



**THIRD QUARTER**

# Results

2009

**First Chester County Corporation**



For the third quarter, First Chester County Corporation reported a net loss of \$9.7 million, or (\$1.54) per fully diluted share, compared to net income of \$807 thousand, or \$0.16 per fully diluted share, in the third quarter of 2008. The Company's financial results in the third quarter of 2009 primarily reflect a \$14.7 million provision for credit losses consistent with a rise in charge-offs, non-performing, and classified loans in the commercial and retail loan portfolios due mainly to the effects of a recessionary economy. The results also include a \$1.6 million other than temporary impairment (OTTI) charge on equity securities held in the Company's investment portfolio.

In recent months, the prolonged economic downturn has increasingly stressed some of our business and consumer borrowers. These pressures have necessitated making substantial additional increases to our loan loss reserves. As you would expect, the need to place more of our capital into reserves has a significant impact on our overall financial performance. We recognized the issues. We are making the changes necessary. And we are moving forward.

The provision for loan and lease losses in the third quarter of 2009 increased to \$14.7 million compared to \$290 thousand for the same period in 2008. The percentage of non-accrual loans to gross loans was 1.6% at September 30, 2009 compared to 1.1% at December 31, 2008. The allowance for loan and lease losses as a percentage of gross loans at September 30, 2009 was 2.5% compared to 1.1% at December 31, 2008. Non-accrual loans at September 30, 2009 were \$15.8 million up 416% from \$3.1 million a year ago and up about 50% from \$10.5 million at the end of the year.

While the economic events of the past two years have been unprecedented, other factors contributed to our loss in the third quarter – including our concentration in commercial real estate loans and our delayed recognition of the deterioration of a portion of our loan portfolio. In addition, we identified a material weakness in internal controls related to the Credit Administration function and policies and our ability to promptly identify problem loans and to quantify the level of risk. This weakness caused a delay in accurately identifying problem loans on a timely basis, accurately estimating the overall risk in the portfolio, and in turn accurately determining the appropriate allowance for loan and lease losses. In addition, the Board of Directors entered into a Memorandum of Understanding with the Officer of the Controller of the Currency. Among the actions the Bank agreed to include: developing a comprehensive capital plan; taking action to protect and eliminate criticized assets; identify and manage problem loans earlier; review the Bank's technology activities and Bank Secrecy Act compliance; and establish a compliance committee to oversee terms of the MOU. The Board has initiated corrective actions to comply.

Additionally, we are acting to reduce our expense ratio relative to our present revenue base. Management has already implemented a bank-wide structural re-organization – including combining

positions and a significant workforce reduction program. These reductions are largely complete now with the restructuring well underway. Our new senior management structure for the Company and the Bank now consists of three individuals: James M. Deitch, Managing Director of AHB, as Chief Operating Officer; Sheryl S. Vittitoe, formerly Managing Director of Accume Partners LLC, as Chief Administrative Officer and Chief Financial Officer; and myself as Chairman, CEO, and President.

**Financial Summary.** At September 30, 2009, First Chester County Corporation was well-capitalized and total assets and gross loans and leases were up 30% and 18% to \$1.3 billion and \$958 million, respectively, from the third quarter of 2008, primarily due to the acquisition of American Home Bank (AHB). Total deposits at September 30, 2009 were \$986 million, up 29% compared to \$762 million at September 30, 2008, due to a combination of organic deposit growth and the acquisition of AHB. Regulatory capital ratios at the Bank were as follows: Leverage Ratio of 7.21% versus 5% to be well capitalized, Tier 1 Capital Ratio of 9.21% versus well capitalized of 6%, and a Total Risked Based Capital Ratio of 10.47% versus 10% to be well capitalized. Net interest income was \$11.8 million, up 38% from \$8.6 million in last year's third quarter. Net interest margin remained stable as average interest earning assets increased \$339.9 million from last year's third quarter. Non-interest income was \$12.0 million compared to \$1.3 million in last year's third quarter primarily due to increased mortgage banking revenue as a result of the acquisition of AHB at December 31, 2008. Non-interest income for the quarter also includes a \$1.6 million other than temporary charge on equity securities held in the Company's investment portfolio. Wealth management and advisory fees were \$965 thousand, down marginally from \$994 thousand in last year's third. Non-interest expense was \$23.3 million compared to \$8.6 million in last year's third quarter. FDIC insurance costs increased \$286 thousand quarter over quarter primarily due to increases affecting all financial institutions. Salary and employee benefit expenses increased \$10.1 million primarily due to the increased staff from the mortgage banking acquisition at the end of 2008. If you would like to read our entire 10-Q, it is available on our website at [www.Inbank.com](http://www.Inbank.com). Last, as of October 23, our shares are now listed on NASDAQ, one of the largest capital markets in the world.

**We believe these actions will help us emerge stronger, more competitive, and more profitable as the economy regains strength.** Despite what I believe are near-term challenges, we are 100% committed to remaining an independent community bank. This bank has faced many tough economic challenges during its 146-year history – and each time we have gone on to thrive. We appreciate your continued support.

