

New Jersey Community Bank

Financial Report

December 31, 2008

New Jersey Community Bank

Table of Contents

December 31, 2008

	<u>Page</u>
Independent Auditor's Report	1
Financial Statements	
Statement of Financial Condition	2
Statement of Operations	3
Statement of Stockholders' Equity	4
Statement of Cash Flows	5
Notes to Financial Statements	6



Independent Auditor's Report

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

We have audited the accompanying statement of financial condition of New Jersey Community Bank (the "Bank") as of December 31, 2008, and the related statements of operations, stockholders' equity and cash flows for the year 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 audit.

We conducted our audit 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 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 audit provides 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, 2008, and the results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Beard Miller Company LLP

Beard Miller Company LLP
Clark, New Jersey
March 16, 2009

New Jersey Community Bank

Statement of Financial Condition

December 31, 2008

	<u>2008</u>
Assets	
Cash and due from banks	\$ 542,826
Federal funds sold	<u>10,895,000</u>
Cash and Cash Equivalents	11,437,826
Securities available for sale	200,375
Loans receivable, net of allowance for loan losses of \$245,187	21,973,086
Bank premises and equipment, net	2,652,932
Accrued interest receivable	60,515
Other assets	<u>96,364</u>
Total Assets	<u><u>\$36,421,098</u></u>
Liabilities and Stockholders' Equity	
Liabilities	
Deposits:	
Non-interest bearing	\$ 2,252,518
Interest-bearing	<u>19,591,345</u>
Total Deposits	21,843,863
Accrued interest payable	12,906
Other liabilities	<u>95,564</u>
Total Liabilities	<u>21,952,333</u>
Stockholders' Equity	
Common stock, \$2 par value; authorized 10,000,000 shares; issued and outstanding 1,648,783 shares	3,297,566
Surplus	13,314,231
Accumulated deficit	(2,143,407)
Accumulated other comprehensive income	<u>375</u>
Total Stockholders' Equity	<u>14,468,765</u>
Total Liabilities and Stockholders' Equity	<u><u>\$36,421,098</u></u>

See notes to financial statements.

New Jersey Community Bank

Statement of Operations Year Ended December 31, 2008

	<u>2008</u>
Interest Income	
Loans receivable, including fees	\$426,864
Securities available for sale	3,275
Federal funds sold	170,754
Interest-bearing deposits	<u>72,156</u>
Total Interest Income	<u>673,049</u>
Interest Expense	
Deposits	173,577
Borrowings	<u>14,355</u>
	<u>187,932</u>
Net Interest Income	485,117
Provision for Loan Losses	<u>245,187</u>
Net Interest Income after Provision for Loan Losses	<u>239,930</u>
Non-Interest Income	
Fees and service charges	29,140
Other income	<u>225</u>
Total Non-Interest Income	<u>29,365</u>
Non-Interest Expenses	
Salaries and employee benefits	1,241,340
Directors compensation	269,237
Occupancy and equipment	319,171
Data processing and communications	53,551
Professional fees	114,780
Advertising and promotion	37,812
Other	<u>125,764</u>
Total Non-Interest Expenses	<u>2,161,655</u>
Net Loss	<u><u>\$(1,892,360)</u></u>

See notes to financial statements.

New Jersey Community Bank

Statement of Stockholders' Equity

Year Ended December 31, 2008

	<u>Common Stock</u>	<u>Surplus</u>	<u>Accumulated Deficit</u>	<u>Accumulated Other Comprehen- sive Gain</u>	<u>Total</u>
Balance - January 1, 2008	\$ -	\$ -	\$ (251,047)	\$ -	<u>\$(251,047)</u>
Comprehensive loss:					
Net loss	-	-	(1,892,360)	-	(1,892,360)
Net unrealized gain on securities available for sale	-	-	-	375	<u>375</u>
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	<u>-</u>	<u>605,717</u>	<u>-</u>	<u>-</u>	<u>605,717</u>
Balance - December 31, 2008	<u><u>\$3,297,566</u></u>	<u><u>\$13,314,231</u></u>	<u><u>\$(2,143,407)</u></u>	<u><u>\$375</u></u>	<u><u>\$14,468,765</u></u>

See notes to financial statements.

