

New Jersey Community Bank

Financial Statements

December 31, 2009 and 2008

New Jersey Community Bank

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Independent Auditors' Report

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

We have audited the accompanying statements of financial condition of New Jersey Community Bank (the "Bank") as of December 31, 2009 and 2008, and the related statements of operations, changes in shareholders' equity and cash flows for the years then ended. The Bank's management is responsible for these financial statements. 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of New Jersey Community Bank as of December 31, 2009 and 2008, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

ParenteBeard LLC

Clark, New Jersey
March 22, 2010

New Jersey Community Bank

Statements of Financial Condition

	December 31,	
	2009	2008
Assets		
Cash and due from banks	\$ 839,705	\$ 542,826
Federal funds sold and other interest bearing deposits	17,109,083	10,895,000
Total Cash and Cash Equivalents	17,948,788	11,437,826
Due from banks time deposits	1,524,000	-
Investment Securities:		
Available-for-sale	7,493,570	200,375
Held-to-maturity	256,000	-
Total Investment Securities	7,749,570	200,375
Loans Receivable, net of unearned income	58,392,726	22,218,273
Less: Allowance for loan losses	(664,210)	(245,187)
Net Loans	57,728,516	21,973,086
Premises and equipment, net	2,652,402	2,652,932
Accrued interest receivable	205,899	60,515
Other assets	400,087	96,364
Total Assets	\$ 88,209,262	\$ 36,421,098
Liabilities and Shareholders' Equity		
Liabilities		
Deposits:		
Non-interest bearing	\$ 4,382,140	\$ 2,252,518
Interest-bearing	70,631,601	19,591,345
Total Deposits	75,013,741	21,843,863
Accrued interest payable	2,691	12,906
Other liabilities	66,080	95,564
Total Liabilities	75,082,512	21,952,333
Shareholders' Equity		
Common stock, \$2 par value; authorized 10,000,000 shares; issued and outstanding 1,648,783 shares	3,297,566	3,297,566
Surplus	13,348,393	13,314,231
Accumulated Deficit	(3,537,880)	(2,143,407)
Accumulated other comprehensive income	18,671	375
Total Shareholders' Equity	13,126,750	14,468,765
Total Liabilities and Shareholders' Equity	\$ 88,209,262	\$ 36,421,098

See notes to financial statements.

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Statements of Operations

	Years Ended December 31,	
	2009	2008
Interest Income		
Loans receivable, including fees	\$ 2,577,092	\$ 426,864
Investment securities	75,328	3,275
Federal funds sold	15,390	170,754
Due from banks time deposit	36,246	72,156
Total Interest Income	2,704,056	673,049
Interest Expense		
Deposits	1,047,421	173,577
Borrowings	-	14,355
Total Interest Expense	1,047,421	187,932
Net Interest Income	1,656,635	485,117
Provision for Loan Losses	719,023	245,187
Net Interest Income after Provision for Loan Losses	937,612	239,930
Non-Interest Income		
Fees and service charges	150,930	29,140
Other income	10,243	225
Total Non-Interest Income	161,173	29,365
Non-Interest Expense		
Salaries and employee benefits	1,414,494	1,241,340
Directors compensation	-	269,237
Occupancy and equipment	492,439	319,171
Data processing and communications	85,290	53,551
Professional fees	161,631	114,780
Advertising and promotion	23,204	37,812
Federal deposit insurance	99,594	4,237
Other	216,606	121,527
Total Non-Interest Expenses	2,493,258	2,161,655
Net Loss	\$ (1,394,473)	\$ (1,892,360)

See notes to financial statements.

