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Bancorp of New Jersey, Inc.

2007

ANNUAL REPORT

(LOGO HERE ONLY STATE)

To Our Shareholders and Friends:

This, our second annual report which covers our first nineteen months of operation demonstrates the remarkable results of Bancorp of New Jersey, Inc. and Bank of New Jersey.

- Our initial capital of \$43.6 million (the highest raised in the history of the State of New Jersey), has now increased to total capital of \$47.7 million.
- At 2007 year-end, we had total assets of \$260.2 million, an increase of 145%; deposits of \$212.9 million, an increase of 243%; and \$183.4 million in loans, an increase of 127%, with no classified or non-performing loans.
- We have posted a profit in every month since August, 2006, even after putting aside \$1.9 million in loan loss reserve. Our start-up costs were recaptured in September, 2007.
- We are proud to state that the Bank has no sub-prime mortgages, no mortgage backed or collateralized mortgage obligations, and no investment securities whose underlying collateral is mortgages.
- We have met last year's goal of opening the additional three offices which we had identified and all four offices are making a positive impact on operations.
- Our primary and risk-based capital ratings are extremely strong, providing safety for our depositors and the ability for us to continue to grow.
- In January, 2007 we issued a 10% stock distribution, followed by a two-for-one stock split in December, 2007.

2008 promises to be a challenging year. Management intends to meet this challenge by following a conservative lending and investment policy while continuing to make loans to qualified individuals and businesses, to include residential mortgages in Bergen County.

Our goals in 2008 are to locate and open three more Bergen County branches while continuing to grow loans and deposits.

Lastly, we attribute this notable performance to the recommendations received from our shareholders, directors and the wonderful, responsive staff with whom we are blessed.

We wish you and your family a healthy, happy and successful 2008 - *"It's All About Relationships"*.

Albert F. Buzzetti  
President and Chief Executive Officer

## TABLE OF CONTENTS

Forward-Looking Statements .....	1
Changes in Accountants .....	1
Form 10-K .....	1
Consolidated Financial Statements .....	2
Consolidated Balance Sheets .....	2
Consolidated Statements of Income .....	3
Consolidated Statements of Stockholders' Equity.....	4
Consolidated Statements of Cash Flows.....	5
Notes to Consolidated Financial Statements .....	6
Report of Independent Registered Public Accounting Firm.....	28
Report of Independent Registered Public Accounting Firm.....	29
Management's Discussion and Analysis of Financial Condition and Results of Operation .....	30
Our Business.....	47
Market Price of and Dividends on Common Equity and Related Stockholder Matters .....	49
Directors and Executive Officers .....	50

## **FORWARD-LOOKING STATEMENTS**

This annual report contains forward-looking statements, in addition to historical information. Forward looking statements are typically identified by words or phrases such as “believe,” “expect,” “anticipate,” “intend,” “estimate,” “project,” and variations of such words and similar expressions, or future or conditional verbs such as “will,” “would,” “should,” “could,” “may,” or similar expressions.

You should note that many factors, some of which are discussed elsewhere in this annual report and in the documents we filed with the Securities and Exchange Commission from time to time, could affect the future financial results of Bancorp of New Jersey, Inc. and its wholly-owned banking subsidiary, Bank of New Jersey, and could cause those results to differ materially from those expressed in forward-looking statements. These factors include, but are not limited, to the following:

- Volatility in interest rates and shape of the yield curve;
- Increased credit risk;
- Operating, legal and regulatory risk;
- Economic, political and competitive forces affecting our business; and
- The risk that the analysis of these risks and forces could be incorrect, and/or that the strategies developed to address them could be unsuccessful.

Bancorp of New Jersey, Inc., referred to as “we” or the “Company,” cautions that these forward-looking statements are subject to numerous assumptions, risks and uncertainties, all of which change over time, and we assume no duty to update forward-looking statements, except as may be required by applicable law or regulation. We caution readers not to place undue reliance on any forward-looking statements. These statements speak only as of the date made, and they advise readers that various factors, including those described above, could affect our financial performance and could cause actual results or circumstances for future periods to differ materially from those anticipated or projected. Except as required by applicable law or regulation, we do not undertake, and specifically disclaim any obligation, to publicly release any revisions to any forward-looking statements to reflect the occurrence of anticipated or unanticipated events or circumstances after the date of such statements.

## **CHANGES IN ACCOUNTANTS**

KPMG LLP audited the financial statements of the Bank of New Jersey, referred to as the “Bank,” for the year ended December 31, 2006, but was never engaged as the principal accountant to audit the Company’s financial statements. During 2007, the Company and the Bank effected a holding company reorganization, as a result of which the assets, liabilities, and stockholders’ equity of the Bank immediately prior to the holding company reorganization have been carried forward on the Company’s consolidated financial statements. Based upon the foregoing, a report of KPMG LLP is included in this annual report. Beard Miller Company LLP was engaged as the principal accountant to audit the Company’s financial statements beginning in 2007.

## **FORM 10-K**

**On written request, we will provide, without charge, a copy of our Annual Report on Form 10-K for the year ended December 31, 2007, as filed with the Securities and Exchange Commission (including a list briefly describing the exhibits thereto), to any record holder or beneficial owner of common stock on [April 10, 2008], the record date for our 2008 annual meeting of stockholders, or to any person who subsequently becomes such a record holder or beneficial owner.** Requests should be directed to the attention of the Secretary of the Company at Bancorp of New Jersey, Inc., 1365 Palisade Avenue, Fort Lee, New Jersey 07024.

## CONSOLIDATED FINANCIAL STATEMENTS

### CONSOLIDATED BALANCE SHEETS

December 31, 2007 and 2006  
(Dollars in thousands, except per share data)

<b>Assets</b>	<b><u>2007</u></b>	<b><u>2006</u></b>
Cash and due from banks	\$ 8,481	\$ 284
Interest bearing deposits in banks	543	1,569
Federal funds sold	57,091	6,986
Total cash and cash equivalents	<u>66,115</u>	<u>8,839</u>
Securities available for sale	–	9,599
Securities held to maturity (fair value approximates \$2,014 and \$2,002 at December 31, 2007 and 2006, respectively)	1,996	1,993
Restricted investment in bank stock, at cost	328	100
Loans	183,460	80,638
Deferred loan fees and costs, net	76	47
Allowance for loan losses	<u>(1,912)</u>	<u>(866)</u>
Net loans	181,624	79,819
Premises and equipment, net	8,300	4,612
Accrued interest receivable	613	439
Other assets	1,269	646
Total assets	<u>\$ 260,245</u>	<u>\$ 106,047</u>
<b>Liabilities and Stockholders' Equity</b>		
Deposits :		
Noninterest-bearing demand deposits	\$ 23,292	\$ 10,244
Interest bearing deposits:		
Savings, money market and time deposits	96,948	41,856
Time deposits of \$100 or more	92,701	9,767
Total deposits	<u>212,941</u>	<u>61,867</u>
Accrued expenses and other liabilities	1,464	1,141
Total liabilities	<u>214,405</u>	<u>63,008</u>
Commitments and contingencies	–	–
Stockholders' equity :		
Common stock, no par value, authorized 20,000,000 shares; issued and outstanding 4,970,090 shares at December 31, 2007; \$10 par value, authorized 5,000,000 shares; issued and outstanding 4,799,692 at December 31, 2006	45,689	23,998
Additional Paid in Capital	–	19,667
Retained Earnings (Accumulated Deficit)	151	(665)
Accumulated other comprehensive income	–	39
Total stockholders' equity	<u>45,840</u>	<u>43,039</u>
Total liabilities and stockholders' equity	<u>\$ 260,245</u>	<u>\$ 106,047</u>

See accompanying notes to consolidated financial statements.

## CONSOLIDATED STATEMENTS OF INCOME

Years ended December 31, 2007 and 2006  
(Dollars in thousands, except per share data)

	<u>2007</u>	<u>2006</u>
Interest income:		
Interest on escrow funds	\$ -	\$ 624
Loans, including fees	10,111	1,983
Securities	264	260
Federal funds sold and other	215	818
Total interest income	<u>10,590</u>	<u>3,685</u>
Interest expense:		
Savings and money markets	1,964	487
Time deposits	2,132	77
Short term borrowings	339	43
Total interest expense	<u>4,435</u>	<u>607</u>
Net interest income	6,155	3,078
Provision for loan losses	<u>1,046</u>	<u>866</u>
Net interest income after provision for loan losses	5,109	2,212
Non interest income		
Fees and service charges on deposit accounts	140	15
Gains on sale of securities	4	-
Total non interest income	<u>144</u>	<u>15</u>
Non interest expense:		
Salaries and employee benefits	2,451	1,825
Occupancy and equipment expense	810	434
Advertising and marketing expenses	51	67
Data processing	181	17
Legal fees	156	58
Other operating expenses	714	226
Total other expenses	<u>4,363</u>	<u>2,627</u>
Income(loss) before income taxes	890	(400)
Income tax expense	<u>74</u>	<u>164</u>
Net Income(Loss)	<u>\$ 816</u>	<u>\$ (564)</u>
Earnings(loss) per share:		
Basic	\$ 0.17	\$ (0.12)
Diluted	\$ 0.17	\$ (0.12)

All share data has been adjusted to reflect the 10% stock distribution paid during January 2007 and the 2 for 1 stock split effective December 31, 2007.

See accompanying notes to consolidated financial statements.

## CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

Years ended December 31, 2007 and 2006  
(Dollars in Thousands)

	<u>Common Stock</u>	<u>Common Stock subscribed</u>	<u>Subscription receivable</u>	<u>Additional Paid – In Capital</u>	<u>Retained Earnings (Accumulated Deficit)</u>	<u>Accumulated Other Comprehensive (loss)income</u>	<u>Total</u>
Balance at December 31, 2005	\$ –	\$ 42,724	\$ (42,724)	\$ 900	\$ (101)	\$ –	\$ 799
Issuance of common stock	21,811	(42,724)	42,724	20,873	–	–	42,684
Exercise of warrants (1,100 shares)	5	–	–	7	–	–	12
Recognition of stock option expense	–	–	–	69	–	–	69
Stock distribution (436,327 shares)	2,182	–	–	(2,182)	–	–	–
Comprehensive loss:							
Net loss	–	–	–	–	(564)	–	(564)
Unrealized gains on securities available for sale	–	–	–	–	–	39	39
Total comprehensive loss							<u>(525)</u>
Balance at December 31, 2006	23,998	–	–	19,667	(665)	39	43,039
Exchange of common stock – holding company reorganization	19,667	–	–	(19,667)	–	–	–
Exercise of stock options (22,000 shares)	200	–	–	–	–	–	200
Exercise of warrants (104,936 shares)	1,141	–	–	–	–	–	1,141
Recognition of stock option expense	183	–	–	–	–	–	183
Issuance of common stock (43,478 shares)	500	–	–	–	–	–	500
Comprehensive income:							
Net income	–	–	–	–	816	–	816
Unrealized losses on securities available for sale	–	–	–	–	–	(39)	(39)
Total comprehensive income							<u>777</u>
Balance at December 31, 2007	<u>\$45,689</u>	<u>\$ –</u>	<u>\$ –</u>	<u>\$ –</u>	<u>\$ 151</u>	<u>\$ –</u>	<u>\$45,840</u>

See accompanying notes to consolidated financial statements.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31, 2007 and 2006  
(In Thousands)

	<u>2007</u>	<u>2006</u>
Cash flows from operating activities:		
Net income(loss)	\$ 816	\$ (564)
Adjustments to reconcile net income (loss) to net cash provided by		
Operating activities:		
Provision for loan losses	1,046	866
Deferred tax benefit	(607)	(147)
Depreciation and amortization	193	55
Recognition of stock option expense	183	69
Fees earned from mortgage referrals	(12)	-
Gain on sale of securities	(4)	-
Changes in operating assets and liabilities:		
(Increase)decrease in accrued interest receivable	(174)	159
Increase in other assets	(8)	(646)
Increase in accounts payable and accrued liabilities	323	1,053
Net cash provided by operating activities	<u>1,756</u>	<u>845</u>
Cash flows from investing activities:		
Purchases of investment securities held to maturity	-	(1,993)
Purchases of securities available for sale	-	(11,460)
Proceeds from called securities available for sale	-	2,000
Proceeds from sales of securities available for sale	9,565	-
Purchase of restricted investment in bank stock	(228)	(100)
Net increase in loans	(102,851)	(80,638)
Purchases of premises and equipment	(3,881)	(4,390)
Net cash used in investing activities	<u>(97,395)</u>	<u>(96,581)</u>
Cash flows from financing activities:		
Net increase in deposits	151,074	61,867
Proceeds from issuance of common stock	500	42,684
Proceeds from exercise of stock options	200	-
Warrants exercised	1,141	12
Net cash provided by financing activities	<u>152,915</u>	<u>104,563</u>
Increase in cash and cash equivalents	57,276	8,827
Cash and cash equivalents at beginning of year	<u>8,839</u>	<u>12</u>
Cash and cash equivalents at end of year	<u>\$ 66,115</u>	<u>\$ 8,839</u>
Supplemental information:		
Cash paid during the year for:		
Interest	\$3,558	\$ 568
Taxes	\$ 578	\$ -

See accompanying notes to consolidated financial statements.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 1. Summary of Significant Accounting Policies

#### *Basis of Financial Statement Presentation*

The accompanying consolidated financial statements include the accounts of Bancorp of New Jersey, Inc. (the "Company"), and its direct wholly-owned subsidiary, Bank of New Jersey (the "Bank"). All significant inter-company accounts and transactions have been eliminated in consolidation.

The Company was incorporated under the laws of the State of New Jersey to serve as a holding company for the Bank and to acquire all the capital stock of the Bank.

These financial statements include the effect of the holding company reorganization which took place on July 31, 2007 pursuant to a plan of acquisition that was approved by the boards of directors of the Company and the Bank and adopted by the stockholders of the Bank at a special meeting held July 19, 2007. The holding company reorganization is accounted for as a reorganization under common control and the assets, liabilities, and stockholders' equity of the Bank immediately prior to the holding company reorganization have been carried forward on the Company's consolidated financial statements at the amounts carried on the Bank's financial statements at the effective date of the holding company reorganization. The consolidated capitalization, assets, liabilities, results of operations and other financial data of the Company immediately following the reorganization were substantially the same as those of the Bank immediately prior to the holding company reorganization. Accordingly, these consolidated financial statements of the Company include the Bank's historical recorded values.

