

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-K

(Mark One)

**Annual Report Pursuant To Section 13 Or 15(D) Of The Securities Exchange Act of 1934**  
For the fiscal ended December 31, 2007.

or

\*  **Transition Report Pursuant To Section 13 Or 15(D) Of The Securities Exchange Act of 1934**  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_.

Commission file number: **000-50275**

**BCB BANCORP, INC.**

(Exact name of registrant as specified in its charter)

**New Jersey**

(State or other jurisdiction of incorporation or organization)

**26-0065262**

(I.R.S. Employer Identification No.)

**104-110 Avenue C, Bayonne, New Jersey**

(Address of principal executive offices)

**07002**

(Zip Code)

Registrant's telephone number, including area code: **(201) 823-0700**

Securities registered pursuant to Section 12(b) of the Act:

| Title of each class            | Name of each exchange on which registered |
|--------------------------------|---|
| Common Stock, \$0.01 par value | The NASDAQ Stock Market, LLC              |

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

YES \*      NO T

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

YES \*      NO T

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES T      NO \*

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.      T

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer \*      Accelerated filer \*      Non-accelerated filer \*      Smaller reporting company T  
(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). YES \*      NO T

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the Registrant, computed by reference to the last sale price on June 30, 2007, as reported by the Nasdaq Capital Market, was approximately \$60.4 million.

As of March 10, 2008, there were issued 5,078,858 shares of the Registrant's Common Stock.

**DOCUMENTS INCORPORATED BY REFERENCE:**

(1) Proxy Statement for the 2008 Annual Meeting of Stockholders of the Registrant (Part III).

(2) Annual Report to Stockholder (Part II and IV).



## TABLE OF CONTENTS

| <u>Item</u> |  | <u>Page Number</u> |
|-------------|--|--------------------|
| ITEM 1.     | BUSINESS   | 1                  |
| ITEM 1A.    | RISK FACTORS   | 26                 |
| ITEM 1B.    | UNRESOLVED STAFF COMMENTS  | 29                 |
| ITEM 2.     | PROPERTIES   | 29                 |
| ITEM 3.     | LEGAL PROCEEDINGS  | 30                 |
| ITEM 4.     | SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS  | 30                 |
| ITEM 5.     | MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES | 30                 |
| ITEM 6.     | SELECTED CONSOLIDATED FINANCIAL DATA   | 33                 |
| ITEM 7.     | MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS                        | 34                 |
| ITEM 7A.    | QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK   | 47                 |
| ITEM 8.     | FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA  | 49                 |
| ITEM 9.     | CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE                         | 49                 |
| ITEM 9A.(T) | CONTROLS AND PROCEDURES  | 49                 |
| ITEM 9B.    | OTHER INFORMATION  | 50                 |
| ITEM 10.    | DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE   | 50                 |
| ITEM 11.    | EXECUTIVE COMPENSATION   | 51                 |
| ITEM 12.    | SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS               | 51                 |
| ITEM 13.    | CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE                                    | 51                 |
| ITEM 14.    | PRINCIPAL ACCOUNTANT FEES AND SERVICES   | 51                 |
| ITEM 15.    | EXHIBITS AND FINANCIAL STATEMENT SCHEDULES   | 51                 |

## PART I

### ITEM 1. BUSINESS

#### BCB Bancorp, Inc.

BCB Bancorp, Inc. (the "Company") is a New Jersey corporation, which on May 1, 2003 became the holding company parent of BCB Community Bank (the "Bank"). The Company has not engaged in any significant business activity other than owning all of the outstanding common stock of BCB Community Bank. Our executive office is located at 104-110 Avenue C, Bayonne, New Jersey 07002. Our telephone number is (201) 823-0700. At December 31, 2007 we had \$563.5 million in consolidated assets, \$398.8 million in deposits and \$48.5 million in consolidated stockholders' equity. The Company is subject to extensive regulation by the Board of Governors of the Federal Reserve System.

#### BCB Community Bank

BCB Community Bank, formerly known as Bayonne Community Bank, was chartered as a New Jersey bank on October 27, 2000, and we opened for business on November 1, 2000. We changed our name from Bayonne Community Bank to BCB Community Bank in April of 2007. We operate through three branches in Bayonne and Hoboken, New Jersey and through our executive office located at 104-110 Avenue C, Bayonne, New Jersey 07002. Our deposit accounts are insured by the Federal Deposit Insurance Corporation and we are a member of the Federal Home Loan Bank System.

We are a community-oriented financial institution. Our business is to offer FDIC-insured deposit products and invest funds held in deposit accounts at the Bank, together with funds generated from operations, in investment securities and loans. We offer our customers:

- loans, including commercial and multi-family real estate loans, one- to four-family mortgage loans, home equity loans, construction loans, consumer loans and commercial business loans. In recent years the primary growth in our loan portfolio has been in loans secured by commercial real estate and multi-family properties;
- FDIC-insured deposit products, including savings and club accounts, non-interest bearing accounts, money market accounts, certificates of deposit and individual retirement accounts; and
- retail and commercial banking services including wire transfers, money orders, traveler's checks, safe deposit boxes, a night depository, federal payroll tax deposits, bond coupon redemption and automated teller services.

#### Business Strategy

Our business strategy is to operate as a well-capitalized, profitable and independent community-oriented financial institution dedicated to providing quality customer service. Managements' and the Board of Directors' extensive knowledge of the Hudson County market differentiates us from our competitors. Our business strategy incorporates the following elements: maintaining a community focus, focusing on profitability, continuing our growth,

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concentrating on real estate based lending, capitalizing on market dynamics, providing attentive and personalized service and attracting highly qualified and experienced personnel.

*Maintaining a community focus.* Our management and Board of Directors have strong ties to the Bayonne community. Many members of the management team are Bayonne natives and are active in the community through non-profit board membership, local business development organizations, and industry associations. In addition, our board members are well established professionals and business people in the Bayonne area. Management and the Board are interested in making a lasting contribution to the Bayonne community and have succeeded in attracting deposits and loans through attentive and personalized service.

*Focusing on profitability.* On an operational basis, we achieved profitability in our tenth month of operation. For the year ended December 31, 2007, our return on average equity was 8.86% and our return on average assets was 0.83%. Our earnings per diluted share increased from \$0.64 for the year ended December 31, 2003 to \$0.90 for the year ended December 31, 2007. We achieved this earnings growth by focusing on low-cost deposits and by tightly controlling our non-interest expenses. Management is committed to maintaining profitability by diversifying the services we offer.

*Continuing our growth.* We have consistently increased our assets. From December 31, 2003 to December 31, 2007, our assets have increased from \$300.7 million to \$563.5 million. Over the same time period, our loan balances have increased from \$188.8 million to \$364.7 million, while deposits have increased from \$253.7 million to \$398.8 million. In addition, we have maintained our asset quality ratios while growing the loan portfolio. At December 31, 2007, our non-performing assets to total assets ratio was 0.81%.

*Concentrating on real estate-based lending.* A primary focus of our business strategy is to originate loans secured by commercial and multi-family properties. Such loans provide higher returns than loans secured by one- to four-family real estate. As a result of our underwriting practices, including debt service requirements for commercial real estate and multi-family loans, management believes that such loans offer us an opportunity to obtain higher returns.

*Capitalizing on market dynamics.* The consolidation of the banking industry in Hudson County has created the need for a customer focused banking institution. This consolidation has moved decision making away from local, community-based banks to much larger banks headquartered outside of New Jersey.

*Providing attentive and personalized service.* Management believes that providing attentive and personalized service is the key to gaining deposit and loan relationships in Bayonne and its surrounding communities. Since we began operations, our branches have been open 7 days a week.

*Attracting highly experienced and qualified personnel.* An important part of our strategy is to hire bankers who have prior experience in the Hudson County market as well as pre-existing business relationships. Our management team has an average of 29 years of banking experience, while our lenders and branch personnel have significant prior experience at community banks and regional banks in Hudson County. Management believes that its knowledge of the Hudson County market has been a critical element in the success of BCB Community Bank. Management's extensive knowledge of the local communities has allowed us to develop and

implement a highly focused and disciplined approach to lending and has enabled the Bank to attract a high percentage of low cost deposits.

### **Our Market Area**

We are located in the City of Bayonne and Hoboken, Hudson County, New Jersey. The Bank's locations are easily accessible to provide convenient services to businesses and individuals throughout our market area.

Our market area includes the City of Bayonne, Jersey City and portions of Hoboken, New Jersey. These areas are all considered "bedroom" or "commuter" communities to Manhattan. Our market area is well-served by a network of arterial roadways including Route 440 and the New Jersey Turnpike.

Our market area has a high level of commercial business activity. Businesses are concentrated in the service sector and retail trade areas. Major employers in our market area include Bayonne Medical Center and the Bayonne Board of Education.

### **Competition**

The banking business in New Jersey is extremely competitive. We compete for deposits and loans with existing New Jersey and out-of-state financial institutions that have longer operating histories, larger capital reserves and more established customer bases. Our competition includes large financial service companies and other entities in addition to traditional banking institutions such as savings and loan associations, savings banks, commercial banks and credit unions.

Our larger competitors have a greater ability to finance wide-ranging advertising campaigns through their greater capital resources. Our marketing efforts depend heavily upon referrals from officers, directors, stockholders, selective advertising in local media and direct mail solicitations. We compete for business principally on the basis of personal service to customers, customer access to our officers and directors and competitive interest rates and fees.

In the financial services industry in recent years, intense market demands, technological and regulatory changes and economic pressures have eroded industry classifications that were once clearly defined. Banks have diversified their services, increased rates paid on deposits and become more cost effective as a result of competition with one another and with new types of financial service companies, including non-banking competitors. Some of the results of these market dynamics in the financial services industry have been a number of new bank and non-bank competitors, increased merger activity, and increased customer awareness of product and service differences among competitors.

## Lending Activities

*Analysis of Loan Portfolio* . Set forth below is selected data relating to the composition of our loan portfolio by type of loan as a percentage of the respective portfolio.

|                             | At December 31,        |                |                  |                |                  |                |                   |                |                  |                |
|-----------------------------|------------------------|----------------|------------------|----------------|------------------|----------------|-------------------|----------------|------------------|----------------|
|                             | 2007                   |                | 2006             |                | 2005             |                | 2004              |                | 2003             |                |
|                             | <u>Amount</u>          | <u>Percent</u> | <u>Amount</u>    | <u>Percent</u> | <u>Amount</u>    | <u>Percent</u> | <u>Amount</u>     | <u>Percent</u> | <u>Amount</u>    | <u>Percent</u> |
| Type of loans:              | (Dollars in Thousands) |                |                  |                |                  |                |                   |                |                  |                |
| Real estate loans:          |                        |                |                  |                |                  |                |                   |                |                  |                |
| One- to four-family         | \$ 55,248              | 14.96%         | \$ 43,993        | 13.64%         | \$ 34,901        | 12.11%         | \$ 34,855         | 13.98%         | \$ 33,913        | 17.74%         |
| Construction                | 49,984                 | 13.53          | 38,882           | 12.06          | 28,743           | 9.98           | 19,209            | 7.70           | 10,009           | 5.24           |
| Home equity                 | 35,397                 | 9.58           | 32,321           | 10.02          | 24,297           | 8.43           | 20,629            | 8.27           | 16,825           | 8.80           |
| Commercial and multi-family | 208,108                | 56.35          | 192,141          | 59.60          | 185,170          | 64.26          | 158,755           | 63.68          | 115,160          | 60.25          |
| Commercial business         | 19,873                 | 5.38           | 14,705           | 4.56           | 14,578           | 5.06           | 15,123            | 6.07           | 14,048           | 7.35           |
| Consumer                    | 739                    | 0.20           | 396              | 0.12           | 456              | 0.16           | 744               | 0.30           | 1,183            | 0.62           |
| Total                       | <u>369,349</u>         | <u>100.00%</u> | <u>322,438</u>   | <u>100.00%</u> | <u>288,145</u>   | <u>100.00%</u> | <u>249,315</u>    | <u>100.00%</u> | <u>191,138</u>   | <u>100.00%</u> |
| Less:                       |                        |                |                  |                |                  |                |                   |                |                  |                |
| Deferred loan fees, net     | 630                    |                | 575              |                | 604              |                | 429               |                | 239              |                |
| Allowance for loan losses   | 4,065                  |                | 3,733            |                | 3,090            |                | 2,506             |                | 2,113            |                |
| Total loans, net            | <u>\$364,654</u>       |                | <u>\$318,130</u> |                | <u>\$284,451</u> |                | <u>\$ 246,380</u> |                | <u>\$188,786</u> |                |

*Loan Maturities.* The following table sets forth the contractual maturity of our loan portfolio at December 31, 2007. The amount shown represents outstanding principal balances. Demand loans, loans having no stated schedule of repayments and no stated maturity and overdrafts are reported as being due in one year or less. Variable-rate loans are shown as due at the time of repricing. The table does not include prepayments or scheduled principal repayments.

|                             | <u>Due within<br/>1 Year</u> | <u>Due after 1<br/>through<br/>5 Years</u> | <u>Due after<br/>5 Years</u> | <u>Total</u>      |
|-----------------------------|------------------------------|--|------------------------------|-------------------|
|                             | (In Thousands)               |  |                              |                   |
| One- to four-family         | \$ 4,959                     | \$ 3,995                                   | \$ 46,294                    | \$ 55,248         |
| Construction                | 37,312                       | 10,714                                     | 1,958                        | 49,984            |
| Home equity                 | 1,864                        | 4,784                                      | 28,749                       | 35,397            |
| Commercial and multi-family | 16,726                       | 53,030                                     | 138,352                      | 208,108           |
| Commercial business         | 10,911                       | 2,631                                      | 6,331                        | 19,873            |
| Consumer                    | 533                          | 206  | —                            | 739               |
| <b>Total amount due</b>     | <u>\$ 72,305</u>             | <u>\$ 75,360</u>                           | <u>\$ 221,684</u>            | <u>\$ 369,349</u> |

*Loans with Predetermined or Floating or Adjustable Rates of Interest .* The following table sets forth the dollar amount of all loans at December 31, 2007 that are due after December 31, 2008, and have predetermined interest rates and that have floating or adjustable interest rates.

|                             | <u>Fixed Rates</u> | <u>Floating or<br/>Adjustable<br/>Rates</u> | <u>Total</u>      |
|-----------------------------|--------------------|---|-------------------|
|                             | (In Thousands)     |   |                   |
| One- to four-family         | \$ 28,797          | \$ 21,492                                   | \$ 50,289         |
| Construction                | 3,123              | 9,549                                       | 12,672            |
| Home equity                 | 31,032             | 2,501                                       | 33,533            |
| Commercial and multi-family | 39,522             | 151,860                                     | 191,382           |
| Commercial business         | 2,722              | 6,240                                       | 8,962             |
| Consumer                    | 206                | —   | 206               |
| <b>Total amount due</b>     | <u>\$ 105,402</u>  | <u>\$ 191,642</u>                           | <u>\$ 297,044</u> |

*Commercial and Multi-family Real Estate Loans .* Our commercial and multi-family real estate loans are secured by commercial real estate (for example, shopping centers, medical buildings, retail offices) and multi-family residential units, consisting of five or more units. Permanent loans on commercial and multi-family properties are generally originated in amounts up to 75% of the appraised value of the property. Our commercial real estate loans are secured by improved property such as office buildings, retail stores, warehouses, church buildings and other non-residential buildings. Commercial and multi-family real estate loans are generally made at rates that adjust above the five year U.S. Treasury interest rate, with terms of up to 25 years, or are balloon loans with fixed interest rates which generally mature in three to five years with principal amortization for a period of up to 30 years. Our largest commercial loan had a principal balance of \$2.5 million at December 31, 2007, and was secured by a mixed use property comprised of retail and office facilities. Our largest multi-family loan had a principal balance of \$4.4 million at December 31, 2007. Both loans were performing in accordance with their terms on that date.

Loans secured by commercial and multi-family real estate are generally larger and involve a greater degree of risk than one- to four-family residential mortgage loans. The borrower's creditworthiness and the feasibility and cash flow potential of the project is of



primary concern in commercial and multi-family real estate lending. Loans secured by income properties are generally larger and involve greater risks than residential mortgage loans because payments on loans secured by income properties are often dependent on the successful operation or management of the properties. As a result, repayment of such loans may be subject to a greater extent than residential real estate loans to adverse conditions in the real estate market or the economy. We intend to continue emphasizing the origination of loans secured by commercial real estate and multi-family properties.

*One- to Four-Family Lending* . Our one- to four-family residential mortgage loans are secured by property located in the State of New Jersey. We generally originate one- to four-family residential mortgage loans in amounts up to 80% of the lesser of the appraised value or selling price of the mortgaged property without requiring mortgage insurance. We will originate loans with loan to value ratios up to 90% provided the borrowers obtain private mortgage insurance. We originate both fixed rate and adjustable rate loans. One- to four-family loans may have terms of up to 30 years. The majority of one- to four-family loans we originate for retention in our portfolio have terms no greater than 15 years. We offer adjustable rate loans with fixed rate periods of up to five years, with principal and interest calculated using a maximum 30-year amortization period. We offer these loans with a fixed rate for the first five years with repricing following every year after the initial period. Adjustable rate loans may adjust up to 200 basis points annually and 600 basis points over the term of the loan. We also broker for a third party lender one- to four-family residential loans, which are primarily fixed rate loans with terms of 30 years. Our loan brokerage activities permit us to offer customers longer-term fixed rate loans we would not otherwise originate while providing a source of fee income. During 2007, we brokered \$23.0 million in one- to four-family loans and recognized gains of \$420,000 from the sale of such loans.

All of our one- to four-family mortgages include “due on sale” clauses, which are provisions giving us the right to declare a loan immediately payable if the borrower sells or otherwise transfers an interest in the property to a third party.

Property appraisals on real estate securing our single-family residential loans are made by state certified and licensed independent appraisers approved by our Board of Directors. Appraisals are performed in accordance with applicable regulations and policies. At our discretion, we obtain either title insurance policies or attorneys’ certificates of title on all first mortgage real estate loans originated. We also require fire and casualty insurance on all properties securing our one- to four-family loans. We also require the borrower to obtain flood insurance where appropriate. In some instances, we charge a fee equal to a percentage of the loan amount commonly referred to as points.

*Construction Loans* . We offer loans to finance the construction of various types of commercial and residential property. We originated \$48.4 million of such loans during the year ended December 31, 2007. Construction loans to builders generally are offered with terms of up to eighteen months and interest rates are tied to the prime rate plus a margin. These loans generally are offered as adjustable rate loans. We will originate residential construction loans for individual borrowers and builders, provided all necessary plans and permits are in order. Construction loan funds are disbursed as the project progresses. At December 31, 2007, our largest construction loan was \$3.3 million, of which \$2.0 million was disbursed. This

construction loan has been made for the construction of residential properties. At December 31, 2007, this loan was performing in accordance with its terms.

Construction financing is generally considered to involve a higher degree of risk of loss than long-term financing on improved, occupied real estate. Risk of loss on a construction loan is dependent largely upon the accuracy of the initial estimate of the property's value at completion of construction and development and the estimated cost (including interest) of construction. During the construction phase, a number of factors could result in delays and cost overruns. If the estimate of construction costs proves to be inaccurate, we may be required to advance funds beyond the amount originally committed to permit completion of the project. Additionally, if the estimate of value proves to be inaccurate, we may be confronted, at or prior to the maturity of the loan, with a project having a value which is insufficient to assure full repayment.

*Home Equity Loans and Home Equity Lines of Credit* . We offer home equity loans and lines of credit that are secured by the borrower's primary residence. Our home equity loans can be structured as loans that are disbursed in full at closing or as lines of credit. Home equity loans and lines of credit are offered with terms up to 15 years. Virtually all of our home equity loans are originated with fixed rates of interest and home equity lines of credit are originated with adjustable interest rates tied to the prime rate. Home equity loans and lines of credit are underwritten under the same criteria that we use to underwrite one- to four-family loans. Home equity loans and lines of credit may be underwritten with a loan-to-value ratio of 80% when combined with the principal balance of the existing mortgage loan. At the time we close a home equity loan or line of credit, we file a mortgage to perfect our security interest in the underlying collateral. At December 31, 2007, the outstanding balances of home equity loans and lines of credit totaled \$35.4 million, or 9.58% of our loan portfolio.

*Commercial Business Loans* . Our commercial business loans are underwritten on the basis of the borrower's ability to service such debt from income. Our underwriting standards for commercial business loans include a review of the applicant's tax returns, financial statements, credit history and an assessment of the applicant's ability to meet existing obligations and payments on the proposed loan based on cash flow generated by the applicant's business. Commercial business loans are generally made to small and mid-sized companies located within the State of New Jersey. In most cases, we require collateral of equipment, accounts receivable, inventory, chattel or other assets before making a commercial business loan. Our largest commercial business loan at December 31, 2007 had a principal balance of \$3.9 million and was secured by a combination of commercial and residential real estate.

Commercial business loans generally have higher rates and shorter terms than one- to four-family residential loans, but they may also involve higher average balances and a higher risk of default since their repayment generally depends on the successful operation of the borrower's business.

*Consumer Loans* . We make various types of secured and unsecured consumer loans and loans that are collateralized by new and used automobiles. Consumer loans generally have terms of three years to ten years.

Consumer loans are advantageous to us because of their interest rate sensitivity, but they also involve more credit risk than residential mortgage loans because of the higher potential for default, the nature of the collateral and the difficulty in disposing of the collateral.

The following table shows our loan origination, purchase, sale and repayment activities for the periods indicated.

|   | <b>Years Ended December 31,</b> |                   |                   |                   |                   |
|---|---------------------------------|-------------------|-------------------|-------------------|-------------------|
|   | <b>2007</b>                     | <b>2006</b>       | <b>2005</b>       | <b>2004</b>       | <b>2003</b>       |
|   | (In Thousands)                  |                   |                   |                   |                   |
| Beginning of period                     | \$ 322,438                      | \$ 288,145        | \$ 249,315        | \$ 191,138        | \$ 123,435        |
| <b>Originations by Type :</b>           |                                 |                   |                   |                   |                   |
| Real estate mortgage:                   |                                 |                   |                   |                   |                   |
| One- to four-family residential         | 6,454                           | 9,203             | 4,299             | 4,103             | 22,768            |
| Construction                            | 48,415                          | 34,889            | 35,765            | 19,326            | 6,392             |
| Home equity                             | 14,512                          | 15,821            | 13,998            | 14,212            | 9,393             |
| Commercial and multi-family             | 55,892                          | 51,542            | 70,471            | 64,219            | 62,966            |
| Commercial business                     | 16,987                          | 7,946             | 8,968             | 8,628             | 2,544             |
| Consumer                                | 215                             | 222               | 203               | 284               | 924               |
| Total loans originated                  | <u>142,475</u>                  | <u>119,623</u>    | <u>133,704</u>    | <u>110,772</u>    | <u>104,987</u>    |
| <b>Purchases :</b>                      |                                 |                   |                   |                   |                   |
| Real estate mortgage:                   |                                 |                   |                   |                   |                   |
| One- to four-family residential         | —                               | —                 | —                 | —                 | —                 |
| Construction                            | 3,726                           | 4,870             | 3,645             | 4,289             | 2,223             |
| Home equity                             | —                               | —                 | —                 | —                 | —                 |
| Commercial and multi-family             | 5,267                           | 1,737             | —                 | 8,450             | 3,207             |
| Commercial business                     | 600                             | 400               | 1,000             | —                 | —                 |
| Consumer                                | —                               | —                 | —                 | —                 | —                 |
| Total loans purchased                   | <u>9,593</u>                    | <u>7,007</u>      | <u>4,645</u>      | <u>12,739</u>     | <u>5,430</u>      |
| <b>Sales :</b>                          |                                 |                   |                   |                   |                   |
| Real estate mortgage:                   |                                 |                   |                   |                   |                   |
| One- to four-family residential         | —                               | —                 | —                 | —                 | —                 |
| Construction                            | 5,040                           | 2,044             | 1,273             | 959               | —                 |
| Home equity                             | —                               | —                 | —                 | —                 | —                 |
| Commercial and multi-family             | 1,275                           | 3,388             | —                 | 788               | 3,480             |
| Commercial business                     | —                               | —                 | —                 | 1,128             | —                 |
| Consumer                                | —                               | —                 | —                 | —                 | —                 |
| Total loans sold                        | <u>6,315</u>                    | <u>5,432</u>      | <u>1,273</u>      | <u>2,875</u>      | <u>3,480</u>      |
| Principal repayments                    | 97,396                          | 86,905            | 98,246            | 62,459            | 39,234            |
| Transfer of loans to real estate owned  | 1,446                           | —                 | —                 | —                 | —                 |
| Total reductions                        | <u>98,842</u>                   | <u>92,337</u>     | <u>99,519</u>     | <u>65,334</u>     | <u>42,714</u>     |
| Increase (decrease) in other items, net | —                               | —                 | —                 | —                 | —                 |
| Net increase                            | <u>46,911</u>                   | <u>34,293</u>     | <u>38,830</u>     | <u>58,177</u>     | <u>67,703</u>     |
| Ending balance                          | <u>\$ 369,349</u>               | <u>\$ 322,438</u> | <u>\$ 288,145</u> | <u>\$ 249,315</u> | <u>\$ 191,138</u> |

*Loan Approval Authority and Underwriting* . We establish various lending limits for executive management and also maintain a loan committee. The loan committee is comprised of the Chairman of the Board, the President, the Senior Lending Officer and five non-employee members of the Board of Directors. The President or the Senior Lending Officer, together with one other loan officer, have authority to approve applications for real estate loans up to \$500,000, other secured loans up to \$500,000 and unsecured loans up to \$25,000. The loan committee considers all applications in excess of the above lending limits and the entire board of directors ratifies all such loans.

Upon receipt of a completed loan application from a prospective borrower, a credit report is ordered. Income and certain other information is verified. If necessary, additional financial information may be requested. An appraisal is required for the underwriting of all one- to four-family loans. We may rely on an estimate of value of real estate performed by our Senior Lending Officer for home equity loans or lines of credit of up to \$250,000. Appraisals are processed by state certified independent appraisers approved by the Board of Directors.

An attorney's certificate of title is required on all newly originated real estate mortgage loans. In connection with refinancing and home equity loans or lines of credit in amounts up to \$250,000, we will obtain a record owner's search in lieu of an attorney's certificate of title. Borrowers also must obtain fire and casualty insurance. Flood insurance is also required on loans secured by property that is located in a flood zone.

*Loan Commitments* . Written commitments are given to prospective borrowers on all approved real estate loans. Generally, we honor commitments for up to 60 days from the date of issuance. At December 31, 2007, our outstanding loan origination commitments totaled \$2.9 million, outstanding construction loans in progress totaled \$40.0 million and undisbursed lines of credit totaled \$14.5 million.

### **Non-performing and Problem Assets**

*Loan Delinquencies* . We send a notice of nonpayment to borrowers when their loan becomes 15 days past due. If such payment is not received by month end, an additional notice of nonpayment is sent to the borrower. After 60 days, if payment is still delinquent, a notice of right to cure default is sent to the borrower giving 30 additional days to bring the loan current before foreclosure is commenced. If the loan continues in a delinquent status for 90 days past due and no repayment plan is in effect, foreclosure proceedings will be initiated.

Loans are reviewed and are placed on a non-accrual status when the loan becomes more than 90 days delinquent or when, in our opinion, the collection of additional interest is doubtful. Interest accrued and unpaid at the time a loan is placed on nonaccrual status is charged against interest income. Subsequent interest payments, if any, are either applied to the outstanding principal balance or recorded as interest income, depending on the assessment of the ultimate collectability of the loan. At December 31, 2007, we had \$3.8 million in non-accruing loans. Our largest exposure of non-performing loans at that date consisted of one loan, with a principal balance of \$1.4 million, to a civic organization in central New Jersey that has experienced a reduction in its revenue and as such has encountered difficulties in meeting its financial obligations. A consistent, substantive and on-going dialogue has been established with the principals of this facility to ascertain, develop and implement a plan to address this situation. Another loan relationship with an exposure of \$1.2 million is also in non-accrual status. This loan was originated in concert with another financial institution by means of a participation agreement on a parcel of real estate in Rumson, New Jersey. The principal in this facility has filed for protection under the bankruptcy laws of the United States and this situation is presently being adjudicated under those applicable laws.