New Jersey Community Bank

Statements of Changes in Shareholders' Equity

	<u>Common Stock</u>	<u>Surplus</u>	<u>Accumulated Deficit</u>	<u>Accumulated Other Comprehensive Income</u>	<u>Total Shareholders' Equity</u>
Balance - January 1, 2008	\$ -	\$ -	\$ (251,047)	\$ -	\$ (251,047)
Comprehensive loss:					
Net loss	-	-	(1,892,360)	-	(1,892,360)
Net unrealized gain on securities available-for-sale, net of tax	-	-	-	375	375
Total Comprehensive Loss					<u>(1,891,985)</u>
Sale of 1,648,783 shares of common stock, net of offering costs of \$481,750	3,297,566	12,708,514	-	-	16,006,080
Share-based compensation expense	-	605,717	-	-	605,717
Balance - December 31, 2008	<u>3,297,566</u>	<u>13,314,231</u>	<u>(2,143,407)</u>	<u>375</u>	<u>14,468,765</u>
Comprehensive loss:					
Net loss			(1,394,473)		(1,394,473)
Net unrealized gain on securities available-for-sale, net of tax				18,296	18,296
Total Comprehensive Loss					<u>(1,376,177)</u>
Share-based compensation expense		34,162			34,162
Balance - December 31, 2009	<u>\$ 3,297,566</u>	<u>\$ 13,348,393</u>	<u>\$ (3,537,880)</u>	<u>\$ 18,671</u>	<u>\$ 13,126,750</u>

See notes to financial statements.

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Statements of Cash Flows

	December 31,	
	2009	2008
Cash Flows from Operating Activities		
Net loss	\$(1,394,473)	\$(1,892,360)
Adjustments to reconcile net loss to net cash used in operating activities:		
Provision for loan losses	719,023	245,187
Depreciation	154,579	68,402
Net accretion of premiums and discounts on investment securities	(16,359)	-
Share-based compensation	34,162	605,717
Net amortization of deferred loan fees and costs	(47,805)	(10,095)
Increase in accrued interest receivable	(145,384)	(60,515)
Increase in other assets	(303,723)	(55,007)
Increase (decrease) in accrued interest payable	(10,215)	12,906
Increase (decrease) in other liabilities	(42,024)	95,564
Net Cash Used in Operating Activities	(1,052,219)	(990,201)
Cash Flows from Investing Activities		
Increase in due from banks time deposits	(1,524,000)	-
Purchases of available for sale securities	(11,946,000)	(200,000)
Purchases of held to maturity securities	(256,000)	-
Calls of available for sale securities	4,700,000	-
Net increase in loans	(35,426,648)	(22,208,178)
Purchase of loan	(1,000,000)	-
Purchases of premises and equipment	(154,049)	(1,811,257)
Net Cash Used in Investing Activities	(45,606,697)	(24,219,435)
Cash Flows from Financing Activities		
Net increase in deposits	53,169,878	21,843,863
Proceeds from issuance of common stock, net	-	6,145,542
Net Cash Provided by Financing Activities	53,169,878	27,989,405
Net Increase in Cash and Cash Equivalents	6,510,962	2,779,769
Cash and Cash Equivalents - Beginning	11,437,826	8,658,057
Cash and Cash Equivalents - Ending	\$17,948,788	\$11,437,826
Supplementary Cash Flows Information		
Interest paid	\$ 1,057,636	\$ 175,026

See notes to financial statements.

New Jersey Community Bank

Notes to Financial Statements

December 31, 2009 and 2008

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. 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 and time deposit accounts. The area served by the Bank is primarily Monmouth County, New Jersey.

Prior to commencing operations, the Bank incurred \$1,232,248 of organization and preopening costs, \$277,371 of which was expensed in 2007, and \$954,877 of which was expensed in 2008. Interest income of \$77,685 was earned on escrow funds during 2008. These amounts expensed and earned in 2008 are included in the statement of operations for the period ended December 31, 2008 in the respective income and expense categories. Stock offering costs of \$481,750 were netted against the proceeds from the sale of common stock.

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 and the valuation of deferred tax assets.

In preparing these financial statements, Bank management evaluated subsequent events for recognition or disclosure through March 22, 2010, 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 County, 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.

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, all of which mature within ninety days. Generally, federal funds are purchased for one day periods.

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Note 1 - Summary of Significant Accounting Policies (Continued)

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 consolidated 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 Company 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 portion of the impairment not otherwise designated as credit-related. The Company 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.

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Note 1 - Summary of Significant Accounting Policies (Continued)

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

The allowance consists of specific, general and unallocated components. The specific component relates to loans that are classified as impaired. 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. An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

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

New Jersey Community Bank

Note 1 - Summary of Significant Accounting Policies (Continued)

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Bank does not separately identify individual consumer loans for impairment disclosures, unless such loans are the subject of a restructuring agreement.