The Company's class of common stock has no par value and the Bank's class of common stock had a par value of \$10 per share. As a result of the holding company reorganization, amounts previously recognized as additional paid in capital on the Bank's financial statements have been reclassified into the Company's consolidated financial statements.

Certain amounts in the prior period's financial statements have been reclassified to conform to the December 31, 2007 presentation. These reclassifications did not have an impact on income.

#### *Nature of Operations*

The Company's primary business is ownership and supervision of the Bank. The Bank commenced operations as of May 10, 2006. The Company, through the Bank, conducts a traditional commercial banking business, accepting deposits from the general public, including individuals, businesses, non-profit organizations, and governmental units. The Bank makes commercial loans, consumer loans, and both residential and commercial real estate loans. In addition, the Bank provides other customer services and makes investments in securities, as permitted by law.

The Bank is subject to Federal and New Jersey statutes applicable to banks chartered under the New Jersey banking laws. The Bank's deposits are insured by the Federal Deposit Insurance Corporation (FDIC). Accordingly, the Bank is subject to regulation, supervision, and examination by the New Jersey State Department of Banking and Insurance and the FDIC. The Company is subject to regulation, supervision, and examination by the Federal Reserve Bank of New York.

#### *Use of 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 the deferred tax asset. While management uses available information to recognize estimated losses on loans, future additions may be necessary based on changes in economic conditions. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the Bank's allowance for loan losses on loans. These agencies may require the Bank to recognize additions to the allowance based on their judgements of information available to them at the time of their examination.

The financial statements have been prepared in conformity with U.S. generally accepted accounting principles. In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and revenues and expenses for the period indicated. Actual results could differ significantly from those estimates.

***Significant Group of Concentration of Credit Risk***

Bancorp of New Jersey, Inc.'s activities are, primarily, with customers located within Bergen County, New Jersey. The Company does not have any significant concentration to any one industry or customers within its primary service area. Note 3 discusses the types of lending the Company engages in. Although the Company actively manages the diversification of the loan portfolio, a substantial portion of the debtors' ability to honor their contracts is dependent on the strength of the local economy.

***Cash and Cash Equivalents***

Cash and cash equivalents include cash and due from banks, interest bearing deposits in banks, and federal funds sold, which are generally sold for one-day periods.

***Interest-bearing deposits in banks***

Interest bearing deposits from banks are carried at cost.

***Regulators***

The Bank is subject to Federal and New Jersey Statutes applicable to banks chartered under the New Jersey banking laws. The Bank's deposits are insured by the Federal Deposit Insurance Corporation (FDIC). Accordingly, the Bank is subject to regulation, supervision, and examination by the New Jersey State Department of Banking and Insurance and the FDIC. The Company is subject to regulation, supervision and examination by the Federal Reserve Bank of New York.

***Securities***

Investment securities purchased with the intent and ability to hold until maturity are classified as securities held-to-maturity ("HTM") and are carried at cost, adjusted for the amortization of premiums and accretion of discounts using a method that approximates the level-yield method over the terms of the securities. Investment securities are carried at the principal amount outstanding because the Bank has the ability and the intent to hold these securities to maturity. All other securities, including equity securities, are classified as available-for-sale ("AFS"). These securities are reported at fair value with changes in the carrying value included in accumulated other comprehensive income(loss) which is a separate component of stockholders' equity. Gains or losses on sales of securities available for sale are based upon the specific identification method. The Bank has not acquired or held securities for the purpose of engaging in trading activities.

Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Declines in the fair value of held to maturity and available for sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses. In determining whether other-than-temporary impairment exists, management considers many factors, including (1) the length of time and the extent to which the fair value has been less than the cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

***Premises and Equipment***

Premises and equipment are stated at historical cost, less accumulated depreciation and amortization. Depreciation of fixed assets is accumulated on a straight-line basis over the estimated useful lives of the related assets. Leasehold improvements are amortized on a straight-line basis over the shorter of their estimated useful lives or the term of the related lease. Maintenance and repairs are charged to expense in the year incurred.

### ***Loans and Allowance for Loan Losses***

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are stated at the amount of unpaid principal, net of deferred loan origination fees and costs and an allowance for loan losses.

The allowance for loan losses is maintained at a level believed adequate by management to absorb potential losses in the loan portfolio. Management's determination of the adequacy of the allowance is based on an evaluation of the portfolio, past loan loss experience, current economic conditions, volume, growth, and composition of the loan portfolio, and other relevant factors. The allowance is increased by provisions for loan losses charged against income. Decreases in the allowance result from management's determination that the allowance for loan losses exceeds their estimates of potential loan loss. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

A loan is considered impaired when, based on current information and events, it is probable the Company will be unable to collect the scheduled payments of principal and interest when due according to the contractual terms of the loan agreement. The Bank accounts for its impaired loans in accordance with SFAS No. 114, "Accounting by Creditors for Impairment of a Loan," as amended by SFAS No. 118, "Accounting by Creditors for Impairment of a Loan — Income Recognition and Disclosure," which requires that a creditor measure impairment based on the present value of expected future cash flows discounted at the loan's effective interest rate, except that as a practical expedient, a creditor may measure impairment based on a loan's observable market price, or the fair value of the collateral if the loan is collateral-dependent. Regardless of the measurement method, a creditor must measure impairment based on the fair value of the collateral when the creditor determines that foreclosure is probable.

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Company does not separately identify individual consumer and residential loans for impairment disclosures, unless such loans are the subject of a restructuring agreement. As of December 31, 2007, there have been no loans subject to impairment or a restructuring agreement.

Interest on loans is accrued and credited to income based upon the principal amount outstanding. Accrual of interest is discontinued on a loan when management believes that the borrower's financial condition is such that collection of interest is doubtful and generally when a loan becomes 90 days past due as to principal or interest. When interest accruals are discontinued, interest credited to income in the current year is reversed and interest accrued in the prior year is charged to the allowance for loan losses.

Losses on loans are charged to the allowance for loan losses. Additions to this allowance are made by recoveries of loans previously charged off and by a provision charged to expense. The determination of the balance of the allowance for loan losses is based on an analysis of the loan portfolio, economic conditions and other factors warranting recognition. Management believes that the allowance for loan losses is maintained at a sufficient level to provide for losses inherent in the loan portfolio. While management uses available information to recognize losses on loans, future additions may be necessary based on changes in economic conditions, particularly in Bergen County, New Jersey. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the Bank's allowance for loan losses. Such agencies may require the Bank to recognize additions to the allowance based on their judgments about information available to them at the time of their examination.

Loan origination fees and certain direct origination costs are deferred and recognized over the life of the loan as an adjustment to yield using the level yield of method.

### ***Stock-Based Compensation***

In December, 2004, the FASB issued Statement of Financial Accounting Standard ("SFAS") No. 123 (revised 2004), "Share-Based Payment," ("SFAS No. 123(R)"). SFAS No. 123(R) addresses the accounting for share-based payment transactions in which an enterprise receives employee service in exchange for (a) equity instruments of the enterprise or (b) liabilities that are based on the fair value of the enterprise's equity

instruments or that may be settled by the issuance of such equity instruments. SFAS No. 123(R) requires an entity to recognize the grant-date fair value of stock options and other equity-based compensation issued to employees within the income statement using a fair-value-based method, eliminating the intrinsic value method of accounting previously permissible under APB No. 25, "Accounting for Stock Issued to Employees", and related interpretations. The Company accounts for stock options under the recognition and measurement principles of SFAS No. 123(R).

As a result of adopting SFAS No.123(R), the Company recorded compensation expense of \$183,000 and \$69,000 during 2007 and 2006, respectively. At December 31, 2007, the Company had unrecognized compensation expense amounting to approximately \$1,430,000 related to un-vested options. The unrecognized expense will be recognized over the remaining vesting terms of over 9 years.

#### ***Income Taxes***

The Company uses the asset and liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

#### ***Earnings Per Share***

Basic earnings per share excludes dilution and represents the effect of earnings upon the weighted average number of shares outstanding for the period. Diluted earnings per share reflects the effect of earnings upon weighted average shares including the potential dilution that could occur if securities or contracts to issue common stock were converted or exercised, utilizing the treasury stock method. All per share data has been restated to reflect changes due to stock distributions and stock splits.

#### ***Comprehensive Income***

Comprehensive income consists of net income or loss for the current period and income, expenses, or gains and losses not included in the income statement and which are reported directly as a separate component of equity. The Company includes the required disclosures in the statement of stockholders' equity.

#### ***Advertising***

The Company expenses advertising costs as incurred.

#### ***Transfer 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.

#### ***Restricted Investment in Bank Stock***

Restricted stock, is comprised of stock in the Federal Home Loan Bank of New York and Atlantic Central Bankers' Bank. Federal law requires a member institution of the Federal Home Loan Bank to hold stock according to a predetermined formula. All restricted stock is recorded at cost.

**NOTE 2. Securities**

A summary of securities available for sale at December 31, 2006 is as follows (in thousands):

<b><u>December 31, 2006</u></b>	Amortized <u>Cost</u>	Gross Unrealized <u>Gains</u>	Gross Unrealized <u>Losses</u>	Fair <u>Value</u>
Government Sponsored Enterprise obligations	<u>\$ 9,560</u>	<u>\$ 39</u>	<u>\$ —</u>	<u>\$ 9,599</u>

A summary of securities held to maturity at December 31, 2007 and December 31, 2006 is as follows (in thousands):

<b><u>December 31, 2007</u></b>	Amortized <u>Cost</u>	Gross Unrealized <u>Gains</u>	Gross Unrealized <u>Losses</u>	Fair <u>Value</u>
U.S. Treasury Obligations	<u>\$ 1,996</u>	<u>\$ 18</u>	<u>\$ —</u>	<u>\$ 2,014</u>

<b><u>December 31, 2006</u></b>	Amortized <u>Cost</u>	Gross Unrealized <u>Gains</u>	Gross Unrealized <u>Losses</u>	Market <u>Value</u>
Obligations of U.S. Treasury	<u>\$ 1,993</u>	<u>\$ 9</u>	<u>\$ —</u>	<u>\$ 2,002</u>

Securities held to maturity at December 31, 2007 mature within one year.

Securities with an amortized cost of \$1.9 million, and a fair value of \$2.0 million, were pledged to secure public funds on deposit at December 31, 2007. Securities with an amortized cost of \$1.9 million, and a fair value of \$2.0 million, were pledged to secure public funds on deposit at December 31, 2006.

**NOTE 3. Loans and Allowance for Loan Losses**

Loans at December 31, 2007 and 2006, respectively, are summarized as follows (in thousands):

	<b>December 31,</b>	
	<b><u>2007</u></b>	<b><u>2006</u></b>
Real estate	\$123,335	\$ 50,787
Commercial	27,056	14,678
Credit lines	28,133	13,519
Consumer	4,936	1,654
	<u>\$183,460</u>	<u>\$ 80,638</u>

The Bank grants commercial, mortgage and installment loans to those New Jersey residents and businesses within its local trading area. Its borrowers' abilities to repay their obligations are dependent upon various factors, including the borrowers' income and net worth, cash flows generated by the underlying collateral, value of the underlying collateral and priority of the Bank's lien on the property. Such factors are dependent

upon various economic conditions and individual circumstances beyond the Bank's control; the Bank is therefore subject to risk of loss. The Bank believes its lending policies and procedures adequately minimize the potential exposure to such risks and that adequate provisions for loan losses are provided for all known and inherent risks.

The activity in the allowance for loan losses is as follows (in thousands):

	<b>Years ended December 31,</b>	
	<u>2007</u>	<u>2006</u>
Balance at beginning of year	\$ 866	\$ -
Provision charged to expense	1,046	866
Loans charged off	-	-
Recoveries	-	-
	<u>          </u>	<u>          </u>
Balance at end of year	<u>\$ 1,912</u>	<u>\$ 866</u>

There were no impaired loans at December 31, 2007 and 2006, respectively. As of December 31, 2007 and 2006, respectively, the Company also had no non-accrual loans and no loans past due ninety days or more and still accruing.

**NOTE 4. Premises and Equipment**

At December 31, premises and equipment consists of the following (in thousands):

	<u>2007</u>	<u>2006</u>
Land	\$ 3,350	\$ 3,350
Building	4,409	1,036
Furniture and equipment	375	184
Leasehold improvements	414	97
	<u>8,548</u>	<u>4,667</u>
Less accumulated depreciation and amortization	248	55
Total premises and equipment, net	<u>\$ 8,300</u>	<u>\$ 4,612</u>

Depreciation expense amounted to \$193 thousand and \$55 thousand for the years ended December 31, 2007 and 2006, respectively.

**NOTE 5. Deposits**

At December 31, 2007 and 2006, respectively, a summary of the maturity of time deposits (which includes certificates of deposit and individual retirement account (IRA) certificates) is as follows (in thousands):

	<u>2007</u>
Three months or less	\$ 20,408
Over three months through twelve months	112,475
Over 1 year through 2 years	921
Over 2 years through 3 years	141
Over 3 years through 4 years	12
Over 4 years through 5 years	47
Over 5 years	—
	<u>\$134,004</u>

**NOTE 6. Short Term Borrowings**

Although we were a net seller of federal funds at December 31, 2007, we have a \$12 million overnight line of credit facility available with First Tennessee Bank and a \$10 million overnight line of credit with Atlantic Central Bankers' Bank for the purchase of federal funds in the event that temporary liquidity needs arise. Additionally, we were approved as a member of the Federal Home Loan Bank of New York (FHLBNY) in November, 2007. The FHLBNY relationship could provide additional sources of liquidity, if required. We believe that our current sources of funds provide adequate liquidity for our current cash flow needs.