A loan is considered impaired when it is probable the borrower will not repay the loan according to the original contractual terms of the loan agreement. We have determined that first

mortgage loans on one- to four-family properties and all consumer loans represent large groups of smaller-balance homogeneous loans that are collectively evaluated. Additionally, we have determined that an insignificant delay (less than 90 days) will not cause a loan to be classified as impaired and a loan is not impaired during a period of delay in payment, if we expect to collect all amounts due including interest accrued at the contractual interest rate for the period of delay. We independently evaluate all loans identified as impaired. We estimate credit losses on impaired loans based on the present value of expected cash flows or the fair value of the underlying collateral if the loan repayment is derived from the sale or operation of such collateral. Impaired loans, or portions of such loans, are charged off when we determine that a realized loss has occurred. Until such time, an allowance for loan losses is maintained for estimated losses. Cash receipts on impaired loans are applied first to accrued interest receivable unless otherwise required by the loan terms, except when an impaired loan is also a nonaccrual loan, in which case the portion of the receipts related to interest is recognized as income. At December 31, 2007, we had six loans totaling \$3.8 million which are classified as impaired and on which loan loss allowances totaling \$728,000 have been established. During 2007, interest income of \$64,000 was recognized on impaired loans.

The following table sets forth delinquencies in our loan portfolio as of the dates indicated:

|                                     | At December 31, 2007   |                                  |                    |                                  | At December 31, 2006 |                                  |                    |                                  |
|-------------------------------------|------------------------|----------------------------------|--------------------|----------------------------------|----------------------|----------------------------------|--------------------|----------------------------------|
|                                     | 60-89 Days             |                                  | 90 Days or More    |                                  | 60-89 Days           |                                  | 90 Days or More    |                                  |
|                                     | Number<br>of Loans     | Principal<br>Balance<br>of Loans | Number<br>of Loans | Principal<br>Balance<br>of Loans | Number<br>of Loans   | Principal<br>Balance<br>of Loans | Number<br>of Loans | Principal<br>Balance<br>of Loans |
|                                     | (Dollars in Thousands) |                                  |                    |                                  |                      |                                  |                    |                                  |
| <b>Real estate mortgage :</b>       |                        |                                  |                    |                                  |                      |                                  |                    |                                  |
| One- to four-<br>family residential | —                      | \$ —                             | 1                  | \$ 319                           | —                    | \$ —                             | —                  | \$ —                             |
| Construction                        | —                      | —                                | 1                  | 1,247                            | 1                    | 1,356                            | —                  | —                                |
| Home equity                         | —                      | —                                | 1                  | 149                              | —                    | —                                | —                  | —                                |
| Commercial and multi-<br>family     | 2                      | 1,770                            | 5                  | 2,558                            | —                    | —                                | 1                  | 307                              |
| Total                               | 2                      | 1,770                            | 8                  | 4,273                            | 1                    | 1,356                            | 1                  | 307                              |
| Commercial business                 | —                      | —                                | —                  | —                                | —                    | —                                | —                  | —                                |
| Consumer                            | —                      | —                                | —                  | —                                | 1                    | 2                                | 1                  | 16                               |
| Total delinquent loans              | 2                      | \$ 1,770                         | 8                  | \$ 4,273                         | 2                    | \$ 1,358                         | 2                  | \$ 323                           |
| Delinquent loans to total<br>loans  |                        | 0.48%                            |                    | 1.16%                            |                      | 0.42%                            |                    | 0.10%                            |

|                                 | At December 31, 2005 |                            |                 |                            | At December 31, 2004 |                            |                 |                            |
|---------------------------------|----------------------|----------------------------|-----------------|----------------------------|----------------------|----------------------------|-----------------|----------------------------|
|                                 | 60-89 Days           |                            | 90 Days or More |                            | 60-89 Days           |                            | 90 Days or More |                            |
|                                 | Number of Loans      | Principal Balance of Loans | Number of Loans | Principal Balance of Loans | Number of Loans      | Principal Balance of Loans | Number of Loans | Principal Balance of Loans |
| (Dollars in Thousands)          |                      |                            |                 |                            |                      |                            |                 |                            |
| <b>Real estate mortgage :</b>   |                      |                            |                 |                            |                      |                            |                 |                            |
| One- to four-family residential | —                    | \$ —                       | 1               | \$ 79                      | —                    | \$ —                       | 1               | \$ 173                     |
| Construction                    | —                    | —                          | —               | —                          | —                    | —                          | —               | —                          |
| Home equity                     | —                    | —                          | —               | —                          | 1                    | 29                         | —               | —                          |
| Commercial and multi-family     | —                    | —                          | 4               | 803                        | —                    | —                          | 1               | 313                        |
| <b>Total</b>                    | <b>—</b>             | <b>—</b>                   | <b>5</b>        | <b>882</b>                 | <b>1</b>             | <b>29</b>                  | <b>2</b>        | <b>486</b>                 |
| Commercial business             | —                    | —                          | 1               | 150                        | 1                    | 123                        | 3               | 515                        |
| Consumer                        | —                    | —                          | —               | —                          | —                    | —                          | 1               | 3                          |
| <b>Total delinquent loans</b>   | <b>—</b>             | <b>\$ —</b>                | <b>6</b>        | <b>\$ 1,032</b>            | <b>2</b>             | <b>\$ 152</b>              | <b>6</b>        | <b>\$ 1,004</b>            |
| Delinquent loans to total loans | —%                   |                            | 0.36%           |                            | 0.06%                |                            | 0.40%           |                            |

|                                 | At December 31, 2003 |                            |                 |                            |
|---------------------------------|----------------------|----------------------------|-----------------|----------------------------|
|                                 | 60-89 Days           |                            | 90 Days or More |                            |
|                                 | Number of Loans      | Principal Balance of Loans | Number of Loans | Principal Balance of Loans |
| (Dollars in Thousands)          |                      |                            |                 |                            |
| <b>Real estate mortgage :</b>   |                      |                            |                 |                            |
| One- to four-family residential | 1                    | \$ 103                     | —               | \$ —                       |
| Construction                    | —                    | —                          | —               | —                          |
| Home equity                     | —                    | —                          | —               | —                          |
| Commercial and multi-family     | —                    | —                          | —               | —                          |
| <b>Total</b>                    | <b>1</b>             | <b>103</b>                 | <b>—</b>        | <b>—</b>                   |
| Commercial business             | 3                    | 355                        | 3               | 386                        |
| Consumer                        | —                    | —                          | —               | —                          |
| <b>Total delinquent loans</b>   | <b>4</b>             | <b>\$ 458</b>              | <b>3</b>        | <b>\$ 386</b>              |
| Delinquent loans to total loans | 0.24%                |                            | 0.20%           |                            |

The table below sets forth the amounts and categories of non-performing assets in the Bank's loan portfolio. Loans are placed on non-accrual status when the collection of principal and/or interest become doubtful. For all years presented, BCB Community Bank has had no troubled debt restructurings (which involve forgiving a portion of interest or principal on any loans or making loans at a rate materially less than that of market rates). Foreclosed assets include assets acquired in settlement of loans.

|   | At December 31,        |               |                 |                 |               |
|---|------------------------|---------------|-----------------|-----------------|---------------|
|   | 2007                   | 2006          | 2005            | 2004            | 2003          |
|   | (Dollars in Thousands) |               |                 |                 |               |
| <b>Non-accruing loans :</b>                                 |                        |               |                 |                 |               |
| One- to four-family residential                             | \$ 319                 | \$ —          | \$ —            | \$ 173          | \$ —          |
| Construction  | 1,247                  | —             | —               | —               | —             |
| Home equity   | 149                    | —             | —               | —               | —             |
| Commercial and multi-family                                 | 2,039                  | 307           | 637             | 313             | 67            |
| Commercial business   | —                      | —             | 150             | 67              | —             |
| Consumer  | —                      | 16            | —               | —               | —             |
| Total   | <u>3,754</u>           | <u>323</u>    | <u>787</u>      | <u>553</u>      | <u>67</u>     |
| <b>Accruing loans delinquent more than 90 days :</b>        |                        |               |                 |                 |               |
| One- to four-family residential                             | —                      | —             | —               | —               | —             |
| Construction  | —                      | —             | —               | —               | —             |
| Home equity   | —                      | —             | —               | —               | —             |
| Commercial and multi-family                                 | 519                    | —             | 166             | —               | 319           |
| Commercial business   | —                      | —             | —               | 448             | —             |
| Consumer  | —                      | —             | 79              | 3               | —             |
| Total   | <u>519</u>             | <u>—</u>      | <u>245</u>      | <u>451</u>      | <u>319</u>    |
| Total non-performing loans                                  | 4,273                  | 323           | 1,032           | 1,004           | 386           |
| Foreclosed assets   | 287                    | —             | —               | 6               | —             |
| Total non-performing assets                                 | <u>\$ 4,560</u>        | <u>\$ 323</u> | <u>\$ 1,032</u> | <u>\$ 1,010</u> | <u>\$ 386</u> |
| Total non-performing assets as a percentage of total assets | <u>0.81%</u>           | <u>0.06%</u>  | <u>0.22%</u>    | <u>0.27%</u>    | <u>0.13%</u>  |
| Total non-performing loans as a percentage of total loans   | <u>1.16%</u>           | <u>0.10%</u>  | <u>0.36%</u>    | <u>0.40%</u>    | <u>0.20%</u>  |

For the year ended December 31, 2007, gross interest income which would have been recorded had our non-accruing loans been current in accordance with their original terms amounted to \$287,000. We received and recorded \$64,000 in interest income for such loans for the year ended December 31, 2007.

*Classified Assets* . Our policies provide for a classification system for problem assets. Under this classification system, problem assets are classified as "substandard," "doubtful," "loss" or "special mention." An asset is considered substandard if it is inadequately protected by its current net worth and paying capacity of the borrower or of the collateral pledged, if any. Substandard assets include those characterized by the "distinct possibility" that "some loss" will be sustained if the deficiencies are not corrected. Assets classified as doubtful have all the weaknesses inherent in those classified substandard with the added characteristic that the weakness present makes "collection or liquidation in full" on the basis of currently existing facts, conditions, and values, "highly questionable and improbable." Assets classified as loss are those considered "uncollectible" and of such little value that their continuance as assets without the establishment of a specific loss reserve is not warranted, and the loan is charged-off. Assets may be designated special mention because of potential weaknesses that do not currently warrant classification in one of the aforementioned categories.

When we classify problem assets, we may establish general allowances for loan losses in an amount deemed prudent by management. General allowances represent loss allowances which have been established to recognize the inherent risk associated with lending activities, but which, unlike specific allowances, have not been allocated to particular problem assets. A portion of general loss allowances established to cover possible losses related to assets classified as substandard or doubtful may be included in determining our regulatory capital. Specific valuation allowances for loan losses generally do not qualify as regulatory capital. At December 31, 2007, we had no assets classified as doubtful, \$2.4 million in assets classified as substandard, all of which were also classified as impaired and \$3.8 million in assets classified as special mention, of which \$1.4 million was classified as impaired. The loans classified as substandard represent primarily commercial loans secured either by residential real estate, commercial real estate or heavy equipment. The loans that have been classified substandard were classified as such primarily because either updated financial information has not been timely provided, or the collateral underlying the loan is in the process of being revalued.

*Allowances for Loan Losses* . A provision for loan losses is charged to operations based on management's evaluation of the losses that may be incurred in our loan portfolio. The evaluation, including a review of all loans on which full collectability of interest and principal may not be reasonably assured, considers: (1) the risk characteristics of the loan portfolio; (2) current economic conditions; (3) actual losses previously experienced; (4) the level of loan growth; and (5) the existing level of reserves for loan losses that are possible and estimable.

We monitor our allowance for loan losses and make additions to the allowance as economic conditions dictate. Although we maintain our allowance for loan losses at a level that we consider adequate for the inherent risk of loss in our loan portfolio, future losses could exceed estimated amounts and additional provisions for loan losses could be required. In addition, our determination of the amount of the allowance for loan losses is subject to review by the New Jersey Department of Banking and Insurance and the FDIC, as part of their examination process. After a review of the information available, our regulators might require the establishment of an additional allowance. Any increase in the loan loss allowance required by regulators would have a negative impact on our earnings.



The following table sets forth an analysis of the Bank's allowance for loan losses.

|  | <b>Years Ended December 31,</b> |                 |                 |                 |                 |
|--|---------------------------------|-----------------|-----------------|-----------------|-----------------|
|  | <b>2007</b>                     | <b>2006</b>     | <b>2005</b>     | <b>2004</b>     | <b>2003</b>     |
|  | (Dollars in Thousands)          |                 |                 |                 |                 |
| Balance at beginning of period   | \$ 3,733                        | \$ 3,090        | \$ 2,506        | \$ 2,113        | \$ 1,233        |
| <b>Charge-offs :</b>   |                                 |                 |                 |                 |                 |
| One- to four-family residential  | —                               | —               | —               | —               | —               |
| Construction   | 270                             | —               | —               | —               | —               |
| Home equity  | —                               | —               | —               | —               | —               |
| Commercial and multi-family  | —                               | —               | —               | —               | —               |
| Commercial business  | —                               | 66              | 522             | 332             | —               |
| Consumer   | 15                              | 1               | 24              | —               | —               |
| Total charge-offs  | <u>285</u>                      | <u>67</u>       | <u>546</u>      | <u>332</u>      | <u>—</u>        |
| Recoveries   | 17                              | 85              | 12              | 35              | —               |
| Net charge-offs (recoveries)   | <u>268</u>                      | <u>(18)</u>     | <u>534</u>      | <u>297</u>      | <u>—</u>        |
| Provisions charged to operations   | 600                             | 625             | 1,118           | 690             | 880             |
| Ending balance   | <u>\$ 4,065</u>                 | <u>\$ 3,733</u> | <u>\$ 3,090</u> | <u>\$ 2,506</u> | <u>\$ 2,113</u> |
| Ratio of non-performing assets to total assets at the end of period                                      | <u>0.81%</u>                    | <u>0.06%</u>    | <u>0.22%</u>    | <u>0.27%</u>    | <u>0.13%</u>    |
| Allowance for loan losses as a percent of total loans outstanding  | <u>1.10%</u>                    | <u>1.16%</u>    | <u>1.07%</u>    | <u>1.01%</u>    | <u>1.11%</u>    |
| Ratio of net charge-offs (recoveries) during the period to loans outstanding at end of the period        | <u>0.07%</u>                    | <u>(0.01)%</u>  | <u>0.19%</u>    | <u>0.13%</u>    | <u>—%</u>       |
| Ratio of net charge-offs (recoveries) during the period to non-performing loans at the end of the period | <u>6.27%</u>                    | <u>(5.57)%</u>  | <u>51.74%</u>   | <u>29.58%</u>   | <u>—%</u>       |

*Allocation of the Allowance for Loan Losses* . The following table illustrates the allocation of the allowance for loan losses for each category of loan. The allocation of the allowance to each category is not necessarily indicative of future loss in any particular category and does not restrict our use of the allowance to absorb losses in other loan categories.

|               | <b>At December 31,</b>                        |                    |   |                    |   |                    |   |                    |   |                    |
|---------------|---|--------------------|---|--------------------|---|--------------------|---|--------------------|---|--------------------|
|               | <b>2007</b>                                   |                    | <b>2006</b>                                   |                    | <b>2005</b>                                   |                    | <b>2004</b>                                   |                    | <b>2003</b>                                   |                    |
|               | Percent of<br>Loans in<br>each<br>Category in |                    | Percent of<br>Loans in<br>each<br>Category in |                    | Percent of<br>Loans in<br>each<br>Category in |                    | Percent of<br>Loans in<br>each<br>Category in |                    | Percent of<br>Loans in<br>each<br>Category in |                    |
|               | <u>Amount</u>                                 | <u>Total Loans</u> | <u>Amount</u>                                 | <u>Total Loans</u> | <u>Amount</u>                                 | <u>Total Loans</u> | <u>Amount</u>                                 | <u>Total Loans</u> | <u>Amount</u>                                 | <u>Total Loans</u> |
|               | (Dollars in Thousands)                        |                    |   |                    |   |                    |   |                    |   |                    |
| Type of loan: |   |                    |   |                    |   |                    |   |                    |   |                    |
| One- to four- |   |                    |   |                    |   |                    |   |                    |   |                    |
| family        | \$ 221  | 14.96%             | \$ 69   | 13.64%             | \$ 76   | 12.11%             | \$ 78   | 13.98%             | \$ 105  | 17.74%             |
| Construction  | 885   | 13.53              | 1,068   | 12.06              | 329   | 9.98               | 217   | 7.70               | 125   | 5.24               |
| Home equity   | 172   | 9.58               | 126   | 10.02              | 91  | 8.43               | 82  | 8.27               | 50  | 8.80               |
| Commercial    |   |                    |   |                    |   |                    |   |                    |   |                    |
| and multi-    |   |                    |   |                    |   |                    |   |                    |   |                    |
| family        | 2,476   | 56.35              | 2,285   | 59.60              | 2,180   | 64.26              | 1,669   | 63.68              | 1,178   | 60.25              |
| Commercial    |   |                    |   |                    |   |                    |   |                    |   |                    |
| business      | 262   | 5.38               | 168   | 4.56               | 401   | 5.06               | 444   | 6.07               | 649   | 7.35               |
| Consumer      | 49  | 0.20               | 17  | 0.12               | 13  | 0.16               | 16  | 0.30               | 6   | 0.62               |
| Total         | <u>\$ 4,065</u>                               | <u>100.00%</u>     | <u>\$ 3,733</u>                               | <u>100.00%</u>     | <u>\$ 3,090</u>                               | <u>100.00%</u>     | <u>\$ 2,506</u>                               | <u>100.00%</u>     | <u>\$ 2,113</u>                               | <u>100.00%</u>     |

## **Investment Activities**

*Investment Securities* . We are required under federal regulations to maintain a minimum amount of liquid assets that may be invested in specified short-term securities and certain other investments. The level of liquid assets varies depending upon several factors, including: (i) the yields on investment alternatives, (ii) our judgment as to the attractiveness of the yields then available in relation to other opportunities, (iii) expectation of future yield levels, and (iv) our projections as to the short-term demand for funds to be used in loan origination and other activities. Investment securities, including mortgage-backed securities, are classified at the time of purchase, based upon management's intentions and abilities, as securities held-to-maturity or securities available for sale. Debt securities acquired with the intent and ability to hold to maturity are classified as held-to-maturity and are stated at cost and adjusted for amortization of premium and accretion of discount, which are computed using the level yield method and recognized as adjustments of interest income. All other debt securities are classified as available for sale to serve principally as a source of liquidity.

Current regulatory and accounting guidelines regarding investment securities require us to categorize securities as held-to-maturity, available for sale or trading. As of December 31, 2007, we had \$165.0 million of securities classified as held-to-maturity, \$2.1 million in securities classified as available for sale (consisting of 80,000 shares of a Fannie Mae preferred stock issue purchased at \$25.15/share yielding 8.25% until December 31, 2010 and then yielding the greater of 7.75% per annum or 3-Month LIBOR plus 423 basis points; where the Dividend Rate will reset quarterly beginning 12/31/2010 and will be callable on that date and each fifth anniversary thereafter in whole or in part at the redemption price of \$25.00/share plus accrued dividends from the most recent Payment Date), and no securities classified as trading. Securities classified as available for sale are reported for financial reporting purposes at the fair value with net changes in the fair value from period to period included as a separate component of stockholders' equity, net of income taxes. At December 31, 2007, our securities classified as held-to-maturity had a fair value of \$165.7 million. Changes in the fair value of securities classified as held-to-maturity do not affect our income. Management has the intent and we have the ability to hold securities classified as held-to-maturity. During the year ended December 31, 2007, we had no securities sales.

At December 31, 2007, our investment policy allowed investments in instruments such as: (i) U.S. Treasury obligations; (ii) U.S. federal agency or federally sponsored agency obligations; (iii) mortgage-backed securities; and (iv) certificates of deposit. The Board of Directors may authorize additional investments. At December 31, 2007, our U.S. Government agency securities totaled \$130.2 million, all of which were classified as held-to-maturity and which primarily consisted of callable securities issued by government sponsored enterprises.

As a source of liquidity and to supplement our lending activities, we have invested in residential mortgage-backed securities. Mortgage-backed securities generally yield less than the loans that underlie such securities because of the cost of payment guarantees or credit enhancements that reduce credit risk. Mortgage-backed securities can serve as collateral for borrowings and, through repayments, as a source of liquidity. Mortgage-backed securities represent a participation interest in a pool of single-family or other type of mortgages. Principal

and interest payments are passed from the mortgage originators, through intermediaries (generally government-sponsored enterprises) that pool and repackage the participation interests in the form of securities, to investors, like us. The government-sponsored enterprises guarantee the payment of principal and interest to investors and include Freddie Mac, Ginnie Mae, and Fannie Mae.

Mortgage-backed securities typically are issued with stated principal amounts. The securities are backed by pools of mortgage loans that have interest rates that are within a set range and have varying maturities. The underlying pool of mortgages can be composed of either fixed rate or adjustable rate mortgage loans. Mortgage-backed securities are generally referred to as mortgage participation certificates or pass-through certificates. The interest rate risk characteristics of the underlying pool of mortgages (i.e., fixed rate or adjustable rate) and the prepayment risk, are passed on to the certificate holder. The life of a mortgage-backed pass-through security is equal to the life of the underlying mortgages. Expected maturities will differ from contractual maturities due to scheduled repayments and because borrowers may have the right to call or prepay obligations with or without prepayment penalties.

*Securities Portfolio* . The following table sets forth the carrying value of our securities portfolio and Federal funds at the dates indicated.

|                                       | <b>At December 31,</b> |                   |                   |
|---------------------------------------|------------------------|-------------------|-------------------|
|                                       | <b>2007</b>            | <b>2006</b>       | <b>2005</b>       |
|                                       | (In Thousands)         |                   |                   |
| <b>Securities available for sale:</b> |                        |                   |                   |
| Equity securities                     | \$ 2,056               | \$ —              | \$ —              |
| <b>Securities held to maturity:</b>   |                        |                   |                   |
| U.S. Government and Agency securities | 130,156                | 122,594           | 109,090           |
| Mortgage-backed securities            | 34,861                 | 26,078            | 30,912            |
| Total securities held to maturity     | 165,017                | 148,672           | 140,002           |
| Money market funds                    | 3,500                  | 17,500            | 18,500            |
| FHLB stock                            | 5,560                  | 3,724             | 2,778             |
| <b>Total investment securities</b>    | <b>\$ 176,133</b>      | <b>\$ 169,896</b> | <b>\$ 161,280</b> |

The following table shows our securities held-to-maturity purchase, sale and repayment activities for the periods indicated.

|                              | <b>Years Ended December 31,</b> |             |             |
|------------------------------|---------------------------------|-------------|-------------|
|                              | <b>2007</b>                     | <b>2006</b> | <b>2005</b> |
|                              | (In Thousands)                  |             |             |
| <b>Purchases:</b>            |                                 |             |             |
| Fixed-rate                   | \$ 37,338                       | \$ 37,500   | \$ 55,815   |
| Total purchases              | \$ 37,338                       | \$ 37,500   | \$ 55,815   |
| <b>Sales:</b>                |                                 |             |             |
| Fixed-rate                   | \$ —                            | \$ —        | \$ 7,345    |
| Total sales                  | \$ —                            | \$ —        | \$ 7,345    |
| <b>Principal Repayments:</b> |                                 |             |             |
| Repayment of principal       | \$ 21,010                       | \$ 28,845   | \$ 25,531   |
| Increase in other items, net | 17                              | 15          | 27          |
| Net increases                | \$ 16,345                       | \$ 8,670    | \$ 22,966   |

*Maturities of Securities Portfolio* . The following table sets forth information regarding the scheduled maturities, carrying values, estimated market values, and weighted average yields for the Bank's securities portfolio at December 31, 2007 by contractual maturity. The following table does not take into consideration the effects of scheduled repayments or the effects of possible prepayments.

| <b>As of December 31, 2007</b>             |                          |  |                          |  |                          |                            |                          |  |                           |                          |       |
|--|--------------------------|--|--------------------------|--|--------------------------|----------------------------|--------------------------|--|---------------------------|--------------------------|-------|
| <u>Within one year</u>                     |                          | <u>More than<br/>One to five years</u> |                          | <u>More than five to<br/>ten years</u> |                          | <u>More than ten years</u> |                          | <u>Total investment<br/>securities</u> |                           |                          |       |
| <u>Carrying<br/>Value</u>                  | <u>Average<br/>Yield</u> | <u>Carrying<br/>Value</u>              | <u>Average<br/>Yield</u> | <u>Carrying<br/>Value</u>              | <u>Average<br/>Yield</u> | <u>Carrying<br/>Value</u>  | <u>Average<br/>Yield</u> | <u>Fair<br/>Value</u>                  | <u>Carrying<br/>Value</u> | <u>Average<br/>Yield</u> |       |
| (Dollars in Thousands)                     |                          |  |                          |  |                          |                            |                          |  |                           |                          |       |
| U.S.<br>government<br>agency<br>securities | \$ 4,000                 | 4.31%                                  | \$ 25,312                | 4.76%                                  | \$ 15,988                | 4.96%                      | \$ 84,856                | 6.11%                                  | \$131,022                 | \$ 130,156               | 5.65% |
| Mortgage-<br>backed<br>securities          | -                        | -                                      | 157                      | 6.00                                   | 1,334                    | 5.79                       | 33,370                   | 5.06                                   | 34,638                    | 34,861                   | 5.09  |
| Equity<br>securities                       | 2,056                    | 8.25                                   | —                        | —                                      | —                        | —                          | —                        | —                                      | 2,056                     | 2,056                    | 8.25  |
| FHLB stock                                 | 5,560                    | 8.40                                   | —                        | —                                      | —                        | —                          | —                        | —                                      | 5,560                     | 5,560                    | 8.40  |
| Total<br>investment<br>securities          | <u>\$ 11,616</u>         | 6.97%                                  | <u>\$ 25,469</u>         | 4.77%                                  | <u>\$ 17,332</u>         | 5.02%                      | <u>\$ 118,226</u>        | 5.81%                                  | <u>\$173,276</u>          | <u>\$ 172,633</u>        | 5.66% |

## Sources of Funds

Our major external source of funds for lending and other investment purposes are deposits. Funds are also derived from the receipt of payments on loans and prepayment of loans and maturities of investment securities and mortgage-backed securities and borrowings. Scheduled loan principal repayments are a relatively stable source of funds, while deposit inflows and outflows and loan prepayments are significantly influenced by general interest rates and market conditions.

*Deposits* . Consumer and commercial deposits are attracted principally from within our primary market area through the offering of a selection of deposit instruments including demand, NOW, savings and club accounts, money market accounts, and term certificate accounts. Deposit account terms vary according to the minimum balance required, the time period the funds must remain on deposit, and the interest rate.

The interest rates paid by us on deposits are set at the direction of our senior management. Interest rates are determined based on our liquidity requirements, interest rates paid by our competitors, our growth goals, and applicable regulatory restrictions and requirements. At December 31, 2007, we had no brokered deposits.

*Deposit Accounts* . The following table sets forth the dollar amount of deposits in the various types of deposit programs we offered as of the dates indicated.

|                           | December 31,                               |                   |  |                   |  |                   |
|---------------------------|--|-------------------|--|-------------------|--|-------------------|
|                           | 2007                                       |                   | 2006                                       |                   | 2005                                       |                   |
|                           | Weighted<br>Average<br>Rate <sup>(1)</sup> | Amount            | Weighted<br>Average<br>Rate <sup>(1)</sup> | Amount            | Weighted<br>Average<br>Rate <sup>(1)</sup> | Amount            |
|                           | (Dollars in Thousands)                     |                   |  |                   |  |                   |
| Demand                    | —%   | \$ 35,897         | —%   | \$ 35,275         | —%   | \$ 30,143         |
| NOW                       | 1.40                                       | 20,260            | 1.41                                       | 21,007            | 1.36                                       | 20,827            |
| Money market              | 4.14                                       | 27,697            | 3.70                                       | 8,022             | 1.97                                       | 1,623             |
| Savings and club accounts | 1.71                                       | 100,441           | 1.91                                       | 117,617           | 2.16                                       | 167,534           |
| Certificates of deposit   | 4.82                                       | 214,524           | 4.28                                       | 200,826           | 3.21                                       | 142,724           |
| Total                     | 3.30%                                      | <u>\$ 398,819</u> | 2.99%                                      | <u>\$ 382,747</u> | 2.30%                                      | <u>\$ 362,851</u> |

<sup>(1)</sup> Represents the average rate paid during the year.