New Jersey Community Bank

Statement of Cash Flows **Year Ended December 31, 2008**

	2008
Cash Flows from Operating Activities	
Net loss	(\$1,892,360)
Adjustments to reconcile net loss to net cash used in operating activities:	
Provision for loan losses	245,187
Depreciation	68,402
Share-based compensation	605,717
Net amortization of deferred loan fees and costs	(10,095)
Increase in accrued interest receivable	(60,515)
Increase in other assets	(55,007)
Increase in accrued interest payable	12,906
Increase in other liabilities	95,564
Net Cash Used in Operating Activities	<u>(990,201)</u>
Cash Flows from Investing Activities	
Purchases of available for sale securities	(200,000)
Net increase in loans	(22,208,178)
Purchases of premises and equipment	<u>(1,811,257)</u>
Net Cash Used in Investing Activities	<u>(24,219,435)</u>
Cash Flows from Financing Activities	
Net increase in deposits	21,843,863
Proceeds from issuance of common stock, net	<u>6,145,542</u>
Net Cash Provided by Financing Activities	<u>27,989,405</u>
Net Increase in Cash and Cash Equivalents	2,779,769
Cash and Cash Equivalents - Beginning	<u>8,658,057</u>
Cash and Cash Equivalents - Ending	<u><u>\$11,437,826</u></u>
Supplementary Cash Flows Information	
Interest paid	<u><u>\$ 175,026</u></u>

See notes to financial statements.

New Jersey Community Bank

Notes to Financial Statements

December 31, 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. The Bank commenced operations in July 2008 and is a full service bank providing personal and business lending and deposit services. 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 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.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management 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.

Significant Group Concentrations of Credit Risk

Most of the Bank's activities are with customers located within Monmouth County, New Jersey. Note 3 discusses 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.

New Jersey Community Bank

Notes to Financial Statements

December 31, 2008

Note 1 - Summary of Significant Accounting Policies (Continued)

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.

Declines in the fair value of securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses. In estimating other-than-temporary impairment losses, management considers (1) the length of time and the extent to which the fair value has been less than cost (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Bank to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

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 collectibility of principal or interest, even though the loan is currently performing. A loan may remain on accrual status if it is in the process of collection and is either guaranteed or well secured. When a loan is placed on 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 collectibility of principal. Generally, loans are restored to accrual status when the obligation is brought current, has performed in accordance with the contractual terms for a reasonable period of time and the ultimate collectibility of the total contractual principal and interest is no longer in doubt.

New Jersey Community Bank

Notes to Financial Statements

December 31, 2008

Note 1 - Summary of Significant Accounting Policies (Continued)

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. At December 31, 2008, the entire allowance reflected general and unallocated reserves.

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.

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.

New Jersey Community Bank

Notes to Financial Statements

December 31, 2008

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.

Advertising Costs

The Bank follows the policy of charging the costs of advertising to expense as incurred. Advertising expense incurred for the year ended December 31, 2008 totaled approximately \$21,000.

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.

In December 2008, the Financial Accounting Standards Board issued FASB Staff Position (FSP) FIN 48-3, *Effective Date of FASB Interpretation No. 48 for Certain Nonpublic Enterprises*. The FSP defers the effective date of FASB Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes*, to be effective for fiscal years beginning after December 15, 2008 for certain nonpublic enterprises. The FSP requires a nonpublic enterprise that elects to defer the application of FIN 48 to explicitly disclose that fact and also requires the disclosure of the enterprise's accounting policy for evaluating uncertain tax positions for each set of financial statements where the deferral applies.

The Bank has elected to defer the application of FIN 48. For the years ended December 31, 2008 and 2007, the Bank has accounted for uncertain tax positions in accordance with Statement of Financial Accounting Standards No. 5, *Accounting for Contingencies*.

Comprehensive Loss

Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Although certain changes in assets and liabilities, such as unrealized gains and losses on available for sale securities, are reported as a separate component of the equity section of the statement of condition, such items, along with net loss, are components of comprehensive loss. Other comprehensive income for the year ended December 31, 2008 was a \$375 unrealized holding gain on securities available for sale.

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.

New Jersey Community Bank

Notes to Financial Statements

December 31, 2008

Note 1 - Summary of Significant Accounting Policies (Continued)

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. During the period ended December 31, 2008, no matching contributions were made.