**NOTE 7. Income Taxes**

Income tax expense(benefit) from operations for the years ended December 31 is as follows (in thousands):

	<u>2007</u>	<u>2006</u>
Federal:		
Current	\$ 519	\$ 564
Deferred	(349)	(564)
State:		
Current	162	164
Deferred	(258)	—
Income tax expense	<u>\$ 74</u>	<u>\$ 164</u>

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities as of December 31 are as follows (in thousands):

	<u>2007</u>	<u>2006</u>
Deferred tax assets:		
Start up expenses	\$ 468	\$ 503
Allowance for loan losses	744	346
Accrued expenses	50	54
Other	39	2
	<u>1,301</u>	<u>905</u>
Deferred tax liabilities:		
Deferred loan costs	(63)	(32)
Prepaid expenses	(36)	(26)
Unrealized gains on AFS securities	–	(16)
Other	(31)	(1)
	<u>(130)</u>	<u>(75)</u>
LESS:		
Valuation Allowance	–	(282)
	<u>\$ 1,171</u>	<u>\$ 548</u>

The realizability of deferred tax assets is dependent upon a variety of factors, including the generation of future taxable income, the existence of taxes paid and recoverable, the reversal of deferred tax liabilities and tax planning strategies. A valuation allowance of \$282,000 was established during the year ended December 31, 2006 due to the uncertainty of whether the Company would be able to generate sufficient taxable income to utilize the net deferred tax asset. During 2007, the Company sustained continued profitability, continued to pay taxes, and recognized deferred tax benefits. Based upon these and other factors, management believes it is more likely than not that the Company will realize the benefits of these remaining deferred tax assets. The net deferred tax asset is included in other assets on the consolidated balance sheet.

Income tax (benefit)expense differed from the amounts computed by applying the U.S. federal income tax rate of 34% to income taxes as a result of the following (in thousands):

	<u>2007</u>	<u>2006</u>
Computed “expected” tax expense(benefit)	\$ 303	\$ (93)
Increase(decrease) in taxes resulting from:		
State taxes, net of federal income tax (benefit)expense	(63)	108
Non-deductible penalties	5	–
Stock-based compensation	28	24
Meals and entertainment	3	2
Change in valuation allowance	(202)	123
	<u>\$ 74</u>	<u>\$ 164</u>

The Company adopted the provisions of FASB Interpretation 48 (“FIN 48”), Accounting for Uncertainty in Income Taxes, on January 1, 2007. Previously, the Bank had accounted for tax contingencies in accordance with Statement of Financial Accounting Standards 5, Accounting for Contingencies. As required by FIN 48, which clarifies SFAS 109, Accounting for Income Taxes, the Company recognizes the financial statement benefit of a tax position only

after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the more-likely-than-not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement with the relevant tax authority. At the adoption date, the Bank applied FIN 48 to all tax positions for which the statute of limitations remained open. As a result of the adoption of FIN 48, there was no material effect on the Company's consolidated financial position or results of operations and no adjustment to retained earnings.

The Company is subject to income taxes in the U.S. and various state and local jurisdictions. Tax regulations are subject to interpretation of the related tax laws and regulations and require significant judgment to apply. Corporate tax returns for the years 2005 through 2007 remain open to examination by taxing authorities.

**NOTE 8. Leases**

The Bank leases banking facilities under operating leases which expire at various dates through December 31, 2025. These leases do contain certain options to renew the leases. Rental expense amounted to \$430,000 and \$237,000, respectively, for the years ended December 31, 2007 and December 31, 2006.

The following is a schedule of future minimum lease payments (exclusive of payments for maintenance, insurance, taxes and any other costs associated with offices) for operating leases with initial or remaining terms in excess of one year from December 31, 2007 (in thousands):

Year ending December 31:	
2008	\$416
2009	421
2010	283
2011	198
2012	202
Thereafter	<u>3,245</u>
	<u>\$4,765</u>

**NOTE 9. Related-party Transactions**

The Bank has made, and expects to continue to make, loans in the future to our directors and executive officers and their family members, and to firms, corporations, and other entities in which they and their family members maintain interests. All such loans require the prior approval of our board of directors. None of such loans at December 31, 2007, are nonaccrual, past due, restructured or potential problems, and all of such loans were made in the ordinary course of business, on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable loans with persons not related to the Company or the Bank and did not involve more than the normal risk of collectibility or present other unfavorable features.

The following table represents a summary of related-party loans during 2007 (in thousands)

Outstanding loans at beginning of the year	\$ 10,329
New Loans	9,941
Repayments	<u>(6,421)</u>
Outstanding loans at end of the year	<u>\$ 13,849</u>

Two of our directors have acted as the Bank's counsel on several loan closings. During 2007, and 2006 the cost of such work has been reimbursed by the respective loan customers and totals \$149,000 and \$62,000, respectively. Additionally, one of these directors has acted as legal counsel to the Bank on several matters. The total amount paid for legal fees, for non-loan related matters was approximately \$10,000 in 2007 and was less than \$10,000 in 2006.

The Company's or the Bank's commercial insurance policy, as well as other policies, has been placed with various insurance carriers by an insurance agency of which one of our directors is the President. Gross insurance premiums paid to carriers through this agency was approximately \$73,000 and \$37,000 in 2007 and 2006, respectively.

One of our directors provided appraisal services on several loan closings. Although certain of these payments are reimbursed by our customer, the total amount paid for appraisal services during 2007 was approximately \$13,000.

Our disinterested directors have reviewed all transactions and relationships with directors and the businesses in which they maintain interests, have determined that each is on arm's-length terms, and have approved each such transaction and relationship.

**NOTE 10. Earnings Per Share**

All weighted average, actual shares and per share information have been adjusted retroactively for the effects of the 2007 10% stock distribution and the 2007 2 for 1 stock split. The Company's calculation of earnings per share in accordance with SFAS No. 128 is as follows:

	<b>For the Year Ended December 31,</b>	
(In thousands, except per share data)	2007	2006
Net income (loss) applicable to common stock	\$816	\$ (564)
Weighted average number of common shares outstanding – basic	4,856	4,799
<b>Basic earnings(loss) per share</b>	<b>\$0.17</b>	<b>\$ (0.12)</b>
Net income (loss) applicable to common stock	\$816	–
Weighted average number of common shares outstanding - diluted		
Weighted average number of common shares outstanding	4,856	
Effect of dilutive warrants	24	
Weighted average number of common shares outstanding	4,880	
<b>Diluted earnings(loss) per share</b>	<b>\$0.17</b>	<b>–</b>

Stock options for 658,300 shares of common stock were not considered in computing diluted earnings per common share for 2007 because they were anti-dilutive. Diluted earnings per share have not been presented for the year ended December 31, 2006, as all warrants and options during the period were anti-dilutive, due to the net loss incurred.

**NOTE 11. Stockholders' Equity and Dividend Restrictions**

Under its initial stock offering which closed in 2005, the Bank sold 4,798,594 shares of common stock at \$9.09 per share, as adjusted for the subsequent 10% stock distribution and the 2 for 1 stock split. The stock offering resulted in net proceeds of \$42,684,000. For every five shares of common stock purchased in the offering, one warrant to purchase one additional share of the Bank's common stock was issued, exercisable at any time through May 10, 2009. 959,720 warrants were issued to purchase common stock at \$10.91 per share, as adjusted for the 10% stock distribution and the 2 for 1 stock split. During 2007 and 2006, there were

104,936 warrants exercised for total proceeds of \$1,141,000 and \$12,000, respectively. As part of the holding company reorganization on July 31, 2007, all outstanding warrants were exchanged to purchase Bancorp of New Jersey, Inc. common stock. At December 31, 2007 there were 853,683 warrants outstanding.

During 2007, the Company sold 43,478 shares of common stock at \$11.50 per share, as adjusted for the 10% stock distribution and the 2 for 1 stock split, to one of its directors for total proceeds of \$500,000.

The Company declared a 2 for 1 stock split during the fourth quarter of 2007. This split was payable on December 31, 2007.

The Bank declared a 10% stock distribution and paid that distribution during January 2007 by issuing 436,336 shares.

Under applicable New Jersey law, the Company will not be permitted to pay dividends on its capital stock if, following the payment of the dividend, it would be unable to pay its debts as they become due in the usual course of business, or its total assets would be less than its total liabilities. Further, it is the policy of the Federal Reserve Bank that bank holding companies should pay dividends only out of current earnings and only if future retained earnings would be consistent with the holding company's capital, asset quality and financial condition. Because it will have no significant independent sources of income, the ability of the Company to pay dividends will be dependent on its ability to receive dividends from the Bank.

Under the New Jersey Banking Act of 1948, as amended, the Bank may declare and pay dividends only if, after payment of the dividend, the capital stock of the Bank will be unimpaired and either the Bank will have a surplus of not less than 50% of its capital stock or the payment of the dividend will not reduce the Bank's surplus. The FDIC prohibits payment of cash dividends if, as a result, the Bank would be undercapitalized. Further, during the first three years of operation, cash dividends shall only be paid from net operating income, and only after an appropriate allowance for loan losses is established and overall capital is adequate.

## **NOTE 12.      Benefit Plans**

### ***2006 Stock Option Plan***

During 2006, the Bank's stockholders approved the 2006 Stock Option Plan. At the time of the holding company reorganization, the 2006 Stock Option Plan was assumed by the Company. The plan allows directors and employees of the Company to purchase up to 239,984 shares of the Company's common stock, in each case as adjusted following our ten percent (10%) stock distribution in January 2007 and the 2 for 1 stock split effective December 31, 2007. The option price per share is the market value of the Bank's stock on the date of grant. The option price and number of shares underlying options outstanding on the date of our ten percent (10%) stock distribution in January 2007 and the December, 2007 2 for 1 stock split have been equitably adjusted to account for such stock distributions. At December 31, 2007, incentive stock options to purchase 220,300 shares have been issued to employees of the Bank.

During 2006, the Bank awarded Incentive Stock Options (ISO) which vested over a 2 year period and ISO options which vested over a 3 year period. The per share weighted-average fair values of stock options granted during 2006, which vested over a 2 year period and a 3 year period, were \$1.26 and \$2.17, respectively, on the date of grant using the Black Scholes option-pricing model, as adjusted for the 2007 stock distribution and the 2007 stock split. The options which vested over a 2 year period used the following assumptions in determining the grant date fair value of the 2006 option grants: expected dividend yields of 0.00%, risk-free interest rates of 4.77%, expected volatility of 16.00%; and average expected lives of 2 years. The options which vested over a 3 year period used the following assumptions used in determining the grant date fair value of the 2006 option grants: expected dividend yields of 0.00%, risk-free interest rates of 4.77%, expected volatility of 22.00%; and average expected lives of 3.5 years.

During 2007, the Company awarded Incentive Stock Options (ISO) which vest over a 5 year period. Their per share weighted average fair values of ISO stock options granted during 2007 were \$3.07 on the date of the grant using the Black Scholes option-pricing model, as adjusted for the 2007 stock distribution and the 2007 stock split. These options used the following assumptions in determining the grant date fair value of the 2007 option grants: expected dividend yield of 0.00%, risk-free interest rate of 3.28%, expected volatility of 21.69%, and average expected lives of 5.15 years.

A summary of stock option activity under the 2006 Stock Option Plan during 2007 and 2006 is presented below:

	Number of Shares	Weighted Average Exercise price per share	Average Intrinsic Value (1)
Outstanding at December 31, 2005	—		
Granted	124,300	\$9.09	
Forfeited	—		
Exercised	—		
Outstanding at December 31, 2006	<u>124,300</u>	\$9.09	
Granted	96,000	\$11.50	
Forfeited	—		
Exercised	(22,000)	\$9.09	
Outstanding at December 31, 2007	<u>198,300</u>	<u>\$10.26</u>	<u>\$246,543</u>
Exercisable at December 31, 2007	<u>78,100</u>	<u>\$9.09</u>	<u>\$188,221</u>
Weighted-average fair value of options granted during the year		<u>\$3.07</u>	

(1) The aggregate intrinsic value of a stock option in the table above represents the total pre-tax intrinsic value (the amount by which the current market value of the underlying stock exceeds the exercise price of the option) that would have been received by the option holders had they exercised their options on December 31, 2007. This amount changes based on the changes in the market value in the Company's stock.

Information pertaining to options outstanding under the 2006 Stock Option Plan at December 31, 2007 is as follows:

Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual life (years)	Weighted Average Exercise Price
\$9.09	102,300	8.83	\$9.09
\$11.50	<u>96,000</u>	9.92	\$11.50
	198,300		

Under the 2006 Stock Option Plan, there were a total of 120,200 unvested options at December 31, 2007, and approximately \$337,000 remained to be recognized in expense over three years. The total intrinsic value for options that were exercised during 2007 was approximately \$53,000.

### 2007 Director Plan

During 2007, the Bank's stockholders approved the 2007 Non-Qualified Stock Option Plan for Directors. At the time of the holding company reorganization, the 2007 Non-Qualified Stock Option Plan was assumed by the Company. This plan provides for 480,000 options to purchase shares of the Company's common stock to be issued to non-employee directors of the Company. At December 31, 2007, non-qualified options to purchase 460,000 shares of the Company's stock have been issued to non-employee directors of the Company.

During 2007, the Company awarded Non-Qualified Stock Options (NQO) to its Non-Employee Board members which vest over a 34 month period and NQO options which vest over a 5 year period. The per share weighted average fair values of NQO stock options granted during 2007, which vested over a 34 month period and a 5 year period, were \$2.26 and \$3.03, respectively, on the date of the grant using the Black Scholes option-pricing model, as adjusted for the 2007 stock distribution and the 2007 stock split. The options which vest over a 34 month period used the following assumptions in determining the grant date fair value of the 2007 option grants: expected dividend yield of 0.00%, risk-free interest rate of 4.05%, expected volatility of 14.33%, and average expected lives of 4.01 years. The options which vest over a 5 year period used the following assumptions in determining the grant date fair value of the 2007 option grants: expected dividend yield of 0.00%, risk-free interest rate of 3.28%, expected volatility of 21.69%, and average expected lives of 5.03 years.

A summary of the stock option activity during 2007 is as follows:

	Number of Shares	Weighted Average Exercise price per share	Average Intrinsic Value (1)	Weighted Average Remaining Contractual life (years)
Outstanding at December 31, 2006	—			
Granted	460,000	\$11.50	\$ —	9.81
Forfeited	—			
Exercised	—			
Outstanding at December 31, 2007	<u>460,000</u>	<u>\$11.50</u>		
Exercisable at December 31, 2007	<u>—</u>			
Weighted-average fair value of options granted during the year		<u>\$ 2.53</u>		

(1) The aggregate intrinsic value of a stock option in the table above represents the total pre-tax intrinsic value (the amount by which the current market value of the underlying stock exceeds the exercise price of the option) that would have been received by the option holders had they exercised their options on December 31, 2007. This amount changes based on the changes in the market value in the Company's stock.