The following table sets forth our deposit flows during the periods indicated.

|                                       | Years Ended December 31, |                   |                   |
|---------------------------------------|--------------------------|-------------------|-------------------|
|                                       | 2007                     | 2006              | 2005              |
|                                       | (Dollars in Thousands)   |                   |                   |
| Beginning of period                   | \$ 382,747               | \$ 362,851        | \$ 337,243        |
| Net deposits                          | 3,135                    | 9,241             | 17,696            |
| Interest credited on deposit accounts | 12,937                   | 10,655            | 7,912             |
| Total increase in deposit accounts    | <u>16,072</u>            | <u>19,896</u>     | <u>25,608</u>     |
| Ending balance                        | <u>\$ 398,819</u>        | <u>\$ 382,747</u> | <u>\$ 362,851</u> |
| Percent increase                      | 4.20%                    | 5.48%             | 7.59%             |

*Jumbo Certificates of Deposit* . As of December 31, 2007, the aggregate amount of outstanding certificates of deposit in amounts greater than or equal to \$100,000 was approximately \$102.8 million. The following table indicates the amount of our certificates of deposit of \$100,000 or more by time remaining until maturity.

|                             | <b>At December 31, 2007</b> |         |
|-----------------------------|-----------------------------|---------|
| <b>Maturity Period</b>      | <b>(In Thousands)</b>       |         |
| Within three months         | \$                          | 38,250  |
| Three through twelve months |                             | 50,889  |
| Over twelve months          |                             | 13,691  |
| Total                       | \$                          | 102,830 |

The following table presents, by rate category, our certificate of deposit accounts as of the dates indicated.

|                               | <b>At December 31,</b>        |                |                   |                |                   |                |
|-------------------------------|-------------------------------|----------------|-------------------|----------------|-------------------|----------------|
|                               | <b>2007</b>                   |                | <b>2006</b>       |                | <b>2005</b>       |                |
|                               | <u>Amount</u>                 | <u>Percent</u> | <u>Amount</u>     | <u>Percent</u> | <u>Amount</u>     | <u>Percent</u> |
|                               | <b>(Dollars in Thousands)</b> |                |                   |                |                   |                |
| Certificate of deposit rates: |                               |                |                   |                |                   |                |
| 1.00% - 1.99%                 | \$ 929                        | 0.43%          | \$ 1,539          | 0.76%          | \$ —              | —%             |
| 2.00% - 2.99%                 | 698                           | 0.33           | 1,511             | 0.75           | 21,056            | 14.75          |
| 3.00% - 3.99%                 | 41,048                        | 19.14          | 27,595            | 13.74          | 59,391            | 41.61          |
| 4.00% - 4.99%                 | 64,688                        | 30.15          | 89,740            | 44.69          | 62,045            | 43.48          |
| 5.00% - 5.99%                 | 107,161                       | 49.95          | 80,441            | 40.06          | 232               | 0.16           |
| Total                         | <u>\$ 214,524</u>             | <u>100.00%</u> | <u>\$ 200,826</u> | <u>100.00%</u> | <u>\$ 142,724</u> | <u>100.00%</u> |

The following table presents, by rate category, the remaining period to maturity of certificate of deposit accounts outstanding as of December 31, 2007.

|                | <b>Maturity Date</b>  |                          |                          |                     |                   |
|----------------|-----------------------|--------------------------|--------------------------|---------------------|-------------------|
|                | <u>1 Year or Less</u> | <u>Over 1 to 2 Years</u> | <u>Over 2 to 3 Years</u> | <u>Over 3 Years</u> | <u>Total</u>      |
|                | <b>(In Thousands)</b> |                          |                          |                     |                   |
| Interest rate: |                       |                          |                          |                     |                   |
| 1.00% - 1.99%  | \$ 157                | \$ 769                   | \$ —                     | \$ 3                | \$ 929            |
| 2.00% - 2.99%  | 642                   | 11                       | —                        | 45                  | 698               |
| 3.00% - 3.99%  | 34,318                | 6,358                    | 253                      | 119                 | 41,048            |
| 4.00%-4.99%    | 55,993                | 5,781                    | 2,582                    | 332                 | 64,688            |
| 5.00%-5.99%    | 95,995                | 9,374                    | 1,790                    | 2                   | 107,161           |
| Total          | <u>\$ 187,105</u>     | <u>\$ 22,293</u>         | <u>\$ 4,625</u>          | <u>\$ 501</u>       | <u>\$ 214,524</u> |

*Borrowings* . Our advances from the FHLB of New York are secured by a pledge of our stock in the FHLB of New York and investment securities. Each FHLB credit program has its own interest rate, which may be fixed or adjustable, and range of maturities. If the need arises, we may also access the Federal Reserve Bank discount window to supplement our supply of funds that we can loan and to meet deposit withdrawal requirements. During the year ended December 31, 2007 we had no short term borrowings and during the year ended December 31, 2006, we had average short-term borrowings, consisting of FHLB advances, of \$705,000. The average short-term borrowings during the year ended December 31, 2006 had a weighted average cost of 4.93%. Our maximum short-term borrowings outstanding during 2006 was \$1.0 million. At December 31, 2007, we had the ability to borrow approximately \$103.2 million under our credit facilities with the FHLB of New York.

The following table sets forth information concerning balances and interest rates on our short-term borrowings at the dates and for the periods indicated.

|   | <b>At or For the Years Ended Decemb</b> |             |             |
|---|---|-------------|-------------|
|   | <b>2007</b>                             | <b>2006</b> | <b>2005</b> |
|   | <b>(Dollars in Thousands)</b>           |             |             |
| Balance at end of period                        | \$ —                                    | \$ —        | \$ —        |
| Average balance during period                   | \$ —                                    | \$ 705      | \$ 9,691    |
| Maximum outstanding at any month end            | \$ —                                    | \$ 1,000    | \$ 21,400   |
| Weighted average interest rate at end of period | —                                       | —           | —           |
| Average interest rate during period             | —                                       | 4.93%       | 3.14%       |

### **Employees**

At December 31, 2007, we had 73 full-time and 31 part-time employees. None of our employees is represented by a collective bargaining group. We believe that our relationship with our employees is good.

### **Subsidiaries**

We have one non-bank subsidiary. BCB Holding Company Investment Corp. was established in 2004 for the purpose of holding and investing in securities. Only securities authorized to be purchased by BCB Community Bank are held by BCB Holding Company Investment Corp. At December 31, 2007, this company held \$152.7 million in securities.

### **Supervision and Regulation**

Bank holding companies and banks are extensively regulated under both federal and state law. These laws and regulations are intended to protect depositors, not shareholders. To the extent that the following information describes statutory and regulatory provisions, it is qualified in its entirety by reference to the particular statutory and regulatory provisions. Any change in the applicable law or regulation may have a material effect on the business and prospects of the Company and the Bank.

### **Bank Holding Company Regulation**

As a bank holding company registered under the Bank Holding Company Act of 1956, as amended, the Company is subject to the regulation and supervision applicable to bank holding companies by the Board of Governors of the Federal Reserve System. The Company is required to file with the Federal Reserve annual reports and other information regarding its business operations and those of its subsidiaries.

The Bank Holding Company Act requires, among other things, the prior approval of the Federal Reserve in any case where a bank holding company proposes to (i) acquire all or substantially all of the assets of any other bank, (ii) acquire direct or indirect ownership or control of more than 5% of the outstanding voting stock of any bank (unless it owns a majority of such company's voting shares) or (iii) merge or consolidate with any other bank holding company. The Federal Reserve will not approve any acquisition, merger, or consolidation that would have a substantially anti-competitive effect, unless the anti-competitive impact of the



proposed transaction is clearly outweighed by a greater public interest in meeting the convenience and needs of the community to be served. The Federal Reserve also considers capital adequacy and other financial and managerial resources and future prospects of the companies and the banks concerned, together with the convenience and needs of the community to be served, when reviewing acquisitions or mergers.

The Bank Holding Company Act generally prohibits a bank holding company, with certain limited exceptions, from (i) acquiring or retaining direct or indirect ownership or control of more than 5% of the outstanding voting stock of any company which is not a bank or bank holding company, or (ii) engaging directly or indirectly in activities other than those of banking, managing or controlling banks, or performing services for its subsidiaries, unless such non-banking business is determined by the Federal Reserve to be so closely related to banking or managing or controlling banks as to be properly incident thereto.

The Bank Holding Company Act has been amended to permit bank holding companies and banks, which meet certain capital, management and Community Reinvestment Act standards, to engage in a broader range of non-banking activities. In addition, bank holding companies which elect to become financial holding companies may engage in certain banking and non-banking activities without prior Federal Reserve approval. At this time, the Company has elected not to become a financial holding company, as it does not engage in any activities not permissible for banks.

There are a number of obligations and restrictions imposed on bank holding companies and their depository institution subsidiaries by law and regulatory policy that are designed to minimize potential loss to the depositors of such depository institutions and the FDIC insurance funds in the event the depository institution is in danger of default. Under a policy of the Federal Reserve with respect to bank holding company operations, a bank holding company is required to serve as a source of financial strength to its subsidiary depository institutions and to commit resources to support such institutions in circumstances where it might not do so absent such policy. The Federal Reserve also has the authority under the Bank Holding Company Act to require a bank holding company to terminate any activity or to relinquish control of a non-bank subsidiary upon the Federal Reserve's determination that such activity or control constitutes a serious risk to the financial soundness and stability of any bank subsidiary of the bank holding company.

#### **Capital Adequacy Guidelines for Bank Holding Companies**

The Federal Reserve has adopted risk-based capital guidelines for bank holding companies. The risk-based capital guidelines are designed to make regulatory capital requirements more sensitive to differences in risk profile among banks and bank holding companies, to account for off-balance sheet exposure, and to minimize disincentives for holding liquid assets. Under these guidelines, assets and off-balance sheet items are assigned to broad risk categories each with appropriate weights. The resulting capital ratios represent capital as a percentage of total risk-weighted assets and off-balance sheet items.

The Company is subject to regulatory capital requirements and guidelines imposed by the Federal Reserve, which are substantially similar to those imposed by the FDIC on depository

institutions within their jurisdictions. At December 31, 2007, BCB Bancorp, Inc., was considered to be a well capitalized Bank Holding Company.

The Federal Reserve may set higher capital requirements for holding companies whose circumstances warrant it. For example, holding companies experiencing internal growth or making acquisitions are expected to maintain strong capital positions substantially above the minimum supervisory levels, without significant reliance on intangible assets.

From time to time, the Federal Reserve Board and the other federal bank regulatory agencies propose changes to, and issue interpretations of, risk-based capital guidelines and related reporting instructions. Such changes or interpretations could, if implemented in the future, affect the Company's capital ratios and risk-adjusted assets.

### **Bank Regulation**

As a New Jersey-chartered commercial bank, the Bank is subject to the regulation, supervision, and examination of the New Jersey Department of Banking and Insurance. As an FDIC-insured institution, we are subject to the regulation, supervision and examination of the FDIC, an agency of the federal government. The regulations of the FDIC and the New Jersey Department of Banking and Insurance impact virtually all of our activities, including the minimum level of capital we must maintain, our ability to pay dividends, our ability to expand through new branches or acquisitions and various other matters.

*Insurance of Deposits* . Our deposit accounts are insured by the FDIC generally up to a maximum of \$100,000 per separately insured depositor and up to a maximum of \$250,000 for self-directed retirement accounts. The Bank's deposits, therefore, are subject to FDIC insurance assessments.

The FDIC regulations assess insurance premiums based on an institution's risk. Under this assessment system, the FDIC evaluates the risk of each financial institution based on its supervisory rating, financial ratios, and long-term debt issuer rating. The rates for nearly all of the financial institutions industry vary between five and seven cents for every \$100 of domestic deposits. Federal law requires the FDIC to establish a deposit reserve ratio for the deposit insurance fund of between 1.15% and 1.50% of estimated deposits. The FDIC has designated the reserve ratio for the deposit insurance fund through the first quarter of 2008 at 1.25% of estimated insured deposits.

Effective March 31, 2006, the FDIC merged the Bank Insurance Fund and the Savings Association Insurance Fund into a single fund called the Deposit Insurance Fund. In addition to the FDIC assessments, the Financing Corporation ("FICO") is authorized to impose and collect, with the approval of the FDIC, assessments for anticipated payments, issuance costs and custodial fees on bonds issued by the FICO in the 1980s to recapitalize the Federal Savings and Loan Insurance Corporation. The bonds issued by the FICO are due to mature in 2017 through 2019. For the quarter ended December 31, 2007, the annualized FICO assessment was equal to 1.14 basis points for each \$100 in domestic deposits maintained at an institution.

*Capital Adequacy Guidelines* . The FDIC has promulgated risk-based capital rules, which are designed to make regulatory capital requirements more sensitive to differences in risk profile among banks, to account for off-balance sheet exposure, and to minimize disincentives for holding liquid assets. Under these rules, assets and off-balance sheet items are assigned to broad risk categories, each with appropriate weights. The resulting capital ratios represent capital as a percentage of total risk-weighted assets and off-balance sheet items. These rules are substantially similar to the Federal Reserve rules discussed above.

In addition to the risk-based capital rules, the FDIC has adopted a minimum Tier 1 capital (leverage) ratio. This measurement is substantially similar to the Federal Reserve leverage capital measurement discussed above. At December 31, 2007, the Bank's ratio of total capital to risk-weighted assets was 14.12%. Our Tier 1 capital to risk-weighted assets was 13.05%, and our Tier 1 capital to average assets was 8.81%.

*Dividends* . The Bank may pay dividends as declared from time to time by the Board of Directors out of funds legally available, subject to certain restrictions. Under the New Jersey Banking Act of 1948, as amended, the Bank may not pay a cash dividend unless, following the payment, the Bank's capital stock will be unimpaired and the Bank will have a surplus of no less than 50% of the Bank capital stock or, if not, the payment of the dividend will not reduce the surplus. In addition, the Bank cannot pay dividends in amounts that would reduce the Bank's capital below regulatory imposed minimums.

### **The USA PATRIOT Act**

In response to the terrorist events of September 11, 2001, the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001, or the USA PATRIOT Act, was signed into law on October 26, 2001. The USA PATRIOT Act gave the federal government new powers to address terrorist threats through enhanced domestic security measures, expanded surveillance powers, increased information sharing and broadened anti-money laundering requirements. For years, financial institutions such as the Bank have been subject to federal anti-money laundering obligations. As such, the Bank does not believe the USA PATRIOT Act will have a material impact on its operations.

### **Sarbanes-Oxley Act of 2002**

The Sarbanes-Oxley Act of 2002 ("Sarbanes-Oxley"), contains a broad range of legislative reforms intended to address corporate and accounting fraud. In addition to the establishment of a new accounting oversight board that will enforce auditing, quality control and independence standards and will be funded by fees from all publicly traded companies, Sarbanes-Oxley places certain restrictions on the scope of services that may be provided by accounting firms to their public company audit clients. Any non-audit services being provided to a public company audit client will require preapproval by the company's audit committee. In addition, Sarbanes-Oxley makes certain changes to the requirements for audit partner rotation after a period of time. Sarbanes-Oxley requires chief executive officers and chief financial officers, or their equivalent, to certify to the accuracy of periodic reports filed with the Securities and Exchange Commission, subject to civil and criminal penalties if they knowingly or willingly violate this certification requirement. The Company's Chief Executive Officer and Principal

Accounting Officer have signed certifications to this Form 10-K as required by Sarbanes-Oxley. In addition, under Sarbanes-Oxley, counsel will be required to report evidence of a material violation of the securities laws or a breach of fiduciary duty by a company to its chief executive officer or its chief legal officer, and, if such officer does not appropriately respond, to report such evidence to the audit committee or other similar committee of the board of directors or the board itself.

Under Sarbanes-Oxley, longer prison terms will apply to corporate executives who violate federal securities laws; the period during which certain types of suits can be brought against a company or its officers is extended; and bonuses issued to top executives prior to restatement of a company's financial statements are now subject to disgorgement if such restatement was due to corporate misconduct. Executives are also prohibited from trading the company's securities during retirement plan "blackout" periods, and loans to company executives (other than loans by financial institutions permitted by federal rules and regulations) are restricted. In addition, a provision directs that civil penalties levied by the Securities and Exchange Commission as a result of any judicial or administrative action under Sarbanes-Oxley be deposited to a fund for the benefit of harmed investors. The Federal Accounts for Investor Restitution provision also requires the Securities and Exchange Commission to develop methods of improving collection rates. The legislation accelerates the time frame for disclosures by public companies, as they must immediately disclose any material changes in their financial condition or operations. Directors and executive officers must also provide information for most changes in ownership in a company's securities within two business days of the change.

Sarbanes-Oxley also increases the oversight of, and codifies certain requirements relating to, audit committees of public companies and how they interact with the company's "registered public accounting firm." Audit Committee members must be independent and are absolutely barred from accepting consulting, advisory or other compensatory fees from the issuer. In addition, companies must disclose whether at least one member of the committee is a "financial expert" (as such term is defined by the Securities and Exchange Commission) and if not, why not. Under Sarbanes-Oxley, a company's registered public accounting firm is prohibited from performing statutorily mandated audit services for a company if such company's chief executive officer, chief financial officer, comptroller, chief accounting officer or any person serving in equivalent positions had been employed by such firm and participated in the audit of such company during the one-year period preceding the audit initiation date. Sarbanes-Oxley also prohibits any officer or director of a company or any other person acting under their direction from taking any action to fraudulently influence, coerce, manipulate or mislead any independent accountant engaged in the audit of the company's financial statements for the purpose of rendering the financial statements materially misleading. Sarbanes-Oxley also requires the Securities and Exchange Commission to prescribe rules requiring inclusion of any internal control report and assessment by management in the annual report to shareholders. Sarbanes-Oxley requires the company's registered public accounting firm that issues the audit report to attest to and report on management's assessment of the company's internal controls.

Under Section 404 of the Sarbanes-Oxley Act of 2002, we are required to conduct a comprehensive review and assessment of the adequacy of our existing financial systems and controls. For the year ending December 31, 2009, we expect that our auditors will have to audit our internal control over financial reporting.

## AVAILABILITY OF ANNUAL REPORT

Our Annual Report is available on our website, [www.bccbancorp.com](http://www.bccbancorp.com). We will also provide our Annual Report on Form 10-K free of charge to shareholders who write to the Corporate Secretary at 104-110 Avenue C, Bayonne, New Jersey 07002.

### **ITEM 1A. RISK FACTORS**

**Our loan portfolio consists of a high percentage of loans secured by commercial real estate and multi-family real estate. These loans are riskier than loans secured by one- to four-family properties.**

At December 31, 2007, \$208.1 million, or 56.3% of our loan portfolio consisted of commercial and multi-family real estate loans. We intend to continue to emphasize the origination of these types of loans. These loans generally expose a lender to greater risk of nonpayment and loss than one- to four-family residential mortgage loans because repayment of the loans often depends on the successful operation and income stream of the borrower's business. Such loans typically involve larger loan balances to single borrowers or groups of related borrowers compared to one- to four-family residential mortgage loans. Consequently, an adverse development with respect to one loan or one credit relationship can expose us to a significantly greater risk of loss compared to an adverse development with respect to a one- to four-family residential mortgage loan.

**We may not be able to successfully maintain and manage our growth.**

Since December 31, 2003, our assets have grown at a compound annual growth rate of 17.0%, our loan balances have grown at a compound annual growth rate of 17.9% and our deposits have grown at a compound annual growth rate of 12.0%. Our ability to continue to grow depends, in part, upon our ability to expand our market presence, successfully attract core deposits, and identify attractive commercial lending opportunities.

We cannot be certain as to our ability to manage increased levels of assets and liabilities. We may be required to make additional investments in equipment and personnel to manage higher asset levels and loans balances, which may adversely impact our efficiency ratio, earnings and shareholder returns.

**If our allowance for loan losses is not sufficient to cover actual loan losses, our earnings could decrease.**

Our loan customers may not repay their loans according to the terms of their loans, and the collateral securing the payment of their loans may be insufficient to assure repayment. We may experience significant credit losses, which could have a material adverse effect on our operating results. We make various assumptions and judgments about the collectability of our loan portfolio, including the creditworthiness of our borrowers and the value of the real estate and other assets serving as collateral for the repayment of many of our loans. In determining the amount of the allowance for loan losses, we review our loans and our loss and delinquency experience, and we evaluate economic conditions. If our assumptions prove to be incorrect, our

allowance for loan losses may not cover losses in our loan portfolio at the date of the financial statements. Material additions to our allowance would materially decrease our net income. At December 31, 2007, our allowance for loan losses totaled \$4.1 million, representing 1.10% of total loans.

While we have only been operating for seven years, we have experienced significant growth in our loan portfolio, particularly our loans secured by commercial real estate. Although we believe we have underwriting standards to manage normal lending risks, and although we had \$4.6 million, or 0.81% of total assets consisting of non-performing assets at December 31, 2007, it is difficult to assess the future performance of our loan portfolio due to the relatively recent origination of many of these loans. We can give you no assurance that our non-performing loans will not increase or that our non-performing or delinquent loans will not adversely affect our future performance.

In addition, federal and state regulators periodically review our allowance for loan losses and may require us to increase our allowance for loan losses or recognize further loan charge-offs. Any increase in our allowance for loan losses or loan charge-offs as required by these regulatory agencies could have a material adverse effect on our results of operations and financial condition.

**We depend primarily on net interest income for our earnings rather than fee income.**

Net interest income is the most significant component of our operating income. We do not rely on traditional sources of fee income utilized by some community banks, such as fees from sales of insurance, securities or investment advisory products or services. For the years ended December 31, 2007 and 2006, our net interest income was \$17.2 million and \$17.8 million, respectively. The amount of our net interest income is influenced by the overall interest rate environment, competition, and the amount of interest-earning assets relative to the amount of interest-bearing liabilities. In the event that one or more of these factors were to result in a decrease in our net interest income, we do not have significant sources of fee income to make up for decreases in net interest income.

**Fluctuations in interest rates could reduce our profitability.**

We realize income primarily from the difference between the interest we earn on loans and investments and the interest we pay on deposits and borrowings. The interest rates on our assets and liabilities respond differently to changes in market interest rates, which means our interest-bearing liabilities may be more sensitive to changes in market interest rates than our interest-earning assets, or vice versa. In either event, if market interest rates change, this “gap” between the amount of interest-earning assets and interest-bearing liabilities that reprice in response to these interest rate changes may work against us, and our earnings may be negatively affected.

We are unable to predict fluctuations in market interest rates, which are affected by, among other factors, changes in the following:

- inflation rates;
- business activity levels;
- money supply; and
- domestic and foreign financial markets.

The value of our investment portfolio and the composition of our deposit base are influenced by prevailing market conditions and interest rates. Our asset-liability management strategy, which is designed to mitigate the risk to us from changes in market interest rates, may not prevent changes in interest rates or securities market downturns from reducing deposit outflow or from having a material adverse effect on our results of operations, our financial condition or the value of our investments.

**Adverse events in New Jersey, where our business is concentrated, could adversely affect our results and future growth.**

Our business, the location of our branches and the real estate collateralizing our real estate loans are concentrated in New Jersey. As a result, we are exposed to geographic risks. The occurrence of an economic downturn in New Jersey, or adverse changes in laws or regulations in New Jersey could impact the credit quality of our assets, the business of our customers and our ability to expand our business.

Our success significantly depends upon the growth in population, income levels, deposits and housing in our market area. If the communities in which we operate do not grow or if prevailing economic conditions locally or nationally are unfavorable, our business may be negatively affected. In addition, the economies of the communities in which we operate are substantially dependent on the growth of the economy in the State of New Jersey. To the extent that economic conditions in New Jersey are unfavorable or do not continue to grow as projected, the economy in our market area would be adversely affected. Moreover, we cannot give any assurance that we will benefit from any market growth or favorable economic conditions in our market area if they do occur.

In addition, the market value of the real estate securing loans as collateral could be adversely affected by unfavorable changes in market and economic conditions. As of December 31, 2007, approximately 94.4% of our total loans were secured by real estate. Adverse developments affecting commerce or real estate values in the local economies in our primary market areas could increase the credit risk associated with our loan portfolio. In addition, substantially all of our loans are to individuals and businesses in New Jersey. Our business customers may not have customer bases that are as diverse as businesses serving regional or national markets. Consequently, any decline in the economy of our market area could have an adverse impact on our revenues and financial condition. In particular, we may experience increased loan delinquencies, which could result in a higher provision for loan losses and increased charge-offs. Any sustained period of increased non-payment, delinquencies,

foreclosures or losses caused by adverse market or economic conditions in our market area could adversely affect the value of our assets, revenues, results of operations and financial condition.

**We operate in a highly regulated environment and may be adversely affected by changes in federal, state and local laws and regulations.**

We are subject to extensive regulation, supervision and examination by federal and state banking authorities. Any change in applicable regulations or federal, state or local legislation could have a substantial impact on us and our operations. Additional legislation and regulations that could significantly affect our powers, authority and operations may be enacted or adopted in the future, which could have a material adverse effect on our financial condition and results of operations. Further, regulators have significant discretion and authority to prevent or remedy unsafe or unsound practices or violations of laws by banks and bank holding companies in the performance of their supervisory and enforcement duties. The exercise of regulatory authority may have a negative impact on our results of operations and financial condition.

Like other bank holding companies and financial institutions, we must comply with significant anti-money laundering and anti-terrorism laws. Under these laws, we are required, among other things, to enforce a customer identification program and file currency transaction and suspicious activity reports with the federal government. Government agencies have substantial discretion to impose significant monetary penalties on institutions which fail to comply with these laws or make required reports. Because we operate our business in the highly urbanized greater Newark/New York City metropolitan area, we may be at greater risk of scrutiny by government regulators for compliance with these laws.

**We expect to incur additional expense in connection with our compliance with Sarbanes-Oxley.**

Under Section 404 of the Sarbanes-Oxley Act of 2002, we are required to conduct a comprehensive review and assessment of the adequacy of our existing financial systems and controls at December 31, 2007. For the year ending December 31, 2009, we expect our auditors will have to audit our internal control over financial reporting. This is expected to result in additional expenses in 2009. Moreover, a review of our financial systems and controls may uncover deficiencies in existing systems and controls. If that is the case, we would have to take the necessary steps to correct any deficiencies, which may be costly and may strain our management resources and negatively impact earnings. We also would be required to disclose any such deficiencies, which could adversely affect the market price of our common stock.

**ITEM 1B. UNRESOLVED STAFF COMMENTS**

None.

**ITEM 2. PROPERTIES**

At December 31, 2007, we conducted our business from our executive office located at 104-110 Avenue C, Bayonne, New Jersey, and our three branch offices, which are located in Bayonne and Hoboken. The aggregate book value of our premises and equipment was



\$5.9 million at December 31, 2007. We own our executive office facility and lease our three branch offices.

### **ITEM 3. LEGAL PROCEEDINGS**

We are involved, from time to time, as plaintiff or defendant in various legal actions arising in the normal course of its business. At December 31, 2007, we were not involved in any material legal proceedings.

### **ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

No matters were submitted to a vote of stockholders during the fourth quarter of the year under report.

## **PART II**

### **ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES**

BCB Bancorp, Inc.'s common stock trades on the Nasdaq Global Market under the symbol "BCBP." In order to list common stock on the Nasdaq Global Market, the presence of at least three registered and active market makers is required and BCB Bancorp, Inc. has at least three market makers.

The following table sets forth the high and low sales prices for BCB Bancorp, Inc. common stock for the periods indicated. As of December 31, 2007, there were 4,638,207 shares of BCB Bancorp, Inc. common stock outstanding. At December 31, 2007, BCB Bancorp, Inc. had approximately 1,505 stockholders of record.

|                                  | <b>High</b> | <b>Low</b> | <b>Cash Dividend<br/>Declared</b> |
|----------------------------------|-------------|------------|-----------------------------------|
| <b>Fiscal 2007</b>               |             |            |                                   |
| Quarter Ended December 31, 2007  | \$ 16.70    | \$ 14.80   | \$ 0.09                           |
| Quarter Ended September 30, 2007 | 16.50       | 15.06      | 0.08                              |
| Quarter Ended June 30, 2007      | 18.38       | 16.24      | 0.08                              |
| Quarter Ended March 31, 2007     | 17.87       | 16.16      | 0.07                              |
| <b>Fiscal 2006</b>               |             |            |                                   |
| Quarter Ended December 31, 2006  | \$ 17.10    | \$ 14.60   | \$ —                              |
| Quarter Ended September 30, 2006 | 16.31       | 14.14      | 0.30                              |
| Quarter Ended June 30, 2006      | 17.12       | 15.02      | —                                 |
| Quarter Ended March 31, 2006     | 17.05       | 15.10      | —                                 |

Please see "Item 1. Business—Bank Regulation—Dividends" for a discussion of restrictions on the ability of the Bank to pay the Company dividends.

