New Jersey Community Bank

Selected Financial Highlights

(in thousands, except per share and percentage data)	2012	2011	2010	2009	2008*
Summary of Operations:					
Interest income	$ 5,921	$ 5,927	$ 4,876	$ 2,704	$ 673
Interest expense	1,291	1,459	1,456	1,047	188
Net interest income	4,630	4,468	3,420	1,657	485
Provision for loan and lease loss	117	244	472	719	245
Net interest income after provision for loan loss	4,513	4,224	2,948	938	240
Non-interest income	349	420	412	162	30
Non-interest expense	4,218	3,686	3,208	2,494	2,162
Income (loss) before income tax (benefit) expense	644	958	152	(1,394)	(1,892)
Income tax expense (benefit)	283	406	(1,185)	-	-
Net income (loss)	$ 361	$ 552	$ 1,337	$ (1,394)	$ (1,892)
Per Common Share(1):					
Earnings (loss) per share:					
Basic	$ 0.20	$ 0.30	$ 0.74	$ (0.77)	$ (1.04)
Diluted	0.20	0.30	0.74	(0.77)	(1.04)
Book value per share	8.64	8.41	8.01	7.22	7.96
Average shares outstanding	1,818	1,818	1,818	1,818	1,818
Average diluted shares outstanding	1,818	1,818	1,818	1,818	1,818
Selected Financial Ratios:					
Return on average assets	0.27%	0.44%	1.30%	-2.19%	-5.62%
Return on average common equity	2.32%	3.68%	10.14%	-10.10%	-12.87%
Average equity to average assets	11.78%	12.03%	12.83%	21.72%	43.65%
Risk-based capital:					
Total risk-based capital ratio	15.71%	16.38%	15.65%	20.76%	53.00%
Tier 1 risk-based capital ratio	14.56%	15.25%	14.61%	19.76%	52.12%
Tier 1 leverage capital ratio	11.61%	11.41%	12.69%	15.71%	42.98%
Financial Condition:					
Total assets	$ 138,678	$ 132,018	$ 112,565	$ 88,209	$ 36,421
Loans, net of unearned income	92,157	87,857	84,693	58,392	22,218
Deposits	122,536	116,394	97,855	75,014	21,844
Shareholder's equity	15,712	15,293	14,554	13,127	14,469

* The operations commenced in July 2008, accordingly, data for 2008 reflects 6 months of information.

(1) Data for the years 2008 through 2011 have been restated to give effct to the 5% stock dividend declared and paid in 2012.

New Jersey Community Bank

Executive Overview
December 31, 2012

New Jersey Community Bank (the "Bank"), headquartered in Freehold, New Jersey, provides a full range of commercial and retail banking services primarily to customers in Monmouth and Middlesex counties. Currently, the Bank operates three full-service banking offices in Freehold, Neptune City and Cranbury. Our primary sources of revenue are interest income earned from our loan and investment securities portfolios.

Results of Operations
Net income was $361 thousand, or $0.20 per common share for the year ended December 31, 2012, compared to $552 thousand, or $0.30 per common share for the same period of 2011. The earnings for the year 2012 were negatively impacted by non-interest expense recorded in connection with a settlement, net of tax effect, with a former executive in the amount of $130 thousand. Excluding this item, the Bank would have reported net income of $491 thousand, or $0.27 per common share.

For the full year ended December 31, 2012, net interest income totaled $4.6 million, increasing $162 thousand over the full prior year. The increase in net interest income was primarily due to interest bearing liabilities repricing quicker in a prolonged low interest rate environment. Total interest income for the year 2012 was $5.9 million while the interest expense totaled $1.3 million. Net interest margin declined 12 basis points year over year despite increases in both average interest earning assets and average interest bearing liabilities of $7.4 million and $5.8 million, respectively, however, the yield on interest earning assets and the cost of interest bearing liabilities declined 29 basis points and 23 basis points, respectively.

Net interest margin may continue to face the risk of compression into the foreseeable future due to current low level of interest rates on most interest earning asset alternatives combined with the reprising risk related to earning assets with short durations. In addition, interest income on loans may increase or decrease in future periods due to prospective yield adjustments resulting from unexpected changes in cash flows from loan portfolio. However, management continues to tightly monitor the balance sheet and cost of funds to optimize the returns.

The provision for loan loss was $117 thousand for the year, a decrease of $127 thousand compared to prior year. The lower provision expense was primarily due to stable level of credit quality in the loan portfolio. Management closely monitors the nonperforming loans to ensure that there is no impairment due to economic environment which would require specific allocations.

Non-interest income totaled $349 thousand for the year 2012 reflecting a decrease of $71 thousand over the full year 2011 mainly due to a decrease of fees and service charges on deposit accounts. Fees and service charges on deposit accounts decreased $91 thousand to $253 thousand for 2012 as compared to 2011 as a result of a decrease in non-sufficient funds charges. The decline in these fees was offset, in part, by gains recorded from the sale of investment securities and increases in other income categories.

Non-interest expense totaled $4.2 million for the full year 2012, an increase of $532 thousand over prior full year. Of the total increase, salaries and employee benefits, the largest component of non-interest expense, increased $435 thousand primarily due to compensation expense recorded in connection with a settlement with a former executive, addition of personnel and increased health benefit costs. Occupancy and equipment expense increased $82 thousand mainly due to the addition of the Cranbury branch office. All other operating expenses combined increased a net of $15 thousand primarily due to the overall growth of the bank.

Financial Condition
At December 31, 2012, total assets were $138.7 million, an increase of $7.7 million over $132.0 million reported at December 31, 2011. Total cash and cash equivalents totaled $19.3 million, an increase of $4.9 million from

year end 2011. Due from banks time deposits increased $1.1 million to $7.8 million from a year ago. The increases were related to cash flows resulting from the decrease in investment securities.

Total investment securities decreased $6.2 million to $14.0 million at December 31, 2012 compared to prior year end. Of the total decrease, investment securities available for sale decreased $7.6 million, partially offset by an increase of $1.4 million in investment securities held to maturity. The decline in investment securities reflects both the calls that occurred on certain agency securities and by the sale of certain mortgage-backed securities.
Total loans receivable increased $4.3 million to $92.2 million, from $87.9 million reported at December 31, 2011. The increase in the loans receivable was funded utilizing the liquidity arising from the growth in deposits.

Total deposits grew by $6.1 million, to $122.5 million during 2012 when compared to deposits at December 31, 2011. Of the total increase, core deposits, consisting of savings, NOW and money market accounts, and demand deposit accounts increased $3.8 million and $4.0 million, respectively. Times deposits $100M and over increased $2.5 million while other time deposits decreased $4.3 million. A majority of the growth in deposits was used to fund the loan growth.

Shareholders' equity totaled $15.7 million as of December 31, 2012. The Bank's capital ratios remain strong and exceed the regulatory requirements to be deemed a well capitalized financial institution.

Dividends

The Bank issued a five percent stock dividend on May 31, 2012. This marks the second consecutive year of issuing five percent stock dividends. All common share data presented within including earnings per common share data were adjusted to reflect the stock dividend.

Looking Forward

The financial markets continue to work through a period marked by unprecedented slow economic recovery unseen in past recessions. We will continue to face risks and challenges in the way we do business in the future. These challenges include changes in local economic condition in the markets we serve, interest margin compressions from current and new competitors, low level of interest rates, and changes to current and future regulatory reform that apply to banks. We continue to remain cautiously optimistic as we navigate through this uncertain economic environment.