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.

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.

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, 2009 and 2008 totaled approximately \$11,000 and \$21,000, respectively.

Income Taxes

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

The Bank, effective January 1, 2009, 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, 2009 and 2008, and has not recognized any liabilities for tax uncertainties as of December 31, 2009 or 2008. Our policy is to recognize interest and penalties on unrecognized tax benefits in income tax expense; such amounts were not significant during the years ended December 31, 2009 and 2008. The tax years subject to examination by the taxing authorities are, for federal and state purposes, the years ended December 31, 2009, 2008 and 2007.

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Note 1 - Summary of Significant Accounting Policies (Continued)

Comprehensive Loss

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 loss, are components of comprehensive loss.

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. Such financial instruments are recorded in the balance sheet when they are funded.

Employee Benefit Plan

During 2008, the Bank 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 years ended December 31, 2009 and 2008, no matching contributions were made.

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.

Reclassification

Certain amounts in the 2008 financial statements have been reclassified to conform to the current year’s presentation. These reclassifications had no impact on stockholders’ equity or net loss.

Note 2 – Time Deposits

At December 31, 2009, the Bank had \$1,524,000 of time deposits with other financial institutions, all of which mature within one year. The weighted average interest rate of these time deposits was 1.80% at December 31, 2009.

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Note 3 – Investment Securities

The amortized cost and fair value of investment securities as of December 31, 2009 is summarized as follows:

	<u>Amortized Cost</u>	<u>Gross Unrealized</u>		<u>Fair-Value</u>
		<u>Gains</u>	<u>Losses</u>	
Available for Sale:				
U.S. Government Agency Securities	\$ 7,000,000	\$ 13,628	\$ (16,723)	\$ 6,996,905
Corporate debt securities	462,359	34,306	-	496,665
Total available for sale	<u>\$ 7,462,359</u>	<u>\$ 47,934</u>	<u>\$ (16,723)</u>	<u>\$ 7,493,570</u>
Held to Maturity:				
Obligations of states and political subdivisions	<u>\$ 256,000</u>	<u>\$ 586</u>	<u>\$ -</u>	<u>\$ 256,586</u>

The Bank had pledged to the Commissioner of Banking, State of New Jersey, securities totaling \$5,000,000 for the purpose of securing public deposits under the Governmental Unit Deposit Protection Act.

At December 31, 2009, three U.S. Government Agency securities in the available for sale portfolio having an aggregate fair value of \$2,988,277 had unrealized losses aggregating \$16,723, or less than 1% of amortized cost. These securities have been in a continuous unrealized loss position for less than 12 months. Management does not believe that any of the individual unrealized losses at December 31, 2009, represents an other-than-temporary impairment, but are due to changes in interest rates. 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 of fair value to a level which equals or exceeds amortized cost.

The amortized cost and fair value of securities as of December 31, 2008 is summarized as follows:

	<u>Amortized Cost</u>	<u>Gross Unrealized</u>		<u>Fair-Value</u>
		<u>Gains</u>	<u>Losses</u>	
Available for Sale:				
U.S. Government Agency Securities	\$ 200,000	\$ 375	\$ -	\$ 200,375
Total available for sale	<u>\$ 200,000</u>	<u>\$ 375</u>	<u>\$ -</u>	<u>\$ 200,375</u>

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The amortized cost and carrying value of investment securities at December 31, 2009, 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.

	Amortized Cost	Fair-Value
Securities Available for Sale:		
Due after one year through five years	\$ 5,462,359	\$ 5,507,430
Due after five years through ten years	<u>2,000,000</u>	<u>1,986,140</u>
	7,462,359	7,493,570
Securities Held to Maturity:		
Due within one year	<u>256,000</u>	<u>256,586</u>
	<u>\$ 7,718,359</u>	<u>\$ 7,750,156</u>

Note 4 - Loans Receivable

The composition of loans receivable is as follows:

