



Dear Fellow Shareholders:

I am happy to report on the progress and achievements of Stonebridge Financial Corp. for the first six months of 2006. We have had a busy time and feel our efforts will begin to pay off in the near future.

Assets in the first six months grew 6.1% from \$367.7 million to \$390.2 million. Loans grew 4.9% from \$262.6 million to \$275.4 million, and deposits grew 8.8% from \$277.5 million to \$302.0 million. We are pleased to report this growth in 2006 as we had nominal asset and loan growth in 2005.

Earnings for the first six months of 2006 were \$767,000, which was \$435,000 lower than the first six months of 2005. There were three reasons for this decrease. First, the Bank received several non-recurring one-time benefits to income during the first half of 2005, totaling \$225,000. Second, we added \$300,000 to our loan loss reserves in the first six months of 2006, versus \$180,000 in 2005, reflective of the growth in our loan portfolio. The reserves now stand at 1.14% of loans. Finally, our operating expenses increased by \$267,000 for the first half of 2006 compared to 2005. This was due to the launch of a full service branch in West Chester and expansion of the commercial loan center and loan operations area. In addition, we hired staff for the Warminster branch, added new key positions and added to our team of commercial lenders. Although we expect our investment in new facilities and personnel to position us for future growth, it has placed pressure on earnings in the short-term. We were encouraged by an increase in net interest income of 5% or \$237,000, despite an interest rate cycle, which has challenged the financial services industry.

Much of our time in 2006 has been spent improving the infrastructure of Stonebridge Financial Corp. in order to better position the company for growth and to capitalize on opportunities that may arise in the market. As shareholders you should be pleased to know we have made substantial progress in improving our internal controls, processes and procedures.

The key element of this progress is people. We have worked hard to bring in many new, experienced staff that are knowledgeable, hard-working and dedicated to making this company successful. I am proud of their efforts and you should be as well.

We also have several other items on which we would like to report.

The first item is the successful launch of our new branch location in Warminster, Bucks County. The Branch opened on June 15th and reached \$15.0 million in deposits by June 30. We attribute the inflow of new money to a successful marketing and promotional campaign, a well-received Grand Opening event, and the promotional rates offered on the deposit products.

Second is a new look for our website, which we hope to roll out in the 4th Quarter of this year. We are confident that you will share our excitement when the website is completed. It will have a fresh look, be more user-friendly, and will greatly simplify the account opening procedures.

Finally, because we recognize the important role of our stockholders in our success, our Board of Directors has announced a 5 for 4 stock split effected in the form of a 25% Stock Dividend. Please read the accompanying Press Release for more details.

Again, thank you for your support and please feel free to call me at anytime with questions. You can reach me at 610-719-8221.

Sincerely,

Joseph C. Spada  
President and CEO