Financial Statements
December 31, 2012 and 2011

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ParenteBeard

Independent Auditors' Report

To the Board of Directors and Stockholders
New Jersey Community Bank
Freehold, New Jersey

We have audited the accompanying financial statements of New Jersey Community Bank, which comprise the statements of financial condition as of December 31, 2012 and 2011, and the related statements of income, comprehensive income, changes in shareholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of New Jersey Community Bank as of December 31, 2012 and 2011, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

ParenteBeard LLC

Clark, New Jersey
March 20, 2013

New Jersey Community Bank

Statements of Financial Condition

(in thousands, except share data)

	At Year End December 31,	
	2012	**2011**
Assets		
Cash and due from banks - non-interest bearing	$ 1,138	$ 1,519
Federal funds sold and interest-bearing deposits with banks	18,180	12,877
Total Cash and Cash Equivalents	19,318	14,396
Due from banks - time deposits	7,768	6,671
Investment Securities:		
Available-for-sale	11,092	18,719
Held-to-maturity	2,905	1,469
Total Investment Securities	13,997	20,188
Loans Receivable, net of unearned income	92,157	87,857
Less: Allowance for loan losses	(1,207)	(1,101)
Net Loans	90,950	86,756
Premises and equipment, net	2,420	2,610
Accrued interest receivable	351	363
Bank-owned life insurance	1,507	-
Deferred tax assets	679	753
Other assets	1,688	281
Total Assets	$ 138,678	$ 132,018
Liabilities and Shareholders' Equity		
Liabilities		
Deposits:		
Non-interest bearing	$ 10,073	$ 6,057
Savings, NOW and money market	40,357	36,508
Time deposits $100M and over	53,025	50,483
Time deposits, other	19,081	23,346
Total Deposits	122,536	116,394
Accrued interest payable	8	15
Other liabilities	422	316
Total Liabilities	122,966	116,725
Shareholders' Equity		
Common stock, $2 par value; authorized 10,000,000 shares; issued and outstanding 1,817,662 and 1,731,204 shares, respectively	3,635	3,462
Surplus	13,854	13,930
Accumulated Deficit	(1,786)	(2,147)
Accumulated other comprehensive income	9	48
Total Shareholders' Equity	15,712	15,293
Total Liabilities and Shareholders' Equity	$ 138,678	$ 132,018

See notes to financial statements.

Statements of Income

(in thousands, except per share data)

	Years Ended December 31,	
	2012	**2011**
Interest Income		
Loans receivable, including fees	$ 5,494	$ 5,509
Investment securities	359	356
Federal funds sold and interest-bearing deposits with banks	27	24
Due from banks - interest bearing	41	38
Total Interest Income	5,921	5,927
Interest Expense		
Deposits	1,291	1,459
Net Interest Income before Provision for Loan Loss	4,630	4,468
Provision for Loan Loss	117	244
Net Interest Income after Provision for Loan Loss	4,513	4,224
Non-Interest Income		
Fees and service charges on deposit accounts	253	343
Loan fee income	27	41
Gain on sale of securities available for sale	19	-
All other income	50	36
Total Non-Interest Income	349	420
Non-Interest Expense		
Salaries and employee benefits	2,542	2,107
Occupancy and equipment	765	683
Data processing services	154	144
Professional and other fees	294	282
Advertising and promotion	15	30
Federal insurance assessment	113	125
Other operating expenses	335	315
Total Non-Interest Expenses	4,218	3,686
Income Before Income Tax Expense	644	958
Income tax expense	283	406
Net Income	$ 361	$ 552
Income per share:		
Basic and diluted	$ 0.20	$ 0.30
Weighted average number of common shares outstanding		
Basic and diluted	1,818	1,818

See notes to financial statements.

Statements of Comprehensive Income

(in thousands)

	Years Ended December 31,	
	2012	2011
Net income	$ 361	$ 552
Other Comprehensive (Loss) Income:		
Changes in unrealized gain on securities available for sale, net of tax of $18 (2012) and $(75) (2011)	(28)	110
Reclassification adjustment for realized gain on securities available for sale, net of tax of $8 (2012)	(11)	-
Total Other Comprehensive (loss) Income	(39)	110
Total Comprehensive Income	$ 322	$ 662

See notes to financial statements.

New Jersey Community Bank

Statements of Changes in Shareholders' Equity

(in thousands)

	Common Stock	Surplus	Accumulated Deficit	Accumulated Other Comprehensive (Loss) Income	Total Shareholders' Equity
Balance - January 1, 2011	$ 3,298	$ 13,519	$ (2,201)	$ (62)	$ 14,554
Net income			552		552
Other comprehensive income				110	110
Stock dividend (5%)	164	334	(498)		-
Share-based compensation expense		77			77
Balance - December 31, 2011	3,462	13,930	(2,147)	48	15,293
Net income			361		361
Other comprehensive loss				(39)	(39)
Stock dividend (5%)	173	(173)	-		-
Share-based compensation expense		97			97
Balance - December 31, 2012	$ 3,635	$ 13,854	$ (1,786)	$ 9	$ 15,712

See notes to financial statements.

New Jersey Community Bank

Statements of Cash Flows

(in thousands)

	Year Ended December 31, 2012	Year Ended December 31, 2011
Cash Flows from Operating Activities		
Net income	$ 361	$ 552
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	117	244
Depreciation	248	214
Loss on disposition of equipment	-	7
Net amortization of premiums and discounts on investment securities	79	7
Gain on sale of securities available for sale	(19)	-
Share-based compensation	97	77
Net amortization of deferred loan fees and costs	(72)	(88)
Decrease (increase) in accrued interest receivable	12	(59)
Deferred income tax expense	100	404
Decrease in other assets	22	82
Increase (decrease) in accrued interest payable	(7)	3
Increase in bank owned life insurance	(7)	-
Increase in other liabilities	106	172
Net Cash Provided by Operating Activities	1,037	1,615
Cash Flows from Investing Activities		
Purchases of available for sale securities	(15,085)	(24,127)
Purchases of held to maturity securities	(1,655)	(479)
Repayments of available for sale securities	21,275	16,966
Repayments of held to maturity securities	205	231
Purchase of time deposits in other banks	(7,515)	(10,505)
Maturities of time deposits in other banks	6,418	8,446
Net increase in loans	(4,239)	(3,194)
Purchases of premises and equipment	(58)	(297)
Purchase of bank owned life insurance	(1,500)	-
Purchase of FHLB Stock	(103)	(52)
Net Cash Used in Investing Activities	(2,257)	(13,011)
Cash Flows Provided by Financing Activities		
Net increase in deposits	6,142	18,539
Net Cash Provided by Financing Activities	6,142	18,539
Net Increase in Cash and Cash Equivalents	4,922	7,143
Cash and Cash Equivalents - Beginning	14,396	7,253
Cash and Cash Equivalents - Ending	$ 19,318	$ 14,396
Supplementary Cash Flows Information		
Interest paid	$ 1,298	$ 1,456
Income taxes paid	$ 62	$ 2
Due from broker - Sale of securities available for sale	$ 1,326	$ -

See notes to financial statements.

Notes to Financial Statements
December 31, 2012 and 2011

Note 1 - Summary of Significant Accounting Policies

Organization and Nature of Operations

New Jersey Community Bank (the "Bank") was incorporated on November 26, 2006, under the laws of the State of New Jersey and is a New Jersey state chartered banking institution. The Bank was granted its bank charter on February 20, 2008. As a state chartered bank, the Bank is subject to regulation of the New Jersey Department of Banking and Insurance and the Federal Deposit Insurance Corporation.