	December 31,	
	2009	2008
Commercial real estate	\$ 38,200,780	\$16,918,689
Construction:		
Commercial	5,203,103	435,675
Residential	811,383	811,383
Commercial and industrial	5,863,372	2,523,061
Commercial lines of credit	6,491,022	867,007
Home equity lines of credit	1,884,730	654,198
Consumer	<u>61,768</u>	<u>82,394</u>
Total loans receivable	58,516,158	22,292,407
Deferred fees and costs, net	(123,432)	(74,134)
Allowance for loan losses	<u>(664,210)</u>	<u>(245,187)</u>
Loans Receivable, net	<u>\$ 57,728,516</u>	<u>\$21,973,086</u>

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The changes in the allowance for loan losses for the years ended December 31, 2009 and 2008 are as follows:

	Year Ended December 31,	
	2009	2008
Beginning Balance	\$ 245,187	\$ -
Less charge-offs:		
Commercial and industrial	(300,000)	-
Total Charge-offs:	<u>(300,000)</u>	<u>-</u>
Provision for Loan Losses	719,023	245,187
Ending Balance	<u>\$ 664,210</u>	<u>\$ 245,187</u>

At December 31, 2009, the Bank had one nonaccrual loan with a balance of \$117,526 that was classified as impaired. That loan was subject to a \$58,763 specific loan loss allowance. At December 31, 2009, there were no other impaired loans or loans past due 90 days or more. At and during the year ended December 31, 2008, the Bank had no impaired or nonaccrual loans and had no loans past due 90 days or more. The average balance of impaired loans and the interest recorded thereon were not significant during the years ended December 31, 2009 and 2008.

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Note 5 - Bank Premises and Equipment

The components of premises and equipment are as follows:

	Estimated Useful Lives	December 31,	
		2009	2008
Leasehold improvements	3 - 39	\$ 2,290,413	\$ 2,263,280
Furniture, fixtures and equipment	5 - 7	483,973	357,057
Computer software	5 - 6	58,931	58,931
Automobiles	5	42,066	42,066
		<u>2,875,383</u>	<u>2,721,334</u>
Accumulated depreciation		<u>(222,981)</u>	<u>(68,402)</u>
		<u>\$ 2,652,402</u>	<u>\$2,652,932</u>

Note 6 - Deposits

The components of deposits are as follows:

	December 31,	
	2009	2008
Demand, non-interest bearing	\$ 4,382,140	\$ 2,252,518
Demand, interest bearing and savings accounts	5,027,859	3,826,726
Money market accounts	6,760,750	3,682,322
Time, \$100,000 and over	36,027,010	7,421,843
Time, other	22,815,982	4,660,454
	<u>\$ 75,013,741</u>	<u>\$ 21,843,863</u>

At December 31, 2009, the scheduled maturities of time deposits are as follows:

2010	\$ 54,316,245
2011	4,179,766
2012	262,360
2013	84,621
	<u>\$ 58,842,992</u>

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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 11). In March 2009, the Bank entered into an operating lease for a building that houses the Neptune City branch. Future minimum lease payments by year under these non-cancellable lease agreements are as follows:

2010	\$	201,517
2011		203,600
2012		178,967
2013		165,624
2014		170,593
Thereafter		<u>1,525,564</u>
	\$	<u>2,445,863</u>

Lease rental expense for the years ended December 31, 2009 and 2008 was \$173,417 and \$160,000, respectively.

Note 8 - Employment Agreements

The Bank entered into three-year employment agreements with two officers. The agreements include minimum annual salary commitments and change of 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 - Shareholders' Equity

During 2009, the Bank did not engage in common stock transactions. During 2008, the Bank sold 1,648,783 shares of common stock at \$10.00 per share, which resulted in net proceeds of \$16,006,080 (after offering costs of \$481,750) under an initial stock offering of 1,600,000 to 2,000,000 shares.

Note 10 - Federal Income Taxes

There were no provisions for income taxes for the years ended December 31, 2009 and 2008, due to the net operating losses incurred and the 100% valuation allowance established for net deferred tax assets.