## Compensation Plans

Set forth below is information as of December 31, 2007 regarding equity compensation plans that have been approved by shareholders. The Company has no equity based benefit plans that were not approved by shareholders.

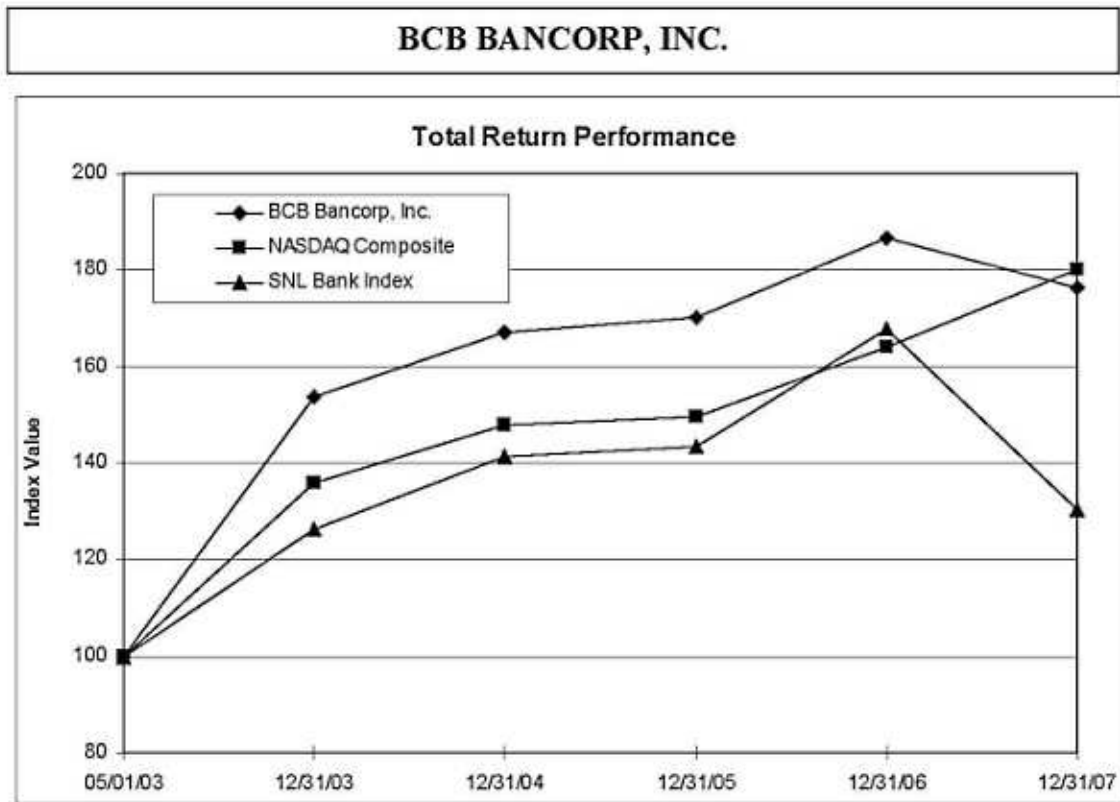
| <b>Plan</b>  | <b>Number of securities to be issued upon exercise of outstanding options and rights</b> | <b>Weighted average Exercise price(2)</b> | <b>Number of securities remaining available for issuance under plan</b> |
|--|--|---|---|
| Equity compensation plans approved by shareholders     | 400,212(1)   | \$9.83                                    | -0-   |
| Equity compensation plans not approved by shareholders | —  | —   | -0-   |
| <b>Total</b>   | <b>400,212</b>   | <b>\$9.83</b>                             | <b>-0-</b>  |

(1) Consists of options to purchase (i) 126,693 shares of common stock under the 2002 Stock Option Plan and (ii) 273,519 shares of common stock under the 2003 Stock Option Plan.

(2) The weighted average exercise price reflects the exercise prices ranging from \$9.34 to \$15.65 per share for options granted under the 2003 Stock Option Plan and ranging from \$5.29 to \$15.65 per share for options under the 2002 Stock Option Plan.

## Stock Performance Graph

Set forth hereunder is a stock performance graph comparing (a) the cumulative total return on the common stock for the period beginning with the closing sales price on May 1, 2003 through December 31, 2007, (b) the cumulative total return on all publicly traded commercial bank stocks over such period, and (c) the cumulative total return of Nasdaq Market Index over such period. Cumulative return assumes the reinvestment of dividends, and is expressed in dollars based on an assumed investment of \$100.



| <i>Index</i>      | <i>Period Ending</i> |                 |                 |                 |                 |                 |
|-------------------|----------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
|                   | <b>05/01/03</b>      | <b>12/31/03</b> | <b>12/31/04</b> | <b>12/31/05</b> | <b>12/31/06</b> | <b>12/31/07</b> |
| BCB Bancorp, Inc. | \$ 100.00            | \$ 153.65       | \$ 167.18       | \$ 170.24       | \$ 186.53       | \$ 176.42       |
| NASDAQ Composite  | 100.00               | 136.05          | 147.73          | 149.76          | 164.02          | 180.11          |
| SNL Bank Index    | 100.00               | 126.27          | 141.50          | 143.43          | 167.77          | 130.37          |

On April 26, 2007, the Company announced a stock repurchase plan which provides for the repurchase of 5% or 249,080 shares of the Company's common stock. On November 20, 2007, the Company announced a third stock repurchase plan to repurchase 5% or 234,002 shares of the Company's common stock. This plan will commence upon completion of the prior plan. Set forth below is information regarding purchases of our common stock made by or on behalf of the Company during the fourth quarter of 2007.

| Period        | Total number of shares purchased | Average price per share paid | Total number of shares purchased as part of a publicly announced program | Number of shares remaining to be purchased under program |
|---------------|----------------------------------|------------------------------|--|--|
| October 1-31  | 5,756                            | \$15.55                      | 5,756  | 67,367   |
| November 1-30 | 32,354                           | 16.44                        | 38,110   | 269,015  |
| December 1-31 | 39,488                           | 16.56                        | 77,598   | 229,527  |

#### ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA

The following tables set forth selected consolidated historical financial and other data of BCB Bancorp, Inc. at and for the years ended December 31, 2007, 2006, 2005, 2004 and 2003. The information is derived in part from, and should be read together with, the audited Consolidated Financial Statements and Notes thereto of BCB Bancorp, Inc. Per share data has been adjusted for all periods to reflect the common stock dividends paid by the Company.

|                              | Selected financial condition data at December 31, |            |            |            |            |
|------------------------------|---|------------|------------|------------|------------|
|                              | 2007  | 2006       | 2005       | 2004       | 2003       |
|                              | (In Thousands)                                    |            |            |            |            |
| Total assets                 | \$ 563,477  | \$ 510,835 | \$ 466,242 | \$ 378,289 | \$ 300,676 |
| Cash and cash equivalents    | 11,780  | 25,837     | 25,147     | 4,534      | 11,786     |
| Securities, held to maturity | 165,017   | 148,672    | 140,002    | 117,036    | 90,313     |
| Loans receivable             | 364,654   | 318,130    | 284,451    | 246,380    | 188,786    |
| Deposits                     | 398,819   | 382,747    | 362,851    | 337,243    | 253,650    |
| Borrowings                   | 114,124   | 74,124     | 54,124     | 14,124     | 25,000     |
| Stockholders' equity         | 48,510  | 51,963     | 47,847     | 26,036     | 21,167     |

|                              | Selected operating data for the year ended December 31, |           |           |           |          |
|------------------------------|---|-----------|-----------|-----------|----------|
|                              | 2007  | 2006      | 2005      | 2004      | 2003     |
|                              | (In thousands, except for per share amounts)            |           |           |           |          |
| Net interest income          | \$ 17,173   | \$ 17,784 | \$ 15,883 | \$ 13,755 | \$ 9,799 |
| Provision for loan losses    | 600   | 625       | 1,118     | 690       | 880      |
| Non-interest income          | 1,092   | 1,260     | 915       | 623       | 480      |
| Non-interest expense         | 10,718  | 9,632     | 8,206     | 7,661     | 5,390    |
| Income tax                   | 2,509   | 3,220     | 2,745     | 2,408     | 1,614    |
| Net income                   | \$ 4,438  | \$ 5,567  | \$ 4,729  | \$ 3,619  | \$ 2,395 |
| Net income per share:        |   |           |           |           |          |
| Basic                        | \$ 0.92   | \$ 1.11   | \$ 1.25   | \$ 0.97   | \$ 0.67  |
| Diluted                      | \$ 0.90   | \$ 1.08   | \$ 1.20   | \$ 0.93   | \$ 0.64  |
| Dividends declared per share | \$ 0.32   | \$ 0.30   | \$ —      | \$ —      | \$ —     |

|  | <b>At or for the Years Ended December 31,</b> |             |             |             |             |
|--|---|-------------|-------------|-------------|-------------|
|  | <b>2007</b>                                   | <b>2006</b> | <b>2005</b> | <b>2004</b> | <b>2003</b> |
| <b>Selected Financial Ratios and Other Data:</b>   |   |             |             |             |             |
| Return on average assets (ratio of net income to average total assets)                       | 0.83%   | 1.13%       | 1.14%       | 1.01%       | 1.03%       |
| Return on average stockholders' equity (ratio of net income to average stockholders' equity) | 8.86  | 11.12       | 16.00       | 15.45       | 11.97       |
| Non-interest income to average assets  | 0.20  | 0.26        | 0.21        | 0.17        | 0.21        |
| Non-interest expense to average assets   | 1.99  | 1.96        | 1.98        | 2.15        | 2.32        |
| Net interest rate spread during the period   | 2.71  | 3.19        | 3.69        | 3.73        | 4.03        |
| Net interest margin (net interest income to average interest earning assets)                 | 3.26  | 3.69        | 3.98        | 3.96        | 4.34        |
| Ratio of average interest-earning assets to average interest-bearing liabilities             | 116.94  | 118.09      | 112.33      | 111.63      | 116.42      |
| Cash dividend payout ratio   | 34.78   | 26.98       | —           | —           | —           |
| <b>Asset Quality Ratios:</b>   |   |             |             |             |             |
| Non-performing loans to total loans at end of period   | 1.16  | 0.10        | 0.36        | 0.40        | 0.20        |
| Allowance for loan losses to non-performing loans at end of period                           | 95.13   | 1,155.73    | 299.42      | 249.60      | 547.48      |
| Allowance for loan losses to total loans at end of period                                    | 1.10  | 1.16        | 1.07        | 1.01        | 1.11        |
| <b>Capital Ratios:</b>   |   |             |             |             |             |
| Stockholders' equity to total assets at end of period  | 8.61  | 10.17       | 10.26       | 6.88        | 7.04        |
| Average stockholders' equity to average total assets   | 9.32  | 10.19       | 7.14        | 6.57        | 8.62        |
| Tier 1 capital to average assets   | 9.24  | 10.91       | 7.75        | 7.75        | 7.02        |
| Tier 1 capital to risk weighted assets   | 13.05   | 15.36       | 11.59       | 11.84       | 10.47       |

**ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

**General**

This discussion, and other written material, and statements management may make, may contain certain forward-looking statements regarding the Company's prospective performance and strategies within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. The Company intends such forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995, and is including this statement for purposes of said safe harbor provisions.

Forward-looking information is inherently subject to risks and uncertainties, and actual results could differ materially from those currently anticipated due to a number of factors, which include, but are not limited to, factors discussed in the Company's Annual Report on Form 10-K and in other documents filed by the Company with the Securities and Exchange Commission. Forward-looking statements, which are based on certain assumptions and describe future plans, strategies and expectations of the Company, are generally identified by the use of the words "plan," "believe," "expect," "intend," "anticipate," "estimate," "project," "may," "will," "should," "could," "predicts," "forecasts," "potential," or "continue" or similar terms or the

negative of these terms. The Company's ability to predict results or the actual effects of its plans or strategies is inherently uncertain. Accordingly, actual results may differ materially from anticipated results.

Factors that could have a material adverse effect on the operations of the Company and its subsidiaries include, but are not limited to, changes in market interest rates, general economic conditions, legislation, and regulation; changes in monetary and fiscal policies of the United States Government, including policies of the United States Treasury and Federal Reserve Board; changes in the quality or composition of the loan or investment portfolios; changes in deposit flows, competition, and demand for financial services, loans, deposits and investment products in the Company's local markets; changes in accounting principles and guidelines; war or terrorist activities; and other economic, competitive, governmental, regulatory, geopolitical and technological factors affecting the Company's operations, pricing and services.

Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this discussion. Although the Company believes that the expectations reflected in the forward-looking statements are reasonable, the Company cannot guarantee future results, levels of activity, performance or achievements. Except as required by applicable law or regulation, the Company undertakes no obligation to update these forward-looking statements to reflect events or circumstances that occur after the date on which such statements were made.

### **Critical Accounting Policies**

Critical accounting policies are those accounting policies that can have a significant impact on the Company's financial position and results of operations that require the use of complex and subjective estimates based upon past experiences and management's judgment. Because of the uncertainty inherent in such estimates, actual results may differ from these estimates. Below are those policies applied in preparing the Company's consolidated financial statements that management believes are the most dependent on the application of estimates and assumptions. For additional accounting policies, see Note 2 of "Notes to Consolidated Financial Statements."

#### *Allowance for Loan Losses*

Loans receivable are presented net of an allowance for loan losses. In determining the appropriate level of the allowance, management considers a combination of factors, such as economic and industry trends, real estate market conditions, size and type of loans in portfolio, nature and value of collateral held, borrowers' financial strength and credit ratings, and prepayment and default history. The calculation of the appropriate allowance for loan losses requires a substantial amount of judgment regarding the impact of the aforementioned factors, as well as other factors, on the ultimate realization of loans receivable.

#### *Stock Options*

The Company had, through December 31, 2005, the choice to account for stock options using either Accounting Principles Board Opinion No. 25 ("APB 25") or Statement of Financial Accounting Standards ("Statement") No. 123, "Accounting for Stock-Based Compensation."

For the year ended December 31, 2005, the Company elected to use the accounting method under APB 25 and the related interpretations to account for its stock options. Under APB 25, generally, when the exercise price of the Company's stock options equals the market price of the underlying stock on the date of grant, no compensation expense is recognized. On December 14, 2005, the Board of Directors of the Company approved the accelerated vesting and exercisability of all unvested and unexercisable stock options granted as a part of the 2003 and 2002 Stock Option Plans effective December 20, 2005. Had the Company elected to use Statement No. 123 to account for its stock options under the fair value method, it would have been required to record compensation expense and, as a result, diluted earnings per share for the fiscal year ended December 31, 2005 would have been lower by \$0.32. No stock options were granted prior to 2002. See Note 2 to "Notes to Consolidated Financial Statements." Effective January 1, 2006, the Company accounts for stock options pursuant to Statement No. 123 (revised 2004). The acceleration of vesting was done primarily to avoid the recording of compensation expense in future years.

## **Financial Condition**

### ***Comparison at December 31, 2007 and at December 31, 2006***

Since we commenced operations in 2000 we have sought to grow our assets and deposit base consistent with our capital requirements. We offer competitive loan and deposit products and seek to distinguish ourselves from our competitors through our service and availability. Total assets increased by \$52.7 million or 10.3% to \$563.5 million at December 31, 2007 from \$510.8 million at December 31, 2006 as the Company continued to grow the Bank's balance sheet with loans and securities funded primarily through growth in the Bank's deposit base and the utilization of wholesale funding sources, specifically Federal Home Loan Bank advances.

Total cash and cash equivalents decreased by \$14.0 million or 54.3% to \$11.8 million at December 31, 2007 from \$25.8 million at December 31, 2006 as the Company recognized that, with money market rates decreasing, specifically during the second half of 2007, management deployed those liquid assets into higher yielding loans and investment securities. Securities held-to-maturity increased by \$16.3 million or 11.0% to \$165.0 million at December 31, 2007 from \$148.7 million at December 31, 2006. The increase was primarily attributable to the purchase of \$25.0 million in callable agency securities and \$12.3 million in mortgage backed securities, partially offset by call options exercised on \$15.4 million of callable agency securities, maturities of \$2.0 million of callable agency securities and \$3.6 million of repayments and prepayments in the mortgage backed securities portfolio during the year ended December 31, 2007.

Loans receivable increased by \$46.6 million or 14.6% to \$364.7 million at December 31, 2007 from \$318.1 million at December 31, 2006. The increase resulted primarily from a \$38.3 million increase in real estate mortgages comprising residential, commercial and construction loans, net of amortization, a \$3.4 million increase in consumer loans, net of amortization, and a \$5.2 million increase in commercial loans consisting primarily of business loans and commercial lines of credit partially offset by a \$332,000 increase in the allowance for loan losses. At December 31, 2007, the allowance for loan losses was \$4.1 million or 1.10% of total loans. The growth in loans receivable was primarily attributable to competitive pricing in a lower than

historically normal interest rate environment and a vibrant local economy where residential construction and rehabilitation remain active.

Deposit liabilities increased by \$16.1 million or 4.2% to \$398.8 million at December 31, 2007 from \$382.7 million at December 31, 2006. The increase resulted primarily from an increase of \$13.7 million or 6.8% in time deposits to \$214.5 million from \$200.8 million and an increase of \$19.6 million or 30.5% in demand deposits to \$83.9 million from \$64.3 million, partially offset by a decrease of \$17.2 million or 14.6% in savings and club accounts to \$100.4 million from \$117.6 million. The decrease in savings and club account balances resulted primarily from internal disintermediation brought on by an increasingly competitive local market for deposit growth. The Bank has been able to achieve these growth rates through competitive pricing on select deposit products.

Borrowed money increased by \$40.0 million or 54.0% to \$114.1 million at December 31, 2007 from \$74.1 million at December 31, 2006. The increase in borrowings reflects the use of long-term Federal Home Loan Bank advances to augment deposits as the Bank's funding source for originating loans and investing in Government Sponsored Enterprise (GSE) investment securities.

Total stockholders' equity decreased by \$3.5 million or 6.7% to \$48.5 million at December 31, 2007 from \$52.0 million at December 31, 2006. The decrease in stockholders' equity primarily reflects the repurchase of 385,358 shares of the Company's common stock through the stock repurchase plans in place and effect through the year totaling \$6.5 million and cash dividends paid through the year totaling \$1.6 million, partially offset by net income of \$4.4 million for the year ended December 31, 2007. At December 31, 2007 the Bank's Tier 1 leverage, Tier 1 risk-based and Total risk-based capital ratios were 8.81%, 13.05%, and 14.12% respectively.

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

Net interest income is the difference between interest income on interest-earning assets and interest expense on interest-bearing liabilities. Net interest income depends on the relative amounts of interest-earning assets and interest-bearing liabilities and the interest rates earned or paid on them, respectively.



The following tables set forth balance sheets, average yields and costs, and certain other information for the periods indicated. All average balances are daily average balances. The yields set forth below include the effect of deferred fees, discounts and premiums, which are included in interest income.

|  | <u>At December 31, 2007</u> |                          | <u>The year ended December 31, 2007</u> |                             |   | <u>The year ended December 31, 2006</u> |                             |   |
|--|-----------------------------|--------------------------|---|-----------------------------|---|---|-----------------------------|---|
|  | <u>Actual Balance</u>       | <u>Actual Yield/Cost</u> | <u>Average Balance</u>                  | <u>Interest earned/paid</u> | <u>Average Yield/Cost<sup>(5)</sup></u> | <u>Average Balance</u>                  | <u>Interest earned/paid</u> | <u>Average Yield/Cost<sup>(5)</sup></u> |
| (Dollars in Thousands)   |                             |                          |   |                             |   |   |                             |   |
| Interest-earning assets:   |                             |                          |   |                             |   |   |                             |   |
| Loans receivable (1)   | \$ 362,721                  | 7.23%                    | \$ 339,057                              | \$ 24,365                   | 7.19%                                   | \$ 315,493                              | \$ 22,770                   | 7.22%                                   |
| Investment securities(2)   | 172,633                     | 5.66                     | 161,707                                 | 8,843                       | 5.47                                    | 153,628                                 | 8,046                       | 5.24                                    |
| Interest-earning deposits  | 8,810                       | 3.63                     | 26,010                                  | 1,182                       | 4.54                                    | 12,569                                  | 445                         | 3.54                                    |
| Total interest-earning assets                                    | <u>544,164</u>              | <u>6.68%</u>             | <u>526,774</u>                          | <u>34,390</u>               | <u>6.53%</u>                            | <u>481,690</u>                          | <u>31,261</u>               | <u>6.49%</u>                            |
| Interest-earning liabilities:                                    |                             |                          |   |                             |   |   |                             |   |
| Interest-bearing demand deposits                                 | \$ 20,260                   | 1.38%                    | \$ 21,076                               | \$ 294                      | 1.40%                                   | \$ 21,397                               | 302                         | 1.41%                                   |
| Money market deposits  | 27,697                      | 3.87                     | 17,212                                  | 712                         | 4.14                                    | 3,353                                   | 124                         | 3.70                                    |
| Savings deposits   | 100,441                     | 1.64                     | 108,921                                 | 1,866                       | 1.71                                    | 137,046                                 | 2,611                       | 1.91                                    |
| Certificates of deposit  | 214,524                     | 4.86                     | 209,828                                 | 10,109                      | 4.82                                    | 182,340                                 | 7,807                       | 4.28                                    |
| Borrowings   | 114,124                     | 4.46                     | 93,412                                  | 4,236                       | 4.54                                    | 63,775                                  | 2,633                       | 4.13                                    |
| Total interest-bearing liabilities                               | <u>477,046</u>              | <u>3.88%</u>             | <u>450,449</u>                          | <u>17,217</u>               | <u>3.82%</u>                            | <u>407,911</u>                          | <u>13,477</u>               | <u>3.30%</u>                            |
| Net interest income  |                             |                          |   | <u>\$ 17,173</u>            |   |   | <u>\$ 17,784</u>            |   |
| Interest rate spread (3)   |                             | <u>2.80%</u>             |   |                             | <u>2.71%</u>                            |   |                             | <u>3.19%</u>                            |
| Net interest margin (4)  |                             |                          |   |                             | <u>3.26%</u>                            |   |                             | <u>3.69%</u>                            |
| Ratio of interest-earning assets to interest-bearing liabilities | <u>114.07%</u>              |                          | <u>116.94%</u>                          |                             |   | <u>118.09%</u>                          |                             |   |

(1) Excludes allowance for loan losses.

(2) Includes Federal Home Loan Bank of New York stock.

(3) Interest rate spread represents the difference between the average yield on interest-earning assets and the average cost of interest-bearing liabilities.

(4) Net interest margin represents net interest income as a percentage of average interest-earning assets.

(5) Average yields are computed using annualized interest income and expense for the periods.

|                                  | <u>The year ended December 31, 2005</u> |                             |   |
|----------------------------------|---|-----------------------------|---|
|                                  | <u>Average Balance</u>                  | <u>Interest earned/paid</u> | <u>Average Yield/Cost<sup>(5)</sup></u> |
| (Dollars in Thousands)           |   |                             |   |
| Interest-earning assets:         |   |                             |   |
| Loans receivable (1)             | \$ 274,306                              | \$ 18,760                   | 6.84%                                   |
| Investment securities(2)         | 124,315                                 | 6,297                       | 5.07                                    |
| Interest-earning deposits        | 4,700                                   | 71                          | 1.51                                    |
| Total interest-earning assets    | <u>403,321</u>                          | <u>25,128</u>               | <u>6.23%</u>                            |
| Interest-earning liabilities:    |   |                             |   |
| Interest-bearing demand deposits | \$ 20,815                               | 284                         | 1.36%                                   |
| Money market deposits            | 2,289                                   | 45                          | 1.97                                    |
| Savings deposits                 | 183,288                                 | 3,958                       | 2.16                                    |
| Certificates of deposit          | 116,560                                 | 3,736                       | 3.21                                    |
| Borrowings                       | <u>33,527</u>                           | <u>1,222</u>                | <u>3.64</u>                             |

|  |                |                  |              |
|--|----------------|------------------|--------------|
| Total interest-bearing liabilities   | <u>356,479</u> | <u>9,245</u>     | 2.59%        |
| Net interest income  |                | <u>\$ 15,883</u> |              |
| Interest rate spread(3)  |                |                  | <u>3.64%</u> |
| Net interest margin(4)   |                |                  | <u>3.94%</u> |
| Ratio of average interest-earning assets to average interest-bearing liabilities | <u>113.14%</u> |                  |              |

(1) Excludes allowance for loan losses.

(2) Includes Federal Home Loan Bank of New York stock.

(3) Interest rate spread represents the difference between the average yield on interest-earning assets and the average cost of interest-bearing liabilities.

(4) Net interest margin represents net interest income as a percentage of average interest-earning assets.

(5) Average yields are computed using annualized interest income and expense for the periods.

## Rate/Volume Analysis

The table below sets forth certain information regarding changes in our interest income and interest expense for the periods indicated. For each category of interest-earning assets and interest-bearing liabilities, information is provided on changes attributable to (i) changes in average volume (changes in average volume multiplied by old rate); (ii) changes in rate (change in rate multiplied by old average volume); (iii) changes due to combined changes in rate and volume; and (iv) the net change.

|                                    | Years Ended December 31, |                 |          |                        |                     |                 |          |                        |
|------------------------------------|--------------------------|-----------------|----------|------------------------|---------------------|-----------------|----------|------------------------|
|                                    | 2007 vs. 2006            |                 |          | Total                  | 2006 vs. 2005       |                 |          | Total                  |
|                                    | Increase/(Decrease)      |                 |          |                        | Increase/(Decrease) |                 |          |                        |
|                                    | Due to                   |                 |          | Increase<br>(Decrease) | Due to              |                 |          | Increase<br>(Decrease) |
| Volume                             | Rate                     | Rate/<br>Volume | Volume   |                        | Rate                | Rate/<br>Volume |          |                        |
|                                    | (In Thousands)           |                 |          |                        |                     |                 |          |                        |
| <b>Interest income:</b>            |                          |                 |          |                        |                     |                 |          |                        |
| Loans receivable                   | \$ 1,701                 | \$ (98)         | \$ (8)   | \$ 1,595               | \$ 2,817            | \$ 1,037        | \$ 156   | \$ 4,010               |
| Investment securities              | 423                      | 355             | 19       | 797                    | 1,485               | 214             | 50       | 1,749                  |
| Interest-earning deposits          |                          |                 |          |                        |                     |                 |          |                        |
| with other banks                   | 476                      | 126             | 135      | 737                    | 119                 | 95              | 160      | 374                    |
| Total interest-earning assets      | 2,600                    | 383             | 146      | 3,129                  | 4,421               | 1,346           | 366      | 6,133                  |
| <b>Interest expense:</b>           |                          |                 |          |                        |                     |                 |          |                        |
| Interest-bearing demand accounts   | (4)                      | (4)             | —        | (8)                    | 8                   | 10              | —        | 18                     |
| Money market                       | 512                      | 15              | 61       | 588                    | 21                  | 40              | 18       | 79                     |
| Savings and club                   | (536)                    | (263)           | 54       | (745)                  | (999)               | (466)           | 118      | (1,347)                |
| Certificates of Deposits           | 1,177                    | 978             | 147      | 2,302                  | 2,108               | 1,255           | 708      | 4,071                  |
| Borrowed funds                     | 1,224                    | 259             | 120      | 1,603                  | 1,103               | 162             | 146      | 1,411                  |
| Total interest-bearing liabilities | 2,373                    | 985             | 382      | 3,740                  | 2,241               | 1,001           | 990      | 4,232                  |
| Change in net interest income      | \$ 227                   | \$ (602)        | \$ (236) | \$ (611)               | \$ 2,180            | \$ 345          | \$ (624) | \$ 1,901               |

## Results of Operations for the Years Ended December 31, 2007 and 2006

Net income decreased by \$1.13 million or 20.3% to \$4.44 million for the year ended December 31, 2007 from \$5.57 million for the year ended December 31, 2006. The decrease in net income resulted primarily from decreases in net interest income and non-interest income and an increase in non-interest expense, partially offset by decreases in the provision for loan losses, and income taxes. Net interest income decreased by \$611,000 or 3.4% to \$17.2 million for the year ended December 31, 2007 from \$17.8 million for the year ended December 31, 2006. This decrease in net interest income resulted primarily from an increase of \$42.6 million or 10.4% in the average balance of interest-bearing liabilities to \$450.5 million for the year ended December 31, 2007 from \$407.9 million for the year ended December 31, 2006 and an increase in the cost of interest-bearing liabilities to 3.82% for the year ended December 31, 2007 from 3.30% for the year ended December 31, 2006. The average balance of interest-earning assets increased by \$45.1 million or 9.4% to \$526.8 million at December 31, 2007 from \$481.7 million at December 31, 2006 while the yield on interest-earning assets increased slightly to 6.53% for the year ended December 31, 2007 from 6.49% for the year ended December 31, 2006. As a consequence of the aforementioned, our net interest margin decreased to 3.26% for the year ended December 31, 2007 from 3.69% for the year ended December 31, 2006.