The Bank commenced operations in July 2008. Its main office is located at 3441 Highway 9, Freehold, New Jersey. During 2009, the Bank established a branch office located at 118 3rd Avenue, Neptune City, New Jersey. In June 2011, the Bank established a branch office located at 68 Main Street, Cranbury, New Jersey. The Bank conducts a general commercial and retail banking business encompassing a wide range of traditional deposit and lending functions. It offers a broad variety of lending services including commercial and residential real estate loans, business loans, revolving credit arrangements, lines of credit and consumer loans. The Bank also offers a broad variety of deposit accounts, including consumer and commercial checking accounts, NOW accounts, savings, time deposit and individual retirement accounts. The area served by the Bank is primarily Monmouth County, New Jersey.

Basis of Financial Statement Preparation and Estimates

The Bank's financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"). As such, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, the assessment of other-than-temporary impairment of investment securities, fair value measurements and the valuation of deferred tax assets.

On May 31, 2012, the Bank issued a five percent common stock dividend to shareholders of record on May 18, 2012. All shares and per share data presented in the financial statements and the accompanying notes below were adjusted to reflect the dividend.

In preparing these financial statements, Bank management evaluated subsequent events for recognition or disclosure through March 20, 2013, the date the financial statements were available to be issued.

Significant Group Concentrations of Credit Risk

Most of the Bank's activities are with customers located within Monmouth and Middlesex Counties, New Jersey. Note 4 discloses the types of lending that the Bank engages in. Although the Bank has a diversified loan portfolio, its debtors' ability to honor their contracts is influenced by the region's economy. The Bank does not have any significant concentrations to any one industry or customer.

Note 1 - Summary of Significant Accounting Policies (Continued)

Presentation of Cash Flows

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks and federal funds sold and short-term interest-bearing deposits in other banks all with original maturities within ninety days. Generally, federal funds are purchased for one day periods.

Due from Banks Time Deposits

Interest-bearing time deposits with other banks which are expected to mature within one year are reported at carrying cost. All of these time deposits are fully covered by Federal Deposit Insurance Corporation ("FDIC") insurance.

Investment Securities

Management determines the appropriate classification of debt securities at the time of purchase and re-evaluates such designation as of each balance sheet date.

Securities classified as available for sale are those securities that the Bank intends to hold for an indefinite period of time but not necessarily to maturity. Securities available for sale are carried at fair value. Any decision to sell a security classified as available for sale would be based on various factors, including significant movement in interest rates, changes in maturity mix of the Bank's assets and liabilities, liquidity needs, regulatory capital considerations and other similar factors. Unrealized gains and losses are reported as increases or decreases in other comprehensive income. Realized gains or losses, determined on the basis of the cost of the specific securities sold, are included in earnings. Premiums and discounts are recognized in interest income using the interest method over the terms of the securities.

Securities classified as held to maturity are those debt securities the Bank has both the intent and ability to hold to maturity regardless of changes in market conditions, liquidity needs or changes in general economic conditions. These securities are carried at cost adjusted for the amortization of premium and accretion of discount, computed by a method which approximates the interest method over the terms of the securities.

If the fair value of a security is less than its amortized cost, the security is deemed to be impaired. Management evaluates all securities with unrealized losses quarterly to determine if such impairments are temporary or other-than-temporary in accordance with the Accounting Standards Codification ("ASC") of the Financial Accounting Standards Board ("FASB"). Temporary impairments on available for sale securities are recognized, on a tax-effected basis, through other comprehensive income ("OCI") with offsetting adjustments to the carrying value of the security and the balance of related deferred taxes. Temporary impairments of held to maturity are not recorded in the financial statements; however, information concerning the amount and duration of impairments on held to maturity securities is disclosed.

Other-than-temporary impairments on all equity securities and on debt securities that the Bank has decided to sell, or will, more likely than not, be required to sell prior to the full recovery of fair value to a level equal to or exceeding amortized cost, are recognized in earnings. If neither of these conditions regarding the likelihood of sale for a debt security apply, the other-than-temporary impairment is bifurcated into credit-related and noncredit-related components. Credit-related impairment generally represents the amount by which the present value of the cash flows that are expected to be collected on a debt security fall below its amortized cost. The noncredit-related component represents the remaining

Note 1 - Summary of Significant Accounting Policies (Continued)

portion of the impairment not otherwise designated as credit-related. The Bank recognizes credit-related other-than-temporary impairments in earnings. Noncredit-related other-than-temporary impairments on debt securities are recognized in OCI.

Loans Receivable

Loans receivable that management has the intent and the Bank has the 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, net of certain direct origination costs, are deferred and recognized as an adjustment of the yield (interest income) of the related loans. The Bank is generally amortizing these amounts over the contractual life of the loan.

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

Allowance for Loan Losses

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

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

The allowance consists of specific and general components. The specific component relates to loans that are classified as impaired. A specific allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers non-classified loans and is based on historical loss experience adjusted for qualitative factors.

Note 1 - Summary of Significant Accounting Policies (Continued)

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

The Bank's methodology for determining the general components of the ALL has been modified during 2012. Given the size of the loan portfolio, management has segmented the loan portfolio into five major segments which allows management to monitor risk and performance. The first segment is the commercial real estate loans which include loans primarily secured by service industry buildings such as restaurants and motels, retail buildings and general purpose business space; the second segment is the construction loans which include construction and land loans for commercial development, the third is the commercial and industrial loans, the fourth is the residential real estate loans which includes home equity lines of credit and certain commercial credit lines secured by residential real estate properties, and the fifth is the consumer loans which includes other consumer loans.

The calculation of the general portion of the ALL begins with historical charge-off rates. However, due to the relatively short period of time the Bank has been in existence, such charge-off history is limited and minimal; therefore, the bank utilizes the historical loss factors of its peer group. Management has, in addition, identified a number of additional qualitative factors which it uses to supplement the historical charge-off rates because these factors are likely to cause estimated credit losses associated with the existing loan pools to differ from historical loss experience. The additional factors that are evaluated quarterly and updated using information obtained from internal, regulatory, and governmental sources are: internal risk rating category as described more fully in Note 4; national and local economic trends and conditions; levels of and trends in delinquency rates and non-accrual loans; trends in volumes and terms of loans; effects of changes in lending policies; experience, ability, and depth of lending staff; value of underlying collateral; and concentrations of credit from a loan type, industry or geographic standpoint. The aggregated factors for each of the five major loan segments is applied to related outstanding loan balances to arrive at the general ALL. Management reviews the loan portfolio on a quarterly basis and adjusts the general ALL based on changes in risk profile of each loan pool.

Transfers of Financial Assets

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

Note 1 - Summary of Significant Accounting Policies (Continued)

Bank Premises and Equipment

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

Bank-owned Life Insurance ("BOLI")

During 2012, the Bank purchased a BOLI policy as an alternate income producing asset and at the same time to insure its executive management and certain officers. The BOLI policies are recorded at cash surrender values. Changes in the cash surrender values are recorded as other operating income.

Advertising Costs

The Bank follows the policy of charging the costs of advertising to expense as incurred. Advertising expense incurred for the years ended December 31, 2012 and 2011 totaled approximately $15 thousand and $30 thousand, respectively.