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Note 10 - Federal Income Taxes (Continued)

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

	December 31,	
	2009	2008
Deferred tax assets:		
Allowance for loan losses	\$ 222,961	\$ 84,765
Organization costs	185,387	192,781
Net operating loss carryforwards	955,006	443,938
Stock warrants and options	108,173	108,173
Other	3,932	3,184
	<u>1,475,459</u>	<u>832,841</u>
Valuation allowance	<u>(1,281,779)</u>	<u>(737,551)</u>
Total Deferred Tax Assets, Net of Valuation Allowance	<u>193,680</u>	<u>95,290</u>
Deferred tax liabilities:		
Property and equipment depreciation	(84,695)	(70,220)
Cash basis adjustment – accrued income and expense	(102,412)	(23,981)
Unrealized gains on available for sale securities	(12,540)	-
Other	(6,573)	(1,089)
	<u>(206,220)</u>	<u>(95,290)</u>
Net Deferred Tax Asset	<u>\$ (12,540)</u>	<u>\$ -</u>

At December 31, 2009, the Bank has available unused net operating loss carryforwards available for federal and state income tax purposes of approximately \$2.4 million and \$2.1 million, respectively. The Federal amount is scheduled to expire during the years 2025 through 2029; the State amount during the years 2013 through 2029.

Note 11 - Transactions with Executive Officers, Directors and Principal Stockholders

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 \$4,161,496 and \$2,163,549 in loans receivable from related parties at December 31, 2009 and 2008, respectively. During the year ended December 31, 2009, new loans and loan payments totaled \$2,175,000 and \$177,053, respectively. Deposits of related parties totaled \$3,632,163 and \$3,021,076 as of December 31, 2009 and 2008, respectively.

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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. The Bank is also required to pay certain operating expenses, primarily real estate taxes and assessments, in addition to the base rent. See Note 7 for data relating to this lease.

Note 12 - 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 public 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, 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 public offering price for the Bank's common stock of \$10.00 per share. In the aggregate, 229,520 shares 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.

On April 30, 2009, shareholders of the Bank approved the New Jersey Community Bank 2009 Stock Option Plan (the "Plan"). The total number of options to purchase shares of Bank common stock that may be issued pursuant to the Plan is 247,317. 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 market value of the Bank's common stock on the date of grant. Options are exercisable from the date of grant 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, 2009, 9,317 options are available in this Plan for future grants. The Bank plans to issue shares from currently authorized shares for any options exercised.

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The following is a summary of the Bank's share-based compensation activity and related information for the years ended December 31, 2009 and 2008:

	<u>Warrants and Options</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Remaining Contractual Term (in years)</u>	<u>Aggregate Intrinsic Value</u>
Stock warrants granted in 2008	229,520	\$ 10.00		
Outstanding at December 31, 2008	229,520	10.00		
Stock Options granted in 2009:				
	200,000	10.00		
	38,000	8.21		
Outstanding at December 31, 2009	<u>467,520</u>	<u>\$ 9.85</u>	<u>9.0</u>	<u>\$ -</u>
Exercisable at December 31, 2009	<u>229,500</u>	<u>\$ 10.00</u>	<u>8.2</u>	<u>\$ -</u>

During 2009, the Bank granted 238,000 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 2.99%; expected life of 7 years and expected volatility of 163.78%. The volatility percentage was based on the average expected volatility of the Bank's stock. The average fair value of the options granted in 2009 was \$3.59 per option.

The fair value of each warrant was estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions for the grant in 2008: dividend yield of 0%; risk-free interest rate of 2.73%; expected life of 5 years and expected volatility of 23.52%. The volatility percentage was based on the average expected volatility of similar public financial institutions in the Bank's market area. The fair value of the warrants granted in 2008 was \$2.64 per warrant.

Total share-based compensation cost for the years ended December 31, 2009 and 2008 was \$34,612 and \$605,717, respectively. There were no tax benefits recognized related to the share-based compensation expense due to the net operating loss incurred.

As of December 31, 2009, unrecognized compensation cost related to nonvested stock options was \$820,000 and is expected to be expensed over the next 4.8 years.

Note 13 - 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

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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, 2009:

Commitments to grant loans	\$ 13,745,000
Unfunded commitments under lines of credit	<u>8,322,095</u>
	<u>\$ 22,067,095</u>

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 14 - 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, 2009, 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, 2009.