Interest income on loans receivable increased by \$1.6 million or 7.0% to \$24.4 million for the year ended December 31, 2007 from \$22.8 million for the year ended December 31,

2006. The increase was primarily due to an increase in average loans receivable of \$23.6 million or 7.5% to \$339.1 million for the year ended December 31, 2007 from \$315.5 million for the year ended December 31, 2006, partially offset by a slight decrease in the average yield on loans receivable to 7.19% for the year ended December 31, 2007 from 7.22% for the year ended December 31, 2006. The increase in the average balance of loans reflects management's philosophy of deploying funds in higher yielding instruments, specifically commercial real estate loans in an effort to achieve higher returns. The decrease in average yield reflects the competitive price environment prevalent in the Bank's primary market area for commercial and construction loans as well as the effect of the actions taken by the Federal Open Market Committee to reduce interest rates during the latter half of 2007.

Interest income on securities increased by \$797,000 or 9.9% to \$8.8 million for the year ended December 31, 2007 from \$8.0 million for the year ended December 31, 2006. The increase was primarily attributable to an increase in the average balance of securities of \$8.1 million or 5.3% to \$161.7 million for the year ended December 31, 2007 from \$153.6 million for the year ended December 31, 2006, and an increase in the average yield on securities to 5.47% for the year ended December 31, 2007 from 5.24% for the year ended December 31, 2006. The increase in average balances reflects management's philosophy to deploy funds in investments, absent an opportunity to originate higher yielding loans, in an effort to achieve higher returns.

Interest income on other interest-earning assets consisting primarily of federal funds sold increased by \$737,000 or 165.6% to \$1.2 million for the year ended December 31, 2007 from \$445,000 for the year ended December 31, 2006. This increase was primarily due to an increase in the average balance of other interest-earning assets of \$13.4 million or 106.3% to \$26.0 million for the year ended December 31, 2007 from \$12.6 million for the year ended December 31, 2006 and an increase in the average yield on other interest-earning assets to 4.54% for the year ended December 31, 2007 from 3.54% for the year ended December 31, 2006. During 2007, as short term interest rates remained elevated and the yield curve remained inverted through the majority of the year, increased balances in cash and cash equivalent accounts, in the absence of higher yielding loan product, provided a competitive yield while affording management the latitude to research more profitable investment opportunities.

Total interest expense increased by \$3.7 million or 27.4% to \$17.2 million for the year ended December 31, 2007 from \$13.5 million for the year ended December 31, 2006. This increase resulted from an increase in the average balance of total interest-bearing deposit liabilities of \$12.9 million or 3.7% to \$357.0 million for the year ended December 31, 2007 from \$344.1 million for the year ended December 31, 2006, and an increase of \$29.6 million or 46.4% in average borrowings to \$93.4 million for the year ended December 31, 2007, from \$63.8 million for the year ended December 31, 2006, as well as an increase in the average cost of interest-bearing liabilities to 3.82% for the year ended December 31, 2007 from 3.30% for the year ended December 31, 2006.

The provision for loan losses totaled \$600,000 and \$625,000 for the years ended December 31, 2007 and 2006, respectively. The provision for loan losses is established based upon management's review of the Bank's loans and consideration of a variety of factors including, but not limited to, (1) the risk characteristics of the loan portfolio, (2) current

economic conditions, (3) actual losses previously experienced, (4) the significant level of loan growth and (5) the existing level of reserves for loan losses that are probable and estimable. During 2007, the Bank experienced \$268,000 in net charge-offs (consisting of \$285,000 in charge-offs and \$17,000 in recoveries). During 2006, the Bank experienced \$18,000 in net recoveries (consisting of \$85,000 in recoveries and \$67,000 in charge-offs). The Bank had non-accrual loans totaling \$3.8 million at December 31, 2007 and \$323,000 at December 31, 2006. The allowance for loan losses stood at \$4.1 million or 1.10% of gross total loans at December 31, 2007 as compared to \$3.7 million or 1.16% of gross total loans at December 31, 2006. The amount of the allowance is based on estimates and the ultimate losses may vary from such estimates. Management assesses the allowance for loan losses on a quarterly basis and makes provisions for loan losses as necessary in order to maintain the adequacy of the allowance. While management uses available information to recognize losses on loans, future loan loss provisions may be necessary based on changes in the aforementioned criteria. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the allowance for loan losses and may require the Bank to recognize additional provisions based on their judgment of information available to them at the time of their examination. Management believes that the allowance for loan losses was adequate at both December 31, 2007 and 2006.

Total non-interest income decreased by \$168,000 or 13.3% to \$1.1 million for the year ended December 31, 2007 from \$1.3 million for the year ended December 31, 2006. The decrease in non-interest income resulted primarily from a \$215,000 decrease in gain on sales of loans originated for sale, to \$420,000 for the year ended December 31, 2007 from \$635,000 for the year ended December 31, 2006, partially offset by a \$34,000 increase in fees, service charges and other income to \$659,000 for the year ended December 31, 2007 from \$625,000 for the year ended December 31, 2006 and a \$13,000 increase in gain on sale of non-performing loans. The decrease in gain on sale of loans originated for sale reflects the softening one-to four-family residential real estate market during the year 2007.

Total non-interest expense increased by \$1.1 million or 11.5% to \$10.7 million for the year ended December 31, 2007 from \$9.6 million for the year ended December 31, 2006. The increase in 2007 was primarily due to an increase of \$489,000 or 9.4% in salaries and employee benefits expense to \$5.7 million for the year ended December 31, 2007 from \$5.2 million for the year ended December 31, 2006 as the Bank increased staffing levels and compensation in an effort to service its growing customer base. Full time equivalent employees increased to ninety-three (93) at December 31, 2007 from eighty-seven (87) at December 31, 2006 and eighty-two (82) at December 31, 2005. Occupancy expense increased by \$100,000 or 11.1% to \$1.0 million for the year ended December 31, 2007 from \$900,000 for the year ended December 31, 2006. Equipment expense increased by \$172,000 or 9.9% to \$1.9 million for the year ended December 31, 2007 from \$1.7 million for the year ended December 31, 2006. The primary component of this expense item is data service provider expense which increases with the growth of the Bank's assets. Advertising expense remained relatively stable at \$326,000 for the year ended December 31, 2007 as compared to \$329,000 for the year ended December 31, 2006. Other non-interest expense increased by \$328,000 or 22.5% to \$1.8 million for the year ended December 31, 2007 from \$1.5 million for the year ended December 31, 2006. The increase in other non-interest expense is primarily attributable to increases in expenses commensurate with a growing franchise. Other non-interest expense is comprised of directors' fees, stationary, forms and

printing, professional fees, legal fees, check printing, correspondent bank fees, telephone and communication, shareholder relations and other fees and expenses.

Income tax expense decreased \$711,000 or 22.1% to \$2.5 million for the year ended December 31, 2007 from \$3.2 million for the year ended December 31, 2006 reflecting decreased pre-tax income earned during the former time period. The consolidated effective income tax rate for the year ended December 31, 2007 was 36.1% and for the year ended December 31, 2006 was 36.6%.

### **Results of Operations for the Years Ended December 31, 2006 and 2005**

Net income increased by \$838,000 or 17.7% to \$5.57 million for the year ended December 31, 2006 from \$4.73 million for the year ended December 31, 2005. The increase in net income resulted primarily from increases in net interest income and non-interest income and a decrease in the provision for loan losses, partially offset by increases in non-interest expense and income taxes. Net interest income increased by \$1.9 million or 11.9% to \$17.8 million for the year ended December 31, 2006 from \$15.9 million for the year ended December 31, 2005. This increase resulted primarily from an increase in average interest-earning assets of \$78.4 million or 19.4% to \$481.7 million for the year ended December 31, 2006 from \$403.3 million for the year ended December 31, 2005 and an increase in the yield on average interest-earning assets to 6.49% for the year ended December 31, 2006 from 6.23% for the year ended December 31, 2005, partially offset by an increase in average interest-bearing liabilities of \$51.4 million or 14.4% to \$407.9 million for the year ended December 31, 2006 from \$356.5 million for the year ended December 31, 2005 and an increase in the cost of average interest-bearing liabilities to 3.30% for the year ended December 31, 2006 from 2.59% for the year ended December 31, 2005. The disproportionate increase in the cost of deposits as compared to our yield on assets reduced our net interest margin to 3.69% for the year ended December 31, 2006 from 3.94% for the year ended December 31, 2005.

Interest income on loans receivable increased by \$4.0 million or 21.3% to \$22.8 million for the year ended December 31, 2006 from \$18.8 million for the year ended December 31, 2005. The increase was primarily due to an increase in average loans receivable of \$41.2 million or 15.0% to \$315.5 million for the year ended December 31, 2006 from \$274.3 million for the year ended December 31, 2005 and an increase in the average yield on loans receivable to 7.22% for the year ended December 31, 2006 from 6.84% for the year ended December 31, 2005. The increase in the average balance of loans reflects management's philosophy of deploying funds in higher yielding loans, specifically commercial real estate as opposed to lower yielding investments in government securities. The increase in average yield reflects the Bank's diligence in deploying funds into prime based lending products whose yield increased as the Federal Open Market Committee continued to increase short-term interest rates throughout the first half of 2006.

Interest income on securities increased by \$1.75 million or 27.8% to \$8.05 million for the year ended December 31, 2006 from \$6.30 million for the year ended December 31, 2005. The increase was primarily attributable to an increase in the average balance of securities of \$29.3 million or 23.6% to \$153.6 million for the year ended December 31, 2006 from \$124.3 million

for the year ended December 31, 2005, and an increase in the average yield on securities to 5.24% for the year ended December 31, 2006 from 5.07% for the year ended December 31, 2005. The increase in average balances reflects, in the absence of higher yielding loan product, the reinvestment of the public offering proceeds from late 2005 as well as the on-going leverage strategy with the use of Federal Home Loan Bank advances.

Interest income on other interest-earning assets consisting primarily of federal funds sold increased by \$374,000 or 526.8% to \$445,000 for the year ended December 31, 2006 from \$71,000 for the year ended December 31, 2005. This increase was primarily due to an increase in the average balance of other interest-earning assets of \$7.9 million or 168.1% to \$12.6 million for the year ended December 31, 2006 from \$4.7 million for the year ended December 31, 2005 and an increase in the average yield on other interest-earning assets to 3.54% for the year ended December 31, 2006 from 1.51% for the year ended December 31, 2005. During 2006, as short term interest rates increased through the first half of the year, and the yield curve became and remained inverted through the second half of the year, increased balances in cash and cash equivalent accounts, in the absence of higher yielding loan product, provided a competitive yield while affording management the latitude to research more profitable investment opportunities.

Total interest expense increased by \$4.23 million or 45.7% to \$13.48 million for the year ended December 31, 2006 from \$9.25 million for the year ended December 31, 2005. This increase resulted from an increase in average total interest bearing deposit liabilities of \$21.1 million or 6.5% to \$344.1 million for the year ended December 31, 2006 from \$323.0 million for the year ended December 31, 2005, and an increase of \$30.3 million or 90.4% in average borrowings to \$63.8 million for the year ended December 31, 2006, from \$33.5 million for the year ended December 31, 2005, as well as an increase in the average cost of interest bearing liabilities to 3.30% for the year ended December 31, 2006 from 2.59% for the year ended December 31, 2005.

The provision for loan losses totaled \$625,000 and \$1.1 million for the years ended December 31, 2006 and 2005, respectively. The provision for loan losses is established based upon management's review of the Bank's loans and consideration of a variety of factors including, but not limited to, (1) the risk characteristics of the loan portfolio, (2) current economic conditions, (3) actual losses previously experienced, (4) the significant level of loan growth and (5) the existing level of reserves for loan losses that are possible and estimable. During 2006, the Bank experienced \$18,000 in net recoveries (consisting of \$85,000 in recoveries and \$67,000 in charge-offs). During 2005, the Bank experienced \$534,000 in net charge-offs (consisting of \$546,000 in charge-offs and \$12,000 in recoveries) related primarily to the foreclosure and bankruptcy of one lending relationship and two commercial heavy equipment loans. The Bank had non-accrual loans totaling \$323,000 at December 31, 2006 and \$787,000 at December 31, 2005. The allowance for loan losses stood at \$3.7 million or 1.16% of gross total loans at December 31, 2006 as compared to \$3.1 million or 1.07% of gross total loans at December 31, 2005. The amount of the allowance is based on estimates and the ultimate losses may vary from such estimates. Management assesses the allowance for loan losses on a quarterly basis and makes provisions for loan losses as necessary in order to maintain the adequacy of the allowance. While management uses available information to recognize losses on loans, future loan loss provisions may be necessary based on changes in the aforementioned criteria. In

addition, various regulatory agencies, as an integral part of their examination process, periodically review the allowance for loan losses and may require the Bank to recognize additional provisions based on their judgment of information available to them at the time of their examination. Management believes that the allowance for loan losses was adequate at both December 31, 2006 and 2005.

Total non-interest income increased by \$345,000 or 37.7% to \$1.3 million for the year ended December 31, 2006 from \$915,000 for the year ended December 31, 2005. The increase in non-interest income resulted primarily from a \$322,000 increase in gain on sales of loans originated for sale, and a \$51,000 increase in fees, service charges and other income, partially offset by a \$28,000 decrease in gain on sale of securities as the Bank did not engage in any securities sales during the year ended December 31, 2006 as opposed to a gain of \$28,000 recorded in the year ended December 31, 2005. As the sales consummated during the year ended December 31, 2005 were from the held-to-maturity category, certain language located in the text of FASB 115 was invoked to allow the sale of those securities to occur without tainting the rest of the portfolio.

Total non-interest expense increased by \$1.4 million or 17.1% to \$9.6 million for the year ended December 31, 2006 from \$8.2 million for the year ended December 31, 2005. The increase in 2006 was primarily due to an increase of \$782,000 or 17.7% in salaries and employee benefits expense to \$5.2 million for the year ended December 31, 2006 from \$4.4 million for the year ended December 31, 2005 as the Bank increased staffing levels and compensation in an effort to service its growing customer base. Full time equivalent employees increased to eighty-seven (87) at December 31, 2006 from eighty-two (82) at December 31, 2005 and seventy-five (75) at December 31, 2004. Occupancy expense increased by \$199,000 or 28.4% to \$900,000 for the year ended December 31, 2006 from \$701,000 for the year ended December 31, 2005 primarily as a result of the Bank securing a lease for the opening of a branch office in Hoboken, New Jersey. This office commenced operations during the first half of 2007. Equipment expense increased by \$153,000 or 9.7% to \$1.73 million for the year ended December 31, 2006 from \$1.58 million for the year ended December 31, 2005. The primary component of this expense item is data service provider expense which increases with the growth of the Bank's assets. Advertising expense increased by \$165,000 or 100.6% to \$329,000 for the year ended December 31, 2006 from \$164,000 for the year ended December 31, 2005. The increase in advertising expense relates to advertisements for deposit and loan promotions in an effort to attract additional business during the past year. Other non-interest expense increased by \$127,000 or 9.5% to \$1.46 million for the year ended December 31, 2006 from \$1.33 million for the year ended December 31, 2005. The increase in other non-interest expense is primarily attributable to increases in expenses commensurate with a growing franchise. Other non-interest expense is comprised of directors' fees, stationary, forms and printing, professional fees, legal fees, check printing, correspondent bank fees, telephone and communication, shareholder relations and other fees and expenses.

Income tax expense increased \$475,000 or 17.3% to \$3.2 million for the year ended December 31, 2006 from \$2.7 million for the year ended December 31, 2005 reflecting increased pre-tax income earned during the former time period. The consolidated effective income tax rate



for the year ended December 31, 2006 was 36.6% and for the year ended December 31, 2005 was 36.7%.

### **Liquidity and Capital Resources**

Our funding sources include income from operations, deposits and borrowings and principal payments on loans and investment securities. While maturities and scheduled amortization of loans and securities are predictable sources of funds, deposit outflows and mortgage prepayments are greatly influenced by the general level of interest rates, economic conditions and competition.

Our primary investing activities are the origination of commercial and multi-family real estate loans, one- to four-family mortgage loans, construction, commercial business and consumer loans, as well as the purchase of mortgage-backed and other investment securities. During 2007 loan originations totaled \$142.5 million compared to \$119.6 million and \$133.7 million for 2006 and 2005, respectively. The continued strength of loan originations reflects management's efforts to increase our total assets, the continued focus on increasing commercial and multi-family lending operations and the refinance market in 2007.

During 2007, cash flow provided by the calls, maturities and principal repayments and prepayments received on securities held-to-maturity amounted to \$21.0 million compared to \$28.8 million and \$25.5 million in 2006 and 2005. Deposit growth provided \$16.1 million, \$19.9 million and \$25.6 million of funding to facilitate asset growth for the years ending December 31, 2007, 2006 and 2005, respectively. Borrowings increased \$40.0 million in 2007 with additional borrowings of \$55.0 million and repayment of \$15.0 million through the FHLB.

Loan Commitments. In the ordinary course of business the Bank extends commitments to originate residential and commercial loans and other consumer loans. Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since the Bank does not expect all of the commitments to be funded, the total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates each customer's creditworthiness on a case-by-case basis. Collateral may be obtained based upon management's assessment of the customers' creditworthiness. Commitments to extend credit may be written on a fixed rate basis exposing the Bank to interest rate risk given the possibility that market rates may change between the commitment date and the actual extension of credit. The Bank had outstanding commitments to originate and fund loans of approximately \$57.4 million and \$48.4 million at December 31, 2007 and 2006, respectively.



December 15, 2007. The Company expects that EITF 06-11 will not have an impact on its consolidated financial statements.

FASB Statement No. 160 "Noncontrolling 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 noncontrolling 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. The Company believes that this new pronouncement will not have a material impact on its consolidated financial statements.

SAB No. 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 SEC 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 No. 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 consolidated financial statements.

In December 2007, the FASB issued proposed FASB Staff Position (FSP) 157-b, "Effective Date of FASB Statement No. 157," that would permit a one-year deferral in applying the measurement provisions of Statement No. 157 to non-financial assets and non-financial liabilities (non-financial items) that are not recognized or disclosed at fair value in an entity's financial statements on a recurring basis (at least annually). Therefore, if the change in fair value of a non-financial item is not required to be recognized or disclosed in the financial statements on an annual basis or more frequently, the effective date of application of Statement No. 157 to that item is deferred until fiscal years beginning after November 15, 2008 and interim periods within those fiscal years. This deferral does not apply, however, to an entity that applies Statement No. 157 in interim or annual financial statements before proposed FSP 157-b is finalized. The Company is currently evaluating the impact, if any, that the adoption of FSP 157-b will have on the Company's consolidated financial statements.

## **ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

### **Management of Market Risk**

*Qualitative Analysis.* The majority of our assets and liabilities are monetary in nature. Consequently, one of our most significant forms of market risk is interest rate risk. Our assets, consisting primarily of mortgage loans, have longer maturities than our liabilities, consisting

primarily of deposits. As a result, a principal part of our business strategy is to manage interest rate risk and reduce the exposure of our net interest income to changes in market interest rates. Accordingly, our Board of Directors has established an Asset/Liability Committee which is responsible for evaluating the interest rate risk inherent in our assets and liabilities, for determining the level of risk that is appropriate given our business strategy, operating environment, capital, liquidity and performance objectives, and for managing this risk consistent with the guidelines approved by the Board of Directors. Senior management monitors the level of interest rate risk on a regular basis and the Asset/Liability Committee, which consists of senior management and outside directors operating under a policy adopted by the Board of Directors, meets as needed to review our asset/liability policies and interest rate risk position.

**Quantitative Analysis.** The following table presents the Company's net portfolio value ("NPV"). These calculations were based upon assumptions believed to be fundamentally sound, although they may vary from assumptions utilized by other financial institutions. The information set forth below is based on data that included all financial instruments as of December 31, 2007. Assumptions have been made by the Company relating to interest rates, loan prepayment rates, core deposit duration, and the market values of certain assets and liabilities under the various interest rate scenarios. Actual maturity dates were used for fixed rate loans and certificate accounts. Investment securities were scheduled at either the maturity date or the next scheduled call date based upon management's judgment of whether the particular security would be called in the current interest rate environment and under assumed interest rate scenarios. Variable rate loans were scheduled as of their next scheduled interest rate repricing date. Additional assumptions made in the preparation of the NPV table include prepayment rates on loans and mortgage-backed securities, core deposits without stated maturity dates were scheduled with an assumed term of 48 months, and money market and noninterest bearing accounts were scheduled with an assumed term of 24 months. The NPV at "PAR" represents the difference between the Company's estimated value of assets and estimated value of liabilities assuming no change in interest rates. The NPV for a decrease of 300 basis points has been excluded since it would not be meaningful, in the interest rate environment as of December 31, 2007. The following sets forth the Company's NPV as of December 31, 2007.

| Change in calculation | Net Portfolio Value | \$ Change from PAR | % Change from PAR | NPV as a % of Assets |         |
|-----------------------|---------------------|--------------------|-------------------|----------------------|---------|
|                       |                     |                    |                   | NPV Ratio            | Change  |
| +300bp                | \$ 26,967           | \$ (36,396)        | (57.44)%          | 5.24%                | (595)bp |
| +200bp                | 39,324              | (24,039)           | (37.94)           | 7.41                 | (378)   |
| +100bp                | 52,204              | (11,159)           | (17.61)           | 9.52                 | (167)   |
| PAR                   | 63,363              | —                  | —                 | 11.19                | —       |
| -100bp                | 55,530              | (7,833)            | (12.36)           | 9.64                 | (155)   |
| -200bp                | 48,436              | (14,927)           | (23.56)           | 8.30                 | (289)   |
| -300bp                | 39,306              | (24,057)           | (37.97)           | 6.66                 | (453)   |

bp-basis points

The table above indicates that at December 31, 2007, in the event of a 100 basis point decrease in interest rates, we would experience a 12.36% decrease in NPV. In the event of a 100 basis point increase in interest rates, we would experience a 17.61% decrease in NPV.

Certain shortcomings are inherent in the methodology used in the above interest rate risk measurement. Modeling changes in NPV require making certain assumptions that may or may

not reflect the manner in which actual yields and costs respond to changes in market interest rates. In this regard, the NPV table presented assumes that the composition of our interest-sensitive assets and liabilities existing at the beginning of a period remains constant over the period being measured and assumes that a particular change in interest rates is reflected uniformly across the yield curve regardless of the duration or repricing of specific assets and liabilities. Accordingly, although the NPV table provides an indication of our interest rate risk exposure at a particular point in time, such measurements are not intended to and do not provide a precise forecast of the effect of changes in market interest rates on our net interest income, and will differ from actual results.

**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

The financial statements identified in Item 15(a)(1) hereof are included as Exhibit 13 and are incorporated hereunder.

**ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

None.

**ITEM 9A.(T) CONTROLS AND PROCEDURES**

(a) Evaluation of disclosure controls and procedures.

Under the supervision and with the participation of our management, including our Chief Executive Officer, Chief Financial Officer and Principal Accounting Officer, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the fiscal year (the "Evaluation Date"). Based upon that evaluation, the Chief Executive Officer, Chief Financial Officer and Principal Accounting Officer concluded that, as of the Evaluation Date, our disclosure controls and procedures were effective in timely alerting them to the material information relating to us (or our consolidated subsidiaries) required to be included in our periodic SEC filings.

(b) Management's Annual Report on Internal Control over Financial Reporting

Management of BCB Bancorp, Inc., and subsidiaries (the "Company") is responsible for establishing and maintaining adequate internal control over financial reporting. The Company's system of internal control is designed under the supervision of management, including our Chief Executive Officer and Chief Operating Officer, to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of the Company's financial statements for external reporting purposes in accordance with U.S. generally accepted accounting principles ("GAAP").

Our internal control over financial reporting includes policies and procedures that pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect transactions and dispositions of assets; provide reasonable assurances that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that

receipts and expenditures are made only in accordance with the authorization of management and the Board of Directors; and provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on our financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections on any evaluation of effectiveness to future periods are subject to the risk that the controls may become inadequate because of changes in conditions or that the degree of compliance with policies and procedures may deteriorate.

As of December 31, 2007, management assessed the effectiveness of the Company's internal control over financial reporting based upon the framework established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based upon its assessment, management believes that the Company's internal control over financial reporting as of December 31, 2007 is effective using these criteria. This annual report does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit the company to provide only management's report in this annual report.

(c) Changes in Internal Controls over Financial Reporting.

There were no significant changes made in our internal controls during the period covered by this report or, to our knowledge, in other factors that has materially affected or is reasonably likely to materially affect, the Company's internal control over financial reporting.

See the Certifications pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

**ITEM 9B. OTHER INFORMATION**

None.

**PART III**

**ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

The Company has adopted a Code of Ethics that applies to the Company's principal executive officer, principal financial officer, principal accounting officer or controller or persons performing similar functions. The Code of Ethics is available for free by writing to: President and Chief Executive Officer, BCB Bancorp, Inc., 104-110 Avenue C, Bayonne, New Jersey 07002. The Code of Ethics is filed as an exhibit to this Form 10-K.

The "Proposal I—Election of Directors" section of the Company's definitive Proxy Statement for the Company's 2008 Annual Meeting of Stockholders (the "2008 Proxy Statement") is incorporated herein by reference in response to the disclosure requirements of Items 401, 405, 406, 407(d)(4) and 407(d)(5) of Regulation S-K.

The information concerning directors and executive officers of the Company under the caption “Proposal I-Election of Directors” and information under the captions “Section 16(a) Beneficial Ownership Compliance” and “The Audit Committee” of the 2008 Proxy Statement is incorporated herein by reference.

There have been no changes during the last year in the procedures by which security holders may recommend nominees to the Company’s board of directors.

**ITEM 11. EXECUTIVE COMPENSATION**

The “Executive Compensation” section of the Company’s 2008 Proxy Statement is incorporated herein by reference.

**ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND**

The “Proposal I—Election of Directors” section of the Company’s 2008 Proxy Statement is incorporated herein by reference.

**ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE**

The “Transactions with Certain Related Persons” section and “Proposal I-Election of Directors—Board Independence” of the Company’s 2008 Proxy Statement is incorporated herein by reference.

**ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

Information required by Item 14 is incorporated by reference to the Company’s Proxy Statement for the 2008 Annual Meeting of Stockholders, “Proposal II-Ratification of the Appointment of Independent Auditors—Fees Paid to Beard Miller Company LLP.”

**PART IV**

**ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES**

(a)(1) Financial Statements

The exhibits and financial statement schedules filed as a part of this Form 10-K are as follows:

- (A) Report of Independent Registered Public Accounting Firm
- (B) Consolidated Statements of Financial Condition as of December 31, 2007 and 2006
- (C) Consolidated Statements of Income for each of the Years in the Three-Year period ended December 31, 2007

- (D) Consolidated Statements of Changes in Stockholders' Equity for each of the Years in the Three-Year period ended December 31, 2007
- (E) Consolidated Statements of Cash Flows for each of the Years in the Three-Year period ended December 31, 2007
- (F) Notes to Consolidated Financial Statements

(a)(2) Financial Statement Schedules

All schedules are omitted because they are not required or applicable, or the required information is shown in the consolidated statements or the notes thereto.