Income Taxes

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

The Bank accounts for uncertainty in income taxes recognized in its financial statements in accordance with ASC Topic 740, *Income Taxes*, which prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return, and also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The Bank has not identified any significant income tax uncertainties through the evaluation of its income tax positions for the years ended December 31, 2012 and 2011, and has not recognized any liabilities for tax uncertainties as of December 31, 2012 or 2011. Our policy is to recognize interest and penalties on unrecognized tax benefits in income tax expense; there were no such amounts during the years ended December 31, 2012 and 2011. The tax years subject to examination by the taxing authorities are, for federal and state purposes, the years ended December 31, 2012, 2011, 2010, and 2009.

Comprehensive Income

U.S. GAAP generally requires that recognized revenue, expenses, gains and losses be included in net income. In addition, certain changes in assets and liabilities, such as unrealized gains and losses on available for sale securities, are reported as a separate component of equity. The periodic changes in such items, along with net income, are components of comprehensive income.

Note 1 - Summary of Significant Accounting Policies (Continued)

Off-Balance Sheet Financial Instruments

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

Employee Benefit Plan

The Bank has established a 401(k) plan ("the Plan"). Under the Plan, all employees are eligible to contribute the maximum allowed by the Internal Revenue Code of 1986, as amended. The Bank may make discretionary matching contributions. For the year ended December 31, 2012 and 2011, the Bank contributed $43 thousand and $17 thousand, respectively, as employer's matching contribution to its Plan.

Share-Based Compensation

The Bank recognizes share-based compensation in accordance with ASC Topic 718, *Compensation-Stock Compensation*. Accordingly, the Bank recognizes the cost of employee and organizer services received in share-based payment transactions and measures the cost based on the grant-date fair value of the award. The cost will be recognized over the period during which the employee or organizer is required to provide service in exchange for the award, generally defined as the vesting period.

Net Income per Common Share

Basic net income per common share was computed by dividing net income by the weighted average number of shares of common stock outstanding. Diluted net income per common share was computed by dividing net income by the weighted average number of shares of common stock outstanding adjusted for outstanding stock options and warrants, which are considered common stock equivalents, to the extent dilutive, using the treasury stock method. During the year ended December 31, 2012 and 2011, all outstanding stock options and warrants were anti-dilutive.

Reclassification

Certain amounts for the prior period have been reclassified to conform to the current year's presentation. Such reclassifications had no effect on net income or financial condition.

Note 2 – Due from Banks Time Deposits

At December 31, 2012 and 2011, the Bank had $7.8 million and $6.7 million, respectively, of time deposits with other financial institutions. $7.5 million of these time deposits at December 31, 2012, are scheduled to mature in 2013. The weighted average interest rate of these time deposits was 0.61% and 0.66%, respectively, at December 31, 2012 and 2011.

Note 3 – Investment Securities

The amortized cost, gross unrealized gains and losses, and estimated fair value of investment securities as of December 31, 2012 are summarized as follows:

(in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair-Value
Available for Sale:				
U.S. Government Agency Securities	$ 8,237	$ 4	$ (45)	$ 8,196
Agency MBS	1,457	37	-	1,494
Agency CMO	1,382	20	-	1,402
Total available for sale	$ 11,076	$ 61	$ (45)	$ 11,092
Held to Maturity:				
Obligations of states and political subdivisions	$ 700	$ 18	$ -	$ 718
Corporate debt securities	2,205	80	(32)	2,253
Total held to maturity	2,905	98	(32)	2,971
Total securities	$ 13,981	$ 159	$ (77)	$ 14,063

The amortized cost, gross unrealized gains and losses, and fair value of securities as of December 31, 2011 are summarized as follows:

(in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair-Value
Available for Sale:				
U.S. Government Agency Securities	$ 13,994	$ 24	$ (6)	$ 14,012
Agency MBS	2,819	41	-	2,860
Agency CMO	1,825	22	-	1,847
Total available for sale	$ 18,638	$ 87	$ (6)	$ 18,719
Held to Maturity:				
Obligations of states and political subdivisions	$ 479	$ 18	$ -	$ 497
Corporate debt securities	990	-	(84)	906
Total held to maturity	1,469	18	(84)	1,403
Total securities	$ 20,107	$ 105	$ (90)	$ 20,122

The Bank, at December 31, 2012 and 2011 had pledged to the Commissioner of Banking, State of New Jersey, securities totaling $5.5 million and $6 million, respectively, for the purpose of securing public deposits under the Governmental Unit Deposit Protection Act.

At December 31, 2012, five U.S. Government Agency securities in the available for sale portfolio having an aggregate fair value of $5.0 million were in a loss position for less than a year and had unrealized losses aggregating $45 thousand or less than 1% of amortized cost. At December 31, 2012, a corporate debt security in the held to maturity portfolio having a fair value of $468 thousand was in a loss position for more than a year and had an unrealized loss of $32 thousand or less than 7% of amortized cost. Based on ratings assigned by major rating agencies and a credit quality review performed by an independent third party, the Bank does not intend to sell these securities and it is not

more likely than not that the Bank will be required to sell these securities before recovery of their amortized cost, which may be at maturity. Management determined that the unrealized loss on these securities is primarily attributable to continued depression in market interest rates, marketability, liquidity and the current economic environment, therefore, management does not consider them to be other-than-temporarily impaired at December 31, 2012. The Bank does not intend to sell these securities and it is not more likely than not that the Bank would be required to sell these securities prior to full recovery.

At December 31, 2011, one U.S. Government Agency securities in the available for sale portfolio having an aggregate fair value of $991 thousand was in a loss position for less than a year and had unrealized losses aggregating $6 thousand or less than 1% of amortized cost. At December 31, 2011, two corporate debt securities in the held to maturity portfolio having a fair value of $907 thousand had an unrealized loss of $84 thousand or less than 9% of amortized cost. Of the two corporate debt securities, one was in a loss position for less than a year and one for more than a year.

The amortized cost and carrying value of investment securities at December 31, 2012, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

(in thousands)	**Amortized Cost**	**Fair-Value**
Securities Available for Sale:		
Due after one year through five years	$ -	$ -
Due after five years through ten years	9,142	9,113
Due after ten years	1,934	1,979
Total available for sale	11,076	11,092
Securities Held to Maturity:		
Due within one year	180	180
Due after one year through five years	1,714	1,711
Due after five years through ten years	1,011	1,080
Total held to maturity	2,905	2,971
Total securities	$ 13,981	$ 14,063

During 2012, proceeds from sales of securities available for sale total $1.3 million and resulting in gross gains of $19 thousand. The proceeds of the sales, which occurred in December 2012, were received in January 2013 at settlement. There were no sales of securities available for sale during 2011 or securities held to maturity during 2012 and 2011.

Note 4 - Loans Receivable and the Allowance for Loan Losses

The composition of loans receivable at December 31, 2012 and 2011 is as follows:

(in thousands)	Commercial Real Estate	Commercial Construction and Land	Commercial and Industrial	Residential Real Estate	Consumer Loans	Total
December 31, 2012						
Total Loans	$ 67,554	$ 8,620	$ 1,348	$ 14,179	$ 456	$ 92,157
Individually evaluated for impairment	400	-	-	650	-	1,050
Collectively evaluated for impairment	67,154	8,620	1,348	13,529	456	91,107
December 31, 2011						
Total Loans	$ 62,095	$ 11,720	$ 2,869	$ 10,319	$ 854	$ 87,857
Individually evaluated for impairment	400	-	-	499	-	899
Collectively evaluated for impairment	61,695	11,720	2,869	9,820	854	86,958

For all of its loan types discussed below, management adheres to a credit policy designed to minimize credit risk while generating the maximum income given the level of risk. Management reviews and approves these policies and procedures on a regular basis with subsequent approval by the Board of Directors annually. A reporting system supplements the review process by providing management with frequent reports concerning loan production, loan quality, concentrations of credit, loan delinquencies, non-performing, and potential problem loans. Loan portfolio diversification is an important factor utilized by management to manage its risk across business sectors and through cyclical economic circumstances.