Share-Based Compensation

The Bank adopted the provisions of Statement of Financial Standards No. 123(R), “Share-Based Payment.” This statement requires the Bank to recognize the cost of employee and organizer services received in share-based payment transactions and measure 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.

Note 2 - Securities Available for Sale

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

	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
Securities Available for Sale				
U.S. Government agency security	<u>\$200,000</u>	<u>\$375</u>	<u>\$ -</u>	<u>\$200,375</u>

The available for security portfolio at December 31, 2008, consists of one security having a maturity date of August 20, 2012.

At December 31, 2008, the Bank had pledged to the Commissioner of Banking, State of New Jersey, the \$200,000 U.S. Government agency security, for the purpose of securing public deposits under the Governmental Unit Deposit Protection Act.

New Jersey Community Bank

Notes to Financial Statements

December 31, 2008

Note 3 - Loans Receivable

The composition of loans receivable at December 31, 2008 is as follows:

	<u>2008</u>
Commercial real estate	\$16,918,689
Construction:	
Commercial	435,675
Residential	811,383
Commercial and industrial	2,523,061
Commercial lines of credit	867,007
Home equity lines of credit	654,198
Consumer	82,394
	<u>22,292,407</u>
Total Loans	22,292,407
Deferred fees and costs, net	(74,134)
Allowance for loan losses	(245,187)
	<u><u>\$21,973,086</u></u>

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

	<u>2008</u>
Balance, beginning	\$ -
Provision for loan losses	245,187
	<u>245,187</u>
Balance, ending	<u><u>\$245,187</u></u>

As of and for the period ended December 31, 2008, the Bank had no impaired loans, no nonaccrual loans, and no loans past due 90 days or more.

New Jersey Community Bank

Notes to Financial Statements

December 31, 2008

Note 4 - Bank Premises and Equipment

The components of premises and equipment at December 31, 2008 are as follows:

	<u>Estimated Useful Lives</u>	<u>2008</u>
Leasehold improvements	15 - 20	\$2,263,280
Furniture, fixtures and equipment	5 - 7	357,057
Computer software	5 - 6	58,931
Automobiles	5	<u>42,066</u>
		2,721,334
Accumulated depreciation		<u>(68,402)</u>
		<u>\$2,652,932</u>

Note 5 - Deposits

The components of deposits at December 31, 2008 are as follows:

	<u>2008</u>
Demand, non-interest bearing	\$ 2,252,518
Demand, interest bearing and savings accounts	3,826,726
Money market accounts	3,682,322
Time, \$100,000 and over	7,421,843
Time, other	<u>4,660,454</u>
	<u>\$21,843,863</u>

At December 31, 2008, the scheduled maturities of time deposits are as follows:

2009	\$11,952,521
2010	<u>129,776</u>
	<u>\$12,082,297</u>

New Jersey Community Bank

Notes to Financial Statements

December 31, 2008

Note 6 - 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). Future minimum lease payments by year under this non-cancellable lease agreement are as follows:

2009	\$ 160,000
2010	160,000
2011	160,000
2012	160,800
2013	165,624
Thereafter	<u>1,696,156</u>
	<u><u>\$2,502,580</u></u>

Rent expense for the lease for the year ended December 31, 2008 was \$160,000.

Note 7 - Employment Agreement

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 8 - Stockholders' Equity

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 9 - Federal Income Taxes

There is no provision for income taxes for the year ended December 31, 2008 due to the net operating losses incurred and the 100% valuation allowance established for net deferred tax assets.

New Jersey Community Bank

Notes to Financial Statements

December 31, 2008

Note 9 - Federal Income Taxes (Continued)

The components of the net deferred tax asset at December 31, 2008 are as follows:

	<u>2008</u>
Deferred tax assets:	
Allowance for loan losses	\$ 98,510
Stock warrants	135,190
Net operating loss carryforwards	<u>524,338</u>
	758,038
Valuation allowance	<u>(750,289)</u>
Total Deferred Tax Assets, Net of Valuation Allowance	7,749
Deferred tax liabilities:	
Property and equipment depreciation	<u>7,749</u>
Net Deferred Tax Asset	<u><u>\$ -</u></u>

At December 31, 2008, the Bank has available unused net operating loss carryforwards available for federal and state income tax purposes of approximately \$1.3 million which expire in 2028 for federal and 2015 for state purposes.