Under the 2007 Directors Stock Option Plan, there were a total of 460,000 unvested options at December 31, 2007, and approximately \$1,093,000 remained to be recognized in expense over four years. During 2007, no Director Options were vested or exercised.

**NOTE 12. Benefit Plans (continued)**

***Weighted Average Assumptions for options granted***

The fair value of each option grant is estimated on the date of the grant using the Black-Scholes option-pricing model with the following weighted average assumptions:

	<u>2007</u>	<u>2006</u>
Dividend yield	0.00%	0.00%
Expected life	4.50 years	2.44 years
Expected volatility	17.72%	17.75%
Risk-free interest rate	3.70%	4.77%

The dividend yield assumption is based on the Company's expectation of dividend payouts. The expected life is based upon historical and expected exercise experience. The expected volatility is based on historical volatility of a peer group over a similar period. The risk-free interest rates for periods within the contractual life of the awards is based upon the U.S. Treasury yield curve in effect at the time of the grant.

***Defined Contribution Plan***

The Company currently offers a 401(k) profit sharing plan covering all full-time employees, wherein employees can invest up to 15% of their pretax earnings, up to the legal limit. The Company matches a percentage of employee contributions at the board's discretion. The Company made a matching contribution of approximately \$31,000 during 2007 and did not make any matching contributions during 2006.

**NOTE 13. Regulatory Capital Requirements**

The Company and the Bank are subject to various capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory – and possible additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and the Bank must meet specific capital guidelines that involve quantitative measures of the Company's and 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 regulations to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier I capital (as defined) to average assets (as defined). As of December 31, 2007, management believes that the Company and the Bank meet all capital adequacy requirements to which they are subject.

Further, the most recent FDIC notification categorized the Bank as a well-capitalized institution under the prompt corrective action regulations. There have been no conditions or events since that notification that management believes have changed the Bank's capital classification.

The following is a summary of the Bank's actual capital amounts and ratios as of December 31, 2007 and 2006, respectively, compared to the FDIC minimum capital adequacy requirements and the FDIC requirements for classification as a well-capitalized institution (dollars in thousands):

	<u>Bank actual</u>		<u>FDIC requirements</u>			
			<u>Minimum capital adequacy</u>		<u>For classification as well capitalized</u>	
	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>
December 31, 2007:						
Leverage (Tier 1) Capital	\$45,840	22.27%	\$ 8,235	4.00%	\$10,293	5.00%
Risk-based capital:						
Tier 1	\$45,840	25.06%	\$ 7,315	4.00%	\$10,973	6.00%
Total	\$47,752	26.11%	\$14,631	8.00%	\$18,289	10.00%
December 31, 2006:						
Leverage (Tier 1) Capital	\$43,000	55.01%	\$3,126	4.00%	\$3,908	5.00%
Risk-based capital:						
Tier 1	\$43,000	52.77%	\$3,260	4.00%	\$4,889	6.00%
Total	\$43,866	53.83%	\$6,519	8.00%	\$8,149	10.00%

The Bank's capital amounts (in thousands) and ratios as presented in the table above are similar to those of the Company.

In addition to the above, as part of the Bank's application for deposit insurance with the FDIC and as part of the bank charter approval by the New Jersey Department of Banking, the Bank is required to maintain not less than 8% Tier I Capital to total assets, as defined, through the first three years of operation.

#### **NOTE 14. 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 in order to meet the financing needs of its customers. These financial instruments consist of commitments to extend credit and letters of credit and involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the accompanying consolidated balance sheets.

The Bank uses the same credit policies and collateral requirements in making commitments and conditional obligations as it does for on-balance-sheet loans. Commitments to extend credit are agreements to lend to customers as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since the commitments may expire without being drawn upon, therefore, the total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates each customer's creditworthiness 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 of the borrower. Outstanding available loan

commitments, primarily for commercial real estate, construction, and land development loans at December 31, 2007 totaled \$48.6 million compared to \$24.5 million at December 31, 2006.

Most of the Bank's lending activity is with customers located in Bergen County, New Jersey. At December 31, 2007 and 2006, the Bank had outstanding letters of credit to customers totaling \$1,103,000 and \$806,000, respectively, whereby the Bank guarantees performance to a third party. These letters of credit generally have fixed expiration dates of one year or less. The fair value of these letters of credits is estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements. At December 31, 2007 and 2006, such amounts were deemed not material.

**NOTE 15. Financial Information of Parent Company**

The parent company, Bancorp of New Jersey, Inc, was incorporated during November, 2006. The holding company reorganization with Bank of New Jersey was consummated on July 31, 2007. Accordingly, the financial information of the parent company, Bancorp of New Jersey, Inc, is only available as of and for the five month period ended December 31, 2007. The following information on the parent only financial statements as of December 31, 2007 and for the five months then ended should be read in conjunction with the notes to the consolidated financial statements.

***Balance Sheet***  
(in thousands)

	December 31, 2007
Assets:	
Investment in subsidiary, net	\$ 45,840
Total assets	<u>\$ 45,840</u>
Stockholders' equity:	<u>\$ 45,840</u>

***Statement of Income***

For the five month period ended December 31, 2007  
(in thousands)

Dividends from bank subsidiary	\$ 0
Expenses	<u>0</u>
Income before equity in undistributed earnings of subsidiary bank	0
Equity in undistributed earnings of subsidiary bank	<u>816</u>
Net income	<u>\$ 816</u>

**Statement of Cash Flow**  
For the five months ended December 31, 2007  
(in thousands)

Cash flows from operating activities:	
Net income	\$ 816
Adjustments to reconcile net income to net cash provided by operating activities:	
Equity in undistributed earnings of the subsidiary bank	(816)
Decrease in other assets, net	<u>0</u>
Net cash provided by operating activities	0
Cash flows from investing activities:	
Capital contributed to subsidiary bank	<u>(1,585)</u>
Net cash used in financing activities	(1,585)
Cash flows from financing activities:	
Proceeds from exercise of warrants	1,085
Proceeds from issuance of common stock	<u>500</u>
Net cash provided by financing activities	<u>1,585</u>
Net change in cash for the period	-
Net cash at beginning of year	<u>-</u>
Net cash at end of year	<u>\$ -</u>

**NOTE 16. Fair Value of Financial Instruments**

Statement of Financial Accounting Standards No. 107, "Disclosures About Fair Value of Financial Instruments," requires that the Company disclose the estimated fair value of its financial instruments whether or not recognized in the consolidated balance sheet. Fair value estimates and assumptions are set forth below for the Company's financial instruments at December 31, 2007 and 2006 (in thousands):

	<u>2007</u>		<u>2006</u>	
	<u>Carrying amount</u>	<u>Estimated Fair Value</u>	<u>Carrying amount</u>	<u>Estimated Fair Value</u>
Financial assets:				
Cash and cash equivalents	\$ 66,115	\$ 66,115	\$ 8,839	\$ 8,839
Securities available for sale	-	-	9,599	9,599
Securities held to maturity	1,996	2,014	1,993	2,002
Restricted investment in bank stock	328	328	100	100
Net loans	181,624	181,068	79,819	79,643
Accrued interest receivable	613	613	439	439
Financial liabilities:				
Deposits	212,941	212,933	61,867	61,858
Accrued interest payable	917	917	40	40

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

***Cash and Cash Equivalents***

The carrying amount approximates fair value.

***Securities***

Fair values for securities equal quoted market prices, where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable securities.

***Net loans***

Net loans represent loans net of unamortized costs and deferred fees. Fair values are estimated for portfolios of loans with similar financial characteristics. Loans are segregated by type, such as residential and commercial real estate, commercial and other consumer. The fair value of loans is estimated by discounting contractual cash flows using estimated market discount rates which reflect the credit and interest rate risk inherent in the loans.

***Restricted Investment in Bank Stock***

The carrying amount of this restricted stock approximates fair value based on the stock's redemption provisions which are at par value.

***Deposits***

The fair value of deposits with no stated maturity, such as noninterest-bearing demand deposits, is equal to the amount payable on demand as of year end. The fair value of certificates of deposit is based on the discounted value of contractual cash flows. The discount rate is estimated using the rates currently offered for deposits of similar remaining maturities.

***Commitments to Extend Credit and Letters of Credit***

The fair value of commitments to extend credit and letters of credit is estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements. At December 31, 2007 and 2006, such amounts were not material.

***Limitation***

The preceding fair value estimates were made at December 31, 2007 and 2006 based on pertinent market data and relevant information on the financial instrument. These estimates do not include any premium or discount that could result from an offer to sell at one time the Company's entire holdings of a particular financial instrument or category thereof. Since no market exists for a substantial portion of the Company's financial instruments, fair value estimates were necessarily based on judgments regarding future expected loss experience, current economic conditions, risk assessment of various financial instruments, and other factors. Given the innately subjective nature of these estimates, the uncertainties surrounding them and the matter of significant judgment that must be applied, these fair value estimates cannot be calculated with precision. Modifications in such assumptions could meaningfully alter these estimates.

Since these fair value approximations were made solely for on- and off-balance-sheet financial instruments at December 31, 2007 and 2006, no attempt was made to estimate the value of anticipated future business. Furthermore, certain tax implications related to the realization of the unrealized gains and losses could have a substantial impact on these fair value estimates and have not been incorporated into the estimates.

**NOTE 17. Quarterly Financial Data (unaudited)**

The following represents summarized unaudited quarterly financial data of the Company.

	Three Months Ended			
	(in thousands, except per share data)			
	<u>December 31</u>	<u>September 30</u>	<u>June 30</u>	<u>March 31</u>
<b>2007</b>				
Interest income	\$ 3,328	\$ 2,886	\$ 2,391	\$ 1,965
Interest expense	<u>1,649</u>	<u>1,242</u>	<u>903</u>	<u>641</u>
Net interest income	1,679	1,644	1,488	1,324
Provision for loan losses	140	278	239	389
Other expense, net	1,290	1,066	963	880
Provision(benefit) for federal and state income taxes	<u>111</u>	<u>(144)</u>	<u>80</u>	<u>27</u>
Net income	\$ <u><u>138</u></u>	\$ <u><u>444</u></u>	\$ <u><u>206</u></u>	\$ <u><u>28</u></u>
Earnings per share:				
Basic	\$ <u><u>0.03</u></u>	\$ <u><u>0.09</u></u>	\$ <u><u>0.04</u></u>	\$ <u><u>0.01</u></u>
Diluted	\$ <u><u>0.03</u></u>	\$ <u><u>0.09</u></u>	\$ <u><u>0.04</u></u>	\$ <u><u>0.01</u></u>
<b>2006</b>				
Interest income	\$ 1,520	\$ 1,086	\$ 612	\$ N/A
Interest expense	<u>396</u>	<u>149</u>	<u>61</u>	<u>N/A</u>
Net interest income	1,124	937	551	N/A
Provision for loan losses	302	367	197	N/A
Other expense, net	819	667	660	N/A
Provision for income taxes	<u>164</u>	<u>0</u>	<u>0</u>	<u>N/A</u>
Net loss	\$ <u><u>(161)</u></u>	\$ <u><u>(97)</u></u>	\$ <u><u>(306)</u></u>	\$ <u><u>N/A</u></u>
Loss per share:				
Basic	\$ <u><u>(0.03)</u></u>	\$ <u><u>(0.02)</u></u>	\$ <u><u>(0.07)</u></u>	\$ <u><u>N/A</u></u>
Diluted	\$ <u><u>(0.03)</u></u>	\$ <u><u>(0.02)</u></u>	\$ <u><u>(0.07)</u></u>	\$ <u><u>N/A</u></u>

## **Note 18. Recent Accounting Pronouncements**

In September 2006, the Financial Accounting Standards Board (“FASB”) issued Statement of Financial Accounting Standards (SFAS) No. 157, “Fair Value Measurements” which is effective for fiscal years beginning after November 15, 2007 and for interim periods within those years. This statement defines fair value, establishes a framework for measuring fair value and expands the related disclosure requirements. We are currently evaluating the potential impact, if any, of the adoption of SFAS No. 157 on our consolidated financial statements.

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities-Including an amendment of FASB Statement No. 115.” SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value. SFAS No. 159 is effective as of the beginning of an entity’s first fiscal year that begins after November 15, 2007 but earlier adoption is permitted provided the entity also elects to apply the provisions of SFAS No. 157 during the same time period. The Company did not elect early adoption of SFAS No. 159. We are currently evaluating the potential impact, if any, of the adoption of SFAS No. 159 on our consolidated financial statements.

Effective January 1, 2007, the Company adopted the provisions of FASB Interpretation No. 48, “Accounting for Uncertainty in Income Taxes” (FIN 48). The Interpretation provides clarification on accounting for uncertainty in income taxes recognized in an enterprise’s financial statements in accordance with SFAS No. 109, “Accounting for Income Taxes”. The Interpretation 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. As a result of the Company’s evaluation of the implementation of FIN 48, no significant income tax uncertainties were identified.

In May 2007, the FASB issued FASB Staff Position (“FSP”) FIN 48-1 “Definition of Settlement in FASB Interpretation No. 48” (FSP FIN 48-1). FSP FIN 48-1 provides guidance on how to determine whether a tax position is effectively settled for the purpose of recognizing previously unrecognized tax benefits. FSP FIN 48-1 is effective retroactively to January 1, 2007. This interpretation did not have an impact on our consolidated financial position or results of operations.

In March 2007, the FASB ratified Emerging Issues Task Force (“EITF”) Issue No. 06-11, “Accounting for Income Tax Benefits of Dividends on Share-Based Payment Awards.” EITF 06-11 requires companies to recognize the income tax benefit realized from dividends or dividend equivalents that are charged to retained earnings and paid to employees for non-vested equity-classified employee share-based payment awards as an increase to additional paid-in capital. EITF 06-11 is effective for fiscal years beginning after September 15, 2007. The Company does not expect EITF 06-11 will have a material impact on its financial position, results of operations or cash flows.

FASB statement No. 141 (R) “Business Combinations” was issued in December of 2007. This Statement establishes principles and requirements for how the acquirer of a business recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any non-controlling interest in the acquiree. The Statement also provides guidance for recognizing and measuring the goodwill acquired in the business combination and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. The guidance will become effective as of the beginning of a company’s fiscal year beginning after December 15, 2008. This new pronouncement will impact the Company’s accounting for business combinations completed beginning January 1, 2009.