(b) Exhibits

- 3.1 Certificate of Incorporation of BCB Bancorp, Inc.\*\*\*\*
- 3.2 Bylaws of BCB Bancorp, Inc.\*\*
- 3.3 Specimen Stock Certificate\*
- 10.1 BCB Community Bank 2002 Stock Option Plan\*\*\*
- 10.2 BCB Community Bank 2003 Stock Option Plan\*\*\*
- 10.3 2005 Director Deferred Compensation Plan\*\*\*\*
- 10.4 Change in Control Agreement with Donald Mindiak \*\*\*\*\*
- 10.5 Change in Control Agreement with James E. Collins \*\*\*\*\*
- 10.6 Change in Control Agreement with Thomas M. Coughlin \*\*\*\*\*
- 10.7 Change in Control Agreement with Olivia Klim \*\*\*\*\*
- 10.8 Change in Control Agreement with Amer Saleem \*\*\*\*\*
- 10.9 Executive Agreement with Donald Mindiak \*\*\*\*\*
- 10.10 Executive Agreement with James E. Collins \*\*\*\*\*
- 10.11 Executive Agreement with Thomas M. Coughlin \*\*\*\*\*
- 10.12 Executive Agreement with Olivia Klim \*\*\*\*\*
- 10.13 Executive Agreement with Amer Saleem \*\*\*\*\*
- 10.14 Amendment to 2002 and 2003 Stock Option Plans\*\*\*\*\*



|      |   |
|------|---|
| 13   | Consolidated Financial Statements   |
| 14   | Code of Ethics***   |
| 21   | Subsidiaries of the Company****   |
| 23   | Accountant's Consent to incorporate consolidated financial statements in Form S-8   |
| 31.1 | Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002                                  |
| 31.2 | Certification of Principal Accounting Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002                             |
| 32   | Certification of Chief Executive Officer and Principal Accounting Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |

\* Incorporated by reference to the Form 8-K-12g3 filed with the Securities and Exchange Commission on May 1, 2003.

\*\* Incorporated by reference to the Form 8-K filed with the Securities and Exchange Commission on October 12, 2007.

\*\*\* Incorporated by reference to the Annual Report on Form 10-K for the year ended December 31, 2004.

\*\*\*\* Incorporated by reference to the Company's Registration Statement on Form S-1, as amended, (Commission File Number 333-128214) originally filed with the Securities and Exchange Commission on September 9, 2005.

\*\*\*\*\* Incorporated by reference to Exhibit 10.4, 10.5, 10.6, 10.7, 10.8, 10.9, 10.10, 10.11, 10.12 and 10.13 to the Current Report on Form 8-K filed with the Securities and Exchange Commission on November 10, 2005.

\*\*\*\*\* Incorporated by reference to the Annual Report on Form 10-K for the year ended December 31, 2005.

## Signatures

Pursuant to the requirements of Section 13 of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

### BCB BANCORP, INC.

Date: March 14, 2008

By: /s/ Donald Mindiak  
Donald Mindiak  
President, Chief Executive  
Officer  
and Chief Financial Officer  
(Duly Authorized  
Representative)

Pursuant to the requirements of the Securities Exchange of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

| <u>Signatures</u>                                   | <u>Title</u>   | <u>Date</u>    |
|---|--|----------------|
| <u>/s/ Donald Mindiak</u><br>Donald Mindiak         | President, Chief Executive<br>Officer, Chief Financial Officer<br>and Director (Principal Executive Officer) | March 14, 2008 |
| <u>/s/ Thomas M. Coughlin</u><br>Thomas M. Coughlin | Vice President, Chief Operating<br>Officer (Principal Accounting<br>Officer) and Director                    | March 14, 2008 |
| <u>/s/ Mark D. Hogan</u><br>Mark D. Hogan           | Chairman of the Board  | March 14, 2008 |
| <u>/s/ Robert Ballance</u><br>Robert Ballance       | Director   | March 14, 2008 |
| <u>/s/ Judith Q. Bielan</u><br>Judith Q. Bielan     | Director   | March 14, 2008 |

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/s/ Joseph J. Brogan  
Joseph J. Brogan

Director

March 14, 2008

/s/ James E. Collins  
James E. Collins

Director

March 14, 2008

/s/ Joseph Lyga  
Joseph Lyga

Director

March 14, 2008

/s/ Alexander Pasiechnik  
Alexander Pasiechnik

Director

March 14, 2008

/s/ August Pellegrini, Jr.  
August Pellegrini, Jr.

Director

March 14, 2008

/s/ Joseph Tagliareni  
Joseph Tagliareni

Director

March 14, 2008

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## EXHIBIT INDEX

|       |  |
|-------|--|
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- 
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- \*\* Incorporated by reference to the Form 8-K filed with the Securities and Exchange Commission on October 12, 2007.
- \*\*\* Incorporated by reference to the Annual Report on Form 10-K for the year ended December 31, 2004.
- \*\*\*\* Incorporated by reference to the Company's Registration Statement on Form S-1, as amended, (Commission File Number 333-128214) originally filed with the Securities and Exchange Commission on September 9, 2005.
- \*\*\*\*\* Incorporated by reference to Exhibit 10.4, 10.5, 10.6, 10.7, 10.8, 10.9, 10.10, 10.11, 10.12 and 10.13 to the Current Report on Form 8-K filed with the Securities and Exchange Commission on November 10, 2005.
- \*\*\*\*\* Incorporated by reference to the Annual Report on Form 10-K for the year ended December 31, 2005.

**EXHIBIT 13**  
**CONSOLIDATED FINANCIAL STATEMENTS**

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***BCB Bancorp, Inc. and Subsidiaries***

Consolidated Financial Report

December 31, 2007

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**Table of Contents**

|  | <u>Page</u> |
|--|-------------|
| <b>Consolidated Financial Statements</b>                   |             |
| Report of Independent Registered Public Accounting Firm    | 1           |
| Consolidated Statements of Financial Condition             | 2           |
| Consolidated Statements of Income                          | 3           |
| Consolidated Statements of Changes in Stockholders' Equity | 4           |
| Consolidated Statements of Cash Flows                      | 5           |
| Notes to Consolidated Financial Statements                 | 6           |

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

To the Board of Directors and Stockholders  
BCB Bancorp, Inc.  
Bayonne, New Jersey

We have audited the accompanying consolidated statements of financial condition of BCB Bancorp, Inc. and Subsidiaries (the "Company") as of December 31, 2007 and 2006, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2007. The Company's management is responsible for these consolidated financial statements. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing 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 consolidated 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 consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of BCB Bancorp, Inc. and Subsidiaries as of December 31, 2007 and 2006, and the consolidated results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2007, in conformity with accounting principles generally accepted in the United States of America.

*Beard Miller Company LLP*

Beard Miller Company LLP  
Pine Brook, New Jersey  
March 18, 2008

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Consolidated Statements of Financial Condition

|   | December 31,      |                   |
|---|-------------------|-------------------|
|   | 2007              | 2006              |
| (In Thousands, except for share data)   |                   |                   |
| <b>Assets</b>   |                   |                   |
| Cash and amounts due from depository institutions   | \$ 2,970          | \$ 3,400          |
| Interest-bearing deposits   | 8,810             | 22,437            |
| <b>Cash and Cash Equivalents</b>  | <b>11,780</b>     | <b>25,837</b>     |
| Securities available for sale   | 2,056             | -                 |
| Securities held to maturity, fair value \$165,660 and \$146,018 respectively  | 165,017           | 148,672           |
| Loans held for sale   | 2,132             | 2,976             |
| Loans receivable, net of allowance for loan losses of \$4,065 and \$3,733 respectively                                | 364,654           | 318,130           |
| Premises and equipment  | 5,929             | 5,885             |
| Federal Home Loan Bank of New York stock  | 5,560             | 3,724             |
| Interest receivable   | 3,776             | 3,697             |
| Real Estate Owned   | 287               | -                 |
| Deferred income taxes   | 1,352             | 1,238             |
| Other assets  | 934               | 676               |
| <b>Total Assets</b>   | <b>\$ 563,477</b> | <b>\$ 510,835</b> |
| <b>Liabilities and Stockholders' Equity</b>   |                   |                   |
| <b>Liabilities</b>  |                   |                   |
| Non-interest bearing deposits   | \$ 35,897         | \$ 35,275         |
| Interest bearing deposits   | 362,922           | 347,472           |
| <b>Total deposits</b>   | <b>398,819</b>    | <b>382,747</b>    |
| Long-term debt  | 114,124           | 74,124            |
| Other liabilities   | 2,024             | 2,001             |
| <b>Total Liabilities</b>  | <b>514,967</b>    | <b>458,872</b>    |
| <b>Stockholders' Equity</b>   |                   |                   |
| Common stock, stated value \$0.06; 10,000,000 shares authorized; 5,078,858 and 5,063,432 shares, respectively, issued | 325               | 324               |
| Paid-in capital   | 45,795            | 45,632            |
| Treasury stock, at cost, 440,651 and 55,293 shares, respectively  | (7,385)           | (859)             |
| Retained earnings   | 9,749             | 6,866             |
| Accumulated other comprehensive income  | 26                | -                 |
| <b>Total Stockholders' Equity</b>   | <b>48,510</b>     | <b>51,963</b>     |
| <b>Total Liabilities and Stockholders' Equity</b>   | <b>\$ 563,477</b> | <b>\$ 510,835</b> |

See notes to consolidated financial statements.

**Consolidated Statements of Income**

|   | <b>Years Ended December 31,</b>                  |                 |                 |
|---|--|-----------------|-----------------|
|   | <b>2007</b>                                      | <b>2006</b>     | <b>2005</b>     |
|   | <b>(In Thousands, Except for Per Share Data)</b> |                 |                 |
| <b>Interest Income</b>                                      |  |                 |                 |
| Loans, including fees                                       | \$ 24,365  | \$ 22,770       | \$ 18,760       |
| Securities  | 8,843  | 8,046           | 6,297           |
| Other interest-earning assets                               | 1,182  | 445             | 71              |
| <b>Total Interest Income</b>                                | <b>34,390</b>                                    | <b>31,261</b>   | <b>25,128</b>   |
| <b>Non-Interest Income</b>                                  |  |                 |                 |
| Fees and service charges                                    | 629  | 595             | 541             |
| Gain on sales of loans originated for sale                  | 420  | 635             | 313             |
| Gain on sale of real estate owned                           | 13   | -               | -               |
| Gain on sales of securities held to maturity                | -  | -               | 28              |
| Other   | 30   | 30              | 33              |
| <b>Total Non-Interest Income</b>                            | <b>1,092</b>                                     | <b>1,260</b>    | <b>915</b>      |
| <b>Non-Interest Expenses</b>                                |  |                 |                 |
| Salaries and employee benefits                              | 5,699  | 5,210           | 4,428           |
| Occupancy expense of premises                               | 1,000  | 900             | 701             |
| Equipment   | 1,906  | 1,734           | 1,581           |
| Advertising   | 326  | 329             | 164             |
| Other   | 1,787  | 1,459           | 1,332           |
| <b>Total Non-Interest Expenses</b>                          | <b>10,718</b>                                    | <b>9,632</b>    | <b>8,206</b>    |
| <b>Income before Income Taxes</b>                           | <b>6,947</b>                                     | <b>8,787</b>    | <b>7,474</b>    |
| <b>Income Taxes</b>   | <b>2,509</b>                                     | <b>3,220</b>    | <b>2,745</b>    |
| <b>Net Income</b>   | <b>\$ 4,438</b>                                  | <b>\$ 5,567</b> | <b>\$ 4,729</b> |
| <b>Net Income per Common Share</b>                          |  |                 |                 |
| Basic   | \$ 0.92  | \$ 1.11         | \$ 1.25         |
| Diluted   | \$ 0.90  | \$ 1.08         | \$ 1.20         |
| <b>Weighted Average Number of Common Shares Outstanding</b> |  |                 |                 |
| Basic   | 4,818  | 5,005           | 3,769           |
| Diluted   | 4,943  | 5,172           | 3,944           |

*See notes to consolidated financial statements.*

*BCB Bancorp, Inc. and Subsidiaries*

**Consolidated Statements of Changes in Stockholders' Equity**

|  | <u>Common<br/>Stock</u> | <u>Paid-In<br/>Capital</u> | <u>Treasury<br/>Stock</u> | <u>Retained<br/>Earnings<br/>(Accumulated<br/>Deficit)</u> | <u>Accumulated<br/>Other<br/>Comprehensive<br/>Income</u> | <u>Total</u>     |
|--|-------------------------|----------------------------|---------------------------|--|---|------------------|
| (In Thousands, except for share and per share amounts)                                     |                         |                            |                           |  |   |                  |
| <b>Balance - December 31, 2004</b>   | <b>\$ 239</b>           | <b>\$ 27,725</b>           | <b>\$ -</b>               | <b>\$ (1,928)</b>  | <b>\$ -</b>   | <b>\$ 26,036</b> |
| Net sale of common stock (1,265,000 shares)  | 81                      | 17,409                     | -                         | -  | -   | 17,490           |
| Exercise of stock options (43,500 shares)  | 3                       | 384                        | -                         | -  | -   | 387              |
| Treasury stock purchases (51,316 shares)   | -                       | -                          | (795)                     | -  | -   | (795)            |
| Net income   | -                       | -                          | -                         | 4,729  | -   | 4,729            |
| <b>Balance - December 31, 2005</b>   | <b>323</b>              | <b>45,518</b>              | <b>(795)</b>              | <b>2,801</b>   | <b>-</b>  | <b>47,847</b>    |
| Stock-based compensation   | -                       | 25                         | -                         | -  | -   | 25               |
| Stock issuance cost  | -                       | (9)                        | -                         | -  | -   | (9)              |
| Exercise of stock options (12,816 shares)  | 1                       | 98                         | -                         | -  | -   | 99               |
| Treasury stock purchases (3,977 shares)  | -                       | -                          | (64)                      | -  | -   | (64)             |
| Cash dividend (\$0.30 per share) declared  | -                       | -                          | -                         | (1,502)  | -   | (1,502)          |
| Net income   | -                       | -                          | -                         | 5,567  | -   | 5,567            |
| <b>Balance - December 31, 2006</b>   | <b>324</b>              | <b>45,632</b>              | <b>(859)</b>              | <b>6,866</b>   | <b>-</b>  | <b>51,963</b>    |
| Stock-based compensation   | -                       | 6                          | -                         | -  | -   | 6                |
| Exercise of stock options (15,426 shares)  | 1                       | 157                        | -                         | -  | -   | 158              |
| Treasury stock purchases (385,358 shares)  | -                       | -                          | (6,526)                   | -  | -   | (6,526)          |
| Cash dividend (\$0.32 per share) declared  | -                       | -                          | -                         | (1,555)  | -   | (1,555)          |
| Net income   | -                       | -                          | -                         | 4,438  | -   | 4,438            |
| Unrealized gain on securities<br>available for sale, net of<br>deferred income tax of \$18 | -                       | -                          | -                         | -  | 26  | 26               |
| Total Comprehensive income   | -                       | -                          | -                         | -  | -   | 4,460            |
| <b>Balance - December 31, 2007</b>   | <b>\$ 325</b>           | <b>\$ 45,795</b>           | <b>\$ (7,385)</b>         | <b>\$ 9,749</b>  | <b>\$ 26</b>  | <b>\$ 48,510</b> |

*See notes to consolidated financial statements.*

## Consolidated Statements of Cash Flows

|   | Years Ended December 31, |                  |                  |
|---|--------------------------|------------------|------------------|
|   | 2007                     | 2006             | 2005             |
|   | (In Thousands)           |                  |                  |
| <b>Cash Flows from Operating Activities</b>                                       |                          |                  |                  |
| Net income  | \$ 4,438                 | \$ 5,567         | \$ 4,729         |
| Adjustments to reconcile net income to net cash provided by operating activities: |                          |                  |                  |
| Depreciation of premises and equipment  | 394                      | 342              | 352              |
| Amortization (accretion), net   | (664)                    | (657)            | (548)            |
| Provision for loan losses   | 600                      | 625              | 1,118            |
| Stock-based compensation  | 6                        | 25               | -                |
| Deferred income tax (benefit)   | (132)                    | (241)            | (225)            |
| Gain on sales of securities held to maturity                                      | -                        | -                | (28)             |
| Loans originated for sale   | (22,993)                 | (36,277)         | (17,900)         |
| Proceeds from sales of loans originated for sale                                  | 24,257                   | 34,716           | 17,433           |
| Gain on sales of loans originated for sale  | (420)                    | (635)            | (313)            |
| Gain on sale of real estate owned   | (13)                     | -                | -                |
| (Increase) in interest receivable   | (79)                     | (593)            | (775)            |
| Decrease (Increase) in stock subscriptions receivable                             | -                        | 2,353            | (2,353)          |
| Decrease (Increase) in other assets   | (258)                    | 436              | (497)            |
| Increase in accrued interest payable  | 214                      | 313              | 323              |
| Increase (decrease) in other liabilities  | (191)                    | 268              | 211              |
| <b>Net Cash Provided by Operating Activities</b>                                  | <b>5,159</b>             | <b>6,242</b>     | <b>1,527</b>     |
| <b>Cash Flows from Investing Activities</b>                                       |                          |                  |                  |
| Proceeds from repayments on securities held to maturity                           | 21,010                   | 28,845           | 25,531           |
| Proceeds from sales of securities held to maturity                                | -                        | -                | 7,373            |
| Purchases of securities held to maturity  | (37,338)                 | (37,500)         | (55,815)         |
| Purchases of securities available for sale  | (2,012)                  | -                | -                |
| Proceeds from sales of participation interests in loans                           | 6,315                    | 5,432            | 1,273            |
| Proceeds from sale of real estate owned   | 1,172                    | -                | -                |
| Purchases of loans  | (9,593)                  | (7,007)          | (4,645)          |
| Net increase in loans receivable  | (44,645)                 | (32,087)         | (35,296)         |
| Additions to premises and equipment   | (438)                    | (709)            | (191)            |
| Purchases of Federal Home Loan Bank of New York stock                             | (1,836)                  | (946)            | (1,834)          |
| <b>Net Cash Used in Investing Activities</b>                                      | <b>(67,365)</b>          | <b>(43,972)</b>  | <b>(63,604)</b>  |
| <b>Cash Flows from Financing Activities</b>                                       |                          |                  |                  |
| Net increase in deposits  | 16,072                   | 19,896           | 25,608           |
| Proceeds of long-term debt  | 55,000                   | 70,000           | 50,000           |
| Repayment of long-term debt   | (15,000)                 | (50,000)         | -                |
| Net change in short-term borrowings   | -                        | -                | (10,000)         |
| Purchase of treasury stock  | (6,526)                  | (64)             | (795)            |
| Cash dividends paid   | (1,555)                  | (1,502)          | -                |
| Net proceeds from issuance of common stock  | 158                      | 90               | 17,877           |
| <b>Net Cash Provided by Financing Activities</b>                                  | <b>48,149</b>            | <b>38,420</b>    | <b>82,690</b>    |
| <b>Net Increase (Decrease) in Cash and Cash Equivalents</b>                       | <b>(14,057)</b>          | <b>690</b>       | <b>20,613</b>    |
| <b>Cash and Cash Equivalents - Beginning</b>                                      | <b>25,837</b>            | <b>25,147</b>    | <b>4,534</b>     |
| <b>Cash and Cash Equivalents - Ending</b>   | <b>\$ 11,780</b>         | <b>\$ 25,837</b> | <b>\$ 25,147</b> |
| <b>Supplementary Cash Flows Information</b>                                       |                          |                  |                  |
| Cash paid during the year for:  |                          |                  |                  |
| Income taxes  | \$ 2,860                 | \$ 3,120         | \$ 2,905         |
| Interest  | \$ 17,003                | \$ 13,164        | \$ 8,922         |
| Transfer of loans to real estate owned  | \$ 1,446                 | \$ -             | \$ -             |

*See notes to consolidated financial statements.*

**Notes to Consolidated Financial Statements**

**Note 1 - Organization and Stock Offerings**

BCB Bancorp, Inc. (the "Company") is incorporated in the State of New Jersey and is a bank holding company. The common stock of the Company is listed on the Nasdaq Electronic Bulletin Board and trades under the symbol "BCBP."

On September 12, 2005, the Company filed a registration statement with the Securities and Exchange Commission proposing to sell approximately 800,000 shares (subsequently amended to 1,100,000 shares) of its common stock, subject to a 15% underwriter's over-allotment. On December 19, 2005, 1,100,000 shares of common stock were sold at \$15.25 per share, resulting in net proceeds, after offering expenses of \$1,167,000, of \$15,608,000. In December 2005, the underwriter exercised their right to purchase 165,000 shares of common stock at \$14.26 per share (\$15.25 less underwriter's discount of \$0.99), resulting in net proceeds of \$2,353,000. The sale of shares to the underwriter closed on January 5, 2006, at which time the Company received the sale proceeds. At December 31, 2005, the amount due on the shares purchased by the underwriter are reflected in the consolidated statement of financial condition as stock subscriptions receivable

On April 27, 2005, the Company announced that the Board of Directors had approved a stock repurchase program for the repurchase of up to 5% of the Company's outstanding common stock equal to approximately 187,096 shares. The repurchases may be made from time to time as market conditions warrant. Through December 31, 2005, a total of 51,316 shares of Company common stock were repurchased at a cost of approximately \$795,000 or \$15.49 per share. As a consequence of the Company's decision to raise additional capital, as discussed in the next paragraph, the Company suspended its stock repurchase program until the capital raise was completed.

During 2006, 3,977 shares were purchased under the repurchase program at an approximate cost of \$64,000 or \$15.93 per share. In 2007, the company was actively engaged in the initial stock repurchase plan. As a result of this active engagement, on April 26, 2007, the company announced a second stock repurchase plan which provided for the repurchase of 5% or 249,080 shares of the company's common stock. During 2007, the bank began and completed the repurchase of all of the shares associated with second 5% stock repurchase plan. Consequently, on November 20, 2007, the company announced a third stock repurchase plan which provided for the repurchase of 5% or 234,002 shares of the Company's common stock. During 2007, a total of 385,358 shares of the Company's common stock was repurchased at a cost of approximately \$6.5 million or \$16.93 per share.

The Company's primary business is the ownership and operation of BCB Community Bank (the "Bank"). The Bank is a New Jersey commercial bank which, as of December 31, 2007, operated at four locations in Bayonne and Hoboken, New Jersey, and is subject to regulation, supervision, and examination by the New Jersey Department of Banking and Insurance and the Federal Deposit Insurance Corporation. The Bank is principally engaged in the business of attracting deposits from the general public and using these deposits, together with borrowed funds, to invest in securities and to make loans collateralized by residential and commercial real estate and, to a lesser extent, consumer loans. BCB Holding Company Investment Corp. (the "Investment Company") was organized in January 2005 under New Jersey law as a New Jersey investment company primarily to hold investment and mortgage-backed securities.

## **Notes to Consolidated Financial Statements**

### **Note 2 - Summary of Significant Accounting Policies**

#### **Basis of Consolidated Financial Statement Presentation**

The consolidated financial statements which include the accounts of the Company and its wholly-owned subsidiaries, the Bank and the Investment Company, have been prepared in conformity with accounting principles generally accepted in the United States of America. All significant intercompany accounts and transactions have been eliminated in consolidation.

In preparing the consolidated 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 consolidated statement of financial condition and revenues and expenses for the periods then ended. Actual results could differ significantly from those estimates. A material estimate that is particularly susceptible to significant change relates to the determination of the allowance for loan losses. Management believes that the allowance for loan losses is adequate. While management uses available information to recognize losses on loans, future additions to the allowance for loan losses may be necessary based on changes in economic conditions in the market area.

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.

#### **Cash and Cash Equivalents**

Cash and cash equivalents include cash and amounts due from depository institutions and interest-bearing deposits in other banks having original maturities of three months or less.

#### **Securities Available for Sale and Held to Maturity**

Investments in debt securities that the Company has the positive intent and ability to hold to maturity are classified as held to maturity securities and reported at amortized cost. Debt and equity securities that are bought and held principally for the purpose of selling them in the near term are classified as trading securities and reported at fair value, with unrealized holding gains and losses included in earnings. Debt and equity securities not classified as trading securities nor as held to maturity securities are classified as available for sale securities and reported at fair value, with unrealized holding gains or losses, net of applicable deferred income taxes, reported in the accumulated other comprehensive income component of stockholders' equity.

On a quarterly basis, the Company makes an assessment to determine 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. The Company considers many factors including the severity and duration of the impairment; the intent and ability of the Company 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.

Premiums and discounts on all securities are amortized/accreted to maturity using the interest method. Interest and dividend income on securities, which includes amortization of premiums and accretion of discounts, are recognized in the financial statements when earned. Gains or losses on sales are recognized based on the specific identification method.



**Notes to Consolidated Financial Statements**

**Note 2 – Summary of Significant Accounting Policies (Continued )**

**Loans Held For Sale**

Loans held for sale consist primarily of residential mortgage loans intended for sale and are carried at the lower of cost or estimated fair market value using the aggregate method. These loans are generally sold with servicing rights released. Gains and losses recognized on loan sales are based upon the cash proceeds received and the cost of the related loans sold.

**Loans Receivable**

Loans receivable are carried at unpaid principal balances less net deferred loan origination fees and the allowance for loan losses. Loan origination fees and certain direct loan origination costs are deferred and amortized, as an adjustment of yield, over the contractual lives of the related loans.

Accrued interest on loans that are contractually delinquent ninety days or more is charged off and the related loans placed on nonaccrual status. Income is subsequently recognized only to the extent that cash payments are received until delinquency status is reduced to less than ninety days, in which case the loan is returned to an accrual status.

**Allowance for Loan Losses**

The allowance for loan losses is increased through provisions charged to operations and by recoveries, if any, on previously charged-off loans and reduced by charge-offs on loans which are determined to be a loss in accordance with Bank policy.

The allowance for loan losses is maintained at a level considered adequate to absorb loan losses. Management, in determining the allowance for loan losses, considers the risks inherent in its loan portfolio and changes in the nature and volume of its loan activities, along with the general economic and real estate market conditions. The Bank utilizes a two tier approach: (1) identification of impaired loans and establishment of specific loss allowances on such loans; and (2) establishment of general valuation allowances on the remainder of its loan portfolio. The Bank maintains a loan review system which allows for a periodic review of its loan portfolio and the early identification of potentially impaired loans. Such a system takes into consideration, but is not limited to, delinquency status, size of loans, and types and value of collateral and financial condition of the borrowers. Specific loan loss allowances are established for identified loans based on a review of such information and/or appraisals of the underlying collateral. General loan loss allowances are based upon a combination of factors including, but not limited to, actual loan loss experience, composition of the loan portfolio, current economic conditions, and management's judgment. Although management believes that adequate specific and general allowances for loan losses are established, actual losses are dependent upon future events and, as such, further additions to the level of specific and general loan loss allowances may be necessary.

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 collateral if the loan is collateral dependent. A loan evaluated for impairment is deemed to be impaired when, based on current information and events, it is probable that the Bank will be unable to collect all amounts due according to the contractual terms of the loan agreement. All loans identified as impaired are evaluated independently. The Bank does not aggregate such loans for evaluation purposes. Payments received on impaired loans are applied first to accrued interest receivable and then to principal.

**Notes to Consolidated Financial Statements**

**Note 2 – Summary of Significant Accounting Policies (Continued)**

**Concentration of Risk**

Financial instruments which potentially subject the Company and its subsidiaries to concentrations of credit risk consist of cash and cash equivalents, investment and mortgage-backed securities and loans.

Cash and cash equivalents include amounts placed with highly rated financial institutions. Securities include securities backed by the U.S. Government and other highly rated instruments. The Bank's lending activity is primarily concentrated in loans collateralized by real estate in the State of New Jersey. As a result, credit risk is broadly dependent on the real estate market and general economic conditions in the State.

**Premises and Equipment**

Land is carried at cost. Buildings, building improvements, leasehold improvements and furniture, fixtures and equipment are carried at cost, less accumulated depreciation and amortization. Significant renovations and additions are charged to the property and equipment account. Maintenance and repairs are charged to expense in the period incurred. Depreciation charges are computed on the straight-line method over the following estimated useful lives of each type of asset.

|                                   | Years                                      |
|-----------------------------------|--|
| Buildings                         | 40   |
| Building improvements             | 7 - 40                                     |
| Furniture, fixtures and equipment | 3 - 40                                     |
| Leasehold improvements            | Shorter of useful life<br>or term of lease |

**Federal Home Loan Bank ("FHLB") of New York Stock**

Federal law requires a member institution of the FHLB system to hold stock of its district FHLB according to a predetermined formula. Such stock is carried at cost.

**Real Estate Owned**

Assets acquired through, or in lieu of, loan foreclosures are held for sale and are initially recorded at fair value less cost to sell at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell. Revenue and expenses from operations and changes in the valuation allowance are included in net expenses from foreclosed assets. At December 31, 2007, the Bank owned one property totaling \$287,000.

**Interest Rate Risk**

The Bank is principally engaged in the business of attracting deposits from the general public and using these deposits, together with other funds, to make loans secured by real estate and to purchase securities. The potential for interest-rate risk exists as a result of the difference in duration of the Bank's interest-sensitive liabilities compared to its interest-sensitive assets. For this reason, management regularly monitors the maturity structure of the Bank's interest-earning assets and interest-bearing liabilities in order to measure its level of interest-rate risk and to plan for future volatility.