Note 10 - 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 \$2,163,549 in loans receivable from related parties at December 31, 2008. Deposits of related parties totaled \$3,021,076 as of December 31, 2008.

The Bank leases the land beneath its operating facilities 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 6 for data relating to this lease.

New Jersey Community Bank

Notes to Financial Statements

December 31, 2008

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 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.

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

	<u>Warrants and Options</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Remaining Contractual Term</u>	<u>Aggregate Intrinsic Value</u>
Outstanding at December 31, 2007	-	\$ -		
Stock warrants granted in 2008	<u>229,520</u>	<u>10.00</u>		
Outstanding at December 31, 2008	<u>229,520</u>	<u>\$10.00</u>	<u>9.2 years</u>	<u>\$ -</u>
Exercisable at December 31, 2008	<u>229,520</u>	<u>\$10.00</u>	<u>9.2 years</u>	<u>\$ -</u>

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 year ended December 31, 2008 was \$605,717. There were no tax benefits recognized related to the share-based compensation expense due to the net operating loss incurred.

As of December 31, 2008, there was no unrecognized compensation cost related to nonvested stock warrants granted in 2008.

New Jersey Community Bank

Notes to Financial Statements

December 31, 2008

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, 2008:

	<u>2008</u>
Commitments to grant loans	\$4,260,000
Unfunded commitments under lines of credit	<u>3,547,507</u>
	<u>\$7,807,507</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 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, 2008, that the Bank meets all capital adequacy requirements to which it is subject.

New Jersey Community Bank

Notes to Financial Statements

December 31, 2008

Note 13 - Regulatory Matters (Continued)

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, 2008.

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

	Actual		For Capital Adequacy Purposes		To be Well Capitalized under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(Dollars in Thousands)			
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 14 - Fair Value Measurements

In September 2006, the FASB issued Statement No. 157, *Fair Value Measurements* ("SFAS 157"), which defines fair value, establishes a framework for measuring fair value under GAAP, and expands disclosures about fair value measurements. SFAS 157 applies to other accounting pronouncements that require or permit fair value measurements. The new standard is effective for financial statements issued for fiscal years beginning after November 15, 2007, and for interim periods within those fiscal years. The Bank adopted SFAS 157 effective for its fiscal year beginning January 1, 2008.

In December 2007, the FASB issued FASB Staff Position 157-2, *Effective Date of FASB Statement No. 157* ("FSP 157-2"). FSP 157-2 delays the effective date of SFAS 157 for all non-financial assets and liabilities, except those that are recognized or disclosed at fair value on a recurring basis (at least annually) to fiscal years beginning after November 15, 2008 and interim periods within those fiscal years. In October 2008, the FASB issued FASB Staff Position 157-3, *Determining the Fair Value of a Financial Asset When the Market for that Asset is Not Active* ("FSP 157-3"), to clarify the application of the provisions of SFAS 157 in an inactive market and how an entity would determine fair value in an inactive market. FSP 157-3 is effective immediately and applies to our December 31, 2008 financial statements. The adoption of SFAS 157 and FSP 157-3 had no impact on the amounts reported in the financial statements.

The primary effect of SFAS 157 on the Bank was to expand the required disclosures pertaining to the methods used to determine fair values.

New Jersey Community Bank

Notes to Financial Statements

December 31, 2008

Note 14 - Fair Value Measurements (Continued)

SFAS 157 establishes 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 under SFAS 157 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 at December 31, 2008 are as follows:

<u>Description</u>	<u>December 31, 2008</u>	<u>(Level 1) Quoted Prices in Active Markets for Identical Assets</u>	<u>(Level 2) Significant Other Observable Inputs</u>	<u>(Level 3) Significant Unobservable Inputs</u>
Securities available for sale	<u>\$200,375</u>	<u>\$ -</u>	<u>\$200,375</u>	<u>\$ -</u>

The Bank, at December 31, 2008, had no financial assets measured at fair value on a nonrecurring basis.

The following valuation techniques were used to measure fair value of assets in the table above:

- Available for sale securities - The Bank utilizes a third-party source to determine the fair value of its fixed income securities. The methodology consists of pricing models based on asset class and includes available trade, bid, other market information, broker quotes, proprietary models, various databases and trading desk quotes, some of which are heavily influenced by unobservable inputs.