to purchase shares of common stock at the fair market value on the date the option is granted. Each grant vests over a three-year period and will expire no later than ten years from the date of the grant.

The 2006 Stock Incentive Plan also provides for stock-based incentives in the form of stock appreciation rights, restricted stock and deferred stock awards up to 100,000 shares. The Bank granted 1,000 restricted stock awards in 2007 and -0- in 2006 which vest over 3 years.

The weighted average grant-date fair value of options granted in 2007 and 2006 was $3.68 and $3.86, respectively. The fair value of the options awarded under the option plans is estimated on the date of grant using the Black-Scholes valuation model, which is dependent upon certain assumptions as presented below:

	2007		**2006**	
Expected life (in years)	**7**		7	
Risk-free interest rate	**4.69**	%	4.99	%
Expected volatility	**12.90**	%	14.04	%
Expected dividend yield	**-**	%	-	%

The expected life of the options was estimated using the average vesting period of the options granted and represents the period of time that options granted are expected to be outstanding. The risk-free interest rate is the U.S. Treasury rate commensurate with the expected life of the options on the grant date. Volatility of the Company's stock price in 2007 was based on historical volatility of the NASDAQ Bank Index. Dividend yield was based on historical dividends divided by the average market price for that period.

Note 12 - Warrants and Stock-Based Compensation Plans (Continued)

Information regarding the Company's stock option plans for the years ended December 31, 2007 and 2006 is as follows:

	Shares	Weighted Average Price	Weighted Average Remaining Life	Aggregate Intrinsic Value (In Thousands)
Options outstanding, December 31, 2005	91,197	$ 8.57	7.8 years	
Options granted	2,000	12.00	-	
Options exercised	(25)	12.00	-	
Options forfeited	(263)	12.00	-	
Options outstanding, December 31, 2006	92,909	8.63	6.9 years	
Options granted	**16,050**	**12.14**	-	
Options forfeited	**(512)**	**11.02**	-	
Options outstanding, December 31, 2007	**108,447**	**$ 9.14**	**6.4 years**	**$364**
Options exercisable, December 31, 2007	**92,266**	**$ 8.63**	**5.9 years**	**$357**
Option price range at December 31, 2007	**$8.00 - $12.50**			

The unamortized stock option expense was $49,000 at December 31, 2007. This amount will be amortized over a period of 3 years.

Note 13 - Employment Agreements

The Bank entered into a new three-year employment agreement in January 2007 with its President which includes minimum annual salary commitments and change of control provisions. The agreement contains rolling-term options to renew for additional one-year periods. Additionally, the Bank previously entered into change of control agreements with its Managing Director and Chief Financial Officer, its Managing Director of Technology and Administration, its Managing Director of Business Services, and its Managing Director of Personal Banking. Upon resignation after a change in the control of the Bank, as defined in the agreement, the individuals will receive monetary compensation in the amount set forth in the agreements.

Note 14 - Regulatory Matters

The Bank is subject to various regulatory capital requirements administered by its primary federal regulator, the Federal Deposit Insurance Corporation. 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, that the Bank meets all capital adequacy requirements to which it is subject, to be considered well capitalized.

A comparison of the Bank's actual capital amounts to the regulatory requirements as of December 31 is presented below:

	Actual		For Capital Adequacy Purposes		To be Well Capitalized under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(Dollars In Thousands)			
December 31, 2007:						
Total capital (to risk-weighted assets)	**$19,301**	**13.96 %**	**$≥11,057**	**≥8.00 %**	**$≥13,822**	**≥10.00 %**
Tier 1 capital (to risk-weighted assets)	**17,812**	**12.89**	**≥ 5,529**	**≥4.00**	**≥ 8,293**	**≥ 6.00**
Tier 1 capital (to average assets)	**17,812**	**10.44**	**≥ 6,826**	**≥4.00**	**≥ 8,532**	**≥ 5.00**
December 31, 2006:						
Total capital (to risk-weighted assets)	$17,754	16.57 %	$ ≥8,572	≥8.00 %	$≥ 10,715	≥10.00 %
Tier 1 capital (to risk-weighted assets)	16,556	15.45	≥4,286	≥4.00	≥ 6,429	≥ 6.00
Tier 1 capital (to average assets)	16,556	12.27	≥5,398	≥4.00	≥ 6,747	≥ 5.00

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.

The Bank is required to maintain average balances on hand or with the Federal Reserve Bank. At December 31, 2007, the reserve balance amounted to $541,000. At December 31, 2006, the reserve amount was $478,000.

Note 15 - Fair Value of Financial Instruments

The Bank estimates fair value amounts by using available market information and appropriate valuation methodologies. However, considerable judgment is required to interpret market data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts that could be realized in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

The information presented is based on pertinent information available as of December 31, 2007 and 2006. Although the Bank is not aware of any factors that would significantly affect the estimated fair value amounts, such amounts have not been comprehensively revalued since that time and current estimated fair value of these financial instruments might have changed significantly.

	2007		2006	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(In Thousands)			
Financial assets:				
Cash and short-term investments	**$ 14,649**	**$ 14,649**	$ 7,218	$ 7,218
Securities available for sale	**36,522**	**36,522**	28,654	28,654
Loans held for sale	**182**	**182**	580	580
Net loans	**124,720**	**127,105**	100,331	101,036
Restricted investment in bank stocks	**352**	**352**	301	301
Accrued interest receivable	**703**	**703**	632	632
Financial liabilities:				
Demand and savings deposits	**79,818**	**79,818**	58,960	58,960
Time deposits	**81,477**	**82,165**	64,651	64,750
Accrued interest payable	**613**	**613**	424	424
Off-balance sheet financial instruments:				
Commitments to extend credit and letters of credit	**-**	**-**	-	-

For short-term instruments including accrued interest receivable and payable, the carrying amount was used as a reasonable estimate of fair value. The fair value of investment securities was based on prices obtained from independent pricing services. For floating rate loans, which experience no significant change in credit risk and for deposits and borrowings with floating interest rates, estimated fair values were presumed to approximate the carrying amount. The fair value of fixed rate loans and time deposits was estimated based on present values using applicable risk-adjusted spreads to market interest rates to approximate current rates offered for loans and deposits of similar maturities. The fair value of restricted investment in bank stocks equal the carrying amount as the transfer of these investments is restricted to the issuer. The fair value of off balance sheet financial instruments is estimated using fees currently charged which are immaterial.

Note 16 - Subsequent Event

In February, the Bank granted 3,000 incentive stock options and 2,750 shares of restricted stock to various associates. The stock options expire in ten years and have an exercise price of $12.50 per share. The stock options and restricted stock become exercisable at the end of three years.