## **Notes to Consolidated Financial Statements**

### **Note 2 – Summary of Significant Accounting Policies (Continued)**

#### **Income Taxes**

The Company and its subsidiaries file a consolidated federal income tax return. Income taxes are allocated to the Company and its subsidiaries based upon their respective income or loss included in the consolidated income tax return. Separate state income tax returns are filed by the Company and its subsidiaries.

Federal and state income tax expense has been provided on the basis of reported income. The amounts reflected on the tax returns differ from these provisions due principally to temporary differences in the reporting of certain items for financial reporting and income tax reporting purposes. The tax effect of these temporary differences is accounted for as deferred taxes applicable to future periods. Deferred income tax expense or (benefit) is determined by recognizing deferred tax assets and liabilities 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 expected to apply to taxable income in the years 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 earnings in the period that includes the enactment date. The realization of deferred tax assets is assessed and a valuation allowance provided, when necessary, for that portion of the asset which is not more likely than not to be realized.

Effective January 1, 2007, the Company adopted the provisions of FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes." The Interpretation provides clarification on accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB 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, and also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. As a result of the Company's evaluation of the implementation of FIN 48, no significant income tax uncertainties were identified. Therefore, the Company recognized no adjustment for unrecognized income tax benefits for the year ended December 31, 2007. Our policy is to recognize interest and penalties on unrecognized tax benefits in income taxes expense in the Consolidated Statement of Income. The Company did not recognize any interest and penalties for the year ended December 31, 2007. The tax years subject to examination by the taxing authorities are the years ended December 31, 2006, 2005, 2004 and 2003.

#### **Net Income per Common Share**

Basic net income per common share is computed by dividing net income by the weighted average number of shares of common stock outstanding. The diluted net income per common share is computed by adjusting the weighted average number of shares of common stock outstanding to include the effects of outstanding stock options, if dilutive, using the treasury stock method. For the years ended December 31, 2007, 2006 and 2005, the difference in the weighted average number of basic and diluted common shares was due solely to the effects of outstanding stock options. No adjustments to net income were necessary in calculating basic and diluted net income per share.

**Note 2 – Summary of Significant Accounting Policies (Continued)**

**Stock-Based Compensation Plans**

The Company, under plans approved by its stockholders in 2003 and 2002, has granted stock options to employees and outside directors. See note 12 for additional information as to option grants. Through December 31, 2005, the Company accounted for options granted using the intrinsic value method, in accordance with Accounting Principles Board (“APB”) Opinion No. 25, “Accounting for Stock Issued to Employees,” and related interpretations. Under APB No. 25, generally, when the exercise price of the Company’s stock options equaled the market price of the underlying stock on the date of the grant, no compensation expense was recognized. Accordingly, prior to January 1, 2006, no compensation expense has been reflected in net income for the options granted as all such grants have an exercise price equal to the market price of the underlying stock at the date of grant.

On January 1, 2006, we adopted Statement of Financial Accounting Standards (“Statement”) No. 123(R) using the modified prospective method and, accordingly, implemented a policy of recording compensation expense for all new awards granted and any awards modified after January 1, 2006. In addition, the transition rules under SFAS No. 123(R) require that, for all awards outstanding at January 1, 2006, for which the requisite service had not yet been rendered, compensation cost be recorded as such service is rendered after January 1, 2006. Statement No. 123(R) also requires that the benefits of realized tax deductions in excess of previously recognized tax benefits on compensation expense are to be reported as a financing cash flow rather than an operating cash flow, as previously required. In accordance with Staff Accounting Bulletin (“SAB”) No. 107, the Company classifies share-based compensation within salaries and employee benefits and directors compensation expenses to correspond with the same line items as the cash compensation paid to such individuals.

Compensation expense recognized for all option grants is net of estimated forfeitures and is recognized over the awards’ respective requisite service periods. The fair values relating to all options granted are estimated using a Black-Scholes option pricing model. Expected volatilities are based on historical volatility of our stock and other factors, such as implied market volatility. As permitted by SAB No. 107 or SAB 110, we use the mid-point of the original vesting period and original option life to estimate the options’ expected term, which represents the period of time that the options granted are expected to be outstanding. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant. We recognize compensation expense for the fair values of these option awards, which have graded vesting, on a straight-line basis over the requisite service period of these awards.

**Notes to Consolidated Financial Statements**

**Note 2 - Summary of Significant Accounting Policies (Continued)**

**Stock-Based Compensation Plans (Continued)**

The following table provides information as to net income and earnings per share for the year ended December 31, 2005, as if the Company had applied the fair value recognition provisions of Statement No. 123, as amended, to all option grants prior to January 1, 2006.

|   | <b>Year Ended<br/>December 31,<br/>2005</b>                 |
|---|---|
|   | <b>(In Thousands,<br/>except for per share<br/>amounts)</b> |
| Net income as reported  | \$ 4,729  |
| Less: Total stock-based compensation expense, net of<br>income taxes, included in reported net income   | -   |
| Add: Total stock-based compensation expense, net of<br>income taxes, that would have been included in the<br>determination of net income if the fair value method<br>had been applied to all grants | (1,273)   |
| <b>Pro Forma Net Income</b>   | <b>\$ 3,456</b>   |
| Net income per common share, as reported:   |   |
| Basic   | \$ 1.25   |
| Diluted   | \$ 1.20   |
| Pro forma net income per common share:  |   |
| Basic   | \$ 0.92   |
| Diluted   | \$ 0.88   |

**Notes to Consolidated Financial Statements**

**Note 2 - Summary of Significant Accounting Policies (Continued)**

**Comprehensive Income**

The Company records unrealized gains and losses, net of deferred income taxes, on securities available for sale in accumulated other comprehensive income. Realized gains and losses, if any, are reclassified to non-interest income upon sale of the related securities or upon the recognition of an impairment loss. The Company has elected to report the effects of other comprehensive income in the consolidated statements of changes in stockholders' equity.

**Reclassification**

Certain amounts for prior periods have been reclassified to conform to the current period's presentation.

**Recent Accounting Pronouncements**

In September 2006, the Financial Accounting Standards Board ("FASB") issued Statement No. 157, Fair Value Measurements, which defines fair value, establishes a framework for measuring fair value under U. S. GAAP, and expands disclosures about fair value measurements. Statement No. 157 applies to other accounting pronouncements that require or permit fair value measurements. Statement No. 157 is effective for our Company January 1, 2008. The Company does not expect that the adoption of Statement No. 157 will have a material impact on our consolidated financial position, results of operations and cash flows.

In February 2007, the FASB issued Statement No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities-Including an amendment of FASB Statement No. 115." Statement No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value. Unrealized gains and losses on items for which the fair value option has been elected will be recognized in earnings at each subsequent reporting date. Statement No. 159 is effective for our Company January 1, 2008. The Company does not expect that the adoption of Statement No. 159 will have a material impact on our consolidated financial statements.

In March 2007, the FASB ratified Emerging Issues Task Force ("EITF") Issue No. 06-10 "Accounting for Collateral Assignment Split-Dollar Life Insurance Agreements" ("EITF 06-10"). EITF 06-10 provides guidance for determining a liability for the postretirement benefit obligation as well as recognition and measurement of the associated asset on the basis of the terms of the collateral assignment agreement. EITF 06-10 is effective for fiscal years beginning after December 15, 2007. The Company does not expect the impact of EITF 06-10 to have a material impact on its consolidated financial position and results of operations.

In June 2007, the EITF reached a consensus on Issue No. 06-11, "Accounting for Income Tax Benefits of Dividends on Share-Based Payment Awards" ("EITF 06-11"). EITF 06-11 states that an entity should recognize a realized tax benefit associated with dividends on nonvested equity shares, nonvested equity share units and outstanding equity share options charged to retained earnings as an increase in additional paid in capital. The amount recognized in additional paid in capital should be included in the pool of excess tax benefits available to absorb potential future tax deficiencies on share-based payment awards. EITF 06-11 should be applied prospectively to income tax benefits of dividends on equity-classified share-based payment awards that are declared in fiscal years beginning after December 15, 2007. The Company does not expect that EITF 06-11 will have an impact on its consolidated financial statements.

FASB Statement No. 160 "Noncontrolling Interests in Consolidated Financial Statements—an amendment of ARB No. 51" was issued in December of 2007. This Statement establishes accounting and reporting standards

**Notes to Consolidated Financial Statements**

**Note 2 - Summary of Significant Accounting Policies (Continued)**

for the noncontrolling 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. The Company believes that this new pronouncement will not have a material impact on its consolidated financial statements.

SAB No. 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 SEC 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 No. 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 consolidated financial statements.

In December 2007, the FASB issued proposed FASB Staff Position (FSP) 157-b, "Effective Date of FASB Statement No. 157," that would permit a one-year deferral in applying the measurement provisions of Statement No. 157 to non-financial assets and non-financial liabilities (non-financial items) that are not recognized or disclosed at fair value in an entity's financial statements on a recurring basis (at least annually). Therefore, if the change in fair value of a non-financial item is not required to be recognized or disclosed in the financial statements on an annual basis or more frequently, the effective date of application of Statement No. 157 to that item is deferred until fiscal years beginning after November 15, 2008 and interim periods within those fiscal years. This deferral does not apply, however, to an entity that applies Statement No. 157 in interim or annual financial statements before proposed FSP 157-b is finalized. The Company is currently evaluating the impact, if any, that the adoption of FSP 157-b will have on the Company's consolidated financial statements.

SAB No. 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 No. 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 No. 110 is effective January 1, 2008. The Company uses the "simplified" method as permitted under SAB No. 110. See Note 12 for additional information on stock options.

**Note 3 - Related Party Transactions**

The Bank leases a property from NEW BAY LLC ("NEW BAY"), a limited liability corporation 100% owned by a majority of the directors and officers of the Bank. In conjunction with the lease, NEW BAY substantially removed the pre-existing structure on the site and constructed a new building suitable to the Bank for its banking operations. Under the terms of the lease, the cost of this project was reimbursed to NEW BAY by the Bank. The amount reimbursed, which occurred during the year 2000, was approximately

**Notes to Consolidated Financial Statements**

**Note 3 - Related Party Transactions (Continued)**

\$943,000, and is included in property and equipment under the caption "Building and improvements" (see Note 7).

The original lease term began on November 1, 2000, and concluded on October 31, 2005, and provided for an annual base rent of \$108,000 for the first three years and \$111,240 for the remaining two years. The Bank has the option to renew the lease for four consecutive five-year periods, subject to a rent escalation clause. In addition, at each renewal date, the Bank has the option to purchase the property from NEW BAY, at the then current fair market value less a credit equal to the lesser of (a) the funds previously reimbursed to NEW BAY, for the new building construction, less any subsequent depreciation, or (b) \$750,000. The authority to exercise the purchase option is solely vested in an officer who has no ownership interest in NEW BAY. On May 1, 2006, the Company renegotiated the lease to a twenty-five year term. The Company will pay NEW BAY \$165,000 a year ( \$13,750 per month) for the first 60 months. The rent shall be reset every five years thereafter at the fair market rental value at the end of each preceding five year period.

On July 1, 2002, the Bank acquired a tract of real estate in the Bergen Point section of the City of Bayonne, New Jersey. The property was purchased for \$889,686 from 104 L.L.C., a limited liability corporation 100% owned by a majority of the directors and officers of the Bank. This property is included in land (see Note 7).

**Note 4 - Securities Available for Sale**

|                   | <u>December 31, 2007</u> |                                       |  |                   |
|-------------------|--------------------------|---------------------------------------|--|-------------------|
|                   | <u>Cost</u>              | <u>Gross<br/>Unrealized<br/>Gains</u> | <u>Gross<br/>Unrealized<br/>Losses</u> | <u>Fair Value</u> |
|                   |                          | <u>(In Thousands)</u>                 |  |                   |
| Equity securities | \$ 2,012                 | \$ 44                                 | \$ -                                   | \$ 2,056          |



**BCB Bancorp, Inc. and Subsidiaries**  
**Notes to Consolidated Financial Statements**

**Note 5 - Securities Held to Maturity**

|  | <b>December 31, 2007</b>  |                                       |  | <b>Fair Value</b> |
|--|---------------------------|---------------------------------------|--|-------------------|
|  | <b>Amortized<br/>Cost</b> | <b>Gross<br/>Unrealized<br/>Gains</b> | <b>Gross<br/>Unrealized<br/>Losses</b> |                   |
|  | (In Thousands)            |                                       |  |                   |
| <b>U.S. Government Agencies:</b>       |                           |                                       |  |                   |
| Due within one year                    | \$ 4,000                  | \$ -                                  | \$ 1                                   | \$ 3,999          |
| Due after one through five years       | 25,312                    | 153                                   | 12                                     | 25,453            |
| Due after five through ten years       | 15,988                    | 25                                    | 20                                     | 15,993            |
| Due after ten years                    | <u>84,856</u>             | <u>744</u>                            | <u>23</u>                              | <u>85,577</u>     |
|  | <u>130,156</u>            | <u>922</u>                            | <u>56</u>                              | <u>131,022</u>    |
| <b>Mortgage-backed securities:</b>     |                           |                                       |  |                   |
| Due after one year through five years  | 157                       | 3                                     | -                                      | 160               |
| Due after five years through ten years | 1,334                     | 29                                    | -                                      | 1,363             |
| Due after ten years                    | <u>33,370</u>             | <u>28</u>                             | <u>283</u>                             | <u>33,115</u>     |
|  | <u>34,861</u>             | <u>60</u>                             | <u>283</u>                             | <u>34,638</u>     |
|  | <u>\$ 165,017</u>         | <u>\$ 982</u>                         | <u>\$ 339</u>                          | <u>\$ 165,660</u> |

**Notes to Consolidated Financial Statements**

**Note 5 - Securities Held to Maturity (Continued)**

|  | <b>December 31, 2006</b> |                               |                                | <b>Fair Value</b> |
|--|--------------------------|-------------------------------|--------------------------------|-------------------|
|  | <b>Amortized Cost</b>    | <b>Gross Unrealized Gains</b> | <b>Gross Unrealized Losses</b> |                   |
|  | (In Thousands)           |                               |                                |                   |
| <b>U.S. Government Agencies:</b>       |                          |                               |                                |                   |
| Due within one year                    | \$ 2,000                 | \$ -                          | \$ 29                          | \$ 1,971          |
| Due after one through five years       | 19,996                   | -                             | 350                            | 19,646            |
| Due after five through ten years       | 38,300                   | -                             | 621                            | 37,679            |
| Due after ten years                    | <u>62,298</u>            | <u>-</u>                      | <u>1,028</u>                   | <u>61,270</u>     |
|  | <u>122,594</u>           | <u>-</u>                      | <u>2,028</u>                   | <u>120,566</u>    |
| <b>Mortgage-backed securities:</b>     |                          |                               |                                |                   |
| Due after one year through five years  | 244                      | 2                             | -                              | 246               |
| Due after five years through ten years | 1,029                    | 10                            | -                              | 1,039             |
| Due after ten years                    | <u>24,805</u>            | <u>16</u>                     | <u>654</u>                     | <u>24,167</u>     |
|  | <u>26,078</u>            | <u>28</u>                     | <u>654</u>                     | <u>25,452</u>     |
|  | <u>\$ 148,672</u>        | <u>\$ 28</u>                  | <u>\$ 2,682</u>                | <u>\$ 146,018</u> |

There were no sales of securities during the years ended December 31, 2007 and 2006. During the year ended December 31, 2005, proceeds from sales of securities held to maturity totaled \$7,373,000, including gross gains of \$37,000 and gross losses of \$9,000. The securities sold consisted of mortgage-backed securities on which we had already collected more than eighty-five percent of the principal outstanding at the purchase date and U.S. Government Agency bonds which were within three months of their call dates and on which the exercise of the call was determined to be probable. At December 31, 2007 and 2006, mortgage-backed securities with a carrying value of approximately \$924,000 and \$1,128,000, respectively, were pledged to secure public deposits (see Note 10 for information on securities pledged for borrowings).

**Notes to Consolidated Financial Statements**

**Note 5 - Securities Held to Maturity (Continued)**

The age of unrealized losses and fair value of related securities held to maturity were as follows:

|                            | <u>Less than 12 Months</u> |                          | <u>More than 12 Months</u> |                          | <u>Total</u>      |                          |
|----------------------------|----------------------------|--------------------------|----------------------------|--------------------------|-------------------|--------------------------|
|                            | <u>Fair Value</u>          | <u>Unrealized Losses</u> | <u>Fair Value</u>          | <u>Unrealized Losses</u> | <u>Fair Value</u> | <u>Unrealized Losses</u> |
| (In Thousands)             |                            |                          |                            |                          |                   |                          |
| <b>December 31, 2007:</b>  |                            |                          |                            |                          |                   |                          |
| U.S. Government Agencies   | \$ -                       | \$ -                     | \$ 11,440                  | \$ 56                    | \$ 11,440         | \$ 56                    |
| Mortgage-backed securities | <u>7,291</u>               | <u>10</u>                | <u>16,592</u>              | <u>273</u>               | <u>23,883</u>     | <u>283</u>               |
|                            | <u>\$ 7,291</u>            | <u>\$ 10</u>             | <u>\$ 28,032</u>           | <u>\$ 329</u>            | <u>\$ 35,323</u>  | <u>\$ 339</u>            |
| <b>December 31, 2006:</b>  |                            |                          |                            |                          |                   |                          |
| U.S. Government Agencies   | \$ 19,900                  | \$ 100                   | \$ 100,666                 | \$ 1,928                 | \$ 120,566        | \$ 2,028                 |
| Mortgage-backed securities | <u>335</u>                 | <u>-</u>                 | <u>22,865</u>              | <u>654</u>               | <u>23,200</u>     | <u>654</u>               |
|                            | <u>\$ 20,235</u>           | <u>\$ 100</u>            | <u>\$ 123,531</u>          | <u>\$ 2,582</u>          | <u>\$ 143,766</u> | <u>\$ 2,682</u>          |

At December 31, 2007, management concluded that the unrealized losses above (which related to 4 U.S. Government Agency bonds and 18 Fannie Mae or Freddie Mac mortgage-backed securities) are temporary in nature since they are not related to the underlying credit quality of the issuers and the Company has the ability and intent to hold these securities for a time necessary to recover their cost. The losses above are primarily related to market interest rates.

**Notes to Consolidated Financial Statements**

**Note 6 - Loans Receivable**

|                             | <b>December 31,</b>      |                          |
|-----------------------------|--------------------------|--------------------------|
|                             | <b>2007</b>              | <b>2006</b>              |
|                             | <b>(In Thousands)</b>    |                          |
| Real estate mortgage:       |                          |                          |
| Residential                 | \$ 55,248                | \$ 43,993                |
| Commercial                  | 208,108                  | 192,141                  |
| Construction                | 49,984                   | 38,882                   |
|                             | <u>313,340</u>           | <u>275,016</u>           |
| Commercial:                 |                          |                          |
| Business loans              | 17,933                   | 7,355                    |
| Lines of credit             | 1,940                    | 7,350                    |
|                             | <u>19,873</u>            | <u>14,705</u>            |
| Consumer:                   |                          |                          |
| Passbook or certificate     | 92                       | 106                      |
| Home equity lines of credit | 4,343                    | 3,752                    |
| Home equity                 | 31,054                   | 28,569                   |
| Automobile                  | 51                       | 57                       |
| Personal                    | 93                       | 83                       |
|                             | <u>35,633</u>            | <u>32,567</u>            |
| Deposit overdrafts          | <u>503</u>               | <u>150</u>               |
| <b>Total Loans</b>          | <u><b>369,349</b></u>    | <u><b>322,438</b></u>    |
| Deferred loan fees, net     | 630                      | 575                      |
| Allowance for loan losses   | 4,065                    | 3,733                    |
|                             | <u>4,695</u>             | <u>4,308</u>             |
|                             | <u><b>\$ 364,654</b></u> | <u><b>\$ 318,130</b></u> |

At December 31, 2007, 2006, and 2005, loans serviced by the Bank for the benefit of others, which consist of participation interests in loans originated by the Bank, totaled approximately \$10,451,000, \$4,786,000, and \$5,030,000, respectively.

**Notes to Consolidated Financial Statements**

**Note 6 - Loans Receivable (Continued)**

The Bank grants loans to its officers and directors and to their associates. Related party loans are made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with unrelated persons and do not involve more than normal risk of collectibility. The activity with respect to loans to directors, officers and associates of such persons, is as follows:

|                          | <b>Years Ended December 31,</b> |                 |
|--------------------------|---------------------------------|-----------------|
|                          | <b>2007</b>                     | <b>2006</b>     |
|                          | <b>(In Thousands)</b>           |                 |
| Balance – beginning      | \$ 8,575                        | \$ 6,714        |
| Loans originated         | 1,566                           | 6,133           |
| Collections of principal | (3,316)                         | (4,272)         |
|                          | -                               | -               |
| Balance - ending         | <u>\$ 6,825</u>                 | <u>\$ 8,575</u> |

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

|  | <b>Years Ended December 31,</b> |                 |                 |
|--|---------------------------------|-----------------|-----------------|
|  | <b>2007</b>                     | <b>2006</b>     | <b>2005</b>     |
|  | <b>(In Thousands)</b>           |                 |                 |
| Balance - beginning                        | \$ 3,733                        | \$ 3,090        | \$ 2,506        |
| Provision charged to operations            | 600                             | 625             | 1,118           |
| Recoveries of loans previously charged off | 17                              | 85              | 12              |
| Loans charged off                          | (285)                           | (67)            | (546)           |
| Balance - ending                           | <u>\$ 4,065</u>                 | <u>\$ 3,733</u> | <u>\$ 3,090</u> |

At December 31, 2007, 2006 and 2005, nonaccrual loans for which the accrual of interest had been discontinued totaled approximately \$3,754,000, \$323,000 and \$787,000, respectively. Had these loans been performing in accordance with their original terms, the interest income recognized for the years ended December 31, 2007, 2006 and 2005 would have been approximately \$287,000, \$26,000, and \$66,000, respectively. Interest income recognized on such loans was approximately \$64,000, \$6,000, and \$10,000, respectively. The Bank is not committed to lend additional funds to the borrowers whose loans have been placed on a nonaccrual status.

At December 31, 2007, 2006, and 2005, impaired loans were \$3,754,000, \$323,000 and \$705,000, respectively, and the related specific allocation of allowance for loan losses totaled \$728,000, \$81,000 and \$214,000, respectively. There were no impaired loans which did not have a specific allocation of the allowance for loan losses. During the years ended December 31, 2007, 2006, and 2005, the average balance of impaired loans was \$2,104,000, \$568,000, and \$1,141,000, respectively, and interest income recognized during the period of impairment totaled \$64,000, \$43,000, and \$7,000, respectively.

Notes to Consolidated Financial Statements

Note 7 - Premises and Equipment

|   | December 31,    |                 |
|---|-----------------|-----------------|
|   | 2007            | 2006            |
|   | (In Thousands)  |                 |
| Land                                      | \$ 890          | \$ 890          |
| Buildings and improvements                | 3,558           | 3,546           |
| Leasehold improvements                    | 976             | 347             |
| Furniture, fixtures and equipment         | 2,281           | 1,905           |
| Construction in progress                  | -               | 579             |
|   | <u>7,705</u>    | <u>7,267</u>    |
| Accumulated depreciation and amortization | <u>(1,776)</u>  | <u>(1,382)</u>  |
|   | <u>\$ 5,929</u> | <u>\$ 5,885</u> |

Buildings and improvements include a building constructed on property leased from a related party (see Note 3).

Rental expenses related to the occupancy of premises totaled \$413,000, \$386,000, and \$205,000 for the years ended December 31, 2007, 2006 and 2005, respectively. The minimum obligation under lease agreements expiring through April 30, 2031, for each of the years ended December 31 is as follows (in thousands):

|            |                 |
|------------|-----------------|
| 2008       | \$ 415          |
| 2009       | 425             |
| 2010       | 366             |
| 2011       | 244             |
| 2012       | 237             |
| Thereafter | 3,025           |
|            | <u>\$ 4,712</u> |

Note 8 - Interest Receivable

|            | December 31,    |                 |
|------------|-----------------|-----------------|
|            | 2007            | 2006            |
|            | (In Thousands)  |                 |
| Loans      | \$ 2,048        | \$ 1,806        |
| Securities | 1,728           | 1,891           |
|            | <u>\$ 3,776</u> | <u>\$ 3,697</u> |

**Notes to Consolidated Financial Statements**

**Note 9 - Deposits**

|                         | <b>December 31,</b>   |                   |
|-------------------------|-----------------------|-------------------|
|                         | <b>2007</b>           | <b>2006</b>       |
|                         | <b>(In Thousands)</b> |                   |
| Demand:                 |                       |                   |
| Non-interest bearing    | \$ 35,897             | \$ 35,275         |
| NOW                     | 20,260                | 21,007            |
| Money market            | 27,697                | 8,022             |
|                         | <b>83,854</b>         | 64,304            |
| Savings and club        | 100,441               | 117,617           |
| Certificates of deposit | 214,524               | 200,826           |
|                         | <b>\$ 398,819</b>     | <b>\$ 382,747</b> |

At December 31, 2007 and 2006, certificates of deposit of \$100,000 or more totaled approximately \$102,830,000 and \$84,480,000, respectively.

The scheduled maturities of certificates of deposit at December 31, 2007, were as follows (in thousands):

|            | <b><u>Amount</u></b> |
|------------|----------------------|
| 2008       | \$ 187,105           |
| 2009       | 22,293               |
| 2010       | 4,625                |
| 2011       | 216                  |
| 2012       | 233                  |
| Thereafter | 52                   |
|            | <b>\$ 214,524</b>    |

**Notes to Consolidated Financial Statements**

**Note 10 - Short-Term Borrowings and Long-Term Debt**

Long-term debt consists of the following:

|   | <b>December 31,</b>      |                         |
|---|--------------------------|-------------------------|
|   | <b>2007</b>              | <b>2006</b>             |
|   | <b>(In Thousands)</b>    |                         |
| Long-term borrowings:   |                          |                         |
| Federal Home Loan Bank of New York ("FHLB") Fixed Rate Repurchase Agreements:   |                          | \$                      |
| 4.50% maturing May 22, 2016   | \$ 10,000                | 10,000                  |
| 4.33% maturing July 28, 2016  | -                        | 15,000                  |
| 4.30% maturing August 16, 2016  | 20,000                   | 20,000                  |
| 4.17% maturing August 31, 2016  | 25,000                   | 25,000                  |
| 4.76% maturing June 18, 2017  | 20,000                   | -                       |
| 4.30% maturing July 30, 2017  | 15,000                   | -                       |
| 4.08% maturing July 30, 2017  | 20,000                   | -                       |
| Trust preferred floating rate junior subordinated debenture maturing June 17, 2034;<br>interest rate adjusts quarterly to LIBOR plus 2.65% (7.64% at December 31, 2007 and 8.01% at<br>December 31, 2006) | <u>4,124</u>             | <u>4,124</u>            |
|   | <u><b>\$ 114,124</b></u> | <u><b>\$ 74,124</b></u> |

Additional information regarding short-term borrowings is as follows:

|   | <b>December 31,</b>   |             |             |
|---|-----------------------|-------------|-------------|
|   | <b>2007</b>           | <b>2006</b> | <b>2005</b> |
|   | <b>(In Thousands)</b> |             |             |
| Average balance outstanding during the year | \$ -                  | \$ 705      | \$ 9,691    |
| Highest month-end balance during the year   | -                     | 1,000       | 21,400      |
| Average interest rate during the year       | -                     | 4.93%       | 3.14%       |
| Weighted average interest rate at year-end  | -                     | -           | -           |

The trust preferred debenture is callable, at the Company's option, on June 17, 2009, and quarterly thereafter.

At December 31, 2007, 2006, and 2005 securities held to maturity with a carrying value of approximately \$146,811,000, \$92,771,000 and \$75,968,000, respectively, were pledged to secure the above noted Federal Home Loan Bank of New York borrowings.

At December 31, 2007, the Bank has available to it two borrowing facilities aggregating \$103,179,000 from the FHLB of New York, an overnight line of credit and a companion commitment, both of which expire on July 31, 2008. No amounts were outstanding under these borrowing facilities at December 31, 2007 and 2006.



