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FIRST COMMUNITY FINANCIAL CORPORATION

2006 Annual Report



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The 2006 Annual Report of the First National Bank of Mifflintown recognizes the many contributions which individual customers and group clients, together with the professional services and loyalty from the Bank management and staff, have given to the Bank this year and to its continuing success in future years.

* STUDENT * PHYSICIAN * CASHIER * BUSINESS MANAGER * VETERINARIAN *
MERS * TRUST OFFICER * UNITED WAY VOLUNTEER * 4-H CLUB VOLUNTEER *
HARMACIST * BOOKKEEPER * LUMBERMAN * HUMAN RESOURCES MANAGER *
AGENT * POLICEMAN * POLICEWOMAN * LONG-DISTANCE CARGO HAULER *
RANCE AGENT * HAIRSTYLIST * TOWNSHIP OFFICIALS * AUDITOR * RESTAURANT
L DIRECTOR * PLUMBER * GOVERNMENT AGRICULTURAL OFFICIALS * SERVICE
TIVES * CHURCH MUSIC DIRECTORS * WAITERS AND WAITRESSES * HEALTH CARE
D WELLNESS PROMOTER * LANDSCAPE PLANNER * SPORTSMEN AND WOMEN

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MANAGEMENT'S LETTER TO SHAREHOLDERS

Dear Shareholders:

We are pleased to report progress in 2006 on several financial fronts which underscore your Bank's continuing commitment to maintain and strengthen its long-held policy of sound management and stability. There are several accomplishments to report which benefit shareholders and Bank customers and clients alike.

The year saw the remodeling of the Bank's Bloomfield Borough Office completed, as well as the refurbishing of that office's drive-thru facility.

Numerous other improvements and innovations, all designed to benefit the Bank's customers, were introduced in 2006. These included installation of a convenient Automated Teller Machine (ATM) system in Thompsettown; a personal welcoming "on board" program was initiated for customers following their opening of a new account, as well as adding gift cards to our product line.

Also notable in 2006 was a continuing efficiency analysis throughout the Bank's entire banking operation to support past growth, the enhancement of the Bank's data security systems and continued expansion of its merchant and business banking services. With the Bank's continuing growth and expansion, our Loan Department's duties and processes are being analyzed and reorganized to improve efficiency and customer service.

Special mention needs to be made for the ongoing contributions which the Bank's Board of Directors continue to provide through short and long-term recommendations that have proven beneficial to the financial stability of the Bank.

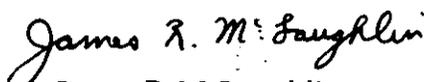
The valued contributions of Samuel F. Metz, former Chairman of the Board from 1989 until 2004, and director since 1959, will be missed as he retired as a member of our Board of Directors in 2006.

Financial highlights for 2006 include:

- Assets were \$278.5 million on December 31, 2006, an increase of \$11.4 million, or 4 percent.
- Loans increased by \$16.1 million, or 10.4 percent.
- Deposits increased by \$10.4 million, or 5 percent.
- Trust assets grew \$15.1 million, or 23 percent.

We are pleased to report these results under challenging economic conditions and tight interest rate margins affecting all banks. The Bank and its entire management and staff remain committed to the future growth in the challenging field of information technology, significant physical improvements to its various offices, and the Bank's traditional support to residents and their community organizations through financial and volunteer support (for example, projects to support the county school districts, 4-H groups, United Way and other charities). As always, your investment in First Community Financial Corporation is greatly appreciated.

Sincerely,


James R. McLaughlin
Chairman


Jody D. Graybill
President

OUR BANKING COMMUNITY WITHIN THE COMMUNITY

It has been said that one is known by the company one keeps. In my view, this axiom can be applied to The First National Bank of Mifflintown.

Over many years, the Bank has taken pride in the diverse group of individual customers and group clients, as well as the officers, management and staff who make up the Bank's community. From that perspective, I see us as a "banking community within a community."

Appearing on the cover of our 2006 Annual Report, we have highlighted individuals and groups, as well as Bank personnel, who are collectively our banking community, serving the community at large within Juniata and Perry counties and their surrounding counties.

The Bank is committed to serve those customers with the personal and professional attention they have come to expect and deserve. And, the Bank's personnel is dedicated to serve those customers with courtesy, dedication and loyalty. We believe in treating our customers the way we like to be treated.

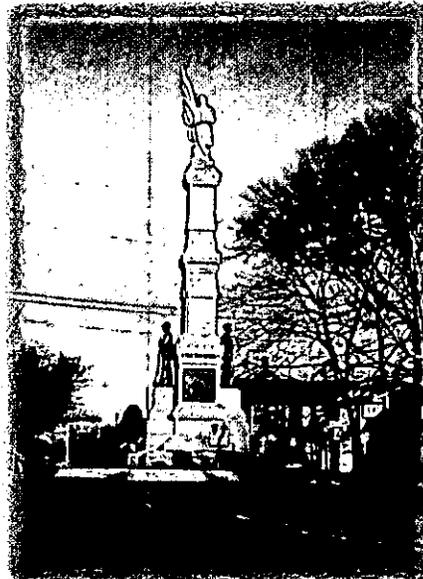
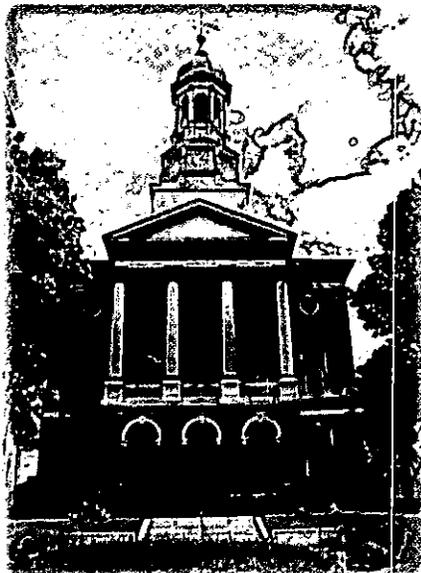
In addition, there are many among those same groups who provide volunteer services and contributions to a wide range of community-wide organizations. I believe that a personalized approach to caring is reflected throughout the Bank's entire financial family, from the Main Office to its convenient locations throughout the region.

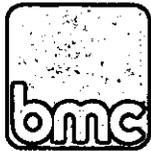
On behalf of the entire First National Bank family, we continue to appreciate the investment and trust you have given to us in the past and we are optimistic that the same loyalty will continue into the future, as we live and serve in our communities.

Sincerely,



Jody D. Graybill
President





REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders
First Community Financial Corporation
Mifflintown, Pennsylvania

We have audited the accompanying consolidated balance sheets of First Community Financial Corporation and subsidiaries as of December 31, 2006 and 2005, and the related consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2006. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of First Community Financial Corporation and subsidiaries as of December 31, 2006 and 2005, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2006, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 17 to the financial statements, effective January 1, 2006, the Company changed its method of quantifying misstatements of prior year financial statements. The Company adopted the dual method, as required by SEC Staff Accounting Bulletin No. 108, "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements."

Beard Miller Company LLP

Beard Miller Company LLP
Harrisburg, Pennsylvania
February 14, 2007

FIRST COMMUNITY FINANCIAL CORPORATION
CONSOLIDATED BALANCE SHEETS

	December 31,	
	2006	2005
(In Thousands, Except Share Data)		
ASSETS		
Cash and due from banks	\$ 8,021	\$ 7,648
Interest-bearing demand deposits	721	502
Federal funds sold	3,690	-
	<u>12,432</u>	<u>8,150</u>
Cash and Cash Equivalents		8,150
Time certificates of deposit	1,485	2,972
Securities available for sale	48,955	52,140
Securities held to maturity, fair value 2006 \$21,174; 2005 \$24,810	21,073	24,824
Loans, net of allowance for loan losses 2006 \$1,230; 2005 \$1,264	177,930	161,800
Premises and equipment	7,213	7,625
Restricted investment in bank stocks	2,069	2,012
Investment in life insurance	4,665	4,514
Other assets	2,698	3,120
	<u>278,520</u>	<u>267,157</u>
Total Assets		\$267,157
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES		
Deposits:		
Non-interest bearing	\$ 23,329	\$ 25,508
Interest-bearing	199,045	186,436
	<u>222,374</u>	<u>211,944</u>
Total Deposits		211,944
Short-term borrowings	7,417	8,937
Long-term borrowings	22,000	21,000
Junior subordinated debt	5,155	5,155
Other liabilities	1,900	1,789
	<u>258,846</u>	<u>248,825</u>
Total Liabilities		248,825
SHAREHOLDERS' EQUITY		
Preferred stock, without par value; 10,000,000 shares authorized and unissued	-	-
Common stock, \$5 par value; 10,000,000 shares authorized; issued and outstanding 1,400,000 shares	7,000	7,000
Capital in excess of par value	245	245
Retained earnings	12,634	11,492
Accumulated other comprehensive loss	(205)	(405)
	<u>19,674</u>	<u>18,332</u>
Total Shareholders' Equity		18,332
	<u>278,520</u>	<u>267,157</u>
Total Liabilities and Shareholders' Equity		\$267,157

See notes to consolidated financial statements.



FIRST COMMUNITY FINANCIAL CORPORATION

CONSOLIDATED STATEMENTS OF INCOME

	Years Ended December 31,		
	2006	2005	2004
	(In Thousands, Except per Share Data)		
INTEREST INCOME			
Loans, including fees	\$ 11,668	\$ 10,110	\$ 9,827
Securities:			
Taxable	2,164	2,023	1,661
Tax exempt	848	851	749
Other	292	216	98
Total Interest Income	14,972	13,200	12,335
INTEREST EXPENSE			
Deposits	6,252	4,984	4,396
Short-term borrowings	319	136	60
Long-term debt	1,385	1,102	885
Total Interest Expense	7,956	6,222	5,341
Net Interest Income	7,016	6,978	6,994
PROVISION FOR LOAN LOSSES			
	-	30	121
Net Interest Income after Provision for Loan Losses	7,016	6,948	6,873
OTHER INCOME			
Service charges on deposits	688	594	492
Fiduciary activities	344	331	346
Earnings on investment in life insurance	191	189	187
ATM and debit card fees	447	379	318
Realized gains on sales of securities	24	299	133
Other	226	170	154
Total Other Income	1,920	1,962	1,630
OTHER EXPENSES			
Employee compensation and benefits	3,295	3,330	3,058
Net occupancy and equipment	1,109	972	929
Professional fees	163	221	198
Director and advisory boards compensation	263	261	309
ATM expenses	309	270	233
Supplies and postage	263	231	232
Pennsylvania bank shares tax	191	157	121
Other operating	917	844	681
Total Other Expenses	6,510	6,286	5,761
Income before Income Taxes	2,426	2,624	2,742
PROVISION FOR INCOME TAXES	461	553	619
Net Income	\$ 1,965	\$ 2,071	\$ 2,123
EARNINGS PER SHARE			
Basic	\$1.40	\$1.48	\$1.52
DIVIDENDS PER SHARE	\$0.43	\$0.39	\$0.35

See notes to consolidated financial statements.

FIRST COMMUNITY FINANCIAL CORPORATION

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Years Ended December 31, 2006, 2005 and 2004

	Common Stock	Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Income (loss)	Total Shareholders' Equity
(In Thousands, Except per Share Data)					
BALANCE - DECEMBER 31, 2003	\$3,500	\$245	\$11,834	\$348	\$15,927
2-for-1 stock split	3,500	-	(3,500)	-	-
Comprehensive income:					
Net income	-	-	2,123	-	2,123
Change in net unrealized gains on securities available for sale, net of reclassification adjustment and deferred income taxes	-	-	-	(152)	(152)
Total Comprehensive Income					<u>1,971</u>
Cash dividends declared	-	-	(490)	-	(490)
BALANCE - DECEMBER 31, 2004	7,000	245	9,967	196	17,408
Comprehensive income:					
Net income	-	-	2,071	-	2,071
Change in net unrealized losses on securities available for sale, net of reclassification adjustment and deferred income taxes	-	-	-	(601)	(601)
Total Comprehensive Income					<u>1,470</u>
Cash dividends declared	-	-	(546)	-	(546)
BALANCE - DECEMBER 31, 2005	7,000	245	11,492	(405)	18,332
Cumulative effect adjustment upon adoption of SAB 108			(221)		(221)
BALANCE DECEMBER 31, 2005 (RESTATED)	7,000	245	11,271	(405)	18,111
Comprehensive income:					
Net income			1,965		1,965
Change in net unrealized losses on securities available for sale, net of reclassification adjustment and deferred income taxes				200	200
Total Comprehensive Income					<u>2,165</u>
Cash dividends declared			(602)		(602)
BALANCE - DECEMBER 31, 2006	<u>\$7,000</u>	<u>\$245</u>	<u>\$12,634</u>	<u>\$(205)</u>	<u>\$19,674</u>

See notes to consolidated financial statements.

FIRST COMMUNITY FINANCIAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Securities (Continued)

Securities held to maturity are those securities that the Corporation has the intent and ability to hold to maturity. These securities are stated at cost adjusted for amortization of premiums and accretion of discounts, which is recognized as interest income over their estimated lives, using the interest method.