FASB statement No. 160 “Non-controlling Interests in Consolidated Financial Statements—an amendment of ARB No. 51” was issued in December of 2007. This Statement establishes accounting and reporting standards for the non-controlling interest in a subsidiary and for the deconsolidation of a subsidiary. The guidance will become effective as of the beginning of a company’s fiscal year beginning after December 15, 2008. Although it is not expected to have a material impact, the Company is currently evaluating the potential impact the new pronouncement will have on its consolidated financial statements.

Staff Accounting Bulletin No. 110 (SAB 110) amends and replaces Question 6 of Section D.2 of Topic 14, “Share-Based Payment,” of the Staff Accounting Bulletin series. Question 6 of Section D.2 of Topic 14 expresses the views of the staff regarding the use of the “simplified” method in developing an estimate of expected term of “plain

vanilla” share options and allows usage of the “simplified” method for share option grants prior to December 31, 2007. SAB 110 allows public companies which do not have historically sufficient experience to provide a reasonable estimate to continue use of the “simplified” method for estimating the expected term of “plain vanilla” share option grants after December 31, 2007. SAB 110 is effective January 1, 2008. The Company does not expect SAB 110 to have a material impact on its consolidated financial statements.

Staff Accounting Bulletin No. 109 (SAB 109), "Written Loan Commitments Recorded at Fair Value Through Earnings" expresses the views of the staff regarding written loan commitments that are accounted for at fair value through earnings under generally accepted accounting principles. To make the staff's views consistent with current authoritative accounting guidance, the SAB revises and rescinds portions of SAB No. 105, "Application of Accounting Principles to Loan Commitments." Specifically, the SAB revises the Securities and Exchange Commission staff's views on incorporating expected net future cash flows related to loan servicing activities in the fair value measurement of a written loan commitment. The SAB retains the staff's views on incorporating expected net future cash flows related to internally-developed intangible assets in the fair value measurement of a written loan commitment. The staff expects registrants to apply the views in Question 1 of SAB 109 on a prospective basis to derivative loan commitments issued or modified in fiscal quarters beginning after December 15, 2007. The Company does not expect SAB 109 to have a material impact on its financial statements.

## **Report of Independent Registered Public Accounting Firm**

The Board of Directors and Stockholders of  
Bancorp of New Jersey, Inc.

We have audited the consolidated balance sheet of Bancorp of New Jersey, Inc. and subsidiary (the “Company”) as of December 31, 2007 and the related consolidated statements of income, stockholders’ equity, and cash flows for the year then ended. The Company’s management is responsible for these consolidated financial statements. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Bancorp of New Jersey, Inc. and subsidiary as of December 31, 2007 and the consolidated results of their operations and their cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

/s/ Beard Miller Company LLP

Malvern, Pennsylvania  
March 31, 2008

## **Report of Independent Registered Public Accounting Firm**

The Board of Directors and Stockholders of  
Bancorp of New Jersey, Inc.

We have audited the accompanying statement of financial condition of Bancorp of New Jersey, Inc. (formerly Bank of New Jersey) (the “Company”) as of December 31, 2006 and the related statements of operations, stockholders’ equity, and cash flows for the year then ended. These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). 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 the Company as of December 31, 2006 and the results of its operations and its cash flows for the year then ended, in conformity with U.S. generally accepted accounting principles.

/s/ KPMG LLP

Short Hills, New Jersey  
March 2, 2007

## **MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION**

The following discussion and analysis of financial condition and results of operations should be read in conjunction with the Company's consolidated financial statements and the notes thereto included herein. When necessary, reclassifications have been made to prior years' data throughout the following discussion and analysis for purposes of comparability.

In addition to historical information, this discussion and analysis contains forward-looking statements. The forward-looking statements contained herein are subject to certain risks and uncertainties that could cause actual results to differ materially from those projected in the forward-looking statements. Important factors that might cause such a difference include, but are not limited to, those discussed in this section, and also include economic conditions, both in the Company's trade area and nationally, changes in interest rates and monetary policy, the continued viability of the Company's customers and a variety of other matters, most, if not at all of which, are beyond the Company's control. Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect management's analysis only as of the date of the report. The Company undertakes no obligation to publicly revise or update these forward-looking statements to reflect events and circumstances that arise after such date, except as may be required by applicable law or regulation.

### **OVERVIEW AND STRATEGY**

Our Bank charter was approved in April 2006 and the Bank opened for business on May 10, 2006. On July 31, 2007, the Company became the bank holding company of the Bank pursuant to a plan of acquisition that was approved by the boards of directors of the Company and the Bank and adopted by the shareholders of the Bank at a special meeting held July 19, 2007. We currently operate a 4 branch network. Our main office is located at 1365 Palisade Avenue, Fort Lee, NJ 07024 and three additional offices located at 204 Main Street, Fort Lee, NJ 07024, 401 Hackensack Avenue, Hackensack, NJ 07601, and 458 West Street, Fort Lee, NJ 07024. All current branches are located in Bergen County, NJ.

We conduct a traditional commercial banking business, accepting deposits from the general public, including individuals, businesses, non-profit organizations, and governmental units. We make commercial loans, consumer loans, and both residential and commercial real estate loans. In addition, we provide other customer services and make investments in securities, as permitted by law. We have sought to offer an alternative, community-oriented style of banking in an area, which is presently dominated by larger, statewide and national institutions. Our focus is on establishing and retaining customer relationships by offering a broad range of traditional financial services and products, competitively-priced and delivered in a responsive manner to small businesses, professionals and individuals in the local market. As a locally owned and operated community bank, we believe we can provide superior customer service that is highly personalized, efficient and responsive to local needs. To better serve our customers and expand our market reach, we provide for the delivery of certain financial products and services to local customers and a broader market through the use of mail, telephone and internet banking. We endeavor to deliver these products and services with the care and professionalism expected of a community bank and with a special dedication to personalized customer service.

Our specific objectives are:

- To provide local businesses, professionals, and individuals with banking services responsive to and determined by the local market;
- Direct access to Bank management by members of the community, whether during or after business hours;
- To attract deposits and loans by competitive pricing; and
- To provide a reasonable return to shareholders on capital invested.

## **Critical Accounting Policies and Judgments**

Our financial statements are prepared based on the application of certain accounting policies, the most significant of which are described in Note 1 “Summary of Significant Accounting Policies” in the Notes to the Financial Statements. Certain of these policies require numerous estimates and strategic or economic assumptions that may prove inaccurate or subject to variation and may significantly affect our reported results and financial position for the period or in future periods. The use of estimates, assumptions, and judgments are necessary when financial assets and liabilities are required to be recorded at, or adjusted to reflect, fair value. Assets carried at fair value inherently result in more financial statement volatility. Fair values and information used to record valuation adjustments for certain assets and liabilities are based on either quoted market prices or are provided by other independent third-party sources, when available. When such information is not available, management estimates valuation adjustments. Changes in underlying factors, assumptions, or estimates in any of these areas could have a material impact on our future financial condition and results of operations.

### *Allowance for Loan Losses*

The allowance for loan losses, sometimes referred to as the “ALLL,” is established through periodic charges to income. Loan losses are charged against the ALLL when management believes that the future collection of principal is unlikely. Subsequent recoveries, if any, are credited to the ALLL. If the ALLL is considered inadequate to absorb future loan losses on existing loans, based on, but not limited to, increases in the size of the loan portfolio, increases in charge-offs or changes in the risk characteristics of the loan portfolio, then the provision for loan losses is increased.

At December 31, 2007, we consider the ALLL of \$1,912 thousand adequate to cover potential losses inherent in the loan portfolio that may become uncollectible. Our evaluation considers such factors as changes in the composition and volume of the loan portfolio, the impact of changing economic conditions on the credit worthiness of our borrowers, and the overall quality of the loan portfolio. For further discussion, see “Provision for Loan Losses”, “Loan Portfolio”, “Loan Quality”, and “Allowance for Loan Losses” sections below in this discussion and analysis, as well as Note 1-Summary of Significant Accounting Policies and Note 3-Loans and Allowance for Loan Losses in the Notes to Financial Statements included in Part II, Item 8 of this annual report.

### *Deferred Tax Assets and Valuation Allowance*

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply in the period in which the deferred tax asset or liability is expected to be settled or realized. The effect on deferred taxes of a change in tax rates is recognized in income in the period in which the change occurs. Deferred tax assets are reduced, through a valuation allowance, if necessary, by the amount of such benefits that are not expected to be realized based on current available evidence. During 2006, we recorded a valuation allowance against the state deferred tax asset and a portion of the Federal deferred tax asset. During 2007, as a result of our sustained profitability, we reversed the valuation allowance as we had sufficient evidence that we would, more likely than not, realize our asset.

### *Impairment of Assets*

Loans are considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect all amounts due according to contractual terms of the loan agreement. The collection of all amounts due according to contractual terms means both the contractual interest and principal payments of a loan will be collected as scheduled in the loan agreement. Impaired loans are measured based on the present value of expected future cash flows discounted at the loan’s effective interest rate, or, as a practical expedient, at the loan’s observable market price, or the fair value of the underlying collateral. The fair value of collateral, reduced by costs to sell on a discounted basis, is used if a loan is collateral dependent. Conforming one-to-four family residential mortgage loans, home equity and second mortgages, and consumer loans are pooled together as homogeneous loans

and, accordingly, are not covered by Statement of Financial Accounting Standards (SFAS) No.114 "Accounting by Creditors for Impairment of a Loan." At this time, we do not have any impaired loans.

#### *Investments Securities Impairment*

Periodically, we may need to assess whether there have been any events or economic circumstances to indicate that a security on which there is an unrealized loss is impaired on an other-than-temporary basis. In any such instance, we would consider many factors including the severity and duration of the impairment, our intent and ability to hold the security for a period of time sufficient for a recovery in value, recent events specific to the issuer or industry, and for debt securities, external credit ratings and recent downgrades. Securities on which there is an unrealized loss that is deemed to be other-than-temporary are written down to fair value with the write-down recorded as a realized loss in securities gains (losses). At this time, we do not have any impaired securities.

### **RESULTS OF OPERATIONS - 2007 versus 2006**

The Company's results of operations depend primarily on its net interest income, which is the difference between the interest earned on its interest-earning assets and the interest paid on funds borrowed to support those assets, primarily deposits. Net interest margin is the difference between the weighted average rate received on interest-earning assets and the weighted average rate paid on interest-bearing liabilities, as well as the average level of interest-earning assets as compared with that of interest-bearing liabilities. Net income is also affected by the amount of non-interest income and other operating expenses.

#### **NET INCOME**

For the year ended December 31, 2007, net income increased by \$1,380,000, to \$816,000 from a net loss of \$564 thousand for the year ended December 31, 2006. The increase in net income for the year ended December 31, 2007 compared to 2006 was directly attributable to the interest income earned as result of a full twelve months of operations which included an increase in total loans of over \$100 million and an increase in Federal Funds Sold of over \$50 million. The increased net income also resulted from a \$282 thousand adjustment to reverse the valuation allowance previously recorded on our net deferred tax asset.

On a per share basis, basic earnings per share for the year ended December 31, 2007 were \$0.17 as compared to basic loss per share of \$0.12 for the year ended December 31, 2006. All share data has been restated to reflect all stock dividends and stock splits through the December 31, 2007 stock split.

#### **Analysis of Net Interest Income**

Net interest income represents the difference between income on interest-earning assets and expense on interest-bearing liabilities. Net interest income depends upon the volume of interest-earning assets and interest bearing liabilities and the interest rate paid on them. For the year ended December 31, 2007, net interest income increased by \$3.1 million or 100.0%, to \$6,155,000 from \$3,078,000 for the year ended December 31, 2006. This increase in net interest income is primarily the result of a 127.5% increase in total loans during the period. Total loans reached \$183.5 million at December 31, 2007 from \$80.6 million at December 31, 2006.

#### **Average Balance Sheets**

We commenced banking operations on May 10, 2006. The following table sets forth certain information relating to our average assets and liabilities for the year ended December 31, 2007 and for the period from May 10, 2006 through December 31, 2006, and reflects the average yield on assets and average cost of liabilities for the period indicated. Such yields are derived by dividing income or expense, on a tax-equivalent basis, by the average balance of assets or liabilities, respectively, for the periods shown. Securities available for sale are reflected in the following table at amortized cost. Non-accrual loans are included in the average loan balance. Amounts have been computed on a fully tax-equivalent basis, assuming a blended tax rate of 42% in 2007 and 2006, respectively.

**For the year ended December 31, 2007**

**May 10, 2006 through December 31, 2006**

(Dollars in thousands)

	Average Balance	Interest	Average Yield/Cost	Average Balance	Interest	Average Yield/Cost
<b>ASSETS :</b>						
Interest-Earning Assets:						
Loans	\$139,546	\$ 10,111	7.24%	\$ 43,971	\$ 1,983	6.77%
Securities	5,249	264	5.03	7,915	260	4.99
Federal Funds Sold	4,072	199	4.89	21,752	818	5.64
Interest-earning cash accounts	1,038	16	1.54	-	0	0.00
Total Interest-earning Assets	<u>149,905</u>	<u>10,590</u>	7.06%	<u>73,638</u>	<u>3,061</u>	6.26%
Non-interest earning Assets	12,297			5,011		
Allowance for Loan Losses	<u>(1,863)</u>			<u>(486)</u>		
<b>TOTAL ASSETS</b>	<u><b>\$160,339</b></u>			<u><b>\$78,163</b></u>		
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>						
Interest-Bearing Liabilities :						
Demand Deposits	\$ 7,447	\$ 194	2.61%	\$ 3,910	\$ 60	2.30%
Savings Deposits	2,569	13	0.51	930	5	0.81
Money Market Deposits	38,781	1,757	4.53	16,216	422	3.89
Time Deposits	41,114	2,132	5.18	3,360	77	3.44
Short Term Borrowings	6,432	339	5.27	0	0	0.00
Total Interest-Bearing Liabilities	<u>96,343</u>	<u>4,435</u>	4.60%	<u>24,416</u>	<u>564</u>	3.46%
Non-Interest Bearing Liabilities:						
Demand Deposits	18,920			10,384		
Other Liabilities	<u>1,031</u>			<u>164</u>		
Total Non-Interest Bearing Liabilities	19,951			10,548		
Stockholders' Equity	<u>44,045</u>			<u>43,199</u>		
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<u><b>\$160,339</b></u>			<u><b>\$78,163</b></u>		
Net Interest Income (Tax Equivalent Basis)						
		\$ 6,155			\$2,497	
Tax Equivalent Basis adjustment		<u>0</u>			<u>0</u>	
Net Interest Income		<u>\$ 6,155</u>			<u>\$2,497</u>	
Net Interest Rate Spread			<u>2.46%</u>			<u>2.80%</u>
Net Interest Margin			<u>4.10%</u>			<u>3.39%</u>
Ratio of Interest-Earning Assets to Interest-Bearing Liabilities	<u>1.56</u>			<u>3.02</u>		

**Rate/Volume Analysis**

The following table presents, by category, the major factors that contributed to the changes in net interest income on a tax equivalent basis for the year ended December 31, 2007. (The analysis for the year ended December 31, 2006 is not presented as the Bank was a development stage organization during 2005 and did not record any income from bank related operations.)