Commercial real estate loans are secured primarily by commercial retail space and office buildings and are subject to underwriting standards and processes similar to commercial and industrial loans. These loans are viewed primarily as cash flow loans and secondarily as loans secured by real property. These types of loans generally involve larger principal balances and longer repayment periods as compared to commercial and industrial loans. The repayment of most commercial real estate loans is dependent upon the cash flow generated from the property securing the loan or the business that occupies the property. Commercial real estate loans may be more adversely affected by conditions in the real estate markets or in the general economy and accordingly conservative loan to value ratios based on independent appraisals are required at origination, as well as, stress testing to evaluate the impact of market changes relating to key underwriting elements. The properties securing the commercial real estate portfolio represent diverse types, with most properties located within the Bank's primary markets.

With respect to loans to developers and builders, the Bank originates and manages commercial and residential construction loans structured on either a revolving or non-revolving basis, depending on the nature of the underlying development project. These loans are generally secured by the real estate to be developed and may also be secured by additional real estate to mitigate the risk. Non-revolving construction loans often involve the disbursement of substantially all committed funds with repayment substantially dependent on the successful completion and sale, or lease, of the project. Sources of repayment for these types of loans may be from conversion to permanent loans extended

by the Bank, sales of developed property, or permanent financing obtained elsewhere. Revolving construction loans (generally relating to single family residential construction) are controlled with loan advances dependent upon the presale of housing units financed. These loans are closely monitored by on-site inspections and are considered to have higher risks than other real estate loans because their ultimate repayment is sensitive to interest rate changes, governmental regulation of real property, general economic conditions and the availability of long-term financing.

The Bank's commercial and industrial loan portfolio is granted to customers of proven ability, strong repayment performance, and high character. Underwriting standards are designed to assess the borrower's ability to generate recurring cash flow sufficient to meet the debt service requirements of loans granted. While such recurring cash flow serves as the primary source of repayment, a significant number of the loans are collateralized by borrower assets intended to serve as a secondary source of repayment should the need arise. Such collateralized assets may include inventory, machinery and equipment, receivables and real estate. Anticipated cash flows of borrowers, however, may not be as expected and the collateral securing these loans may fluctuate in value. Short-term loans may be made on an unsecured basis based on a borrower's financial strength and past performance. The Bank, in most cases, will obtain the personal guarantee of the borrower's principals to mitigate the risk.

The Bank's residential real estate loan portfolio includes revolving open-end and closed-end loans secured by one to four family residential properties, home equity lines of credit and certain commercial credit lines secured by residential real estate properties. The Bank also makes consumer loans consisting primarily of automobile loans, consumer overdrafts and personal loans.

The Allowance calculation methodology includes further segregation of loan classes into risk rating categories. The borrower's overall financial condition, repayment sources, guarantors and value of collateral, if appropriate, are evaluated annually for commercial loans or when credit deficiencies arise, such as delinquent loan payments, for commercial and consumer loans. Credit quality risk ratings include regulatory classifications of "substandard," "doubtful," "loss" and "special mention." An asset is considered substandard if it is inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Substandard assets include those characterized by the distinct possibility that the insured institution will sustain some loss if the deficiencies are not corrected. Assets classified as doubtful have all of the weaknesses inherent in those classified substandard with the added characteristic that the weaknesses present make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable. Assets classified as loss are those considered uncollectible and of such little value that their continuance as assets, without the establishment of a specific loss reserve, is not warranted. Assets which do not currently expose the insured institution to sufficient risk to warrant classification in one of the aforementioned categories but possess weaknesses are required to be designated special mention. If uncorrected, the potential weaknesses may result in deterioration of the repayment prospects. Loans which do not meet the criteria to be classified in the aforementioned categories are classified as "Pass".

The Bank uses a 9 point internal risk rating system to monitor the credit quality of the overall loan portfolio. To help ensure that risk ratings are accurate and reflect the present and future capacity of borrowers to repay a loan as agreed, the Bank has a structured loan rating process with several layers of internal and external oversight. The Bank's Commercial Loan Officers are responsible for the timely and accurate risk rating of the loans at origination and on an ongoing basis. The Credit Quality Department continually reviews and assesses loans within the portfolio. Also, the Bank engages an external consultant to conduct loan reviews on a quarterly basis.

In addition, Federal regulatory agencies, as an integral part of their examination process, periodically review the Bank's allowance for loan losses and may require the Bank to recognize additions to the allowance based on their judgments using information available to them at the time of their examination, which may not be currently available to management. Based on management's comprehensive analysis of the loan portfolio, management believes the current level of the allowance for loan losses is adequate.

The following table presents the classes of the loan portfolio summarized by the aggregate pass and the criticized categories of special mention, substandard and doubtful within the internal risk rating system as of December 31, 2012.

(in thousands)	Pass	Special Mention	Substandard	Doubtful	Total
December 31, 2012					
Commercial real estate	$ 65,328	$ 1,826	$ 400	$ -	$ 67,554
Commercial construction and Land	7,616	1,004	-	-	8,620
Commercial and industrial	1,267	81	-	-	1,348
Residential real estate	13,409	120	650	-	14,179
Consumer	456	-	-	-	456
Total loans	$ 88,076	$ 3,031	$ 1,050	$ -	$ 92,157
December 31, 2011					
Commercial real estate	$ 59,398	$ 2,297	$ 400	$ -	$ 62,095
Commercial construction and land	10,872	848	-	-	11,720
Commercial and industrial	2,629	69	171	-	2,869
Residential real estate	9,820	-	499	-	10,319
Consumer	854	-	-	-	854
Total loans	$ 83,573	$ 3,214	$ 1,070	$ -	$ 87,857

The following table summarizes the primary segments of the allowance for loan losses, segregated into the amount required for loans individually evaluated for impairment and the amount required for loans collectively evaluated for impairment as of December 31, 2012.

(in thousands)	Commercial Real Estate	Commercial Construction and Land	Commercial and Industrial	Residential Real Estate	Consumer Loans	Total
December 31, 2012						
Total allowance for loan losses:	$ 774	$ 225	$ 32	$ 172	$ 4	$ 1,207
Individually evaluated for impairment	-	-	-	-	-	-
Collectively evaluated for impairment	774	225	32	172	4	1,207
December 31, 2011						
Total allowance for loan losses:	$ 766	$ 126	$ 43	$ 147	$ 19	$ 1,101
Individually evaluated for impairment	-	-	-	-	-	-
Collectively evaluated for impairment	766	126	43	147	19	1,101

Management further monitors the performance and credit quality of the loan portfolio by analyzing the age of the portfolio as determined by the length of time a recorded payment is past due. A loan is considered to be past due when a payment has not been received in 30 days of its contractual due date. For all loan segments, the accrual of interest is discontinued when payment is delinquent for 90 days or more unless the loan is well-secured and in the process of collection. Payments received on non-accrual loans are applied as a reduction of the loan principal balance. Loans are returned to accrual status when all principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Loans are considered to be 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 evaluating impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. 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.