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 Corporation 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.

Time Certificates of Deposit

Time certificates of deposit are carried at cost, which approximates fair value.

Loans

Loans 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 or 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 Corporation 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 to 120 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 non-accrual 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 non-accrual 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.

FIRST COMMUNITY FINANCIAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - 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 the Corporation'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 change, including the amounts and timing of future cash flows expected to be received on impaired loans.

The allowance consists of specific, general and unallocated components. The specific component relates to loans that are classified as impaired. For such loans, 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 for 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 Corporation 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, financial and agricultural 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 Corporation does not separately identify individual installment and residential loans for impairment disclosures unless such loans are the subject of a restructuring agreement.

Restricted Investment in Bank Stocks

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

Premises and Equipment

Premises and equipment are stated at cost less accumulated depreciation computed on the straight-line method over the estimated useful lives of the assets. Leasehold improvements are depreciated over the shorter of the estimated useful lives or the lease terms. Maintenance and repairs are expensed when incurred and expenditures for significant improvements are capitalized.

FIRST COMMUNITY FINANCIAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreclosed Real Estate

Foreclosed real estate includes assets acquired through foreclosure and loans identified as in-substance foreclosures. A loan is classified as in-substance foreclosure when the Corporation has taken possession of the collateral regardless of whether formal foreclosure proceedings have taken place. Foreclosed real estate is valued at its estimated fair market value, net of selling costs, at the time of foreclosure. Gains and losses resulting from the sale or write-down of foreclosed real estate are recorded in other income. Foreclosed real estate, which is included in other assets, amounted to \$255,000 and \$106,000 at December 31, 2006 and 2005, respectively.

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 Corporation, (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 Corporation does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Advertising Costs

The Corporation charges the costs of advertising to expense as incurred. Advertising expense was \$92,000, \$76,000, and \$66,000 for the years ended December 31, 2006, 2005, and 2004, respectively.

Income Taxes

Deferred income taxes are provided on the liability method whereby deferred tax assets are recognized for deductible temporary differences and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and 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 or all the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted through the provision for income taxes for the effects of changes in tax laws and rates on the date of enactment.

Earnings per Share

The Corporation has a simple capital structure. Basic earnings per share represents net income divided by the weighted average number of common shares outstanding during the period as adjusted for the 2-for-1 stock split declared in 2004. The weighted average number of common shares outstanding was 1,400,000 in all periods presented.

Segment Reporting

Management does not separately allocate expenses, including the cost of funding loan demand, between the commercial, retail, trust and other operations of the Corporation. As such, discrete financial information is not available and segment reporting would not be meaningful.

Comprehensive Income

Accounting principles generally accepted in the United States of America generally require that recognized revenue, expenses, gains and losses be included in net income. Changes in certain assets and liabilities, such as unrealized gains (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.

FIRST COMMUNITY FINANCIAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Comprehensive Income (Continued)

The components of other comprehensive income and the related tax effects are as follows:

	Years Ended December 31,		
	2006	2005	2004
	(In Thousands)		
Unrealized holding gains (losses) on available for sale securities	\$319	\$(630)	\$(93)
Reclassification adjustment for gains realized in net income	(24)	(299)	(133)
Net Unrealized Gains (Losses)	295	(929)	(226)
Tax effect	(95)	328	74
Net of Tax Amount	\$200	\$(601)	\$(152)

Off Balance Sheet Financial Instruments

In the ordinary course of business, the Corporation has entered into off balance sheet financial instruments consisting of commitments to extend credit and standby letters of credit. Such financial instruments are recorded in the financial statements when they become payable.

New Accounting Standards

In March 2006, the Financial Accounting Standards Board (FASB) issued SFAS No. 156, "Accounting for Servicing of Financial Assets — An Amendment of FASB Statement No. 140" ("SFAS 156"). SFAS 156 requires that all separately recognized servicing assets and servicing liabilities be initially measured at fair value, if practicable. The statement permits, but does not require, the subsequent measurement of servicing assets and servicing liabilities at fair value. SFAS 156 is effective as of the beginning of an entity's first fiscal year that begins after September 15, 2006, which for the Corporation will be as of the beginning of fiscal 2007. The Corporation does not believe that the adoption of SFAS 156 will have any effect on its financial statements.

In July 2006, the FASB issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes— an interpretation of FASB Statement No. 109" (FIN 48), which clarifies the accounting for uncertainty in tax positions. This Interpretation requires that companies recognize in their financial statements the impact of a tax position, if that position is more likely than not of being sustained on audit, based on the technical merits of the position. The provisions of FIN 48 are effective for fiscal years beginning after December 15, 2006, with the cumulative effect of the change in accounting principle recorded as an adjustment to opening retained earnings. The Corporation does not believe that the adoption of FIN 48 will have a significant effect on its financial statements.

In September 2006, the FASB issued FASB Statement No. 157, which defines fair value, establishes a framework for measuring fair value under GAAP, and expands disclosures about fair value measurements. FASB Statement No. 157 applies to other accounting pronouncements that require or permit fair value measurements. The new guidance is effective for financial statements issued for fiscal years beginning after November 15, 2007, and for interim periods within those fiscal years. We are currently evaluating the potential impact, if any, of the adoption of FASB Statement No. 157 on our consolidated financial position, results of operations and cash flows.

FIRST COMMUNITY FINANCIAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

New Accounting Standards (Continued)

On September 29, 2006, the FASB issued SFAS No. 158, which amends SFAS 87 and SFAS 106 to require recognition of the overfunded or underfunded status of pension and other postretirement benefit plans on the balance sheet. Under SFAS 158, gains and losses, prior service costs and credits, and any remaining transition amounts under SFAS 87 and SFAS 106 that have not yet been recognized through net periodic benefit cost will be recognized in accumulated other comprehensive income, net of tax effects, until they are amortized as a component of net periodic cost. The measurement date — the date at which the benefit obligation and plan assets are measured — is required to be the company's fiscal year end. SFAS 158 is effective for publicly-held companies for fiscal years ending after December 15, 2006, except for the measurement date provisions, which are effective for fiscal years ending after December 15, 2008. The Corporation currently has no plans subject to SFAS 158.

On September 13, 2006, the Securities and Exchange Commission "SEC" issued Staff Accounting Bulletin No. 108 ("SAB 108"). SAB 108 provides interpretive guidance on how the effects of the carryover or reversal of prior year misstatements should be considered in quantifying a potential current year misstatement. Prior to SAB 108, Companies might evaluate the materiality of financial-statement misstatements using either the income statement or balance sheet approach, with the income statement approach focusing on new misstatements added in the current year, and the balance sheet approach focusing on the cumulative amount of misstatement present in a company's balance sheet. Misstatements that would be material under one approach could be viewed as immaterial under another approach, and not be corrected. SAB 108 now requires that companies view financial statement misstatements as material if they are material according to either the income statement or balance sheet approach. For further discussion of the impact of SAB 108 on the Corporation, refer to Note 17 of the notes to consolidated financial statements.

Reclassifications

For comparative purposes prior years' consolidated financial statements have been reclassified to conform with the 2006 presentation. Such reclassifications had no impact on net income.

FIRST COMMUNITY FINANCIAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - RESTRICTIONS ON CASH AND DUE FROM BANKS

In return for services obtained through correspondent banks, the Corporation is required to maintain non-interest bearing cash balances in those correspondent banks. At December 31, 2006 and 2005, compensating balances approximated \$468,000 and \$476,000, respectively. During each of 2006 and 2005, average required balances totaled \$466,000.

NOTE 3 - SECURITIES

Amortized cost and fair value at December 31 were as follows:

	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
	(In Thousands)			
SECURITIES AVAILABLE FOR SALE:				
December 31, 2006:				
U.S. agencies securities	\$ 12,143	\$ 23	\$ (45)	\$ 12,121
Mortgage-backed securities	36,634	42	(719)	35,957
Equity securities	450	427	-	877
	<u>\$ 49,227</u>	<u>\$ 492</u>	<u>(764)</u>	<u>\$ 48,955</u>
December 31, 2005:				
U.S. agencies securities	\$ 10,241	\$ 2	\$ (92)	\$ 10,151
Mortgage-backed securities	41,966	3	(989)	40,980
Equity securities	500	509	-	1,009
	<u>\$ 52,707</u>	<u>\$ 514</u>	<u>\$ (1,081)</u>	<u>\$ 52,140</u>

FIRST COMMUNITY FINANCIAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3 - SECURITIES (CONTINUED)

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In Thousands)			
SECURITIES HELD TO MATURITY:				
December 31, 2006:				
U.S. agencies securities	\$ 781	\$ 1	\$ (2)	\$ 780
State and municipal securities	20,292	182	(80)	20,394
	<u>\$ 21,073</u>	<u>\$ 183</u>	<u>\$ (82)</u>	<u>\$ 21,174</u>
December 31, 2005:				
U.S. agencies securities	\$ 1,698	\$ -	\$ (30)	\$ 1,668
State and municipal securities	23,126	133	(117)	23,142
	<u>\$ 24,824</u>	<u>\$ 133</u>	<u>\$ (147)</u>	<u>\$ 24,810</u>

The following table shows the Corporation's investments' gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at December 31, 2006 and 2005:

	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, 2006						
SECURITIES AVAILABLE FOR SALE:						
U.S. agencies securities	\$ 3,775	\$ 7	\$ 4,425	38	\$ 8,200	45
Mortgage-backed securities	625	1	30,512	718	31,137	719
	<u>4,400</u>	<u>8</u>	<u>34,937</u>	<u>756</u>	<u>39,337</u>	<u>764</u>
SECURITIES HELD TO MATURITY:						
U.S. agencies securities	-	-	450	2	450	2
State and municipal securities	2,075	6	6,802	74	8,877	80
	<u>2,075</u>	<u>6</u>	<u>7,252</u>	<u>76</u>	<u>9,327</u>	<u>82</u>
Total	<u>\$ 6,475</u>	<u>\$ 14</u>	<u>\$ 42,189</u>	<u>\$ 832</u>	<u>\$ 48,664</u>	<u>\$ 846</u>

FIRST COMMUNITY FINANCIAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3 - SECURITIES (CONTINUED)

	<u>Less than 12 Months</u>		<u>12 Months or More</u>		<u>Total</u>	
	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>
DECEMBER 31, 2005	(In Thousands)					
SECURITIES AVAILABLE FOR SALE:						
U.S. agencies securities	\$ 5,366	\$ 57	\$ 3,285	\$ 35	\$ 8,651	\$ 92
Mortgage-backed securities	17,145	260	22,761	729	39,906	989
	<u>22,511</u>	<u>317</u>	<u>26,046</u>	<u>764</u>	<u>48,557</u>	<u>1,081</u>
SECURITIES HELD TO MATURITY:						
U.S. agencies securities	444	5	1,224	25	1,668	30
State and municipal securities	4,626	29	6,220	88	10,846	117
	<u>5,070</u>	<u>34</u>	<u>7,444</u>	<u>113</u>	<u>12,514</u>	<u>147</u>
Total	<u>\$ 27,581</u>	<u>\$ 351</u>	<u>\$ 33,490</u>	<u>\$ 877</u>	<u>\$ 61,071</u>	<u>\$ 1,228</u>

Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (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 Corporation to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

At December 31, 2006, 77 mortgage-backed and U.S. agency securities have unrealized losses. The aggregate depreciation from the Corporation's amortized cost basis on these securities is 1.9%. In management's opinion, these unrealized losses relate to changes in interest rates.

At December 31, 2006, 29 state and municipal securities have unrealized losses with aggregate depreciation of 0.9% from the Corporation's amortized cost basis. In management's opinion, these unrealized losses relate primarily to changes in interest rates. In analyzing the issuer's financial condition, management considers the issuer's bond rating as well as the financial performance of the respective municipality.

As management has the ability and intent to hold debt securities until recovery, or for the foreseeable future if classified as available for sale, no declines are deemed to be other than temporary.

Amortized cost and fair value at December 31, 2006 by contractual maturity are shown below. Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay with or without penalties.

FIRST COMMUNITY FINANCIAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3 - SECURITIES (CONTINUED)

	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(In Thousands)			
1 year or less	\$ 2,974	\$ 2,959	\$ 79	\$ 79
Over 1 year through 5 years	4,075	4,052	1,078	1,061
Over 5 years through 10 years	4,063	4,075	4,800	4,781
Over 10 years	1,031	1,035	15,116	15,253
Mortgage-backed securities	36,634	35,957	-	-
Equity securities	450	877	-	-
	<u>\$ 49,227</u>	<u>\$ 48,955</u>	<u>\$ 21,073</u>	<u>\$ 21,174</u>

During 2006, the Corporation realized gross gains of \$26,000 and gross losses of \$2,000 on sales of securities. During 2005, the Corporation realized gross gains of \$299,000 and no gross losses on sales of securities. During 2004, the Corporation realized gross gains of \$189,000 and gross losses of \$56,000 on sales of securities.