	Year Ended December 31, 2007 versus 2006		
	Increase (Decrease) due to change in Average		
	<u>Volume</u>	<u>Rate</u>	<u>Net</u>
Interest Income :			
Loans	\$ 7,472	\$ 656	\$ 8,128
Securities	2	2	4
Fed Funds Sold	(589)	(30)	(619)
Interest earning cash accounts	<u>16</u>	<u>0</u>	<u>16</u>
Total Interest Income	<u>6,901</u>	<u>628</u>	<u>7,529</u>
Interest Expense :			
Demand Deposits	111	23	134
Savings Deposits	15	(7)	8
Money Market Deposits	1,088	248	1,336
Time Deposits	1,339	715	2,054
Short Term Borrowings	<u>339</u>	<u>0</u>	<u>339</u>
Total Interest Expense	<u>2,892</u>	<u>979</u>	<u>3,871</u>
Net change in Interest Income	<u>\$ 4,009</u>	<u>\$ (351)</u>	<u>\$ 3,658</u>

**PROVISION FOR LOAN LOSSES**

For the year ended December 31, 2007, the Company's provision for loan losses was \$1,046,000, an increase of \$180,000 from the provision of \$866,000 for the year ended December 31, 2006. The increased provision is primarily the result of the growth of the loan portfolio, which experienced an increase of 127.5% from \$80.6 million at December 31, 2006 to \$183.5 million at December 31, 2007.

**OTHER INCOME**

Other income, which was primarily attributable to service fees received from deposit accounts, for the year ended December 31, 2007, was \$144,000, an increase of \$129,000 above the \$15,000 received during the year ended December 31, 2006. The increase in other income reflects the combination of an increase in the number of accounts, an increase average deposit levels, and the level of activity in the deposit accounts.

**OTHER EXPENSES**

Other expenses for the year ended December 31, 2007 amounted to \$4,363,000, an increase of \$1,736,000 or 66.1% over the \$2,627,000 for the year ended December 31, 2006. This increase is related, primarily, to opening and

staffing of three new branches, data processing costs associated with the Company's growth during 2007, as well as the effect of a full twelve months of operation during 2007.

### **INCOME TAX EXPENSE**

The income tax provision, which includes both federal and state taxes, for the years ended December 31, 2007 and 2006 was \$74,000 and \$164,000, respectively. The decrease in income tax expense is a result of an adjustment to reverse the valuation allowance previously recorded on our net deferred tax asset.

### **FINANCIAL CONDITION**

Total consolidated assets increased \$154.2 million, or 145.4%, from \$106.0 million at December 31, 2006 to \$260.2 million at December 31, 2007. Total loans increased from \$80.6 million at December 31, 2006 to \$183.5 million at December 31, 2007, an increase of 127.5%. Total deposits increased from \$61.9 million on December 31, 2006 to \$212.9 million at December 31, 2007, an increase of \$151 million, or 244.2%.

### **LOANS**

Our loan portfolio is the primary component of our assets. Total loans increased by 127.5% since year end to reach \$183.5 million at December 31, 2007. At December 31, 2006, our total loans, excluding net deferred fees and costs and the allowance for loan losses, were approximately \$80.6 million, all of which were originated during 2006. This growth in the loan portfolio continues to be primarily attributable to recommendations and referrals from members of our board of directors, our shareholders, our executive officers, and selective marketing by our management and staff. We believe that we will continue to have opportunities for loan growth within the Bergen County market of northern New Jersey, due in part, to consolidation of banking institutions within our market. We believe that it is not cost-efficient for large institutions, many of which are headquartered out of state, to provide the level of personal service to small business borrowers that these customers seek and that we intend to provide.

Our loan portfolio consists of commercial loans, real estate loans, and consumer loans. Commercial loans are made for the purpose of providing working capital, financing the purchase of equipment or inventory, as well as for other business purposes. Real estate loans consist of loans secured by commercial or residential real property and loans for the construction of commercial or residential property. Consumer loans are made for the purpose of financing the purchase of consumer goods, home improvements, and other personal needs, and are generally secured by the personal property being owned or being purchased.

Our loans are primarily to businesses and individuals located in Bergen County, New Jersey. We have not made loans to borrowers outside of the United States. We have not made any sub-prime loans. Commercial lending activities are focused primarily on lending to small business borrowers. We believe that our strategy of customer service, competitive rate structures, and selective marketing have enabled us to gain market entry to local loans. Furthermore, we believe that bank mergers and lending restrictions at larger financial institutions with which we compete have also contributed to the success of our efforts to attract borrowers.

The following table sets forth the classification of the Company's loans by major category as of December 31, 2007 and 2006, respectively (in thousands):

	<b>December 31,</b>	
	<b>2007</b>	<b>2006</b>
Real Estate	\$123,335	\$ 50,787
Commercial	27,056	14,678
Credit Lines	28,133	13,519
Consumer	4,936	1,654
Total Loans	<u>\$183,460</u>	<u>\$ 80,638</u>

The following table sets forth the maturity of fixed and adjustable rate loans as of December 31, 2007 (in thousands):

	Within One Year	1 to 5 Years	After 5 Years	Total
<b>Loans with Fixed Rate</b>				
Commercial	2,354	4,698	2,383	\$ 9,435
Real Estate	2,135	185	44,310	46,630
Credit Lines	428	-	-	428
Consumer	1,207	1,290	2,044	4,541
<b>Loans with Adjustable Rate</b>				
Commercial	14,325	3,296	-	\$ 17,621
Real Estate	32,984	208	43,513	76,705
Credit Lines	106	-	27,599	27,705
Consumer	353	-	42	395

## **LOAN QUALITY**

As mentioned above, our principal assets are our loans. Inherent in the lending function is the risk of the borrower's inability to repay a loan under its existing terms. Risk elements include non-accrual loans, past due and restructured loans, potential problem loans, loan concentrations, and other real estate owned.

Non-performing assets include loans that are not accruing interest (non-accrual loans) as a result of principal or interest being in default for a period of 90 days or more and accruing loans that are 90 days past due. When a loan is classified as non-accrual, interest accruals discontinue and all past due interest, including interest applicable to prior years, is reversed and charged against current income. Until the loan becomes current, any payments received from the borrower are applied to outstanding principal until such time as management determines that the financial condition of the borrower and other factors merit recognition of such payments of interest.

We attempt to minimize overall credit risk through loan diversification and our loan approval procedures. Due diligence begins at the time we begin to discuss the origination of a loan with a borrower. Documentation, including a borrower's credit history, materials establishing the value and liquidity of potential collateral, the purpose of the loan, the source and timing of the repayment of the loan, and other factors are analyzed before a loan is submitted for approval. Loans made are also subject to periodic audit and review.

At December 31, 2007 and 2006, respectively, we had no non-performing assets and no information about possible credit problems of borrowers which would cause us to have serious doubts as to the ultimate ability to collect their loans. While we do attempt to minimize credit risk, these conditions are partially attributable to our limited operating history.

As of December 31, 2007 and 2006, respectively, there were no concentrations of loans exceeding 10% of the Bank's total loans and the Bank had no foreign loans. The Bank's loans are primarily to businesses and individuals located in Bergen County, New Jersey.

The Bank maintains an external independent loan review auditor. The loan review auditor performs examinations of a sample of commercial loans after the Bank has extended credit. The loan review auditor also monitors the integrity of our credit risk rating system. This review process is intended to identify adverse developments in individual credits, regardless of payment history. The loan review auditor reports directly to the audit committee of

our Board of Directors and provides the audit committee with reports on asset quality. The loan review audit reports may be presented to our Board of Directors by the audit committee for review, as appropriate.

### ALLOWANCE FOR LOAN LOSSES

The allowance for loan losses represents a critical accounting policy. The allowance is a reserve established through charges to earnings in the form of a provision for loan losses. We maintain an allowance for loan losses which we believe is adequate to provide for probable losses inherent in the loan portfolio. While we apply the methodology discussed below in connection with the establishment of our allowance for loan losses, it is subject to critical judgments on the part of management. Loan losses are charged directly to the allowance when they occur and any recovery is credited to the allowance. Risks within the loan portfolio are analyzed on a continuous basis by our officers, by external independent loan review function, and by our audit committee. A risk system, consisting of multiple grading categories, is utilized as an analytical tool to assess risk and appropriate reserves. In addition to the risk system, management further evaluates risk characteristics of the loan portfolio under current and anticipated economic conditions and considers such factors as the financial condition of the borrower, past and expected loss experience, and other factors which management feels deserve recognition in establishing an appropriate reserve. These estimates are reviewed at least quarterly, and, as adjustments become necessary, they are realized in the periods in which they become known. Additions to the allowance are made by provisions charged to the expense and the allowance is reduced by net-chargeoffs, which are loans judged to be uncollectible, less any recoveries on loans previously charged off. Although management attempts to maintain the allowance at an adequate level, future additions to the allowance may be required due to the growth of our loan portfolio, changes in asset quality, changes in market conditions and other factors. Additionally, various regulatory agencies, primarily the FDIC, periodically review our allowance for loan losses. These agencies may require additional provisions based upon their judgment about information available to them at the time of their examination. Although management uses what it believes to be the best information available, the level of the allowance for loan losses remains an estimate which is subject to significant judgment and short term change.

We commenced banking operations in May, 2006, and our allowance for loan losses totaled \$1,912,000 and \$866,000, respectively, at December 31, 2007 and 2006. This growth of the allowance is primarily due to the growth and composition of the loan portfolio.

The following is an analysis summary of the allowance for loan losses for the periods indicated:

	<u>2007</u>	<u>2006</u>
Balance, January 1	\$ 866	\$ -
Charge-offs		
Commercial	-	-
Real Estate	-	-
Credit Lines	-	-
Consumer	-	-
Total Charge-offs	<u>-</u>	<u>-</u>
Recoveries		
Commercial	-	-
Real Estate	-	-
Credit Lines	-	-
Consumer	-	-
Total Recoveries	<u>-</u>	<u>-</u>
Net charge-offs	-	-
Provision charged to expense	<u>1,046</u>	<u>866</u>
Balance, December 31	<u>\$ 1,912</u>	<u>\$ 866</u>

Ratio of net charge-offs to average loans  
Outstanding

N/A

N/A

The following table sets forth, for each of the Company's major lending areas, the amount and percentage of the Company's allowance for loan losses attributable to such category, and the percentage of total loans represented by such category, as of the periods indicated :

	2007			2006		
	Amount	% of ALL	% of Total Loans	Amount	% of ALL	% of Total Loans
Balance applicable to:						
Real Estate	\$1,373	71.76%	67.23%	\$ 479	55.31%	62.98%
Commercial	241	12.60%	14.75%	197	22.75%	18.20%
Credit Lines	152	7.95%	15.34%	69	7.97%	16.77%
Consumer	5	0.26%	2.68%	25	2.89%	2.05%
Sub-total	1,771	92.63%	100.00%	770	88.92%	100.00%
Unallocated Reserves	141	7.37%		96	11.09%	
<b>TOTAL</b>	<u>\$1,912</u>	<u>100.00%</u>	<u>100.00%</u>	<u>\$ 866</u>	<u>100.00%</u>	<u>100.00%</u>

The allowance for loan losses represents our determination of the amount necessary to bring the ALLL to a level that we consider adequate to reflect the risk of probable losses inherent in our loan portfolio as of the balance sheet date. We evaluate the adequacy of the ALLL by performing periodic, systematic reviews of the loan portfolio. While allocations are made to specific loans and pools of loans, the total allowance is available for any loan losses. Although the ALLL is our best estimate of the inherent loan losses as of the balance sheet date, the process of determining the adequacy of the ALLL is judgmental and subject to changes in external conditions. Accordingly, there can be no assurance that existing levels of the ALLL will ultimately prove adequate to cover actual loan losses. However, we have determined, and believe, that the ALLL is at a level sufficient to cover the inherent loan losses in our loan portfolio as of the balance sheet date.

### INVESTMENT SECURITIES

In addition to our loan portfolio, we maintain an investment portfolio which is available to fund increased loan demand or deposit withdrawals and other liquidity needs, and which provides an additional source of interest income. The portfolio is composed of U.S. Treasury Securities and obligations of U.S. Government Agencies.

Securities are classified as held-to-maturity, referred to as "HTM," trading, or available for sale, referred to as "AFS," at the time of purchase. Securities are classified as held-to-maturity if management intends and we have the ability to hold them to maturity. Such securities are stated at cost, adjusted for unamortized purchase premiums and discounts. Securities which are bought and held principally for the purpose of selling them in the near term are classified as trading securities, which are carried at market value. Realized gains and losses, as well as gains and losses from marking trading securities to market value, are included in trading revenue. We had no trading securities during 2007 or 2006, respectively. Securities not classified as held-to-maturity or trading securities are classified as AFS and are stated at fair value. Unrealized gains and losses on AFS securities are excluded from results of operations, and are reported as a component of accumulated other comprehensive income (loss), which is included in stockholders' equity. Securities classified as AFS include securities that may be sold in response to changes in interest rates, changes in prepayment risks, the need to increase regulatory capital, or other similar requirements.

At December 31, 2007, total securities aggregated \$1,996,000 and were classified as held-to-maturity. At December 31, 2007, the Company held no securities which it classified as available for sale securities or trading securities.

The following table sets forth the carrying value of the Company's security portfolio as of the dates indicated.