Once the determination has been made that a loan is impaired, the determination of whether a specific allocation of the allowance is necessary is measured by comparing the recorded investment in the loan to the fair value of the loan using the fair value of the collateral less selling costs. Management uses most current appraisal on record to obtain the fair value of the collateral and if management believes that general market conditions in that geographic market have changed considerably, the property has deteriorated or perhaps lost an income stream, or a recent appraisal for a similar property indicates a significant change, then management may adjust the fair value indicated by the existing appraisal until a new appraisal is obtained. If the most recent appraisal is greater than 12 months old or if an updated appraisal has not been received and reviewed in time for the determination of estimated fair value at quarter end, then the estimated fair value of the collateral is determined by adjusting the existing appraisal by the appropriate discount. A specific allocation of the ALL is recorded if there is any deficiency in collateral value determined by comparing the estimated fair value to the recorded investment of the loan. When updated appraisals are received and reviewed, adjustments are made to the specific allocation as needed.

The following table summarizes the aging of performing loans and non-accrual loans by segments as of December 31, 2012 and 2011:

(in thousands)	Current	30-59 Days Past Due	60-89 Days Past Due	90 Days + Past Due	Total Past Due Loans	Total Loans	Non-Accrual Loans
December 31, 2012							
Commercial real estate	$ 67,154	$ -	$ -	$ 400	$ 400	$ 67,554	$ 400
Commercial construction and Land	8,620	-	-	-	-	8,620	-
Commercial and industrial	1,348	-	-	-	-	1,348	-
Residential real estate	13,680	-	-	499	499	14,179	499
Consumer	456	-	-	-	-	456	-
Total loans	$ 91,258	$ -	$ -	$ 899	$ 899	$ 92,157	$ 899
December 31, 2011							
Commercial real estate	$ 61,695	$ -	$ -	$ 400	$ 400	$ 62,095	$ 400
Commercial construction and Land	11,720	-	-	-	-	11,720	-
Commercial and industrial	2,869	-	-	-	-	2,869	-
Residential real estate	9,820	-	-	499	499	10,319	499
Consumer	854	-	-	-	-	854	-
Total loans	$ 86,958	$ -	$ -	$ 899	$ 899	$ 87,857	$ 899

The allowance for loan loss is based on estimates, and actual losses will vary from current estimates. Due to the relatively short period of time the Bank has been in existence, the charge-off history is limited and minimum, therefore, the bank utilizes the historical loss factors of its peer group. Management has identified a number of industry standard qualitative factors which it uses to determine percentages of potential losses on various loan classifications. These factors are evaluated quarterly and updated using information obtained from internal, regulatory, and governmental sources such as: (a) national and local economic trends and conditions; (b) levels of and trends in delinquency rates and non-accrual loans; (c) trends in volumes and terms of loans; (d) effects of changes in lending policies; (e) experience, ability, and depth of lending staff; (f) value of underlying collateral; and (g) concentrations of credit from a loan type, industry and/or geographic standpoint. Management believes that the granularity of the homogeneous pools and the related historical loss ratios and other qualitative factors, as well as the consistency in the application of assumptions, result in an allowance for loan loss that is representative of the risk found in the components of the portfolio at any given date.

The changes in the allowance for loan losses for the years ended December 31, 2012 and 2011 are as follows:

(in thousands)	Commercial Real Estate	Construction and Land	Commercial and Industrial	Residential Real Estate	Consumer	Total
Allowance for loan loss balance at January 1, 2012	$ 766	$ 126	$ 43	$ 147	$ 19	1,101
Charge-offs	(11)	-	-	-	-	(11)
Recoveries	-	-	-	-	-	-
Provision	19	99	(11)	25	(15)	117
Allowance for loan loss balance at December 31, 2012	$ 774	$ 225	$ 32	$ 172	$ 4	$ 1,207
Allowance for loan loss balance at January 1, 2011	$ 657	$ 94	$ 41	$ 175	$ 8	975
Charge-offs	(92)		(21)	-	(5)	(118)
Recoveries						-
Provision	201	32	23	(28)	16	244
Allowance for loan loss balance at December 31, 2011	$ 766	$ 126	$ 43	$ 147	$ 19	$ 1,101

The following table summarizes the impaired loans by segments as of December 31, 2012 and 2011:

	Impaired Loans with Specific Allowance		Impaired Loans with No Specific Allowance	Total Impaired Loans		
(in thousands)	Recorded Investment	Related Allowance	Recorded Investment	Recorded Investment	Average Recorded Investment	Income Recorded During Period
December 31, 2012						
Commercial real estate	$ -	$ -	$ 400	$ 400	$ 400	$ -
Commercial construction	-	-	-	-	-	-
Commercial and industrial	-	-	-	-	-	-
Residential real estate	-	-	650	650	650	19
Consumer	-	-	-	-	-	-
Total impaired loans	$ -	$ -	$ 1,050	$ 1,050	$ 1,050	$ 19
December 31, 2011						
Commercial real estate	$ -	$ -	$ 400	$ 400	$ 427	$ 2
Commercial construction	-	-	-	-	-	-
Commercial and industrial	-	-	-	-	-	
Residential real estate	-	-	499	499	499	3
Consumer	-	-	-	-	-	
Total impaired loans	$ -	$ -	$ 899	$ 899	$ 926	$ 5

Had these loans been accruing, the Bank would have recorded interest income in the amount of $45 thousand and $41 thousand, respectively, for years ending December 31, 2012 and 2011.

The Bank had no troubled debt restructurings at December 31, 2012 and 2011, or during the years then ended.

Note 5 - Bank Premises and Equipment

The components of premises and equipment at December 31, 2012 and 2011 are as follows:

(in thousands)	Estimated Useful Lives	December 31, 2012	December 31, 2011
Leasehold improvements	3 - 39	$ 2,493	$ 2,461
Furniture, fixtures and equipment	5 - 7	638	612
Computer software	5 - 6	59	59
Automobiles	5	52	52
		3,242	3,184
Accumulated depreciation		(822)	(574)
Premises and equipment, net		$ 2,420	$ 2,610

Note 6 - Deposits

The components of deposits at December 31, 2012 and 2011 are as follows:

(in thousands)	December 31, 2012	December 31, 2011
Non-interest bearing	$ 10,073	$ 6,057
NOW and savings accounts	23,588	21,608
Money market accounts	16,769	14,900
Time deposits $100M and over	53,025	50,483
Time deposits, other	19,081	23,346
	$ 122,536	$ 116,394

At December 31, 2012, the scheduled maturities of time deposits are as follows:

(in thousands)	
2013	$ 41,871
2014	23,990
2015	4,799
2016	1,446
Thereafter	-
	$ 72,106

Note 7 - Lease Commitments and Total Rental Expense

The Bank has an operating lease on the land on which stands its facility in Freehold, New Jersey. This lease is with a related party (see Note 10). In March 2009, the Bank entered into an operating lease for a building that houses the Neptune City branch. In February 2011, the Bank entered into an operating lease for its Cranbury branch office site. Future minimum lease payments by year under these non-cancellable lease agreements are as follows:

(in thousands)	
2013	262
2014	273
2015	285
2016	252
2017	208
Thereafter	982
	$ 2,262

Lease rental expense for the years ended December 31, 2012 and 2011 was $275 thousand and $250 thousand, respectively.

Note 8 - Employment Agreements

The Bank entered into a three-year employment agreement with one officer and change in control agreements with two officers. The agreements include minimum annual salary commitments and change in control provisions. Upon resignation after a change in the control of the Bank, as defined in the agreement, the individual will receive monetary compensation in the amount set forth in the agreements.