At December 31, 2006 and 2005, securities with fair value of \$23,059,000 and \$15,609,000, respectively, were pledged as collateral as required by law on public deposits and for other purposes.

NOTE 4 - LOANS

Loans at December 31 were as follows:

	2006	2005
	(In Thousands)	
Commercial, financial and agricultural Real estate:	\$ 16,691	\$ 14,562
Commercial	35,641	33,622
Construction	-	34
Residential	121,799	110,256
Installment	<u>5,398</u>	<u>5,008</u>
Total	179,529	163,482
Allowance for loan losses	(1,230)	(1,264)
Deferred loan fees and costs, net	<u>(369)</u>	<u>(418)</u>
Loans	<u>\$ 177,930</u>	<u>\$ 161,800</u>

The Bank grants commercial, residential and consumer loans to customers primarily within Juniata and Perry Counties of Pennsylvania and the surrounding area. A large portion of the loan portfolio is secured by real estate. Although the Bank has a diversified loan portfolio, its debtors' ability to honor their contracts is influenced by the region's economy.

FIRST COMMUNITY FINANCIAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4 - LOANS (CONTINUED)

The Corporation, in the ordinary course of business, has loan, deposit and other routine transactions with its officers, directors and principal shareholders and entities in which they have principal ownership. Loans are made to such customers at the same credit terms as other borrowers and do not represent more than the usual risk of collection. Changes during 2006 in these related party loans were as follows (in thousands):

Balance, beginning	\$ 633
Advances	1,104
Repayments	<u>(1,197)</u>
Balance, ending	<u>\$ 540</u>

Changes in the allowance for loan losses were as follows:

	<u>2006</u>	<u>2005</u>	<u>2004</u>
	(In Thousands)		
Balance, beginning	\$1,264	\$1,264	\$1,212
Provision charged to operations	-	30	121
Recoveries on charged off loans	5	2	3
Loans charged off	<u>(39)</u>	<u>(32)</u>	<u>(72)</u>
Balance, ending	<u>\$1,230</u>	<u>\$1,264</u>	<u>\$1,264</u>

The following is a summary of information pertaining to impaired and nonaccrual loans:

	<u>December 31,</u>	
	<u>2006</u>	<u>2005</u>
	(In Thousands)	
Impaired loans without a valuation allowance	\$ -	\$ -
Impaired loans with a valuation allowance	<u>1,914</u>	<u>1,336</u>
Total Impaired Loans	<u>\$ 1,914</u>	<u>\$ 1,336</u>
Valuation allowance related to impaired loans	<u>\$ 195</u>	<u>\$ 141</u>
Total nonaccrual loans	<u>\$ 2,532</u>	<u>\$ 1,131</u>

	<u>Years Ended December 31,</u>		
	<u>2006</u>	<u>2005</u>	<u>2004</u>
	(In Thousands)		
Average investment in impaired loans	<u>\$1,691</u>	<u>\$1,736</u>	<u>\$1,996</u>
Interest income recognized on impaired loans	<u>\$ 134</u>	<u>\$ 138</u>	<u>\$ 133</u>
Interest earned but not accrued on nonaccrual loans	<u>\$ 59</u>	<u>\$ 33</u>	<u>\$ 13</u>

FIRST COMMUNITY FINANCIAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4 - LOANS (CONTINUED)

No additional funds are committed to be advanced in connection with impaired loans.

NOTE 5 - PREMISES AND EQUIPMENT

Premises and equipment at December 31 were as follows:

	<u>2006</u>	<u>2005</u>
	(In Thousands)	
Land	\$ 741	\$ 741
Buildings and improvements	7,599	7,558
Furniture, equipment and software	<u>4,057</u>	<u>3,931</u>
	12,397	12,230
Accumulated depreciation	<u>(5,184)</u>	<u>(4,605)</u>
	<u>\$ 7,213</u>	<u>\$ 7,625</u>

NOTE 6 - DEPOSITS

Deposits were comprised of the following as of December 31:

	<u>2006</u>	<u>2005</u>
	(In Thousands)	
Noninterest bearing demand	\$ 23,329	\$ 25,508
Interest bearing demand	20,892	22,618
Savings	23,069	26,130
Time deposits less than \$100,000	105,652	91,406
Time deposits greater than \$100,000	<u>49,432</u>	<u>46,282</u>
	<u>\$ 222,374</u>	<u>\$ 211,944</u>

Scheduled maturities of time deposits at December 31, 2006 were as follows (in thousands):

2007	\$ 92,637
2008	36,779
2009	13,175
2010	8,500
2011	<u>3,993</u>
	<u>\$ 155,084</u>

FIRST COMMUNITY FINANCIAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6 - DEPOSITS (CONTINUED)

The following table sets forth maturity information on time deposits of \$100,000 or more as of December 31, 2006 (in thousands):

Three months or less	\$ 4,915
Over three and through six months	14,091
Over six and through twelve months	11,200
Over twelve months	<u>19,226</u>
Total	<u>\$ 49,432</u>

NOTE 7 - BORROWINGS

Short-term borrowings at December 31 were as follows:

	<u>2006</u>	<u>2005</u>
	(In Thousands)	
Amount outstanding at end of year:		
Federal funds purchased	\$ -	\$ 2,776
Securities sold under agreements to repurchase	7,322	5,068
FHLB advance	-	1,000
Treasury tax and loan note	<u>95</u>	<u>93</u>
	<u>\$ 7,417</u>	<u>\$ 8,937</u>

Securities sold under agreements to repurchase generally mature within one day from the transaction date. Securities with a carrying amount of \$9,950,000 and \$7,343,000 at December 31, 2006 and 2005, respectively, were pledged as collateral for these agreements. The securities underlying the agreements were under the Corporation's control.

The FHLB advance at December 31, 2005 matured on March 11, 2006 and had an interest rate of 4.25%.

The Corporation's long-term borrowings are comprised of FHLB fixed rate advances totaling \$5,000,000 with interest rates ranging from 2.60% to 3.32% and mature in 2007 and 2008 and convertible fixed-rate advances totaling \$17,000,000 that mature in 2010, 2011, and 2015 and which allow the FHLB the periodic option to convert to a LIBOR adjustable-rate advance at the three-month LIBOR plus 0.07% to 0.13%. Options to convert \$7,000,000 of the outstanding convertible advances commenced in 2003 and options to convert \$10,000,000 commence in 2007. Upon the FHLB's conversion, the Bank has the option to repay the respective advances in full.

Contractual maturities of these advances are as follows (in thousands):

2007	\$ 4,000
2008	1,000
2009	-
2010	6,000
2011	6,000
Thereafter	<u>5,000</u>
	<u>\$ 22,000</u>

FIRST COMMUNITY FINANCIAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 7 - BORROWINGS (CONTINUED)

The Corporation has a maximum borrowing capacity through the Federal Home Loan Bank of approximately \$140,543,000, of which \$118,543,000 was available at December 31, 2006. The borrowing capacity is collateralized by security agreements in certain residential real estate backed assets of the Corporation, including loans and investments.

The Corporation has issued floating rate junior subordinated deferrable interest debentures to a non-consolidated subsidiary trust, First Community Financial Capital Trust I (the Trust). The Corporation owns all of the common equity of the Trust. The debentures held by the trust are the sole assets of the trust.

The Trust issued \$5,155,000 of mandatorily redeemable preferred securities to third-party investors. The Corporation's obligations under the debentures and related documents, taken together, constitute a full and unconditional guarantee by the Corporation of the Trust's obligations under the preferred securities. The junior subordinated debt securities pay interest quarterly at 3-month LIBOR plus 3.00%, subject to a cap of 12.00% through January 7, 2009. The preferred securities are redeemable by the Corporation at 100% of principal plus accrued interest on or after January 7, 2009. The preferred securities must be redeemed upon maturity of the debentures on January 7, 2034.

NOTE 8 - OPERATING LEASES

The Corporation leases its Delaware (Juniata County) and Shermans Dale offices and the land on which its East Waterford office was constructed. The Corporation has an option through 2010 to purchase the land, for predetermined prices ranging from \$105,000 up to \$125,000. The Corporation also receives rental income for leasing of available space at its West Perry, Mifflintown and Loysville offices. Net lease expense was \$4,000 in 2006, \$3,000 in 2005, and \$6,000 in 2004 after deducting rental expense of \$59,000, \$60,000, and \$57,000, respectively.

NOTE 9 - INCOME TAXES

The components of income tax expense for the years ended December 31, 2006, 2005 and 2004 are as follows:

	<u>2006</u>	<u>2005</u>	<u>2004</u>
	(In Thousands)		
Federal:			
Current	\$513	\$641	\$628
Deferred	(52)	(88)	(9)
	<u>\$461</u>	<u>\$553</u>	<u>\$619</u>

FIRST COMMUNITY FINANCIAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 9 - INCOME TAXES (CONTINUED)

Reconciliations of the statutory federal income tax at a rate of 34% to the income tax expense reported in the consolidated statements of income for the years ended December 31, 2006, 2005 and 2004 are as follows:

	Percentage of Income before Income Taxes					
	2006		2005		2004	
Federal income tax at statutory rate	34.0	%	34.0	%	34.0	%
Tax-exempt income	(12.9)		(11.0)		(9.5)	
Earnings on investment in life insurance	(2.1)		(1.9)		(1.9)	
	19.0	%	21.1	%	22.6	%

The provision for federal income taxes includes \$8,000, \$102,000, and \$45,000, of income taxes related to net gains on sales of securities in 2006, 2005, and 2004, respectively.

Components of deferred tax assets and liabilities at December 31 were as follows:

	2006	2005
	(In Thousands)	
Deferred tax assets:		
Allowance for loan losses	\$371	\$383
Nonaccrual loans interest	20	11
Intangible assets	11	13
Available for sale securities	67	162
Retirement liabilities	388	356
	857	925
Deferred tax liabilities:		
Accumulated depreciation	286	316
Other	16	11
	302	327
Net Deferred Tax Assets	\$555	\$598

FIRST COMMUNITY FINANCIAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 10 - RETIREMENT PLANS

The Corporation maintains a 401(k) plan for the benefit of eligible employees. Employer contributions include matching a portion of employee contributions and a discretionary contribution determined by the Corporation. Corporation contributions to the Plan were \$133,000, \$129,000, and \$122,000, for 2006, 2005, and 2004, respectively.

The Corporation maintains non-qualified compensation plans for selected employees (supplemental retirement) and directors (deferred fees). The estimated present value of future benefits is accrued over the period from the effective date of the agreements until the expected retirement dates of the individuals. Expenses include the following amounts for these non-qualified plans:

	<u>2006</u>	<u>2005</u>	<u>2004</u>
	(In Thousands)		
Employee compensation	\$26	\$ 83	\$ 61
Director compensation	87	102	161

The balance accrued for these plans included in other liabilities as of December 31, 2006 and 2005 totaled \$1,142,000 and \$1,062,000, respectively.

To fund the benefits under these plans, the Corporation is the owner of single premium life insurance policies on participants in the non-qualified retirement plans. At December 31, 2006 and 2005, the cash value of these policies was \$4,665,000 and \$4,514,000, respectively.

NOTE 11 - REGULATORY MATTERS

The Corporation and the Bank are 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 Corporation's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Corporation and the Bank must meet specific capital guidelines that involve quantitative measures of their assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. The 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 Corporation and the Bank to maintain minimum amounts and ratios (set forth below) of Tier 1 capital to average assets and of Tier 1 and total capital (as defined in the regulations) to risk weighted assets. Management believes, as of December 31, 2006, that the Corporation and the Bank meet all capital adequacy requirements to which they are subject.

As of December 31, 2006, the most recent notification from the regulators categorized the Bank as "well capitalized" under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the Bank's category.

FIRST COMMUNITY FINANCIAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 11 - REGULATORY MATTERS (CONTINUED)

The actual and required capital amounts and ratios were as follows:

	Actual		For Capital Adequacy Purposes		To be Well Capitalized under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
(Dollars in Thousands)						
CORPORATION:						
As of December 31, 2006:						
Tier 1 leverage ratio (to average assets)	\$24,798	9.0 %	\$≥11,074	≥4.0 %	N/A	N/A
Tier 1 risk-based capital ratio (to risk-weighted assets)	24,798	16.0	≥6,209	≥4.0	N/A	N/A
Total risk-based capital ratio (to risk-weighted assets)	26,220	16.9	≥12,420	≥8.0	N/A	N/A
As of December 31, 2005:						
Tier 1 leverage ratio (to average assets)	\$23,639	8.9 %	\$≥10,591	≥4.0 %	N/A	N/A
Tier 1 risk-based capital ratio (to risk-weighted assets)	23,639	16.2	≥5,832	≥4.0	N/A	N/A
Total risk-based capital ratio (to risk-weighted assets)	25,132	17.2	≥11,664	≥8.0	N/A	N/A
BANK:						
As of December 31, 2006:						
Tier 1 leverage ratio (to average assets)	\$24,132	8.7 %	\$≥11,034	≥4.0 %	\$≥13,793	≥ 5.0 %
Tier 1 risk-based capital ratio (to risk-weighted assets)	24,132	15.6	≥6,186	≥4.0	≥9,280	≥ 6.0
Total risk-based capital ratio (to risk-weighted assets)	25,362	16.4	≥12,373	≥8.0	≥15,466	≥10.0
As of December 31, 2005:						
Tier 1 leverage ratio (to average assets)	\$22,629	8.6 %	\$≥ 10,532	≥4.0 %	\$≥ 13,164	≥ 5.0 %
Tier 1 risk-based capital ratio (to risk-weighted assets)	22,629	15.6	≥ 5,807	≥4.0	≥ 8,711	≥ 6.0
Total risk-based capital ratio (to risk-weighted assets)	23,893	16.5	≥11,615	≥8.0	≥14,519	≥10.0

Certain restrictions exist regarding the ability of the Bank to transfer funds to the Corporation in the form of cash dividends, loans or advances. Regulatory approval is required if the total of all dividends declared by a national bank in any calendar year exceeds net profits (as defined) for that year combined with the retained net profits for the two preceding calendar years. At December 31, 2006, approximately \$4,733,000 of undistributed earnings of the Bank, included in consolidated shareholders' equity, was available for distribution to the Corporation as dividends without prior regulatory approval.