	At December 31, (in thousands)			
	2007		2006	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
<b>Available for sale</b>				
U.S. Agency obligations	\$ —	\$ —	\$ 9,560	\$ 9,599
Total available for sale	\$ —	\$ —	\$ 9,560	\$ 9,599
<b>Held to Maturity</b>				
U.S. Treasury obligation	\$ 1,996	\$ 2,014	\$ 1,993	\$ 2,002
Total held to maturity	\$ 1,996	\$ 2,014	\$ 1,993	\$ 2,002
Total Investment Securities	<u>\$ 1,996</u>	<u>\$ 2,014</u>	<u>\$11,553</u>	<u>\$11,601</u>

The following table sets forth as of December 31, 2007 and December 31, 2006, the maturity distribution of the Company's debt investment portfolio:

Maturity of Debt Investment Securities December 31, 2007 (in thousands)			
<i>Securities Held to Maturity</i>			
	Amortized Cost	Fair Value	Weighted Average Yield
Within 1 year	\$ 1,996	\$ 2,014	5.12%
1 to 5 years	—	—	—
Over 5 years	—	—	—
	<u>\$ 1,996</u>	<u>\$ 2,014</u>	

During 2007, the Company sold its entire AFS portfolio in order to fund loan growth and recognized a gain of \$4,000 from the transaction. We did not sell any securities during 2006.

## DEPOSITS

Deposits are our primary source of funds. We experienced a growth of \$151 million, or 244.2%, in deposits from \$61.9 million at December 31, 2006 to \$212.9 million at December 31, 2007. This market penetration was accomplished through the combined effect of a certificate of deposit promotion during December, 2007 and the continued referrals of our board of directors, stockholders, management, and staff. The Company has no foreign deposits, nor are there any material concentrations of deposits.

The following table sets forth the actual amount of various types of deposits for each of the periods indicated :

	December 31, (Dollars in Thousands)			
	2007		2006	
	Amount	Average Yield/Rate	Amount	Average Yield/Rate
Non-interest Bearing Demand	\$ 23,292	-	\$ 10,244	-
Interest Bearing Demand	52,215	4.26%	38,794	3.58%
Savings	3,430	0.51%	1,873	0.81%
Time Deposits	134,004	5.18%	10,956	3.44%
	<u>\$212,941</u>		<u>\$ 61,867</u>	

The Company does not actively solicit short-term deposits of \$100,000 or more because of the liquidity risks posed by such deposits. The following table summarizes the maturity of time deposits of denominations of \$100,000 or more as of December 31, 2007 and 2006, respectively.

	<b>2007</b> (in thousands)
Three months or less	\$ 18,816
Over three months through twelve months	72,859
Over one year through three years	1,026
Over three years	<u>0</u>
Total	<u>\$ 92,701</u>

### RETURN ON EQUITY AND ASSETS

The following table summarizes our return on assets, or net income divided by average total assets, return on equity, or net income divided by average equity, dividend payout ratio, or dividends declared per share divided by net income per share, and equity to assets ratio, or average equity divided by average total assets.

	<u>At or for the year ended</u> <u>December 31,</u>	
	<u>2007</u>	<u>2006</u>
<b>Selected Financial Ratios:</b>		
Return on Average Assets (ROA)	0.51%	(0.72%)
Return on Average Equity (ROE)	1.85%	(1.31%)
Equity to Total Assets at Year-End	17.61%	40.58%
Dividend Payout Ratio	N/A	N/A

### LIQUIDITY

Our liquidity is a measure of our ability to fund loans, withdrawals or maturities of deposits, and other cash outflows in a cost-effective manner. Our principal sources of funds are deposits, scheduled amortization and prepayments of loan principal, maturities of investment securities, and funds provided by operations. While scheduled loan payments and maturing investments are relatively predictable sources of funds, deposit flow and loan prepayments are greatly influenced by general interest rates, economic conditions, and competition. In addition, if warranted, we would be able to borrow funds.

Our total deposits equaled \$212,941,000 and \$61,867,000, respectively, at December 31, 2007 and 2006. The growth in funds provided by deposit inflows during this period coupled with the amount of capital raised has been sufficient to provide for our loan demand.

Through the investment portfolio, we have generally sought to obtain a safe, yet slightly higher yield than would have been available to us as a net seller of overnight federal funds, while still maintaining liquidity. Through our investment portfolio, we also attempt to manage our maturity gap by seeking maturities of investments which coincide as closely as possible with maturities of deposits. Securities available for sale would also be available to provide liquidity for anticipated loan demand and liquidity need, however there were no securities available for sale at December 31, 2007.

Although we were a net seller of federal funds at December 31, 2007, we have a \$12 million overnight line of credit facility available with First Tennessee Bank and a \$10 million overnight line of credit with Atlantic Central Bankers Bank for the purchase of federal funds in the event that temporary liquidity needs arise. Additionally, we were approved as a member of the Federal Home Loan Bank of New York, or "FHLBNY," during November, 2007. The FHLBNY relationship could provide additional sources of liquidity, if required. We believe that our current sources of funds provide adequate liquidity for our current cash flow needs.

### **INTEREST RATE SENSITIVITY ANALYSIS**

We manage our assets and liabilities with the objectives of evaluating the interest-rate risk included in certain balance sheet accounts; determining the level of risk appropriate given our business focus, operating environment, capital and liquidity requirements; establishing prudent asset concentration guidelines; and managing risk consistent with guidelines approved by our board of directors. We seek to reduce the vulnerability of our operations to changes in interest rates and to manage the ratio of interest-rate sensitive assets to interest-rate sensitive liabilities within specified maturities or re-pricing dates. Our actions in this regard are taken under the guidance of the asset/liability committee of our board of directors, or "ALCO." ALCO generally reviews our liquidity, cash flow needs, maturities of investments, deposits and borrowings, and current market conditions and interest rates.

One of the monitoring tools used by ALCO is an analysis of the extent to which assets and liabilities are interest rate sensitive and measures our interest rate sensitivity "gap." An asset or liability is said to be interest rate sensitive within a specific time period if it will mature or re-price within that time period. A gap is considered positive when the amount of interest rate sensitive assets exceeds the amount of interest rate sensitive liabilities. A gap is considered negative when the amount of interest rate sensitive liabilities exceeds the amount of interest rate sensitive assets. Accordingly, during a period of rising rates, a negative gap may result in the yield on assets increasing at a slower rate than the increase in the cost of interest-bearing liabilities, resulting in a decrease in net interest income. Conversely, during a period of falling interest rates, an institution with a negative gap would experience a re-pricing of its assets at a slower rate than its interest-bearing liabilities which, consequently, may result in its net interest income growing.

The following table sets forth the amounts of interest-earning assets and interest-bearing liabilities outstanding at the periods indicated which we anticipated, based upon certain assumptions, will re-price or mature in each of the future time periods presented. Except as noted, the amount of assets and liabilities which re-price or mature during a particular period were determined in accordance with the earlier of the term to re-pricing or the contractual terms of the asset or liability. Because we have no interest bearing liabilities with a maturity greater than five years, we believe that a static gap for the over five year time period reflects an accurate assessment of interest rate risk. Our loan maturity assumptions are based upon actual maturities within the loan portfolio. Equity securities have been included in "Other Assets" as they are not interest rate sensitive. At December 31, 2007, we were within the target gap range established by ALCO.

Cumulative Rate Sensitive Balance Sheet  
December 31, 2007  
(in thousands)

	<u>0 - 3</u> <u>Months</u>	<u>0 - 6</u> <u>Months</u>	<u>0 - 1</u> <u>Year</u>	<u>0 - 5</u> <u>Years</u>	<u>5 + Years</u>	<u>All Others</u>	<u>TOTAL</u>
Securities, excluding equity securities	\$-	\$1,996	\$1,996	\$1,996	\$-	\$-	\$1,996
Loans :							
Commercial	19,639	19,727	19,975	24,673	2,383	-	27,056
Real Estate	33,045	33,045	34,130	78,285	5,322	39,728	123,335
Credit Lines	25,826	28,133	28,133	28,133	-	-	28,133
Consumer	1,228	1,228	1,603	2,893	489	1,554	4,936
Federal Funds Sold	57,091	57,091	57,091	57,091	-	-	57,091
Other Assets	-	-	-	-	-	17,698	17,705
<b>TOTAL ASSETS</b>	<b><u>\$136,829</u></b>	<b><u>\$141,220</u></b>	<b><u>\$142,928</u></b>	<b><u>\$193,071</u></b>	<b><u>\$8,194</u></b>	<b><u>\$58,980</u></b>	<b><u>\$260,245</u></b>
Transaction /							
Demand Accounts	\$5,788	\$5,788	\$5,788	\$5,788	\$-	\$-	\$5,788
Money Market	46,427	46,427	46,427	46,427	-	-	46,427
Savings	3,430	3,430	3,430	3,430	-	-	3,430
Time Deposits	20,408	49,042	132,883	134,004	-	-	134,004
Other Liabilities	-	-	-	-	-	24,756	24,756
Equity	-	-	-	-	-	45,840	45,840
<b>TOTAL LIABILITIES AND EQUITY</b>	<b><u>\$76,053</u></b>	<b><u>\$104,687</u></b>	<b><u>\$188,528</u></b>	<b><u>\$189,649</u></b>	<b><u>\$-</u></b>	<b><u>\$70,596</u></b>	<b><u>\$260,245</u></b>
Dollar Gap	\$60,776	\$36,533	\$(45,600)	\$ 3,415	\$-		
Gap / Total Assets	23.35%	14.04%	(17.52%)	1.31%			
Target Gap Range	+/- <b>35.00</b>	+/- <b>30.00</b>	+/- <b>25.00</b>	+/- <b>25.00</b>			
RSA / RSL	179.91%	134.90%	75.81%	101.80%			

### MARKET RISK

Market risk is the risk of loss from adverse changes in market prices and rates. Our market risk arises primarily from interest rate risk inherent in our lending and deposit taking activities. Thus, we actively monitor and manage our interest rate risk exposure.

Our profitability is affected by fluctuations in interest rates. A sudden and substantial increase in interest rates may adversely impact our earnings to the extent that the interest rates borne by assets and liabilities do not change at the same speed, to the same extent, or on the same basis. We monitor the impact of changing interest rates on our net interest income using several tools. One measure of our exposure to differential changes in interest rates between assets and liabilities is shown in our "Cumulative Rate Sensitive Balance Sheet" under the "Interest Rate Sensitivity Analysis" caption in this discussion and analysis. As we mature, we will also perform a periodic "shock analysis" to evaluate the effect of interest rates upon our operations and our financial condition.

Our primary objective in managing interest rate risk is to minimize the adverse impact of changes in interest rates on our net interest income and capital, while structuring our asset-liability structure to obtain the maximum yield-cost spread on that structure. We rely primarily on our asset-liability structure to control interest rate risk.

We continually evaluate interest rate risk management opportunities. During 2007 we believed that available hedging instruments were not cost-effective, and therefore, focused our efforts on increasing our yield-cost spread through retail growth opportunities.

The following table discloses our financial instruments that are sensitive to change in interest rates, categorized by expected maturity at December 31, 2007. Market risk sensitive instruments are generally defined as on- and off-balance sheet financial instruments.

Expected Maturity/Principal Repayment December 31, 2007 (Dollars in thousands)									
	<b>Avg. Int. Rate</b>	<b><u>2008</u></b>	<b><u>2009</u></b>	<b><u>2010</u></b>	<b><u>2011</u></b>	<b><u>2012</u></b>	<b><u>There- After</u></b>	<b><u>Total</u></b>	<b><u>Fair Value</u></b>
<i>Interest Rate Sensitive</i>									
<i>Assets:</i>									
Loans.....	7.24%	\$ 53,726	1,141	1,829	4,316	4,992	117,456	\$183,460	\$182,905
Securities available for sale, net of equity securities.....	N/A	-	-	-	-	-	-	-	-
<i>Investment</i>									
Securities.....	5.03%	\$ 1,996	-	-	-	-	-	\$ 1,996	\$ 2,014
Fed Funds Sold.....	4.89%	\$57,091	-	-	-	-	-	\$57,091	\$57,091
Interest-earning Cash.....	1.54%	\$ 543	-	-	-	-	-	\$ 543	\$ 543
<i>Interest Rate Sensitive</i>									
<i>Liabilities :</i>									
Demand Deposits.....	2.61%	\$ 5,788	-	-	-	-	-	\$ 5,788	\$ 5,788
Savings Deposits.....	0.51%	\$ 3,430	-	-	-	-	-	\$ 3,430	\$ 3,430
Money Market Deposits.....	4.53%	\$46,427	-	-	-	-	-	\$46,427	\$46,427
Time Deposits.....	5.18%	\$132,883	922	141	12	46	-	\$134,004	\$133,996

Although certain assets and liabilities may have similar maturities or periods of re-pricing, they may react in different degrees to changes in market interest rates. The maturity of certain types of assets and liabilities may fluctuate in advance of changes in market rates, while maturity of other types of assets and liabilities may lag behind changes in market rates. In the event of a change in interest rates, prepayment and early withdrawal levels could deviate significantly from the maturities assumed in calculating this table.

## CAPITAL

A significant measure of the strength of a financial institution is its capital base. Our federal regulators have classified and defined our capital into the following components: (1) Tier 1 Capital, which includes tangible shareholders' equity for common stock and qualifying preferred stock, and (2) Tier 2 Capital, which includes a portion of the allowance for possible loan losses, certain qualifying long-term debt, and preferred stock which does not qualify for Tier 1 Capital. Minimum capital levels are regulated by risk-based capital adequacy guidelines, which require certain capital as a percent of our assets and certain off-balance sheet items, adjusted for predefined credit risk factors, referred to as "risk-adjusted assets."

We are required to maintain, at a minimum, Tier 1 Capital as a percentage of risk-adjusted assets of 4.0% and combined Tier 1 and Tier 2 Capital, or “Total Capital,” as a percentage of risk-adjusted assets of 8.0%.

In addition to the risk-based guidelines, our regulators require that an institution which meets the regulator’s highest performance and operation standards maintain a minimum leverage ratio (Tier 1 Capital as a percentage of tangible assets) of 3.0%. For those institutions with higher levels of risk or that are experiencing or anticipating significant growth, the minimum leverage ratio will be evaluated through the ongoing regulatory examination process. Due to our limited operating history and the growth of the Bank during 2007, we are currently required to maintain a leverage ratio of 4%.