Note 9 - Income Taxes

The components of income tax expense are summarized as follows:

(in thousands)	**2012**	**2011**
Federal-		
Current	$ 110	$ -
Deferred	105	310
	215	310
State-		
Current	73	2
Deferred	(5)	94
	68	96
	$ 283	$ 406

A comparison of income tax expense at the Federal statutory rate in 2012 and 2011 to the recorded income tax expense is as follows:

(in thousands)	2012	2011
Federal income tax expense	$ 219	$ 326
Add (deduct) effect of:		
State income taxes net of federal income tax effect	45	63
Qualified stock options	19	18
Other items, net	-	(1)
Income tax expense	$ 283	$ 406

The components of the net deferred tax assets (liabilities) are as follows:

	December 31,	
(in thousands)	2012	2011
Deferred tax assets:		
Allowance for loan losses	$ 434	$ 387
Organization costs	163	171
Net operating loss carryforwards	-	218
Stock warrants and options	163	147
Other	6	-
	766	923
Deferred tax liabilities:		
Property and equipment depreciation	(10)	(41)
Cash basis adjustment – accrued income and expense	(70)	(76)
Unrealized gains on available for sale securities	(7)	(33)
Other	-	(20)
	(87)	(170)
Net Deferred Tax Asset	$ 679	$ 753

Note 10 - Transactions with Executive Officers, Directors and Principal Shareholders

The Bank has had, and may be expected to have in the future, banking transactions in the ordinary course of business with its executive officers, directors, principal stockholders, their immediate families and affiliated companies (commonly referred to as related parties), on the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with others. There were $3.6 million and $3.1 million in loans receivable from related parties at December 31, 2012 and 2011, respectively. During the year ended December 31, 2012, loan advances and loan payments totaled $938 thousand and $486 thousand, respectively. Deposits of related parties totaled $3.6 million and $3.2 million as of December 31, 2012 and 2011, respectively.

The Bank leases the land beneath its main operating facilities in Freehold, New Jersey, from a related party. The lease terms are comparable to similar properties in the Bank's market. The initial lease term is fifteen years, but the Bank has the right to extend the term of the lease for seven additional five-year terms. Total payments made under this lease were $161 thousand and $194 thousand, respectively, during the year ended December 31, 2012 and 2011. In addition to the base rent, the Bank is responsible for certain operating expenses primarily real estate taxes. Effective 2012, the Bank paid the real estate taxes directly to the tax assessor's office. See Note 7 for data relating to this lease.

Note 11 - Share-Based Compensation

The members of the Bank's Board of Directors (including those who are also officers of the Bank) contributed "at risk" capital to pay the pre-opening expenses of the Bank. In addition, the members of the Board of Directors will not receive any fees for serving as directors until such time as the Bank's operations become profitable. In consideration of these matters, in conjunction with the completion of the Bank's initial stock offering on February 28, 2008, the Board members were each granted one warrant for every $10.00 of "at risk" capital contributed (for a total of 229,520 warrants). Each warrant entitles the holder to purchase one share of common stock at a price of $10.00 per share ($9.07 per share adjusted for subsequent stock dividends), and was immediately exercisable upon issuance. These warrants have a term of 10 years. No person was granted warrants to purchase more shares than the amount equal to (i) the amount of "at risk" capital he or she contributed to the pre-opening expense fund dividend by (ii) the offering price for the Bank's common stock of $10.00 per share. In the aggregate, 229,520 shares (253,046 shares adjusted for subsequent stock dividends) of the Bank's common stock may be purchased upon exercise of all of the issued warrants.

These warrants contain anti-dilution provisions providing for appropriate adjustment in the event of any recapitalization, reclassification, stock dividend, stock split or similar transactions. The warrants do not entitle the holder to any rights as a stockholder of the Bank until such warrants are exercised and the shares of common stock are purchased. These warrants and the shares of common stock issuable under these warrants will be freely transferable.

Pursuant to the New Jersey Community Bank 2009 Stock Option Plan (the "Plan"), a total of 272,667 options to purchase shares of Bank common stock that may be issued. The Plan covers all employees and directors of the Bank. The option price for options issued under the Plan will be equal to or greater than the fair value of the Bank's common stock on the date of grant. Options are exercisable under the terms of the vesting schedule and generally expire ten years after the date of grant, though earlier expiration will apply in cases of cessation of employment, death or disability. These options vest over a five year period at the rate of 20% at each successive grant anniversary date. At December 31, 2012, there are 100,547 options available in this Plan for future grants. The Bank plans to issue shares from currently authorized shares for any options exercised.

The following is a summary of the Bank's share-based compensation activity and related information for the years ended December 31, 2012 and 2011:

	Warrants and Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Outstanding at December 31, 2010	515,441	8.93		
Stock Options granted	21,000	5.71		
Forfieted/cancelled/expired	(121,275)	8.92		
Outstanding at December 31, 2011	415,166	8.78		
Stock Options granted	10,000	5.48		
Outstanding at December 31, 2012	425,166	8.70	6.0	
Exercisable at December 31, 2012	341,918	$ 8.94	5.6	$ -

In June 2012, the Bank granted 10,000 stock options. The fair value of the options was estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions: dividend yield of 0%; risk-free interest rate of 1.09%; expected life of 7 years and expected volatility of 63.5%. The volatility percentage was based on the average expected volatility of the Bank's stock. The average fair value of the options granted in 2012 was $3.37 per option.

In August 2011, the Bank granted 20,000 stock options. The fair value of the options was estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions: dividend yield of 0%; risk-free interest rate of 2.09%; expected life of 7 years and expected volatility of 77.68%. The volatility percentage was based on the average expected volatility of the Bank's stock. The average fair value of the options granted in 2011 was $4.48 per option. During 2011, 115,500 options (121,275 options adjusted for subsequent stock dividends) were forfeited, under the terms of the Plan the forfeited options are added back into the pool available for future grants.

Total share-based compensation cost for the years ended December 31, 2012 and 2011 was $97 thousand and $77 thousand, respectively.

As of December 31, 2012, unrecognized compensation cost related to nonvested stock options was $203 thousand and is expected to be expensed over the next 4.4 years.

Note 12 - Financial Instruments with Off-Balance Sheet Risk

The Bank is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit. Such commitments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheet.

The Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit is represented by the contractual amount of those instruments. The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments.

The Bank had the following off-balance sheet financial instruments whose contract amounts represent credit risk at December 31, 2012 and 2011:

	December 31,	
(in thousands)	**2012**	**2011**
Commitments to grant loans	$ 6,495	$ 4,676
Unfunded commitments under lines of credit	11,596	7,182
	$ 18,091	$ 11,858

Of the $6.5 million in commitments to grant loans at December 31, 2012, $1.2 million were at fixed rates and $5.3 million were floating or adjustable rates.

Of the $4.7 million in commitments to grant loans at December 31, 2011, $4.1 million were at fixed rates and $0.6 million were floating or adjustable rates.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. The Bank evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation. Collateral held varies but may include personal or commercial real estate, accounts receivable, inventory and equipment.

Note 13 - Regulatory Matters

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet the minimum capital requirements can initiate certain mandatory and possibly additional discretionary-actions by regulators that, if undertaken, could have a direct material effect on the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk-weightings and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth below) of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets and of Tier 1 capital to average assets. Management believes, as of December 31, 2012, that the Bank meets all capital adequacy requirements to which it is subject.