FIRST COMMUNITY FINANCIAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 12 - FINANCIAL INSTRUMENTS WITH OFF BALANCE SHEET RISK

The Corporation 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 consist primarily of commitments to extend credit (typically mortgages and commercial loans) and, to a lesser extent, standby letters of credit. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized on the balance sheet.

The Corporation's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual amount of those instruments. The Corporation uses the same credit policies in making commitments and conditional obligations as it does for on balance sheet instruments. The Corporation does not anticipate any material losses from these commitments.

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. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Corporation evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Corporation upon extensions of credit, is based on management's credit evaluation of the customer. Collateral held varies but may include accounts receivable, inventory, property and equipment and income-producing commercial properties. On loans secured by real estate, the Corporation generally requires loan to value ratios of no greater than 80%.

Standby letters of credit are conditional commitments issued by the Corporation to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements and similar transactions. The terms of the letters of credit vary and may have renewal features. The credit risk involved in using letters of credit is essentially the same as that involved in extending loans to customers. The Corporation holds collateral supporting those commitments for which collateral is 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 liability as of December 31, 2006 and 2005 for guarantees under standby letters of credit issued is not material.

The Corporation has not been required to perform on any financial guarantees, and has not incurred any losses on its commitments, during the past two years.

A summary of the Corporation's commitments at December 31 were as follows:

	<u>2006</u>	<u>2005</u>
	(In Thousands)	
Commitments to extend credit	\$21,897	\$22,171
Standby letters of credit	328	343

FIRST COMMUNITY FINANCIAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 13 - FAIR VALUE OF FINANCIAL INSTRUMENTS

Management uses its best judgment in estimating the fair value of the Corporation'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 Corporation 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 consolidated 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.

The following information should not be interpreted as an estimate of the fair value of the entire Corporation since a fair value calculation is only provided for a limited portion of the Corporation'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 Corporation's disclosures and those of other companies may not be meaningful. For the following financial instruments, the carrying amount is a reasonable estimate of fair value:

- Cash and cash equivalents
- Time certificates of deposit
- Accrued interest receivable
- Restricted investment in bank stocks
- Short-term borrowings
- Junior subordinated debt
- Accrued interest payable

For investment securities, fair value is based on quoted market prices, where available. If quoted market prices are not available, fair value is based on quoted market prices of comparable securities.

For floating rate loans that reprice frequently and which entail no significant changes in credit risk, the carrying amount is a reasonable estimate of fair value. For fixed rate loans, fair value is estimated using discounted cash flow analysis, at interest rates currently offered for loans with similar terms to borrowers of similar credit quality.

For demand deposits, the carrying amount is a reasonable estimate of fair value. For savings and time deposits, fair value is estimated using discounted cash flow analysis, at interest rates currently offered for deposits with similar maturities.

For long-term borrowings, fair value is based on currently available rates for borrowings with similar terms and remaining maturities.

Off balance sheet instruments of the Bank consist of letters of credit, loan commitments and unfunded lines of credit. Fair value is estimated using fees currently charged for similar agreements, taking into account the remaining terms of the agreements and the counterparties credit standings. Any fees charged are immaterial.

FIRST COMMUNITY FINANCIAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 13 - FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Estimated fair values of financial instruments at December 31 were as follows:

	2006		2005	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(In Thousands)			
Financial assets:				
Cash and cash equivalents	\$ 12,432	\$ 12,432	\$ 8,150	\$ 8,150
Time certificates of deposit	1,485	1,485	2,972	2,972
Investment securities:				
Available for sale	48,955	48,955	52,140	52,140
Held to maturity	21,073	21,174	24,824	24,810
Loans, less allowance for loan losses	177,930	176,132	161,800	161,657
Accrued interest receivable	1,141	1,141	1,121	1,121
Restricted investment in bank stocks	2,069	2,069	2,012	2,012
Financial liabilities:				
Deposits	222,374	221,273	211,944	210,577
Short-term borrowings	7,417	7,417	8,937	8,937
Long-term borrowings	22,000	21,283	21,000	21,014
Junior subordinated debt	5,155	5,155	5,155	5,155
Accrued interest payable	525	525	406	406
Off-balance sheet financial instruments	-	-	-	-

NOTE 14 - CONTINGENCIES

The Corporation is subject to claims and lawsuits which arise primarily in the ordinary course of business. Based on information presently available and advice received from legal counsel representing the Corporation in connection with any such claims and lawsuits, it is the opinion of management that the disposition or ultimate determination of any such claims and lawsuits will not have a material adverse effect on the consolidated financial position, consolidated results of operations or liquidity of the Corporation.

FIRST COMMUNITY FINANCIAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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NOTE 15 - CONDENSED FINANCIAL INFORMATION FOR PARENT COMPANY ONLY

BALANCE SHEETS

	<u>December 31,</u>	
	<u>2006</u>	<u>2005</u>
	(In Thousands)	
ASSETS		
Cash	\$ 209	\$ 474
Investment in subsidiaries	23,907	22,172
Securities available for sale	877	1,009
Other assets	<u>109</u>	<u>123</u>
Total Assets	<u>\$25,102</u>	<u>\$23,778</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities	\$ 273	\$ 291
Junior subordinated debt	5,155	5,155
Shareholders' equity	<u>19,674</u>	<u>18,332</u>
Total Liabilities and Shareholders' Equity	<u>\$25,102</u>	<u>\$23,778</u>

STATEMENTS OF INCOME

	<u>Years Ended December 31,</u>		
	<u>2006</u>	<u>2005</u>	<u>2004</u>
	(In Thousands)		
Dividends from bank subsidiary	\$ 652	\$ 646	\$ 690
Other dividends	38	47	42
Realized gain on sale of securities	<u>26</u>	<u>299</u>	<u>84</u>
	716	992	816
Expenses	<u>458</u>	<u>371</u>	<u>269</u>
	258	621	547
Equity in undistributed earnings in bank subsidiary	<u>1,707</u>	<u>1,450</u>	<u>1,576</u>
Net Income	<u>\$1,965</u>	<u>\$2,071</u>	<u>\$2,123</u>

FIRST COMMUNITY FINANCIAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 15 - CONDENSED FINANCIAL INFORMATION FOR PARENT COMPANY ONLY (CONTINUED)

STATEMENTS OF CASH FLOWS

	Years Ended December 31,		
	2006	2005	2004
	(In Thousands)		
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	\$1,965	\$2,071	\$2,123
Equity in undistributed earnings of bank subsidiary	(1,707)	(1,450)	(1,576)
Realized gain on sale of securities	(26)	(299)	(84)
Decrease in other assets	47	14	2
Increase (decrease) in other liabilities	(18)	25	52
Net Cash Provided by Operating Activities	261	361	517
CASH FLOWS FROM INVESTING ACTIVITIES			
Securities available for sale:			
Proceeds from sales	76	336	94
Purchases	-	-	(265)
Net Cash Provided by (Used in) Investing Activities	76	336	(171)
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash dividends paid	(602)	(546)	(490)
Net Cash Used in Financing Activities	(602)	(546)	(490)
Net Increase (Decrease) in Cash	(265)	151	(144)
CASH - BEGINNING	474	323	467
CASH - ENDING	\$ 209	\$ 474	\$ 323

FIRST COMMUNITY FINANCIAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 16 - QUARTERLY FINANCIAL DATA (UNAUDITED)

The following represents summarized unaudited quarterly financial data of the Corporation which in the opinion of management, reflects adjustments (comprising only normal recurring accruals) necessary for fair presentation:

	Three Months Ended			
	December 31	September 30	June 30	March 31
	<i>(In Thousands, Except per Share Amounts)</i>			
2006:				
Interest income	\$ 3,901	\$ 3,806	\$ 3,699	\$ 3,566
Interest expense	2,189	2,048	1,923	1,796
Net interest income	1,712	1,758	1,776	1,770
Provision for loan losses	-	-	-	-
Gains on sales of securities	2	24	(2)	-
Provision for federal income taxes	130	127	115	89
Net income	545	508	487	425
Net income per share, basic	0.39	0.36	0.35	0.30
2005:				
Interest income	\$ 3,489	\$ 3,355	\$ 3,220	\$ 3,136
Interest expense	1,692	1,620	1,491	1,419
Net interest income	1,797	1,735	1,729	1,717
Provision for loan losses	15	-	5	10
Gains on sales of securities	170	-	-	129
Provision for federal income taxes	200	117	107	129
Net income	655	475	453	488
Net income per share, basic	0.47	0.34	0.32	0.35

NOTE 17 - CUMULATIVE EFFECT ADJUSTMENT - ADOPTION OF STAFF ACCOUNTING BULLETIN (SAB) #108

In connection with the preparation of our 2006 consolidated financial statements, management evaluated its known differences between the amounts reported in previous financial statements and actual records. In making its evaluation, management considered the recently issued guidance contained in SAB #108, which requires management to consider materiality at both the consolidated income statement and balance sheet. Management had typically evaluated its differences in a manner consistent with the "rollover" approach, and utilized the income statement as the primary basis for evaluating materiality. Applying this approach and assessing qualitative factors, management previously considered these differences to be immaterial. In light of the guidance provided in SAB #108, and our present evaluation of internal controls over financial reporting, management recorded a \$221,000 charge, net of tax, to January 1, 2006 retained earnings to properly reflect all known differences in other asset and other liability accounts. Management has elected not to restate prior financial statements, as management feels it had properly adopted the rollover approach of evaluating differences, including assessing qualitative factors.

The charge relates to known differences between prepaid and accrued expense accounts which totaled \$335,000. Differences have resulted from not settling account balances to zero once all amounts were paid out or remaining lives expired, or converting from the cash to accrual basis of accounting for certain items.

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

The following discussion represents management's analysis of the financial condition and results of operations of First Community Financial Corporation (the Corporation) and should be read in conjunction with the accompanying financial statements and other financial data included elsewhere in this report.

FORWARD-LOOKING STATEMENTS

Except for historical information, this report may be deemed to contain "forward-looking" statements regarding the Corporation. Examples of forward-looking statements include, but are not limited to, (a) projections or statements regarding future earnings, expenses, net interest income, other income, earnings or loss per share, asset mix and quality, growth prospects, capital structure and other financial terms, (b) statements of plans and objectives of management or the board of directors, and (c) statements of assumptions, such as economic conditions in the Corporation's market areas. Such forward-looking statements can be identified by the use of forward-looking terminology such as "believes," "expects," "may," "intends," "will," "should," "anticipates," or the negative of any of the foregoing or other variations thereon or comparable terminology, or by discussion of strategy.

No assurance can be given that the future results covered by forward-looking statements will be achieved. Such statements are subject to risks, uncertainties, and other factors that could cause actual results to differ materially from future results expressed or implied by such forward-looking statements. Important factors that could impact the Corporation's operating results include, but are not limited to, (i) the effects of changing economic conditions in the Corporation's market areas and nationally, (ii) credit risks of commercial, real estate, consumer and other lending activities, (iii) significant changes in interest rates, (iv) changes in federal and state banking laws and regulations which could impact the Corporation's operations, (v) funding costs and (vi) other external developments which could materially affect the Corporation's business and operations.

EXECUTIVE SUMMARY

The Corporation's results are primarily determined by the results of operations of its principal subsidiary, The First National Bank of Mifflintown (the Bank). The Bank is a traditional community bank which operates branches in two rural counties of central Pennsylvania. The Bank's earnings are largely driven by its net interest income.

CRITICAL ACCOUNTING POLICIES

The consolidated financial statements include the Corporation and its wholly-owned subsidiary, The First National Bank of Mifflintown (the Bank). All significant intercompany accounts and transactions have been eliminated.

The consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America, which require the Corporation to make estimates and assumptions (see footnote 1 to the financial statements). The Corporation believes that of its significant accounting policies, the allowance for loan losses may involve a higher degree of judgment and complexity.