Sincerely,

John A. Featherman, III  
Chairman of the Board, CEO and President

# FIRST CHESTER COUNTY CORPORATION

## Selected Financial Data (Unaudited)

### Selected Financial Data

(Dollars in thousands, except per share data)

	SEPTEMBER 30,		DECEMBER 31,
	2009	2008	2008
Total assets .....	\$1,306,681	\$1,002,196	\$1,300,178
Loans held for sale .....	\$187,521	\$310	\$90,940
Gross loans and leases .....	\$957,502	\$808,621	\$940,083
Allowance for loan & lease losses .....	\$23,434	\$8,637	\$10,335
Total investment securities .....	\$89,866	\$102,212	\$114,584
Deposits .....	\$986,114	\$761,519	\$1,015,192
Federal Home Loan Bank and other borrowings .....	\$202,123	\$148,585	\$171,170
Shareholders' equity .....	\$81,378	\$67,352	\$85,317
Average assets .....	\$1,340,128	\$980,636	\$987,263
Average equity .....	\$88,656	\$69,260	\$68,865
Non-accrual loans .....	\$15,787	\$3,057	\$10,514
Financial Management Services Assets under management & custody * .....	\$554,849	\$542,106	\$484,607

### Per Share Data

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	2009	2008	2009	2008
Net (loss) income per share (Basic)	(\$1.54)	\$0.16	(\$0.78)	\$0.80
Net (loss) income per share (Diluted)	(\$1.54)	\$0.16	(\$0.78)	\$0.80
Cash dividends declared	\$0.14	\$0.14	\$0.42	\$0.42
Book value	\$12.90	\$12.98	\$12.90	\$12.98
Average bid/ask	\$9.98	\$14.08	\$9.98	\$14.08
Basic weighted average shares	6,306,889	5,188,562	6,272,682	5,184,173
Diluted weighted average shares	6,306,889	5,197,787	6,272,682	5,200,200

\* These assets are managed by the Wealth Management Division of the Bank and are not assets of the Bank or the Corporation.

# Statement of Income

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	2009	2008	2009	2008
Interest income .....	\$17,200	\$13,876	\$50,982	\$41,749
Interest expense .....	\$5,366	\$5,326	\$17,299	\$17,172
Net interest income .....	<b>\$11,834</b>	<b>\$8,550</b>	<b>\$33,683</b>	<b>\$24,577</b>
Provision for loan and lease losses .....	\$14,678	\$290	\$17,637	\$950
Net interest income after provision for loan and lease losses .....	<b>(\$2,844)</b>	<b>\$8,260</b>	<b>\$16,046</b>	<b>\$23,627</b>
Wealth Management and advisory services .....	\$965	\$994	\$2,931	\$3,069
Service charges on deposit accounts .....	\$669	\$657	\$1,960	\$1,853
Gains on sales of investment securities, net .....	\$1	\$89	\$1	\$273
Operating lease rental income .....	\$314	\$328	\$999	\$967
Net gains (losses) on fixed assets and OREO .....	\$162	(\$123)	\$279	(\$33)
Loan fees and other .....	\$738	\$118	\$3,574	\$298
Net gain on mortgage banking activities .....	\$10,231	\$33	\$34,492	\$197
Bank-owned life insurance .....	\$13	\$46	\$39	\$203
Asset Impairment .....	(\$1,576)	(\$1,267)	(\$1,576)	(\$1,267)
Other .....	\$521	\$452	\$1,574	\$1,395
Non-interest income .....	<b>\$12,038</b>	<b>\$1,327</b>	<b>\$44,273</b>	<b>\$6,955</b>
Salaries and employee benefits .....	\$14,948	\$4,847	\$42,718	\$13,845
Occupancy, equipment, and data processing .....	\$3,207	\$1,434	\$8,877	\$4,342
Depreciation expense on operating leases .....	\$259	\$273	\$828	\$799
FDIC deposit insurance .....	\$422	\$136	\$1,897	\$347
Bank shares tax .....	\$207	\$207	\$674	\$592
Professional services .....	\$2,039	\$449	\$4,962	\$1,368
Marketing .....	\$337	\$171	\$1,161	\$704
Other real estate expense .....	\$35	\$12	\$142	\$16
Other .....	\$1,923	\$1,103	\$5,580	\$3,071
Non-interest expense .....	<b>\$23,377</b>	<b>\$8,632</b>	<b>\$66,839</b>	<b>\$25,084</b>
(Loss) income before income taxes .....	(\$14,183)	\$955	(\$6,520)	\$5,498
Income Taxes .....	(\$4,960)	\$148	(\$2,965)	\$1,329
Net (loss) income including noncontrolling interests .....	<b>(\$9,223)</b>	<b>\$807</b>	<b>(\$3,555)</b>	<b>\$4,169</b>
Less: Net income attributable to noncontrolling interests .....	<b>\$494</b>	<b>—</b>	<b>\$1,363</b>	<b>—</b>
Net (loss) income attributable to First Chester County Corporation .....	<b>(\$9,717)</b>	<b>\$807</b>	<b>(\$4,918)</b>	<b>\$4,169</b>



**First Chester County**  
Corporation

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