The Federal Deposit Insurance Corporation requires that the Bank maintain a ratio of Tier 1 leverage capital to total assets of at least 8% during the first three years of operation. Under these guidelines, the Bank is considered well capitalized as of December 31, 2012 and 2011.

The Bank's actual capital amounts and ratios at December 31, 2012 and 2011, are presented below:

	Actual		For Capital Adequacy Purposes		To be Well Capitalized under Prompt Corrective Action Provisions	
(dollars in thousands)	**Amount**	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
As of December 31, 2012						
Total capital (to risk-weighted assets)	$ 16,461	15.71%	$ 8,382	8.00%	$ 10,478	10.00%
Tier 1 Capital (to risk-weighted assets)	15,254	14.56%	4,191	4.00%	6,286	6.00%
Tier 1 Capital (to average assets)	15,254	11.61%	5,255	4.00%	6,569	5.00%
As of December 31, 2011						
Total capital (to risk-weighted assets)	$ 15,897	16.38%	$ 7,763	8.00%	$ 9,703	10.00%
Tier 1 Capital (to risk-weighted assets)	14,796	15.25%	3,881	4.00%	5,822	6.00%
Tier 1 Capital (to average assets)	14,796	11.41%	5,187	4.00%	6,484	5.00%

The Bank is subject to certain restrictions on the amount of dividends that it may declare due to regulatory considerations.

Note 14 - Fair Value Measurements

We use fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. Our securities available for sale are recorded at fair value on a recurring basis. Additionally, from time to time, we may be required to record at fair value other assets and liabilities on a non-recurring basis, such as securities held to maturity, impaired loans and other real estate owned. Fair value is defined as the price to sell an asset or to transfer a liability in an orderly transaction between willing market participants as of the measurement date. Fair value is best determined by values quoted through active trading markets. Active trading markets are characterized by numerous transactions of similar financial instruments between willing buyers and willing sellers. Because no active trading market exists for various types of financial instruments, many of the fair values disclosed were derived using present value discounted cash flows or other valuation techniques described below. As a result, the Bank's ability to actually realize these derived values cannot be assumed. U.S. GAAP has established a fair value hierarchy that prioritizes the inputs to valuation methods used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

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

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

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

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

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

		Fair Value Measurements at December 31, 2012 Using:		
(in thousands)	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investment securities				
Available for sale:				
U.S. Government Agency Securities	$ 8,196	$ -	$ 8,196	$ -
Agency MBS	1,494	-	1,494	-
Agency CMO	1,402	-	1,402	-

		Fair Value Measurements at December 31, 2011 Using:		
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investment securities				
Available for sale:				
U.S. Government Agency Securities	$ 14,012	$ -	$ 14,012	$ -
Agency MBS	2,860	-	2,860	-
Agency CMO	1,847	-	1,847	-

The following methods and assumptions were used to estimate the fair value of each class of financial instruments.

Cash and Cash Equivalents, Accrued Interest Receivable and Accrued Interest Payable (Carried at Cost)

The carrying amounts reported in the balance sheet for cash and cash equivalents, accrued interest receivable and accrued interest payable approximate fair value.

Securities Available for Sale (Carried at Fair Value) and Held to Maturity (Carried at Amortized Cost)

The fair value for debt securities, both available for sale and held to maturity are obtained from an independent pricing service and are based on quoted market prices or dealer prices (Level 1), if available. If quoted market prices are not available, fair values are primarily determined by obtaining matrix pricing, which is a mathematical technique widely used in the industry to value debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted securities (Level 2 inputs).

Loans Receivable (Carried at Amortized Cost)

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

Deposits

The fair values disclosed for demand deposits (e.g., interest and non-interest checking, savings, and certain types of money market accounts, etc.) are, by definition, equal to the amount payable on demand at the reporting date (i.e., their carrying amounts). Fair values for fixed rate certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered on the various certificates of deposit to the cash flow stream.

Commitments to Extend Credits

The fair value of commitments to fund credit lines and originate or participate in loans is estimated using fees currently charged to enter into similar agreements taking into account the remaining terms of the agreements and the present creditworthiness of the counterparties. For fixed rate loan commitments, fair value also considers the difference between current levels of interest and the committed rates. The carrying value, represented by the net deferred fee arising from the unrecognized commitment, and the fair value, determined by discounting the remaining contractual fee over the term of the commitment using fees currently charged to enter into similar agreements with similar credit risk, was not considered material at December 31, 2012 and 2011.

The following table presents the carrying amounts and estimated fair values of financial instruments at December 31, 2012:

	December 31, 2012		Fair Value Measurements		
(in thousands)	Carrying Amounts	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial assets:					
Cash and cash equivalents	$ 19,318	$ 19,318	$ 19,318	$ -	$ -
Due from banks - time deposits	7,768	7,768	-	7,768	-
Securities available for sale	11,092	11,092	-	11,092	-
Securities held to maturity	2,905	2,972	-	2,972	-
Loans receivable	90,950	91,327	-	-	91,327
Accrued interest receivable	351	351	-	351	-
Financial liabilities:					
Deposits	122,536	123,015	-	123,015	-
Accrued interest payable	8	8	-	8	-

The following table presents the carrying amounts and estimated fair values of financial instruments at December 31, 2011:

	December 31, 2011	
(in thousands)	Carrying Amounts	Fair Value
Financial assets:		
Cash and cash equivalents	$ 14,396	$ 14,396
Due from banks - time deposits	6,671	6,671
Securities available for sale	18,719	18,719
Securities held to maturity	1,469	1,403
Loans receivable	86,756	87,708
Accrued interest receivable	363	363
Financial liabilities:		
Deposits	116,394	117,179
Accrued interest payable	15	15

Note 15 – Recent Accounting Pronouncements

In February 2013, the Financial Account Standards Board issued Accounting Standards Update ("ASU") 2013-02, *Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income*, to improve the transparency of reporting reclassifications out of accumulated other comprehensive income. The amendments in this ASU do not change the current requirements for reporting net income or other comprehensive income in financial statements. All of the information that this ASU requires already is required to be disclosed elsewhere in the financial statements under U.S. GAAP.

The new amendments will require an organization to present (either on the face of the statement where net income is presented or in the notes) the effects on the line items of net income of significant amounts reclassified out of accumulated other comprehensive income, but only if the

item reclassified is required under U.S. GAAP to be reclassified to net income in its entirety in the same reporting period. The new amendments will also require an organization to present cross-reference to other disclosures currently required under U.S. GAAP for other reclassification items (that are not required under U.S. GAAP) to be reclassified directly to net income in their entirety in the same reporting period. This would be the case when a portion of the amount reclassified out of accumulated other comprehensive income is initially transferred to a balance sheet account (e.g. pension-related amounts) instead of directly to income or expense.

The amendments apply to all public and private companies that report items of other comprehensive income. Public companies are required to comply with these amendments for all reporting periods (interim and annual). Nonpublic company are required to meet the reporting requirements of the amended paragraphs about the roll forward of accumulated other comprehensive income for both interim and annual reporting periods. However, private companies are only required to provide the information about the impact of reclassifications on line items of net income for annual reporting periods, not for interim reporting periods.

The amendments of ASU 2013-02 are effective for reporting periods beginning after December 15, 2012, for public companies and are effective for reporting periods beginning after December 15, 2013, for nonpublic companies. The Bank does not believe this pronouncement, when adopted, will have a material impact on operations or financial position.