The allowance for loan losses is established through a charge to earnings for the provision for loan losses. In determining the balance in the allowance for loan losses, consideration is given to a variety of factors in establishing this estimate. In estimating the allowance for loan losses, management considers current economic conditions, diversification of the loan portfolio, delinquency statistics, results of internal loan reviews, borrowers' perceived financial and managerial strengths, the adequacy of the underlying collateral, if collateral dependent, or present value of future cash flows and other relevant factors. The use of different estimates or assumptions could produce different provisions for loan losses. Additional information is provided in the "Provision for Loan Losses" and "Allowance for Loan Losses" sections.

OVERVIEW

In 2006, the Corporation recorded net income of \$1,965,000, a decrease of \$106,000 or 5.1%, from net income of \$2,071,000 in 2005.

The decrease in net income during 2006 as compared to 2005 is primarily a result of the following:

- Increase in net interest income of \$38,000
- Decrease in total other income of \$42,000.
- Increase in total other expenses of \$224,000.
- Decrease in gains on sales of securities of \$275,000

Basic earnings per share were \$1.40 in 2006 compared to \$1.48 in 2005. Return on average equity for 2006 was 10.50% compared to 11.59% in 2005. Return on average assets was 0.72% for 2006 compared with 0.81% in 2005.

During 2006, the Corporation experienced \$16,130,000 or 9.9% growth in loans and \$10,430,000 or 4.9% growth in deposits. These increases were offset by a \$6,936,000 or 9.0% decrease in securities. As a result of these trends total assets of the Corporation grew by \$11,363,000 or 4.3%.

In 2006 the Corporation evaluated its known differences between amounts reported in previous financial records and actual records as per the recently issued guidance contained in SEC Staff Accounting Bulletin No. 108 (SAB #108). In light of the guidance provided in SAB #108, management recorded a \$221,000 charge, net of tax, to January 1, 2006 retained earnings. For further explanation of SAB # 108, refer to Note 17 of the notes to the consolidated financial statements.



RESULTS OF OPERATIONS

NET INTEREST INCOME AND NET INTEREST MARGIN

Net interest income is the difference between interest income earned on investments and loans, and interest expense incurred on deposits and other liabilities. For analysis purposes, net interest income is evaluated on a fully tax equivalent (FTE) basis. The FTE basis is calculated by grossing up the yield on tax-exempt securities and loans by the Federal tax rate of 34%, in order that the yield on tax-exempt assets may be comparable to interest earned on taxable assets. The factors that affect net interest income include changes in interest rates and changes in average balances of interest-earning assets and interest-bearing liabilities. Net interest income on an FTE basis increased to \$7,518,000 in 2006 from \$7,437,000 in 2005 and \$7,430,000 in 2004.

NET INTEREST INCOME AND NET INTEREST MARGIN (CONTINUED)

The following table includes average balances, rates and interest income and expense adjusted to an FTE basis, the interest rate spread and the net interest margin:

Average Balances, Rates and Interest Income and Expense (Dollars in Thousands)

	2006			2005			2004		
	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate
ASSETS									
INTEREST EARNING ASSETS									
Securities:									
Taxable	\$ 50,672	\$ 2,164	4.27 %	\$ 54,280	\$ 2,023	3.73 %	\$ 49,059	\$ 1,661	3.39 %
Tax-exempt	22,790	1,285	5.64 %	23,319	1,289	5.53 %	19,954	1,135	5.69 %
Total Securities	73,462	3,449	4.69 %	77,599	3,312	4.26 %	69,013	2,796	4.05 %
Other	5,929	292	4.92 %	5,769	216	3.74 %	3,856	98	2.54 %
Loans:									
Taxable	168,328	11,542	6.86 %	150,497	10,070	6.69 %	145,010	9,729	6.71 %
Tax-exempt	2,532	191	7.54 %	919	61	6.64 %	2,315	148	6.39 %
Total Loans	170,860	11,733	6.87 %	151,416	10,131	6.69 %	147,325	9,877	6.70 %
Total Interest Earning Assets	250,251	15,474	6.18 %	234,784	13,659	5.82 %	220,194	12,771	5.80 %
Non-interest earnings assets	21,641			21,311			19,655		
Total Assets	271,892			256,095			239,849		
LIABILITIES AND SHAREHOLDERS' EQUITY									
INTEREST BEARING LIABILITIES									
Demand deposits, interest bearing									
bearing	\$ 21,786	\$ 121	0.56 %	\$ 24,019	129	0.54 %	\$ 22,516	\$ 119	0.53 %
Savings deposits	24,359	221	0.91 %	27,120	210	0.77 %	25,357	258	1.02 %
Time deposits	147,338	5,910	4.01 %	134,204	4,645	3.46 %	126,346	4,019	3.18 %
Total Interest Bearing Deposits	193,483	6,252	3.23 %	185,343	4,984	2.69 %	174,219	4,396	2.52 %
Short-term borrowings	7,064	319	4.52 %	4,714	136	2.89 %	4,231	60	1.42 %
Long-term borrowings	27,539	1,385	5.03 %	24,114	1,102	4.57 %	21,923	885	4.04 %
Total Interest Bearing Liabilities	228,086	7,956	3.49 %	214,171	6,222	2.91 %	200,373	5,341	2.67 %
Demand deposits, non-interest bearing									
bearing	23,372			22,583			21,476		
Other liabilities	1,721			1,467			1,372		
Shareholders' equity	18,713			17,874			16,628		
Total Liabilities and Shareholders' Equity	\$ 271,892			\$256,095			\$239,849		
NET INTEREST INCOME		\$ 7,518			\$ 7,437			\$ 7,430	
INTEREST RATE SPREAD			2.70 %			2.91 %			3.13 %
NET INTEREST MARGIN			3.00 %			3.17 %			3.37 %

Yields on tax-exempt assets have been computed on a fully tax equivalent basis assuming a tax rate of 34%.

For yield calculation purposes, non-accruing loans are included in average loan balances.

Interest income on loans includes amortized fees and costs on loans totaling \$80,000 in 2006, \$109,000 in 2005, and \$161,000 in 2004.

Securities available for sale are carried at amortized cost for purposes of calculating the average yield on taxable securities.

NET INTEREST INCOME AND NET INTEREST MARGIN (CONTINUED)

The following table shows changes in net interest income attributed to changes in rates and changes in average balances of interest-earning assets and interest-bearing liabilities:

Rate/Volume Analysis (In Thousands)

	2006 versus 2005			2005 versus 2004		
	Change Due to		Total	Change Due to		Total
	Rate	Volume		Rate	Volume	
INTEREST EARNING ASSETS						
Securities:						
Taxable	\$ 295	\$ (154)	\$ 141	\$ 167	\$ 195	\$ 362
Tax-exempt	26	(30)	(4)	(32)	186	154
Other	67	9	76	44	74	118
Total loans	257	1,345	1,602	(20)	274	254
Total	645	1,170	1,815	159	729	888
INTEREST BEARING LIABILITIES						
Demand deposits, interest bearing	4	(12)	(8)	2	8	10
Savings deposits	36	(25)	11	(62)	14	(48)
Time deposits	738	527	1,265	354	272	626
Short-term borrowings	77	106	183	62	14	76
Long-term borrowings	111	172	283	117	100	217
Total	966	768	1,734	473	408	881
Net Interest Income	\$ (321)	\$ 402	\$ 81	\$ (314)	\$ 321	\$ 7

Interest income is presented on a fully tax equivalent basis, assuming a tax rate of 34%.
The net change attributable to the combination of rate and volume has been allocated to the change due to volume.

2006 VERSUS 2005

During 2006, tax equivalent interest income increased by \$1,815,000 compared to 2005 fueled by both an increase in earning assets and an increase in the yield on earning assets of 0.36%. Average loans increased \$19,444,000 impacting interest income by 1,345,000 and the yield on loans increased 0.18% impacting interest income by \$257,000. Total average securities decreased \$4,137,000 negatively impacting interest income by \$184,000, but a 0.43% increase in the yield on securities positively impacted interest income by \$321,000.

Total average interest-bearing liabilities grew by \$13,915,000 between 2005 and 2006 increasing interest expense by \$768,000 for 2006, while the average rate paid on interest-bearing liabilities increased by 0.58%, which also increased interest expense by \$966,000.

The net interest margin is the ratio of net interest income to interest-earning assets, reflecting a net yield on earning assets. The 0.17% decrease in net interest margin from 2005 to 2006 reflects the increase in rates on interest-bearing liabilities out-pacing the increase in rates on interest-earning assets.

2005 VERSUS 2004

During 2005, tax equivalent interest income increased by \$888,000 compared to 2004, fueled mainly by asset growth as rates on earning assets were relatively stable. Average loans increased \$4,091,000 positively impacting interest income by \$274,000; however, a decline of 0.01% in the yield on loans lowered interest income by \$20,000. Total average securities grew by \$8,586,000 and the corresponding yield increased by 0.21%. The



NET INTEREST INCOME AND NET INTEREST MARGIN (CONTINUED)

growth in securities increased net interest income by \$381,000 and the increase in rates increased the return by \$135,000.

Total average interest-bearing liabilities grew by \$13,798,000 between 2004 and 2005 increasing interest expense by \$408,000 for 2005, while the average rate paid on interest-bearing liabilities increased by 0.24%, which increased also interest expense by \$473,000.

The net interest margin is the ratio of net interest income to interest-earning assets, reflecting a net yield on earning assets. The 0.20% decrease in the net interest margin during 2005, compared to 2004, resulted primarily from the increase in rates on interest-bearing liabilities out-pacing the growth in earning assets and the increase in rates on interest-earning assets.

PROVISION FOR LOAN LOSSES

The provision for loan losses and allowance for loan losses are based on management's ongoing assessment of the Corporation's credit exposure and consideration of other relevant factors. The allowance for loan losses is a valuation reserve, which is available to absorb future loan charge-offs. The provision for loan losses is the amount charged to earnings on an annual basis.

The Corporation did not record a provision for loan losses in 2006, compared to \$30,000 in 2005 and \$121,000 in 2004. Provisions for loan losses are charged to income to bring the allowance for loan losses to a level deemed appropriate by management based on the factors discussed under the "Allowance for Loan Losses" section. Based on that analysis, the level of the allowance for loan losses is appropriate at this time.

OTHER INCOME

2006 VERSUS 2005

Other income of \$1,920,000 during 2006 represented a decrease of \$42,000 compared to 2005, primarily as a result of the following:

A decrease in gains on sales of securities of \$275,000.

This decrease was partially offset by:

An increase in income from fiduciary activities of \$13,000.

An increase in service charges on deposit accounts of \$94,000 or 15.8%, which is consistent with the growth in deposit accounts and the maturity of our overdraft protection product.

An increase in ATM and debit card fees of \$68,000 or 17.9%, which is a result of new customers and increased usage by existing customers.

An increase in other income of \$56,000 due to an increase in commissions received on sales on certain types of insurance products as well as an increase in merchant services income.

OTHER INCOME (CONTINUED)

2005 VERSUS 2004

Other income of \$1,962,000 during 2005 represented an increase of \$332,000 over 2004, primarily as a result of the following:

An increase in service charges on deposit accounts of \$102,000 or 20.7%, which is primarily the result of increased deposit growth and the origination of our overdraft protection program.

An increase in ATM fees of \$61,000 or 19.2%, mostly attributable to the added ATM at our Bloomfield Borough Office.

An increase in investment securities gains of \$166,000 or 124.8% as the Corporation sold a portion of its investment in a local bank's stock.

OTHER EXPENSES

2006 VERSUS 2005

Other expenses increased \$224,000 or 3.6% to \$6,510,000 during 2006 as compared to \$6,286,000 during 2005, primarily as a result of the following:

An increase in net occupancy and equipment expense of \$137,000 or 14.1%, primarily due to an increase in maintenance fees and equipment repairs.

An increase in supplies and postage \$32,000 or 13.9%.

An increase in ATM expense of \$39,000 or 14.4%, primarily as a result of an increase in ATM usage and an increase in interchange fees.

An increase in other operating expenses of \$107,000 or 10.7% due in a large part to the increase in internet banking fees.

These increases were partially offset by a decrease in professional fees, primarily legal and executive search expenses, of \$58,000 or 26.2% and a decrease in employee compensation and benefits of \$35,000 or 1.1%. The decrease in employee compensation and benefits is primarily as a result of resignations and restructuring of the loan and trust divisions.

2005 VERSUS 2004

Other expenses increased \$525,000 or 9.1% to \$6,286,000 during 2005 as compared to \$5,761,000 during 2004, primarily as a result of the following:

An increase in employee compensation and benefits of \$272,000 or 8.9% to \$3,330,000 during 2005 from \$3,058,000 during 2004. The increase was related to general merit increases, an increase in the cost of employee benefits of \$50,000, and the opening of the Bloomfield Borough Branch in October of 2004 which added 2 full time employees.

An increase in professional fees of \$23,000 as the result of outsourcing compliance functions as well as the cost of an executive search firm utilized to assist in the Corporation's search for a new president.

OTHER EXPENSES (CONTINUED)

An increase in ATM expense of \$37,000 or 15.9%, primarily as a result of an increase in ATM usage and an increase in interchange fees.