The following table summarizes the Bank’s risk-based capital and leverage ratios at December 31, 2007, as well as the applicable minimum ratios:

	December 31, 2007 -----	Minimum Regulatory Requirements -----
Risk-Based Capital :		
Tier 1 Capital Ratio	25.06%	4.0%
Total Capital Ratio	26.11%	8.0%
Leverage Ratio	22.27%	4.0%

The capital levels detailed above represent the continued effect of our successful stock subscription, in combination with the profitability experienced during 2007, our first full fiscal year of operations. As we employ our capital and continue to grow our operations, we expect that our capital levels will decrease, but that we will remain a “well-capitalized” institution.

#### CONTRACTUAL OBLIGATIONS

As of December 31, 2007, the Company had the following contractual obligations as provided in the table below (in thousands):

##### Contractual Obligations

	Payment due by Period				Total Amounts Committed
	Less than 1 year	1 to 3 years	4 to 5 years	After 5 years	
Minimum annual rental under Non-cancelable operating leases	416	704	400	3,245	\$ 4,765
Remaining contractual maturities of time deposits.....	132,883	1,063	58		\$134,004
Total Contractual Obligations	<u>\$133,299</u>	<u>1,767</u>	<u>458</u>	<u>3,245</u>	<u>\$138,769</u>

Additionally, the Bank had certain commitments to extend credit to customers. A summary of commitments to extend credit at December 31, 2007 is provided as follows (in thousands):

Commercial real estate, construction, and Land development secured by land.....	\$35,541
Home Equity Loans.....	13,041
Standby letters of credit and other.....	<u>1,103</u>
	<u>\$49,685</u>

#### IMPACT OF INFLATION AND CHANGING PRICES

The consolidated financial statements of the Company and notes thereto, included in Part II, Item 8 of this annual report, have been prepared in accordance with generally accepted accounting principles, which require the measurement of financial position and operating results in terms of historical dollars without considering the change in the relative purchasing power of money over time and due to inflation. The impact of inflation is reflected in the increased cost of our operations. Unlike most industrial companies, nearly all of the assets and liabilities of the Bank are monetary. As a result, interest rates have a greater impact on our performance than do the effects of general levels of inflation. Interest rates do not necessarily move in the same direction or to the same extent as the prices of goods and services.

**RECENTLY ISSUED ACCOUNTING STANDARDS**

Refer to Note 18 of the Notes to Consolidated Financial Statements for discussion of recently issued accounting standards.

## **OUR BUSINESS**

### **General**

The Company is a one-bank holding company incorporated under the laws of the State of New Jersey in November, 2006 to serve as a holding company for Bank of New Jersey. The Company was organized at the direction of the Board of Directors of the Bank for the purpose of acquiring all of the capital stock of the Bank. On July 31, 2007, the Company became the bank holding company of the Bank pursuant to a plan of acquisition that was approved by the boards of directors of the Company and the Bank and adopted by the stockholders of the Bank at a special meeting held July 19, 2007.

Pursuant to the plan of acquisition, the holding company reorganization was affected through a contribution of all of the outstanding shares of Bank's class of common stock to the Company in a one-to-one exchange for shares of the Company's class of common stock. Upon consummation of the reorganization, the Bank became the wholly-owned subsidiary of the Company and all of the former shareholders of the Bank became shareholders of the Company. The Company did not engage in any operations, other than organizational activities, or issue any shares of its class of common stock prior to consummation of the holding company reorganization. The only significant activities of the Company are the ownership and supervision of the Bank.

The Bank is a commercial bank formed under the laws of the State of New Jersey on May 10, 2006. The Bank operates from its main office at 1365 Palisade Avenue, Fort Lee, New Jersey, 07024, and its three branch offices located at 204 Main Street, Fort Lee, New Jersey, 07024, 401 Hackensack Avenue, Hackensack, New Jersey, 07601, and 458 West Street, Fort Lee, New Jersey. All branch locations are in Bergen County, New Jersey.

The Company is subject to the supervision and regulation of the Board of Governors of the Federal Reserve System, referred to as the "FRB." The Bank is supervised and regulated by the Federal Deposit Insurance Corporation, "FDIC," and the New Jersey Department of Banking and Insurance, referred to as the "Department." The Bank's deposits are insured by the FDIC up to applicable limits. The operation of the Company and the Bank are subject to the supervision and regulation of the FRB, FDIC, and the Department. The principal executive offices of the Bank are located at 1365 Palisade Avenue, Fort Lee, NJ, 07024 and the telephone number is (201) 944-8600.

### **Business of the Company**

The Company's primary business is ownership and supervision of the Bank. The Company, through the Bank, conducts a traditional commercial banking business, accepting deposits from the general public, including individuals, businesses, non-profit organizations, and governmental units. The Bank makes commercial loans, consumer loans, and both residential and commercial real estate loans. In addition, the Bank provides other customer services and makes investments in securities, as permitted by law. The Bank has sought to offer an alternative, community-oriented style of banking in an area, which is presently dominated by larger, statewide and national institutions. Our goal is to establish and retain customer relationships by offering a broad range of traditional financial services and products, competitively-priced and delivered in a responsive manner to small businesses, professionals, and individuals in the local market. As a locally owned and operated community bank, the Bank seeks to provide superior customer service that is highly personalized, efficient, and responsive to local needs. To better serve our customers and expand our market reach, we provide for the delivery of certain of our financial products and services to local customers and to a broader market through the use of mail, telephone, and internet banking. The Bank strives to deliver these products and services with the care and professionalism expected of a community bank and with a special dedication to personalized customer service.

The specific objectives of the Bank are:

- To provide local businesses, professionals, and individuals with banking services responsive to and determined by the local market;
- Direct access to Bank management by members of the community, whether during or after business hours;
- To attract deposits and loans by competitive pricing; and
- To provide a reasonable return to shareholders on capital invested.

**Market Area**

The principal market for deposit gathering and lending activities lies within Bergen County in New Jersey. The market is dominated by offices of large statewide and interstate banking institutions. Our service and timely response to customer needs is expected to fill a niche that has risen due to a loss of local institutions. Additionally, the market area has a relatively large affluent base for our services and a diversified mix of commercial businesses and residential neighborhoods. In order to meet the demands of this market, the Company operates its main office in Fort Lee, New Jersey and three branch offices, two in Fort Lee and one in Hackensack, all in Bergen County, New Jersey.

**Extended Hours**

The Bank provides convenient full-service banking from 7:00 am to 7:00 pm weekdays and 9:00 am to 1:00 pm on Saturday.

**Competition**

The banking business is highly competitive, and the profitability of the Company depends upon the Bank's ability to compete in its market area. The Bank faces considerable competition in its market area for deposits and loans from other depository institutions. The Bank faces competition in attracting and retaining deposit and loan customers, and with respect to the terms and conditions it offers on its deposit and loan products. Many of its competitors have greater financial resources, broader geographic markets, and greater name recognition, and are able to provide more services and finance wide-ranging advertising campaigns.

The Bank competes with local, regional, and national commercial banks, savings banks, and savings and loan associations. The Bank also competes with money market mutual funds, mortgage bankers, insurance companies, stock brokerage firms, regulated small loan companies, credit unions, and issuers of commercial paper and other securities.

**Concentration**

The Company is not dependent for deposits or exposed by loan concentrations to a single customer or a small group of customers the loss of any one or more of which would have a material adverse effect upon the financial condition of the Company.

**Employees**

At December 31, 2007, the Company employed thirty full-time equivalent employees. None of these employees is covered by a collective bargaining agreement. The Company believes its relations with employees to be good.

**Supervision and Regulation**

The Company and the Bank are each extensively regulated under both federal and state law. These laws restrict permissible activities and investments and require compliance with various consumer protection provisions applicable to lending, deposit, brokerage and fiduciary activities. They also impose capital adequacy requirements and restrict the Company's ability to repurchase stock or to receive dividends from the Bank. The Company and the Bank are also subject to comprehensive examination and supervision by the Board of Governors of the Federal Reserve System ("FRB") and the FDIC. These regulatory agencies generally have broad discretion to impose restrictions and limitations on the operations of the Company and the Bank. This supervisory framework could materially impact the conduct and profitability of the Company's activities.

Various legislation and regulations, ranging from consumer protection legislation to additional legislation proposing to substantially change the financial institutions regulatory system, are considered by the U.S. Congress, the New Jersey State Legislature and federal and state authorities from time to time. Future legislation and regulation may change our regulatory and operating environment in substantial and unpredictable ways. We cannot predict whether any legislation or regulation will be enacted that would have a material effect upon our business.

## MARKET PRICE OF AND DIVIDENDS ON COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

### Market Information

Our common stock is not listed for quotation on any exchange or market system and there is no established public trading market for our common stock. However, there have been a limited number of trades of our common stock since our initial offering and capitalization. The following table sets forth the high and low prices at which trades of our common stock have occurred during the indicated periods. The prices are adjusted to reflect our ten percent (10%) stock distribution in January 2007 and the 2 for 1 stock split which was effective December 31, 2007.

	<u>High</u>	<u>Low</u>
Year Ended December 31, 2007		
Fourth quarter	\$11.50	\$11.50
Third quarter	11.50	11.50
Second quarter	11.50	11.50
First quarter	11.50	9.09
Year Ended December 31, 2006		
Fourth quarter	\$ 9.09	\$ 9.09
Third quarter	9.09	9.09
Second quarter	9.09	9.09
First quarter	N/A	N/A

### Holders

As of March 15, 2008, there were 1,183 shareholders of record of our common stock.

### Dividends

We have not paid any cash dividends since our inception. The decision to pay, as well as the timing and amount of any dividends to be paid by the Company will be determined by our Board of Directors, giving consideration to our earnings, capital needs, financial condition, and other relevant factors.

Under applicable New Jersey law, the Company will not permitted to pay dividends on its capital stock if, following the payment of the dividend, it would be unable to pay its debts as they become due in the usual course of business, or its total assets would be less than its total liabilities. Further, it is the policy of the FRB that bank holding companies should pay dividends only out of current earnings and only if future retained earnings would be consistent with the holding company's capital, asset quality and financial condition. Because it will have no significant independent sources of income, the ability of the Company to pay dividends will be dependent on its ability to receive dividends from the Bank.

Under the New Jersey Banking Act of 1948, as amended, the Bank may declare and pay dividends only if, after payment of the dividend, the capital stock of the Bank will be unimpaired and either the Bank will have a surplus of not less than 50% of its capital stock or the payment of the dividend will not reduce the Bank's surplus. The FDIC prohibits payment of cash dividends if, as a result, the Bank would be undercapitalized. Further, during the first three years of operation, cash dividends shall only be paid from net operating income, and only after an appropriate allowance for loan losses is established and overall capital is adequate.

**BANCORP OF NEW JERSEY, INC.**

**Directors and Executive Officers**

**Board of Directors**

**Albert F. Buzzetti**  
Chairman of the Board  
President and CEO,  
Bank of New Jersey

**John K. Daily**  
Executive Vice President  
C.A. Shea & Co.

**Josephine Mauro**  
Realtor and Owner,  
Mauro Realty Company

**Michael Bello**  
President,  
Michael Bello Insurance Agency

**Armand Leone, Jr., MD, JD**  
Partner,  
Britcher, Leone and Roth

**Joel P. Paritz, CPA**  
President,  
Paritz & Company, P.A.

**Jay Blau**  
President  
Imperial Sales & Sourcing, Inc.

**Anthony M. Lo Conte**  
President and CEO,  
Anthony L and S, LLC

**Christopher M. Shaari, MD**  
Physician

**Albert L. Buzzetti, Esq.**  
Managing Partner,  
A. Buzzetti and Associates, LLC

**Carmelo Luppino**  
Real Estate Developer

**Anthony Siniscalchi, CPA**  
Partner,  
A. Uzzo & Co., CPAs, P.C.

**Gerald A. Calabrese, Jr.**  
President  
Century 21 Calabrese Realty

**Rosario Luppino**  
Real Estate Developer

**Mark Sokolich, Esq.**  
Managing Partner,  
Sokolich & Macri

**Stephen Crevani**  
President, Aniero Concrete

**Howard Mann**  
President, Carolace Industries

**Diane M. Spinner**  
Executive Vice President and  
Chief Administrative Officer,  
Bank of New Jersey

**Executive Officers**

**Albert F. Buzzetti**  
President and  
Chief Executive Officer

**Michael Lesler**  
Executive Vice President and  
Chief Financial Officer

**Leo J. Faresich**  
Executive Vice President and  
Chief Lending Officer

**Diane M. Spinner**  
Executive Vice President and  
Chief Administrative Officer

## **BANK OF NEW JERSEY**

### **Officers**

**Albert F. Buzzetti**  
President and  
Chief Executive Officer

**Michael Lesler**  
Executive Vice President and  
Chief Financial Officer

**Stephanie A. Caggiano**  
Senior Vice President  
Consumer Lending

**Leo J. Faresich**  
Executive Vice President and  
Chief Lending Officer

**Diane M. Spinner**  
Executive Vice President and  
Chief Administrative Officer

**Ronald M. Urtiaga**  
Senior Vice President  
Commercial Lending

**Anna Maria Alberga**  
Vice President  
Branch Manager – Main Street

**Mary E. Wescott**  
Vice President  
Branch Manager – Hackensack

**Rosemarie Yaverian**  
Vice President  
Branch Manager – Palisade Ave.

**Anthony Petrosino**  
Assistant Vice President  
West Street

**Connie Caltabellatta**  
Corporate Secretary

### **Independent Auditors**

Beard Miller Company, LLP  
1200 Atwater Drive STE 225  
Malvern, PA 19355

### **General Counsel**

Albert L. Buzzetti & Associates  
467 Sylvan Avenue  
Englewood Cliffs, NJ 07632

### **Regulatory Counsel**

Dennis R. Casale, Esq.  
Pepper Hamilton LLP  
STE 400 – 301 Carnegie Center  
Princeton, NJ 08543-5276

### **Registrar and Transfer Agent**

American Stock Transfer  
and Trust Co.  
59 Maiden Lane  
New York, NY 10038

*Bank of New Jersey*  
*Branch Offices*

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(MAIN OFFICE)  
Fort Lee, N.J. 07024  
(201) 944-8600

204 Main Street  
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(201) 944-7200

458 West Street  
Fort Lee, N.J. 07024  
(201) 944-7222

401 Hackensack Avenue  
Hackensack, N.J. 07601  
(201) 968-0008

(LOGO HERE)

Bancorp of New Jersey, Inc.