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The Bank's actual capital amounts and ratios at December 31, 2009 and 2008, are presented below:

	Actual		For Capital Adequacy Purposes		To be Well Capitalized under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2009						
Total capital (to risk-weighted assets)	\$ 13,772	20.76%	\$ 5,307	8.00%	\$ 6,634	10.00%
Tier 1 Capital (to risk-weighted assets)	13,108	19.76%	2,653	4.00%	3,980	6.00%
Tier 1 Capital (to average assets)	13,108	15.71%	3,337	4.00%	4,172	5.00%
As of December 31, 2008						
Total capital (to risk-weighted assets)	\$ 14,714	53.00%	\$ 2,221	8.00%	\$ 2,776	10.00%
Tier 1 Capital (to risk-weighted assets)	14,469	52.12%	1,110	4.00%	1,666	6.00%
Tier 1 Capital (to average assets)	14,469	42.98%	1,347	4.00%	1,683	5.00%

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

Note 15 - 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.

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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, 2009 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	\$ 7,493,570	\$ -	\$ 7,493,570	\$ -

	Fair Value Measurements at December 31, 2008 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	\$ 200,375	\$ -	\$ 200,375	\$ -

Certain financial assets and financial liabilities are measured at fair value on a nonrecurring basis; that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment). Financial assets and financial liabilities measured at fair value on a non-recurring basis at December 31, 2009 consist of one impaired loan as follows:

	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
December 31, 2009:				
Impaired loan	\$ -	\$ -	\$ 58,763	\$ 58,763

The impaired loans measured at fair value and included in the above table had a principal balance of \$117,526 and a specific loan loss allowance of \$58,763.

Securities classified as available for sale are reported at fair value utilizing Level 2 Inputs. For these securities, the Bank obtains fair value measurements from an independent pricing service. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the

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U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayments speeds, credit information and the security's terms and conditions, among other things.

The impaired loan was measured and impairment recognized generally based on the fair value of the loan's collateral. Fair value is generally determined based upon independent third party appraisals of the properties, or discounted cash flows based on the expected proceeds. These assets are included as Level 3 fair values, based upon the lowest level of input that is significant to the fair value measurements. The fair value consists of the loan balance less the specific loan loss allowance.

Note 16 – Recent Accounting Pronouncements

In October 2009, the FASB issued Accounting Standards Update (“ASU”) 2009-16, Transfers and Servicing (Topic 860) - Accounting for Transfers of Financial Assets. This ASU amends the Codification for the issuance of FASB Statement No. 166, Accounting for Transfers of Financial Assets-an amendment of FASB Statement No. 140. The amendments in this ASU improve financial reporting by eliminating the exceptions for qualifying special-purpose entities from the consolidation guidance and the exception that permitted sale accounting for certain mortgage securitizations when a transferor has not surrendered control over the transferred financial assets. In addition, the amendments require enhanced disclosures about the risks that a transferor continues to be exposed to because of its continuing involvement in transferred financial assets. Comparability and consistency in accounting for transferred financial assets will also be improved through clarifications of the requirements for isolation and limitations on portions of financial assets that are eligible for sale accounting. This ASU is effective at the start of a reporting entity's first fiscal year beginning after November 15, 2009. Early application is not permitted. The Bank is currently reviewing the effect this new guidance will have on its financial statements.

The FASB has issued ASU 2010-06, Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements. This ASU requires some new disclosures and clarifies some existing disclosure requirements about fair value measurement as set forth in Codification Subtopic 820-10. The FASB's objective is to improve these disclosures and, thus, increase the transparency in financial reporting. Specifically, ASU 2010-06 amends Codification Subtopic 820-10 to now require: (1) A reporting entity to disclose separately the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and describe the reasons for the transfers; and (2) In the reconciliation for fair value measurements using significant unobservable inputs, a reporting entity should present separately information about purchases, sales, issuances, and settlements. In addition, ASU 2010-06 clarifies the requirements of the following existing disclosures: (1) For purposes of reporting fair value measurement for each class of assets and liabilities, a reporting entity needs to use judgment in determining the appropriate classes of assets and liabilities; and (2) A reporting entity should provide disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements. ASU 2010-06 is effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. The Bank is currently reviewing the effect this new guidance will have on its financial statements.