An increase in net occupancy and equipment expense of \$43,000 or 4.6% due principally to the cost of the Bloomfield Borough Branch opened late 2004.

These increases were partially offset by a decrease in director and advisory board compensation because of a decrease in retirement and deferred compensation plan accruals.

INCOME TAXES

Income tax expense was \$461,000 for 2006 compared to \$533,000 for 2005 and \$619,000 for 2004. Income tax expense as a percentage of income before income taxes was 19.0% for 2006, 21.1% for 2005 and 22.9% for 2004. The Corporation's lower effective tax rate in 2006 and 2005 was a result of an increase in the percentage of pre-tax income being derived from tax-exempt investments and loans and tax-exempt income earned on life insurance. Refer to footnote 9 to the consolidated financial statements for further analysis of income taxes.

FINANCIAL CONDITION

SECURITIES

The securities portfolio is a component of interest-earning assets and is second in size only to the Corporation's loan portfolio. Investment securities not only provide interest income, they provide a source of liquidity, diversify the earning asset portfolio and provide collateral for public funds and securities sold under agreements to repurchase.

The Corporation's securities are classified as either held to maturity or available for sale. Securities in the held to maturity category are accounted for at amortized cost. Available for sale securities are accounted for at fair value with unrealized gains and losses, net of taxes, reported as a separate component of comprehensive income.

The Corporation generally intends to hold its investment portfolio until maturity; however, about 67.9% or \$48,955,000, of total securities at December 31, 2006 was classified as available for sale. Net unrealized losses at year-end 2006 were \$272,000 compared to \$567,000 at year-end 2005. The net unrealized loss at December 31, 2006 is reflected as accumulated other comprehensive loss of \$205,000 in shareholders' equity, net of deferred income taxes. The accumulated other comprehensive loss net of taxes at December 31, 2005 totaled \$405,000. This decline reflects changes in interest rates during 2006. Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (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 Corporation to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. As of December 31, 2006, the Corporation has not recognized other-than-temporary impairment on any of its investment securities. For additional information on unrealized losses by investment type, see footnote 3 to the consolidated financial statements.

SECURITIES (CONTINUED)

Held to maturity securities totaled \$21,073,000 at December 31, 2006 compared to \$24,824,000 a year ago. The decrease was a result of maturities of U.S. Government agency securities and state and municipal securities. A significant portion of this portfolio is comprised of state and municipal securities that provide tax-exempt interest income to the Corporation.

The following tables set forth the composition of the securities portfolio and the securities maturity schedule, including weighted average yield, as of the dates indicated:

Investment Securities (In Thousands)

	2006	2005	2004
AVAILABLE FOR SALE SECURITIES AT FAIR VALUE			
U.S. Agencies	\$ 12,121	\$ 10,151	\$ 4,742
Mortgage-backed securities	35,957	40,980	45,128
Stock in other banks	877	1,009	1,250
	<u>48,955</u>	<u>52,140</u>	<u>51,120</u>
HELD TO MATURITY SECURITIES AT AMORTIZED COST			
U.S. Agencies	781	1,698	1,248
State and municipal	20,292	23,126	22,079
	<u>21,073</u>	<u>24,824</u>	<u>23,327</u>
	<u>\$ 70,028</u>	<u>\$76,964</u>	<u>\$74,447</u>

Securities Maturity Schedule (Dollars in Thousands)

	1 Year or Less		Over 1-5 Years		Over 5-10 Years		Over 10 Years or no Maturity		Total	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
U.S. Agencies	\$3,038	4.43 %	\$4,302	4.83 %	\$ 4,527	5.83 %	\$ 1,035	5.77 %	\$ 12,902	5.16 %
State and municipal	-	-	828	4.00	4,348	4.94	15,116	5.55	20,292	5.36
Mortgage-backed securities	-	-	3,492	3.92	651	5.21	31,814	4.48	35,957	4.44
Equity securities	-	-	-	-	-	-	877	-	877	-
	<u>\$3,038</u>	<u>4.43 %</u>	<u>\$8,622</u>	<u>4.38 %</u>	<u>\$9,526</u>	<u>5.38 %</u>	<u>\$48,842</u>	<u>4.76</u>	<u>\$70,028</u>	<u>4.78 %</u>

Held to maturity securities are accounted for at amortized cost and available for sale securities are accounted for at fair value. Weighted average yields are calculated on a fully tax equivalent basis assuming a tax rate of 34%.

LOANS

Loans at December 31 were as follows:

	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
	(In Thousands)				
Commercial, financial and agricultural	\$ 16,691	\$ 14,562	\$ 12,918	\$ 14,347	\$ 13,023
Real estate:					
Commercial	35,641	33,622	31,578	27,657	20,624
Construction	-	34	99	37	50
Residential	121,799	110,256	100,043	96,215	88,448
Installment	<u>5,398</u>	<u>5,008</u>	<u>4,527</u>	<u>4,507</u>	<u>4,906</u>
Total	179,529	163,482	149,165	142,763	127,051
Allowance for loan losses	(1,230)	(1,264)	(1,264)	(1,212)	(1,111)
Deferred loan fees and costs, net	<u>(369)</u>	<u>(418)</u>	<u>(383)</u>	<u>(345)</u>	<u>(314)</u>
Loans	<u>\$177,930</u>	<u>\$161,800</u>	<u>\$147,518</u>	<u>\$141,206</u>	<u>\$125,626</u>

The loan portfolio comprises the major portion of the Corporation's earning assets. The increase in loans of \$16,130,000, or 10.0%, during 2006 was primarily in residential real estate which grew by \$11,543,000 or 10.5%, commercial real estate which grew by \$2,019,000 or 6.0%, and commercial, financial and agricultural which grew by \$2,129,000 or 14.6%.

The following table sets forth information on the contractual maturities for commercial and construction loans as of the dates indicated:

Loan Maturities - Commercial and Construction Loans (In Thousands)

	<u>Less than 1 Year</u>	<u>1-5 Years</u>	<u>Over 5 Years</u>	<u>Total</u>
Commercial, financial and agricultural	\$ 5,726	\$ 8,217	\$ 2,748	\$16,691
Real estate:				
Commercial	1,250	2,700	31,691	35,641
Construction	-	-	-	-
Total	<u>\$ 6,976</u>	<u>\$10,917</u>	<u>\$34,439</u>	<u>\$52,332</u>
Loans with a fixed interest rate	\$ 2,168	\$10,577	\$13,256	\$26,001
Loans with a variable interest rate	<u>4,808</u>	<u>340</u>	<u>21,183</u>	<u>26,331</u>
Total	<u>\$ 6,976</u>	<u>\$10,917</u>	<u>\$34,439</u>	<u>\$52,332</u>

The Corporation has a significant concentration of residential and commercial mortgage loans collateralized by properties located in Juniata and Perry Counties of Pennsylvania and the surrounding area.

NON-PERFORMING ASSETS

Non-performing assets include loans on a non-accrual basis, loans past due more than ninety days and still accruing, troubled debt restructurings and foreclosed real estate. These groups of assets represent the asset categories posing the greatest risk of loss to the Corporation. Non-accruing loans are loans no longer accruing interest due to apparent financial difficulties of the borrower. The Corporation generally discontinues accrual of interest when principal or interest becomes doubtful based on prevailing economic conditions and collection efforts. Loans are returned to accrual status only when all factors indicating doubtful collectibility cease to exist. Troubled debt restructurings result when an economic concession has been made to a borrower taking the form of a reduction or deferral of interest and/or principal. As of December 31, 2006 and 2005, the Corporation had no troubled debt restructurings. Potential problem loans include impaired loans that are not on non-accrual basis or past due more than 90 days and still accruing. Foreclosed real estate is acquired through foreclosure or in lieu of foreclosure and is recorded at fair value at the date of foreclosure establishing a new cost basis. Gains on the sale of foreclosed real estate are included in other income, while losses and writedowns resulting from periodic revaluations are included in other expenses.

The following table sets forth the Corporation's non-performing assets as of the dates indicated:

	Non-Performing Assets				
	(Dollars in Thousands)				
	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
Non-accrual loans	\$ 2,532	\$ 1,131	\$ 504	\$ 1,411	\$ 200
Accruing loans 90 days past due	-	-	-	-	-
Total Non-Performing Loans	2,532	1,131	504	1,411	200
Foreclosed real estate	<u>255</u>	<u>106</u>	<u>56</u>	<u>-</u>	<u>207</u>
Total Non-Performing Assets	<u>\$ 2,787</u>	<u>\$ 1,237</u>	<u>\$ 560</u>	<u>\$ 1,411</u>	<u>\$ 407</u>
Potential problem loans	<u>\$ 1,914</u>	<u>\$ 1,336</u>	<u>\$ 1,964</u>	<u>\$ 1,729</u>	<u>\$ 1,800</u>
Ratios:					
Non-performing loans to total loans	1.42 %	0.70 %	0.34 %	1.00 %	0.16 %
Non-performing assets to total loans and foreclosed real estate	1.56 %	0.76 %	0.38 %	1.00 %	0.32 %
Non-performing loans to allowance for loan losses	205.85 %	89.48 %	39.87 %	85.90 %	555.55 %
Non-accrual loans:					
Interest income that would have been recorded under original terms	287	129	34	90	65
Interest income recorded during the year	228	96	21	17	61

Total non-performing assets at year-end 2006 increased \$1,550,000, primarily as a result of two large residential mortgages, two commercial mortgages, and a commercial loan. With no loss anticipated on these loans, management determined no increase in the loan loss allowance was necessary at this time.

ALLOWANCE FOR LOAN LOSSES

The Bank has established a systematic methodology for the determination of the allowance for loan losses. The methodology is set forth in a formal policy and takes into consideration the need for an overall general valuation as well as specific allowances that are tied to individual loans.

In originating loans, the Bank recognizes that losses will be experienced and that the risk of loss will vary with, among other things, the type of loan being made, the creditworthiness of the borrower over the term of the loan, general economic conditions and, in the case of a secured loan, the quality of the collateral for the loan.

The Bank's evaluation of the adequacy of the allowance for loan losses includes a review of all loans on at least a quarterly basis. For residential mortgage loans and consumer loans, the primary factors used to determine the adequacy of the allowance are delinquency, collateral value, general economic conditions and, where applicable, individual borrower information that is known to the Bank. For commercial loans and commercial real estate loans, the review includes financial performance of the borrower, payment history, collateral value, general economic conditions and more specific economic conditions affecting specific industries or business activities of the borrowers within the portfolio agreements.

Management maintains an allowance for loan losses that it considers adequate based on the evaluation process that it performs on a quarterly basis. As part of this process, management considers it appropriate to maintain a portion of the allowance that is based on credit quality trends, loan volume, current economic trends and other uncertainties. This portion of the allowance for loan losses is reflected as the unallocated portion in the table below that indicates the distribution of the allowance.

The allowance for loan losses is based on estimates and ultimate losses may vary from current estimates. These estimates are reviewed periodically and, as adjustments become necessary, they are reported in earnings in the periods in which they become known.

The following tables set forth information on the analysis of the allowance for loan losses and the allocation of the allowance for loan losses as of the dates indicated:

Analysis of Allowance for Loan Losses (Dollars in Thousands)

	Years Ended December 31,				
	2006	2005	2004	2003	2002
Beginning balance	\$1,264	\$1,264	\$1,212	\$1,111	\$1,038
Provision for loan losses	-	30	121	120	120
Loans charged off:					
Commercial, financial and agricultural	-	-	50	-	77
Real estate	24	18	-	16	-
Installment	15	14	22	18	1
Total Charged-off	39	32	72	34	78
Recoveries:					
Commercial, financial and agricultural	-	-	-	-	-
Real estate	-	-	-	11	29
Installment	5	2	3	4	2
Total Recoveries	5	2	3	15	31
Net charge-offs	34	30	69	19	47
Ending balance	\$1,230	\$1,264	\$1,264	\$1,212	\$1,111

ALLOWANCE FOR LOAN LOSSES (CONTINUED)

	Years Ended December 31,				
	2006	2005	2004	2003	2002
Ratios:					
Net charge-offs to average loans	0.02 %	0.02 %	0.06 %	0.01 %	0.04 %
Allowance for loan losses to total loans	0.69 %	0.78 %	0.86 %	0.85 %	0.88 %

Allocation of the Allowance for Loan Losses (Dollars in Thousands)

	2006		2005		2004		2003		2002	
	Amount	Percent of Loan Type to Total Loans	Amount	Percent of Loan Type to Total Loans	Amount	Percent of Loan Type to Total Loans	Amount	Percent of Loan Type to Total Loans	Amount	Percent of Loan Type to Total Loans
Commercial, financial and agricultural	\$ 314	9.30 %	\$ 297	8.90 %	\$ 286	8.66 %	\$ 270	10.05 %	\$ 209	10.25 %
Real estate:										
Commercial	448	19.85	365	20.57	338	21.17	424	19.37	401	16.23
Construction	-	-	-	0.02	-	0.07	-	0.03	-	0.04
Residential	235	67.84	224	67.45	262	67.07	240	67.39	274	69.62
Installment	139	3.01	128	3.06	26	3.03	26	3.16	25	3.86
Unallocated	94	N/A	250	N/A	352	N/A	252	N/A	202	N/A
Total	\$ 1,230	100.00 %	\$ 1,264	100.00 %	\$ 1,264	100.00 %	\$ 1,212	100.00 %	\$ 1,111	100.00 %

Management believes the allowance for loan losses at December 31, 2006 and 2005 is adequate to absorb losses inherent in the loan portfolio. Although management believes that it uses the best information available to make such determinations, future adjustments to the allowance for loan losses may be necessary, and the results of operations could be significantly and adversely affected if circumstances differ substantially from the assumptions used in making the determinations. Furthermore, while the Bank believes it has established its existing allowance for loan losses in accordance with accounting principles generally accepted in the United States of America, there can be no assurance that the Office of the Comptroller of the Currency or the Board of Governors of the Federal Reserve System, in reviewing our loan portfolio, will not request us to increase our allowance for loan losses. In addition, because future events affecting borrowers and collateral cannot be predicted with certainty, there can be no assurance that the existing allowance for loan losses is adequate or that material increases will not be necessary should the quality of loans deteriorate as a result of factors discussed above. Any material increase in the allowance for loan losses may adversely affect the Bank's financial condition and results of operations.

DEPOSITS

Management believes that the development and retention of deposits is the basis of sound growth and profitability. These deposits provide the primary source of funding for loans and investments. The Corporation's continued expansion and business development within its market area fueled the growth in deposits. As of December 31, 2006, deposits totaled \$222,374,000 up \$10,430,000 or 4.9% from year-end 2005. Time deposits contributed all of the growth with a \$17,396,000 or 12.6% increase. Demand deposits and savings deposits decreased \$3,905,000 and \$3,061,000 respectively. The growth in deposits resulted from continuing bank-wide promotions.

BORROWINGS

Short-term borrowings at December 31 were as follows:

	<u>2006</u>	<u>2005</u>	<u>2004</u>
	(Dollars in Thousands)		
Amount outstanding at end of year:			
Federal funds purchased	\$ -	\$ 2,776	\$ 224
Securities sold under agreements to repurchase	7,322	5,068	3,127
Short-term FHLB advances	-	1,000	1,000
Treasury tax and loan note	95	93	98
	<u>\$ 7,417</u>	<u>\$ 8,937</u>	<u>\$4,449</u>
Weighted average interest rate at end of year	4.71 %	3.86 %	1.82 %
Maximum amount outstanding at any end of month	\$ 8,656	\$ 8,937	\$10,462
Daily average amount outstanding	7,064	4,714	4,231
Approximate weighted average interest rate for the year	4.52 %	2.89 %	1.42 %

Long-term borrowings increased \$1,000,000 in 2006 due to the increase in FHLB advances. Additional information on borrowings is located in footnote 7 to the consolidated financial statements.

Aggregate Contractual Obligations

The following table represents the Corporation's on and off-balance sheet aggregate contractual obligations to make future payments as of December 31, 2006 (in thousands):

	<u>Less than 1 Year</u>	<u>1 - 3 Years</u>	<u>4 - 5 Years</u>	<u>Over 5 Years</u>	<u>Total</u>
Time deposits	\$ 92,637	\$ 49,954	\$ 12,493	-	\$155,084
Long-term debt	4,000	1,000	12,000	5,000	22,000
Junior subordinated debt	-	-	-	5,155	5,155
Operating leases	43	34	-	-	77
Total	<u>\$ 96,680</u>	<u>\$ 50,988</u>	<u>\$ 24,493</u>	<u>\$ 10,155</u>	<u>\$182,316</u>

In addition, the Corporation in the conduct of business operations routinely enters into contracts for services. These contracts may require payment for services to be provided in the future and may also contain penalty clauses for the early termination of the contracts. Management is not aware of any other commitments or contingent liabilities which may have a material adverse impact on the liquidity or capital resources of the Corporation.

OFF-BALANCE SHEET ARRANGEMENTS

The Corporation is 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, to a lesser extent, standby letters of credit. At December 31, 2006, the Corporation had unfunded outstanding commitments to extend credit of \$21.9 million and outstanding standby letters of credit of \$328,000. Because these commitments generally have fixed expiration dates and many will expire without being drawn upon, the total commitment level does not necessarily represent future cash requirements. Refer to footnote 12 of the consolidated financial statements for a discussion of the nature, business purpose and importance of the Corporation's off-balance sheet arrangements.

INTEREST RATE SENSITIVITY

The operations of the Corporation do not subject it to foreign currency risk or commodity price risk. The Corporation does not utilize interest rate swaps, caps or hedging transactions. In addition, the Corporation has no market risk sensitive instruments entered into for trading purposes. However, the Corporation is subject to interest rate risk and employs several different methods to manage and monitor the risk.

Rate sensitive assets and rate sensitive liabilities are those whose rates or yields are subject to change within a defined time period, due to maturity or a floating market rate. The risk to the Corporation results from interest rate fluctuations to the extent that there is a difference between the amount of the Corporation's rate sensitive assets and the amount of interest sensitive liabilities within specified periods. The Corporation monitors its rate sensitivity in order to reduce its vulnerability to interest rate fluctuations while maintaining adequate capital and acceptable levels of liquidity. The Corporation's asset and liability policy, along with monthly financial reports and monthly financial simulations, supplies management with guidelines to evaluate and manage the Corporation's rate sensitivity.

Financial simulation presents a picture of the effect interest rate changes have on net interest income. Assumptions and estimates are used in the preparation of the simulation and actual values may differ from those presented. In addition, these simulations do not portray other actions management might take to changes in market rates. The following is an analysis of possible changes in the Corporation's net interest income, for a +/- 200 basis point rate shock over a one year period compared to a flat or unchanged rate scenario.

	<u>2006</u>	<u>2005</u>
	Percent Change in Net Interest Income	Percent Change in Net Interest Income
Change in interest rates		
+200 basis points	(2.16) %	0.31 %
Flat rate	- %	- %
-200 basis points	1.07 %	(0.45) %

The percent change is expressed as the change in net interest income as a percent of the base year's net interest income. The net interest income at risk position is within the guidelines set by the Corporation's asset/liability policy. An increase of 200 basis points could result in a 2.16% (or \$168,000) decrease in net interest income, whereas, a 200 basis point decrease could result in a 1.07% (or \$83,000) increase in net interest income.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity represents the Corporation's ability to efficiently manage cash flows to support customers' loan demand, withdrawals by depositors, the payment of operating expenses, as well as the ability to take advantage of business and investment opportunities as they arise. Liquidity is essential to compensate for fluctuations in the balance sheet and provide funds for growth.

The primary sources of liquidity are the Corporation's deposit base and a strong capital position. The stability of the deposits is reflected in a comparison of year-end balances to yearly averages. Deposits at year-end 2006 totaled \$222,374,000 and averaged \$216,855,000 for the year; this is consistent with the increase in deposits for the year. Likewise, year-end 2005 deposits totaled \$211,944,000 and averaged \$207,926,000 for the year.

LIQUIDITY AND CAPITAL RESOURCES (CONTINUED)

Other sources of liquidity are available from investment securities maturing in one year or less, which totaled \$3,038,000 at year-end 2006 and from investments in mortgage-backed securities, which supply income and principal cash flow streams on an ongoing basis. Mortgage-backed securities represented 52.1% of the total amortized cost of securities as of December 31, 2006. These sources provide the Corporation with adequate resources to meet its short-term liquidity requirements. Longer term liquidity needs might be met by selling securities available for sale, which had a fair value of \$48,955,000 at December 31, 2006, selling loans or raising additional capital. In addition, the Corporation has established federal funds lines of credit at the Federal Home Loan Bank of Pittsburgh and the Atlantic Central Bankers Bank, which are reliable sources for short and long-term funds. The maximum borrowing capacity through the Federal Home Loan Bank approximated \$140,543,000 at December 31, 2006, of which \$118,543,000 or 84.3% was available.

The Corporation's loan to deposit ratio, for 2006, was maintained at an average of 78.8% and ended the year at 80.0% compared to an average of 72.8% in 2005 and 76.3% at the end of 2005.

The Corporation's financial statements do not reflect various commitments that are made in the normal course of business, which may involve some liquidity risk. These commitments consist mainly of unfunded loans and letters of credit made under the same standards as on-balance sheet instruments. Commitments to extend credit, at December 31, 2006 totaled \$21.9 million and standby letters of credit totaled \$328,000.

The Corporation is not aware of any known trends or any known demands, commitments, events or uncertainties, which would result in the liquidity increasing or decreasing in a material way.

The greater the capital resources, the more likely the Corporation will be able to meet its cash obligations and unforeseen expenses. The Corporation's strong capital position is related to the Corporation's earnings stability. The dividend payout ratio was 30.6% in 2006, compared to 26.4% in 2005. Shareholders' equity at the end of 2006 totaled \$19,674,000, an increase of \$1,342,000 or 7.3% over year-end 2005. The increase was a result of net income, a decrease in the unrealized loss on securities available for sale, net of taxes of \$200,000, partially offset by the dividend payout of \$602,000 and a charge to retained earnings for the cumulative effect adjustment of prior period prepaid and accrued expense balances, net of taxes of \$221,000. Likewise, shareholders' equity at the end of 2005 totaled \$18,332,000, an increase of \$924,000 or 5.3% over year-end 2004. The increase was a result of net income partially offset by a \$601,000 unrealized loss on securities available for sale, net of taxes, and by the dividend payout of \$546,000.

The table in footnote 11 to the financial statements sets forth the Corporation's and Bank's capital ratios as of December 31, 2006 and 2005. These ratios show that the Bank exceeds the federal regulatory minimum requirements for a "well capitalized bank." The minimum regulatory requirements of a "well capitalized bank" for the leverage ratio, Tier 1 and total risk-based capital ratios are 5.00%, 6.00% and 10.00% respectively.

The Corporation is not under any agreement with the regulatory authorities nor is it aware of any current recommendations by the regulatory authorities that, if implemented, would have a material effect on the Corporation's capital, liquidity or its operations.

INFLATION

The impact of inflation upon banks differs from the impact upon non-banks. The majority of assets and liabilities of a bank are monetary in nature and, therefore, change with movements in interest rates. The exact impact of inflation on the Corporation is difficult to measure. Inflation may cause operating expenses to increase at a rate not matched by increased earnings. Inflation may also affect the borrowing needs of consumers, thereby affecting growth of the Corporation's assets. Inflation may also affect the general level of interest rates, which could have an effect on the Corporation's profitability. However, as discussed previously, the Corporation strives to manage its interest sensitive assets and liabilities offsetting the effects of inflation.

Summary of Selected Financial Data
(Amounts in Thousands, Except Per Share Data)

	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
Income Statement Data					
Net interest income	\$ 7,016	\$ 6,978	\$ 6,994	\$ 6,611	\$ 6,141
Provision for loan losses	-	30	121	120	120
Gains on sales of securities	24	299	133	123	-
Other income	1,896	1,663	1,497	1,409	1,225
Other expenses	6,510	6,286	5,761	5,303	4,988
Income before Income Taxes	2,426	2,624	2,742	2,720	2,258
Income tax expense	461	553	619	652	474
Net Income	\$ 1,965	\$ 2,071	\$ 2,123	\$ 2,068	\$ 1,784
Balance Sheet Data (Period End)					
Total assets	\$278,520	\$267,157	\$247,655	\$222,503	\$201,770
Loans, net	177,930	161,800	147,518	141,206	125,626
Investments:					
Held to maturity	21,073	24,824	23,327	19,393	15,443
Available for sale	48,955	52,140	51,120	42,931	39,979
Deposits	222,374	211,944	203,130	187,263	174,126
Short-term borrowings	7,417	8,937	4,449	4,788	3,610
Long-term borrowings	27,155	26,155	21,155	13,000	8,000
Shareholders' equity	19,674	18,111	17,408	15,927	14,693
Per Share Data					
Basic earnings	\$1.40	\$1.48	\$1.52	\$1.48	\$1.27
Cash dividends declared	0.430	0.390	0.350	0.315	0.285
Book value	14.05	13.09	12.43	11.38	10.50
Weighted average common shares outstanding	1,400	1,400	1,400	1,400	1,400
Selected Ratios					
Return on average assets	0.72 %	0.81 %	0.89 %	0.98 %	0.93 %
Return on average shareholders' equity	10.50 %	11.59 %	12.77 %	13.4 %	12.90 %
Average equity to average assets	6.88 %	6.98 %	6.93 %	7.32 %	7.22 %
Allowance for loan losses to total loans at end of period	0.69 %	0.78 %	0.86 %	0.85 %	0.88 %
Dividend payout ratio	30.64 %	26.36 %	23.08 %	21.32 %	22.37 %

BOARD OF DIRECTORS

FIRST COMMUNITY FINANCIAL CORPORATION

and

THE FIRST NATIONAL BANK OF MIFFLINTOWN

JAMES R. McLAUGHLIN

Chairman of the Board of Directors of the Company and the Bank;
Retired President and Chief Executive Officer of the Company and the Bank

ROGER SHALLENBERGER

Vice Chairman of the Board of Directors of the Company and the Bank;
President of KSM Enterprises

JODY D. GRAYBILL

President of the Company and the Bank; Trust Officer of the Bank

LOWELL M. SHEARER

Secretary of the Board of Directors of the Company and the
Bank; Self-employed timber, logs, logging and log hauling

JOSEPH E. BARNES, SR.

Owner/Operator of Barnes Body Shop, Thompsontown, PA

NANCY S. BRATTON

Owner of Bratton Insurance Agency, Millerstown, PA

JOHN P. HENRY, III

Vice President of JPH Enterprises, LLC, Port Royal, PA

SAMUEL G. KINT

Retired businessman

CLAIR E. McMILLEN

Owner/Partner, McMillen Bros., Inc.

CHARLES C. SANER

Dairy Farmer

FRANK L. WRIGHT

Attorney-at-Law, Harrisburg, PA

OFFICERS

FIRST COMMUNITY FINANCIAL CORPORATION

JAMES R. McLAUGHLIN
Chairman

ROGER SHALLENBERGER
Vice Chairman

JODY D. GRAYBILL
President

LOWELL M. SHEARER
Secretary

RICHARD R. LEITZEL
Treasurer

KATHY S. CLARK
Assistant Secretary

OFFICERS

THE FIRST NATIONAL BANK OF MIFFLINTOWN

JODY D. GRAYBILL
President and Trust Officer

K. LEE HOPKINS
Vice President and Credit Services Division Manager

RICHARD R. LEITZEL
Vice President and Chief Financial Officer

TIMOTHY P. STAYER
Vice President and Community Banking Services Division Manager

JOANNE D. GOODLING
Assistant Vice President and Community Office Manager, Fermanagh Office

AUDRA L. HUNTER
Assistant Vice President and Community Office Manager, Loysville Office

ROY A. LEISTER, JR.
Assistant Vice President and Community Office Manager, Delaware Office

PATTI L. McLAUGHLIN
Assistant Vice President and Community Office Manager, New Bloomfield,
Shermans Dale and Bloomfield Borough Offices

BRADLEY D. SHERMAN
Assistant Vice President and Community Office Manager, West Perry and Ickesburg Offices

DIANE E. ZEIDERS
Assistant Vice President and Community Office Manager, Tuscarora Valley
and East Waterford Offices

FLORENCE E. DRESSLER
Community Office Manager, Mifflintown Office

NANETTE W. STAKE
Assistant Vice President and IT Manager and IT Security Officer

TINA J. SMITH
Assistant Vice President and Human Resources Manager

NANCI A. LOUDENSLAGER
Assistant Vice President and Operations Manager/Security and AML Officer

SANDRA Z. WERT
Auditor

SANDRA J. HOLMAN
Assistant Trust Officer and Assistant Secretary

RENEE D. WILLIAMSON
Assistant Trust Officer

ADAM E. TRUITT
Assistant Trust Officer

KATHY S. CLARK
Assistant Secretary

DIRECTORS EMERITI AND ADVISORY BOARDS

DIRECTORS EMERITI

DONALD Q. ADAMS
DALE J. BEASTON
HARRY E. CLARK
ELWOOD S. HENCH
RAYMOND T. LONG
SAMUEL F. METZ
JANE B. MARHEFKA
JAMES L. McCLURE
PHYLLIS S. MOHLER
GEORGE L. SETTLEMYER
JOHN A. TETWILER
H. SCOTT WEIBLEY
A. JACK WELLER
RICHARD L. WIBLE

ADVISORY BOARDS

DELAWARE OFFICE

JOHN M. AUKER
DENNIS L. BASSLER
C. ROBERT HOCKENBROCK
MERVIN J. STRAWSER

FERMANAGH OFFICE

DANIEL B. BROWN
JOHN C. LEIDY
RONALD H. MAST
ALAN E. VARNER

TUSCARORA VALLEY AND EAST WATERFORD OFFICES

WILLIAM A. GILLILAND
NORMAN F. LOVE
JAMES M. SHEAFFER
BARBARA G. WILSON

NEW BLOOMFIELD, SHERMANS DALE AND BLOOMFIELD BOROUGH OFFICES

WILLIAM R. BUNT
DARWIN L. KITNER
JOHN K. McCLELLAN
FRED E. MORROW
JAMES E. SWENSON

WEST PERRY, ICKESBURG AND LOYSVILLE OFFICES

ROBERT E. SHEAFFER
DAVID L. SWARTZ
TERRY K. URICH
FLOYD H. WEARY

BANK LOCATIONS

**First Community Financial Corporation
and Wholly Owned Subsidiary,
The First National Bank of Mifflintown**

The First National Bank of Mifflintown is a full-service financial institution serving customers from five locations in Juniata County and six locations in Perry County.

MAIN OFFICE

Two North Main Street
Mifflintown, PA 17059
717-436-2144

BLOOMFIELD BOROUGH OFFICE

216 South Carlisle Street
New Bloomfield, PA
717-582-3977

DELAWARE OFFICE

1 ½ miles North of Interchange Routes 333 and 22/322
717-535-5158

EAST WATERFORD OFFICE

Route 75, East Waterford, PA
717-734-2400

FERMANAGH OFFICE

Interchange Routes 35 and 22/322
717-436-8968

ICKESBURG OFFICE

Route 17, Ickesburg, PA
717-438-3050

LOYSVILLE OFFICE

Intersection Routes 850 and 274
717-789-2400

NEW BLOOMFIELD OFFICE

Intersection Route 274 West and Cold Storage Road
717-582-7599

SHERMANS DALE OFFICE

Intersection Routes 34 and 850
717-582-7424

TUSCARORA VALLEY OFFICE

Intersection Routes 75 and Old 22/322
717-436-8947

WEST PERRY OFFICE

Intersection Routes 74 and 274
717-789-4500

STOCK AND DIVIDEND INFORMATION

First Community Financial Corporation has only one class of common stock authorized, issued and outstanding. Although shares of the Corporation's common stock are traded from time to time in private transactions, there is no established public trading market for the stock. The Corporation's common stock is not listed on any stock exchange or automated quotation system and there are no present plans to so list the stock. There can be no assurance that, at any given time, any persons will be interested in acquiring shares of the Corporation's common stock. Price quotations for the Corporation's common stock do not appear in any generally recognized investment media.

The Corporation pays dividends on the outstanding shares of our common stock as determined by the Board of Directors from time to time. It has been the practice of the Board of Directors to declare cash dividends on a quarterly basis. Future dividends will depend upon our earnings, financial position, cash requirements and such other factors as the Board of Directors may deem relevant. The following table sets forth the cash dividends declared per share of the Corporation's common stock and the highest and lowest per share prices at which the Corporation's common stock has actually traded in private transactions during the periods indicated. To the best of management's knowledge, such prices do not include any retail mark-up, mark-down or commission. Shares may have been sold in transactions, the price and terms of which are not known to the Corporation. Therefore, the per share prices at which the Corporation's stock has previously traded may not necessarily be indicative of the true market value of the shares.

Quarter	Per Share Sales Price		Dividends per Share
	High	Low	
First, 2006	\$31.00	\$30.00	\$0.105
Second	31.00	30.50	0.105
Third	32.00	30.50	0.110
Fourth	31.50	29.70	0.110
First, 2005	\$27.50	\$26.50	\$0.095
Second	29.50	28.00	0.095
Third	31.50	29.50	0.100
Fourth	33.00	30.50	0.100

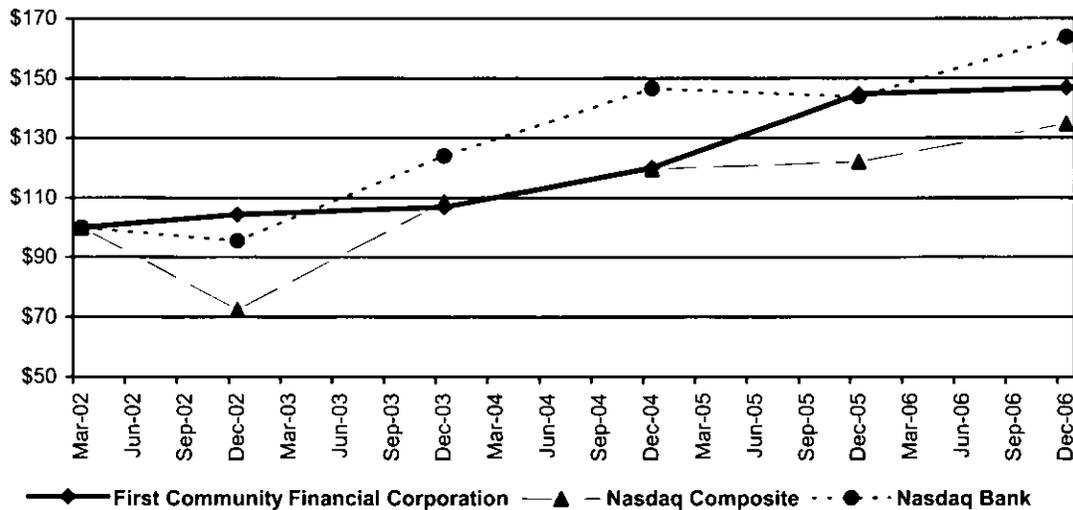
The authorized common stock of the Corporation consists of 10,000,000 shares of common stock, par value \$5.00 per share, of which 1,400,000 shares were outstanding at December 31, 2006. There were no shares of the Corporation's common stock (i) that are subject to outstanding options, warrants or securities convertible into common stock; (ii) that could be sold pursuant to Rule 144 under the Securities Act or that the Corporation has agreed to register under the Securities Act for sale by security holders; or (iii) that are or have been proposed to be publicly offered by the Corporation. The Corporation had approximately 573 shareholders of record as of December 31, 2006.

The following graph shows a comparison of the cumulative total return on Corporation common stock for the period March 28, 2002 (the date the Corporation's common stock became registered under the Securities Exchange Act of 1934, as amended) through December 31, 2006, as compared to the Nasdaq Composite Index and the Nasdaq Bank index. Shareholder returns on Corporation common stock are based upon reports to the Corporation by shareholders that bought or sold shares during the indicated period. The Corporation is not aware of all prices at which shares traded during this period. The shareholder returns shown in the graph are not necessarily indicative of future performance.

STOCK AND DIVIDEND INFORMATION

Stock and Dividend Information (continued)

First Community Financial Corporation Total Return Performance



	Period Ending					
Index	3/28/02	12/31/02	12/31/03	12/31/04	12/31/05	12/31/06
First Community Financial Corporation	\$100.00	\$104.30	\$106.86	\$119.89	\$144.83	\$146.85
Nasdaq Composite Index	\$100.00	\$72.37	\$108.56	\$119.49	\$122.03	\$134.71
Nasdaq Bank Index	\$100.00	\$95.40	\$123.96	\$146.73	\$143.91	\$163.80

The performance illustrated assumes that \$100 was invested in Corporation common stock and each index on March 28, 2002 (the date the Corporation's common stock became registered under the Securities Exchange Act of 1934, as amended) and that all dividends were reinvested.

Annual Report on Form 10-K

The Corporation's Annual Report on Form 10-K, which contains additional information about the Corporation, was filed with the Securities & Exchange Commission and may be obtained without charge, by writing to:

Mr. Richard R. Leitzel
Vice President & Chief Financial Officer
First Community Financial Corporation
P.O. Box 96
Mifflintown, PA 17059

The Form 10-K is also available on the Securities & Exchange Commission's Internet site at <http://www.sec.gov>.

Notice of Annual Meeting

The Annual Meeting of Shareholders of the Corporation will be held on Tuesday, April 10, 2007, beginning at 10:00 a.m., at: Cedar Grove Brethren in Christ Church, located near the PA Route 75 and U.S. Route 22/322 interchange in Mifflintown, Pennsylvania. A Notice of the Annual Meeting, Proxy Statement and Proxy are being delivered together with this Annual Report to shareholders entitled to vote at the meeting.



The First National Bank of Mifflintown
Two North Main Street • Mifflintown, Pennsylvania 17059
www.fnbmifflintown.com

END

TEACHER * MEDICAL THERAPIST * DENTIST * MINISTER * COMPUTER TECHNICIAN
NURSE * HOMEMAKER * LOAN OFFICER * ATTORNEY * DAIRY AND CATTLE FARMER
BANK OFFICE MANAGER * ELECTRICIAN * WELDER * TRUCKER * CONTRACTOR
BUSINESS ENTREPRENEUR * REAL ESTATE AGENT * FINANCIAL ADVISOR * TRUCK DRIVER
BANK TELLER * SECRETARY * COMMUNITY AGENCY VOLUNTEER * SURVEYOR * INSURANCE
OWNERS AND OPERATORS * COOK * BUILDING INSPECTOR * FLORIST * FUNERAL HOME
STATION OWNERS AND OPERATORS * MECHANICS * CUSTOMER SERVICE REPRESENTATIVES
PROFESSIONALS * VOLUNTEER FIRE AND AMBULANCE WORKERS * HEALTH AIDERS