**Notes to Consolidated Financial Statements**

**Note 11 - Regulatory Matters**

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

Quantitative measures, established by regulation to ensure capital adequacy, require the Bank to maintain minimum amounts and ratios of Total and Tier 1 capital (as defined in the regulations), to risk-weighted assets, (as defined), and of Tier 1 capital to average assets (as defined). The following table presents information as to the Bank's capital levels.

|  | <u>Actual</u> |              | <u>For Capital Adequacy Purposes</u> |              | <u>To be Well Capitalized under Prompt Corrective Action Provisions</u> |              |
|--|---------------|--------------|--------------------------------------|--------------|---|--------------|
|  | <u>Amount</u> | <u>Ratio</u> | <u>Amount</u>                        | <u>Ratio</u> | <u>Amount</u>   | <u>Ratio</u> |
| <b>As of December 31, 2007:</b>          |               |              |                                      |              |   |              |
| Total capital (to risk-weighted assets)  | \$ 53,761     | 14.12%       | \$ 30,457                            | ≥ 8.00%      | \$ ≥ 38,072   | ≥ 10.00%     |
| Tier 1 capital (to risk-weighted assets) | 49,696        | 13.05        | ≥ -                                  | ≥ -          | ≥ 22,843  | ≥ 6.00       |
| Tier 1 capital (to average assets)       | 49,696        | 8.81         | ≥ 22,566                             | ≥ 4.00       | ≥ 28,207  | ≥ 5.00       |
| <b>As of December 31, 2006:</b>          |               |              |                                      |              |   |              |
| Total capital (to risk-weighted assets)  | \$ 57,260     | 16.43%       | \$ ≥ 27,882                          | ≥ 8.00%      | \$ ≥ 34,853   | ≥ 10.00%     |
| Tier 1 capital (to risk-weighted assets) | 53,527        | 15.36        | ≥ -                                  | ≥ -          | ≥ 20,912  | ≥ 6.00       |
| Tier 1 capital (to average assets)       | 53,527        | 10.48        | ≥ 20,437                             | ≥ 4.00       | ≥ 25,546  | ≥ 5.00       |

As of December 31, 2007, the most recent notification from the Bank's regulators categorized the Bank as "well capitalized" under the regulatory framework for prompt corrective action. There are no conditions or events occurring since that notification that management believes have changed the Bank's category.

**Note 12 - Benefits Plan**

**Stock Options**

The Company has two stock-related compensation plans, the 2002 Stock Option Plan and the 2003 Stock Option Plan (the "Plans"). All stock options granted have a ten year term and were scheduled to vest and become exercisable on a cumulative basis in equal installments (20% immediately upon grant and an additional 20% at each of the four succeeding grant anniversary dates). As of December 31, 2007, all options authorized under the Plans had been granted.

**Notes to Consolidated Financial Statements**

**Note 12 - Benefits Plan (Continued)**

**Stock Options (Continued)**

In anticipation of the adoption of Statement No. 123(R) on January 1, 2006, the Board of Directors of the Company, on December 14, 2005, approved the accelerated vesting and exercisability of all unvested and unexercisable stock options granted as a part of the 2003 and 2002 Stock Option Plans of the Company held by directors, officers or employees. As a result, options to purchase 218,195 shares of common stock, which would otherwise have vested and become exercisable from time to time over the next three years, became fully vested and immediately exercisable on December 20, 2005. The number of shares and exercise prices of the options subject to acceleration were unchanged. The accelerated options have exercise prices that range from \$5.29 to \$11.84 per share. The accelerated options include 194,964 options held by directors and executive officers and 23,231 options held by other employees. The acceleration of the vesting and exercisability of these options eliminates compensation expense, net of income tax, that would otherwise have been recorded in the Company's income statements for the years ending December 31, 2006, 2007, and 2008 of \$379,000, \$301,000, and \$128,000, respectively. As required, the Company estimated the number of options that were expected to be exercised in the future which would not have been exercisable under their original vesting terms and recorded an expense therefore. This estimate is updated on a quarterly basis.

During the years ended December 31, 2007 and 2006, the Company recorded \$6,000 (\$4,000 after tax) and \$25,000 (\$15,000 after tax) of share-based compensation expense, respectively. No compensation expense related to stock options was recorded during the years ended December 31, 2005, as we recognized compensation cost for stock options granted based on the intrinsic value method, as permitted by Statement No. 123, instead of the fair value based method now required under Statement No. 123(R).

A summary of stock option activity, adjusted to retroactively reflect subsequent stock dividends, follows:

|                                  | <u>Number of<br/>Option<br/>Shares</u> | <u>Range of<br/>Exercise<br/>Prices</u> | <u>Weighted<br/>Average Exercise<br/>Price</u> |
|----------------------------------|--|---|--|
| Outstanding at December 31, 2004 | 444,436                                | 5.29-<br>\$ 11.84                       | \$ 9.32  |
| Options granted                  | 28,575                                 | 15.60-<br>15.65                         | 15.64  |
| Options exercised                | (43,500)                               | 5.29-<br>11.84                          | 8.24   |
| Options cancelled                | <u>(1,058)</u>                         | 5.29                                    | 5.29   |
| Outstanding at December 31, 2005 | 428,454                                | 5.29-<br>15.65                          | 9.79   |
| Options exercised                | <u>(12,816)</u>                        | 5.29-<br>11.84                          | <u>7.69</u>                                    |
| Outstanding at December 31, 2006 | 415,638                                | 5.29-<br>15.65                          | 9.86   |
| Options granted                  | 2,000                                  | 15.11                                   | 15.11  |
| Options exercised                | (15,426)                               | 5.29-<br>15.65                          | 10.42  |
| Options cancelled                | <u>(2,000)</u>                         | 15.60                                   | 15.60  |
| Outstanding at December 31, 2007 | <u><u>400,212</u></u>                  | 5.29-<br>15.65                          | 9.83   |

**Notes to Consolidated Financial Statements**

## Note 12 - Benefits Plan (Continued)

**Stock Options (Continued)**

At December 31, 2007, all stock options outstanding were exercisable, having a weighted-average remaining contractual term of 5.7 years and an aggregate intrinsic value of \$2,289,000. The total intrinsic value of options exercised during the years ended December 31, 2007, 2006 and 2005, was \$85,000, \$102,000 and \$294,000, respectively. It is Company policy to issue new shares upon share option exercise.

The weighted average grant-date fair values of the stock options granted during 2007 and 2005, all of which have exercise prices equal to the market price of the common stock at the grant date, were estimated using the Black-Scholes option-pricing model. Such fair value and the weighted average assumptions used for estimating fair value are as follows:

|                                      | <b>Years Ended December 31,</b> |             |             |
|--------------------------------------|---------------------------------|-------------|-------------|
|                                      | <b>2007</b>                     | <b>2006</b> | <b>2005</b> |
| Grant-date fair value per share      | \$ 2.91                         | N/A         | \$ 9.92     |
| Assumptions:                         |                                 |             |             |
| Expected common stock dividend yield | 2.38%                           | N/A         | 0.00%       |
| Expected option life                 | 5.0 years                       | N/A         | 5.0 years   |
| Risk-free interest rate              | 4.30%                           | N/A         | 4.36%       |
| Volatility                           | 19.96%                          | N/A         | 73.84%      |

**Note 13 - Dividend Restrictions**

Payment of cash dividends is conditional on earnings, financial condition, cash needs, the discretion of the Board of Directors, and compliance with regulatory requirements. State and federal law and regulations impose substantial limitations on the Bank's ability to pay dividends to the Company. Under New Jersey law, the Bank is permitted to declare dividends on its common stock 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. During the year, the bank paid the Company a total of \$8,500,000.

**BCB Bancorp, Inc. and Subsidiaries**  
**Notes to Consolidated Financial Statements**

Note 14 - Income Taxes

The components of income tax expense (benefit) are summarized as follows:

|                                       | <b>Years Ended December 31,</b> |                 |                 |
|---------------------------------------|---------------------------------|-----------------|-----------------|
|                                       | <b>2007</b>                     | <b>2006</b>     | <b>2005</b>     |
|                                       | <b>(In Thousands)</b>           |                 |                 |
| <b>Current income tax expense:</b>    |                                 |                 |                 |
| Federal                               | \$ 2,391                        | \$ 2,998        | \$ 2,600        |
| State                                 | 250                             | 463             | 370             |
|                                       | <u>2,641</u>                    | <u>3,461</u>    | <u>2,970</u>    |
| <b>Deferred income tax (benefit):</b> |                                 |                 |                 |
| Federal                               | (102)                           | (193)           | (174)           |
| State                                 | (30)                            | (48)            | (51)            |
|                                       | <u>(132)</u>                    | <u>(241)</u>    | <u>(225)</u>    |
|                                       | <u>\$ 2,509</u>                 | <u>\$ 3,220</u> | <u>\$ 2,745</u> |

The tax effects of existing temporary differences that give rise to significant portions of the deferred income tax assets and deferred income tax liabilities are as follows:

|  | <b>December 31,</b>   |                 |
|--|-----------------------|-----------------|
|  | <b>2007</b>           | <b>2006</b>     |
|  | <b>(In Thousands)</b> |                 |
| <b>Deferred income tax assets:</b>               |                       |                 |
| Allowance for loan losses                        | \$ 1,623              | \$ 1,491        |
| Other  | 10                    | 10              |
|  | <u>1,633</u>          | <u>1,501</u>    |
| <b>Deferred income tax liabilities:</b>          |                       |                 |
| Depreciation                                     | 263                   | 263             |
| Unrealized gain on securities available for sale | 18                    | -               |
|  | <u>281</u>            | <u>263</u>      |
| <b>Net Deferred Tax Asset</b>                    | <u>\$ 1,352</u>       | <u>\$ 1,238</u> |

**Notes to Consolidated Financial Statements**

**Note 14 - Income Taxes (Continued)**

The following table presents a reconciliation between the reported income tax expense and the income tax expense which would be computed by applying the normal federal income tax rate of 34% to income before income tax expense:

|  | <b>Years Ended December 31,</b> |                 |                 |
|--|---------------------------------|-----------------|-----------------|
|  | <b>2007</b>                     | <b>2006</b>     | <b>2005</b>     |
|  | <b>(In Thousands)</b>           |                 |                 |
| Federal income tax expense at statutory rate           | \$ 2,362                        | \$ 2,988        | \$ 2,541        |
| Increases (reductions) in income taxes resulting from: |                                 |                 |                 |
| State income tax, net of federal income tax effect     | 145                             | 274             | 211             |
| Other items, net                                       | 2                               | (42)            | (7)             |
| <b>Effective Income Tax</b>                            | <b>\$ 2,509</b>                 | <b>\$ 3,220</b> | <b>\$ 2,745</b> |
| <b>Effective Income Tax Rate</b>                       | <b>36.1%</b>                    | <b>36.6%</b>    | <b>36.7%</b>    |

The Investment Company commenced operations in January 2005. Under New Jersey tax law, the Investment Company is subject to a 3.6% state income tax rate as compared to the 9.0% rate to which the Company and Bank are subject. The presence of the Investment Company during the year ended December 31, 2007, 2006 and 2005, resulted in an income tax savings of approximately \$297,000, \$282,000 and \$223,000 respectively, and reduced the consolidated effective income tax rate by approximately 4.3%, 3.2% and 3.0%, respectively.

**Note 15- Commitments and Contingencies**

The Bank is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments primarily include commitments to extend credit. The Bank's exposure to credit loss, in the event of nonperformance by the other party to the financial instrument for commitments to extend credit, is represented by the contractual amount of those instruments. The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

Outstanding loan related commitments were as follows:

|                               | <b>December 31,</b>   |                  |
|-------------------------------|-----------------------|------------------|
|                               | <b>2007</b>           | <b>2006</b>      |
|                               | <b>(In Thousands)</b> |                  |
| Loan origination              | \$ 2,885              | \$ 8,980         |
| Construction loans in process | 40,023                | 28,586           |
| Unused lines of credit        | 14,470                | 10,789           |
|                               | <b>\$ 57,378</b>      | <b>\$ 48,355</b> |

## **Notes to Consolidated Financial Statements**

### **Note 15- Commitments and Contingencies (Continued)**

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, 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 counterparty. Collateral held varies but primarily includes residential real estate properties.

The Company and its subsidiaries also have, in the normal course of business, commitments for services and supplies. Management does not anticipate losses on any of these transactions.

The Company and its subsidiaries, from time to time, may be party to litigation which arises primarily in the ordinary course of business. In the opinion of management, the ultimate disposition of such litigation should not have a material effect on the financial statements. As of December 31, 2007, the Company and its subsidiaries were not parties to any material litigation.

### **Note 16 - Estimated Fair Value of Financial Instruments**

The fair value of a financial instrument is defined as the amount at which the instrument could be exchanged in a current transaction between willing parties, other than a forced or liquidation sale. Significant estimations were used for the purposes of this disclosure. Estimated fair values have been determined using the best available data and estimation methodology suitable for each category of financial instruments. For those loans and deposits with floating interest rates, it is presumed that estimated fair values generally approximate their carrying values. The estimation methodologies used and the estimated fair values and carrying values of financial instruments are set forth below:

#### **Cash and Cash Equivalents, Interest Receivable and Interest Payable**

The carrying amounts for cash and cash equivalents, interest receivable and interest payable approximate fair value.

#### **Securities**

The fair values for securities are based on quoted market prices or dealer prices, if available. If quoted market prices or dealer prices are not available, fair value is estimated using quoted market prices or dealer prices for similar securities.

#### **Loans Held for Sale**

The fair value of loans held for sale is estimated based on market price quoted by the investors.

#### **Loans Receivable**

The fair value of loans is estimated by discounting future cash flows, using the current rates at which similar loans with similar remaining maturities would be made to borrowers with similar credit ratings.

#### **FHLB of New York Stock**

The carrying value of FHLB of New York stock approximates fair value.

**Notes to Consolidated Financial Statements**

**Note 16- Estimated Fair Value of Financial Instruments (Continued)**

**Deposits**

For demand, savings and club accounts, fair value is the carrying amount reported in the financial statements. For certificates of deposit, fair value is estimated by discounting future cash flows, using rates currently offered for deposits of similar remaining maturities.

**Long-Term Debt**

The fair value of long-term debt is estimated by discounting future cash flows using rates currently available for liabilities of similar remaining maturities.

**Commitments to Extend Credit**

The fair value of credit commitments is estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counterparties. For fixed-rate loan commitments, fair value also considers the difference between current levels of interest rates and the committed rates. The carrying value, represented by the net deferred fee arising from the unrecognized commitment, and the fair value, determined by discounting the remaining contractual fee over the term of the commitment using fees currently charged to enter into similar agreements with similar credit risk, are not considered material for disclosure. The contractual amounts of unfunded commitments are presented in Note 15.

**Notes to Consolidated Financial Statements**

**Note 16- Estimated Fair Value of Financial Instruments (Continued)**

The carrying values and estimated fair values of financial instruments are as follows:

|                               | December 31,      |               |                   |               |
|-------------------------------|-------------------|---------------|-------------------|---------------|
|                               | 2007              |               | 2006              |               |
|                               | Carrying<br>Value | Fair<br>Value | Carrying<br>Value | Fair<br>Value |
| (In Thousands)                |                   |               |                   |               |
| <b>Financial assets:</b>      |                   |               |                   |               |
| Cash and cash equivalents     | \$ 11,780         | \$ 11,780     | \$ 25,837         | \$ 25,837     |
| Securities available for sale | 2,056             | 2,056         | -                 | -             |
| Securities held to maturity   | 165,017           | 165,660       | 148,672           | 146,018       |
| Loans held for sale           | 2,132             | 2,141         | 2,976             | 2,976         |
| Loans receivable              | 364,654           | 367,336       | 318,130           | 313,962       |
| FHLB of New York stock        | 5,560             | 5,560         | 3,724             | 3,724         |
| Interest receivable           | 3,776             | 3,776         | 3,697             | 3,697         |
| <b>Financial liabilities:</b> |                   |               |                   |               |
| Deposits                      | 398,819           | 399,178       | 382,747           | 382,616       |
| Long-term debt                | 114,124           | 115,679       | 74,124            | 74,230        |
| Accrued interest payable      | 1,026             | 1,026         | 812               | 812           |

Fair value estimates are made at a specific point in time based on relevant market information and information about the financial instrument. These estimates do not reflect any premium or discount that could result from offering for sale at one time the entire holdings of a particular financial instrument. Because no market value exists for a significant portion of the financial instruments, fair value estimates are based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates are subjective in nature, involve uncertainties and matters of judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

In addition, fair value estimates are based on existing on-and-off balance sheet financial instruments without attempting to estimate the value of anticipated future business, and exclude the value of assets and liabilities that are not considered financial instruments. Other significant assets and liabilities that are not considered financial assets and liabilities include premises and equipment, and advance payments by borrowers for taxes and insurance. In addition, the tax ramifications related to the realization of the unrealized gains and losses can have a significant effect on fair value estimates and have not been considered in any of the estimates.

Finally, reasonable comparability between financial institutions may not be likely due to the wide range of permitted valuation techniques and numerous estimates which must be made given the absence of active secondary markets for many of the financial instruments. This lack of uniform valuation methodologies introduces a greater degree of subjectivity to these estimated fair values.



**Notes to Consolidated Financial Statements****Note 17- Parent Only Condensed Financial Information****STATEMENTS OF FINANCIAL CONDITION**

|   | <b>December 31,</b> |                  |
|---|---------------------|------------------|
|   | <b>2007</b>         | <b>2006</b>      |
| <b>Assets</b>                                     |                     |                  |
| <b>(In Thousands)</b>                             |                     |                  |
| Cash and due from banks                           | \$ 2,719            | \$ 2,356         |
| Investment in subsidiaries                        | 49,722              | 53,527           |
| Restricted common stock                           | 124                 | 124              |
| Other assets                                      | 83                  | 92               |
| <b>Total Assets</b>                               | <b>\$ 52,648</b>    | <b>\$ 56,099</b> |
| <b>Liabilities and Stockholders' Equity</b>       |                     |                  |
| <b>Liabilities</b>                                |                     |                  |
| Long-term debt                                    | \$ 4,124            | \$ 4,124         |
| Other liabilities                                 | 14                  | 12               |
| <b>Total Liabilities</b>                          | <b>4,138</b>        | <b>4,136</b>     |
| <b>Stockholders' equity</b>                       |                     |                  |
| Common stock                                      | 325                 | 324              |
| Paid-in capital                                   | 45,795              | 45,632           |
| Treasury stock                                    | (7,385)             | (859)            |
| Retained earnings                                 | 9,749               | 6,866            |
| Accumulated other comprehensive income            | 26                  | -                |
| <b>Total Stockholders' Equity</b>                 | <b>48,510</b>       | <b>51,963</b>    |
| <b>Total Liabilities and Stockholders' Equity</b> | <b>\$ 52,648</b>    | <b>\$ 56,099</b> |

**Notes to Consolidated Financial Statements**

Note 17- Parent Only Condensed Financial Information (Continued)

**STATEMENTS OF INCOME**

|   | Years Ended in December 31, |                 |                 |
|---|-----------------------------|-----------------|-----------------|
|   | 2007                        | 2006            | 2005            |
|   | (In Thousands)              |                 |                 |
| Dividends from subsidiary   | \$ 8,500                    | \$ -            | \$ -            |
| Interest Income   | 10                          | 27              | -               |
| <b>Total Income</b>   | <b>8,510</b>                | <b>27</b>       | <b>-</b>        |
| Interest Expense, borrowed money  | 329                         | 310             | 245             |
| Stock-Based Compensation  | 6                           | 25              | -               |
| Other   | -                           | 3               | -               |
| <b>Total Expense</b>  | <b>335</b>                  | <b>338</b>      | <b>245</b>      |
| <b>Income ( Loss ) before Income Tax Benefit and Equity in Undistributed Earnings of Subsidiaries</b> | <b>8,175</b>                | <b>(311)</b>    | <b>(245)</b>    |
| Income tax benefit  | 95                          | 96              | 93              |
| <b>Income (Loss) before Equity in Undistributed Earnings (Losses) of Subsidiaries</b>                 | <b>8,270</b>                | <b>(215)</b>    | <b>(152)</b>    |
| Equity in undistributed earnings (losses) of subsidiaries   | (3,832)                     | 5,782           | 4,881           |
| <b>Net Income</b>   | <b>\$ 4,438</b>             | <b>\$ 5,567</b> | <b>\$ 4,729</b> |

**Notes to Consolidated Financial Statements**

**Note 17 - Parent Only Condensed Financial Information (Continued)**

**STATEMENTS OF CASH FLOW**

|   | Years Ended December 31, |                 |                  |
|---|--------------------------|-----------------|------------------|
|   | 2007                     | 2006            | 2005             |
|   | (In Thousands)           |                 |                  |
| <b>Cash Flows from Operating Activities</b>   |                          |                 |                  |
| Net income  | \$ 4,438                 | \$ 5,567        | \$ 4,729         |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: |                          |                 |                  |
| Equity in undistributed (earnings) losses of subsidiaries                                   | 3,832                    | (5,782)         | (4,881)          |
| Stock based compensation  | 6                        | 25              | -                |
| Decrease in other assets  | 8                        | 5               | 121              |
| (Increase) decrease in stock subscriptions receivable                                       | -                        | 2,353           | (2,353)          |
| (Decrease) in due to subsidiaries   | -                        | -               | (47)             |
| Increase (decrease) in other liabilities  | 2                        | (142)           | 141              |
| <b>Net Cash Provided By (Used in) Operating Activities</b>                                  | <b>8,286</b>             | <b>2,026</b>    | <b>(2,290)</b>   |
| <b>Cash Flows from Investing Activities</b>   |                          |                 |                  |
| Additional investment in subsidiaries   | -                        | (13,000)        | -                |
| <b>Net Cash Used in Investing Activities</b>  | <b>-</b>                 | <b>(13,000)</b> | <b>-</b>         |
| <b>Cash Flows from Financing Activities</b>   |                          |                 |                  |
| Proceeds from issuance of common stock  | 158                      | 90              | 17,877           |
| Cash dividends paid   | (1,555)                  | (1,502)         | -                |
| Purchase of treasury stock  | (6,526)                  | (64)            | (795)            |
| <b>Net Cash Provided by (Used in) Financing Activities</b>                                  | <b>(7,923)</b>           | <b>(1,476)</b>  | <b>17,082</b>    |
| <b>Net Increase (Decrease) in Cash and Cash Equivalents</b>                                 | <b>363</b>               | <b>(12,450)</b> | <b>14,792</b>    |
| <b>Cash and Cash Equivalents - Beginning</b>  | <b>2,356</b>             | <b>14,806</b>   | <b>14</b>        |
| <b>Cash and Cash Equivalents - Ending</b>   | <b>\$ 2,719</b>          | <b>\$ 2,356</b> | <b>\$ 14,806</b> |

**Notes to Consolidated Financial Statements**

**Note 18 - Quarterly Financial Data (Unaudited)**

|  | Quarter Ended                            |                  |                       |                      |
|--|--|------------------|-----------------------|----------------------|
|  | March 31,<br>2007                        | June 30,<br>2007 | September 30,<br>2007 | December 31,<br>2007 |
|  | (In Thousands, Except Per Share Amounts) |                  |                       |                      |
| Interest income  | \$ 8,088                                 | \$ 8,259         | \$ 8,947              | \$ 9,096             |
| Interest expense   | 3,896                                    | 4,073            | 4,585                 | 4,663                |
| <b>Net Interest Income</b>                                 | <b>4,192</b>                             | <b>4,186</b>     | <b>4,362</b>          | <b>4,433</b>         |
| Provision for loan losses                                  | -  | -                | 200                   | 400                  |
| <b>Net Interest Income after Provision for Loan Losses</b> | <b>4,192</b>                             | <b>4,186</b>     | <b>4,162</b>          | <b>4,033</b>         |
| Non-interest income  | 270                                      | 287              | 261                   | 274                  |
| Non-interest expenses                                      | 2,477                                    | 2,723            | 2,777                 | 2,741                |
| <b>Income before Income Taxes</b>                          | <b>1,985</b>                             | <b>1,750</b>     | <b>1,646</b>          | <b>1,566</b>         |
| Income taxes   | 722                                      | 624              | 616                   | 547                  |
| <b>Net Income</b>  | <b>\$ 1,263</b>                          | <b>\$ 1,126</b>  | <b>\$ 1,030</b>       | <b>\$ 1,019</b>      |
| Net income per common share:                               |  |                  |                       |                      |
| Basic  | \$ 0.25                                  | \$ 0.23          | \$ 0.22               | \$ 0.22              |
| Diluted  | \$ 0.25                                  | \$ 0.23          | \$ 0.21               | \$ 0.21              |
| Weighted average number of common shares outstanding:      |  |                  |                       |                      |
| Basic  | 5,006                                    | 4,849            | 4,743                 | 4,676                |
| Diluted  | 5,136                                    | 4,982            | 4,862                 | 4,794                |

**Notes to Consolidated Financial Statements**

**Note 18- Quarterly Financial Data (Unaudited) (Continued)**

|  | <b>Quarter Ended</b>                            |                          |                               |                               |
|--|---|--------------------------|-------------------------------|-------------------------------|
|  | <b>March 31,<br/>2006</b>                       | <b>June 30,<br/>2006</b> | <b>September 30,<br/>2006</b> | <b>December 31,<br/>2 006</b> |
|  | <b>(In Thousands, Except Per Share Amounts)</b> |                          |                               |                               |
| Interest income  | \$ 7,333  | \$ 7,695                 | \$ 8,020                      | \$ 8,213                      |
| Interest expense   | <u>2,902</u>                                    | <u>3,059</u>             | <u>3,593</u>                  | <u>3,923</u>                  |
| <b>Net Interest Income</b>                                 | 4,431   | 4,636                    | 4,427                         | 4,290                         |
| Provision for loan losses                                  | <u>250</u>                                      | <u>325</u>               | <u>50</u>                     | <u>-</u>                      |
| <b>Net Interest Income after Provision for Loan Losses</b> | 4,181   | 4,311                    | 4,377                         | 4,290                         |
| Non-interest income  | 298   | 343                      | 308                           | 311                           |
| Non-interest expenses                                      | <u>2,361</u>                                    | <u>2,402</u>             | <u>2,396</u>                  | <u>2,473</u>                  |
| <b>Income before Income Taxes</b>                          | 2,118   | 2,252                    | 2,289                         | 2,128                         |
| Income taxes   | <u>789</u>                                      | <u>838</u>               | <u>824</u>                    | <u>769</u>                    |
| <b>Net Income</b>  | <u>\$ 1,329</u>                                 | <u>\$ 1,414</u>          | <u>\$ 1,465</u>               | <u>\$ 1,359</u>               |
| Net income per common share:                               |   |                          |                               |                               |
| Basic  | <u>\$ 0.27</u>                                  | <u>\$ 0.28</u>           | <u>\$ 0.29</u>                | <u>\$ 0.27</u>                |
| Diluted  | <u>\$ 0.26</u>                                  | <u>\$ 0.27</u>           | <u>\$ 0.28</u>                | <u>\$ 0.26</u>                |
| Weighted average number of common shares outstanding:      |   |                          |                               |                               |
| Basic  | <u>5,002</u>                                    | <u>5,003</u>             | <u>5,006</u>                  | <u>5,006</u>                  |
| Diluted  | <u>5,159</u>                                    | <u>5,185</u>             | <u>5,181</u>                  | <u>5,164</u>                  |

**EXHIBIT 23**

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

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**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

BCB Bancorp, Inc.  
Bayonne, New Jersey

We hereby consent to the incorporation by reference in the Registration Statement on Form S-8 (No. 333-112201) of BCB Bancorp, Inc. of our report dated March 18, 2008, relating to the consolidated financial statements, which appears in the Form 10-K.

/s/ Beard Miller Company LLP

Beard Miller Company LLP  
Pine Brook, New Jersey  
March 18, 2008

**EXHIBITS 31.1 AND 31.2**

**CERTIFICATIONS OF CHIEF EXECUTIVE OFFICER  
AND PRINCIPAL ACCOUNTING OFFICER  
PURSUANT TO SECTION 302 OF THE  
SARBANES-OXLEY ACT OF 2002**

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**Certification of Chief Executive Officer**  
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Donald Mindiak, certify that:

1. I have reviewed this Annual Report on Form 10-K of BCB Bancorp, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

March 14, 2008

Date

/s/ Donald Mindiak

Donald Mindiak

President, Chief Executive Officer and Chief Financial Officer

**Certification of Principal Accounting Officer**  
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Thomas M. Coughlin, certify that:

1. I have reviewed this Annual Report on Form 10-K of BCB Bancorp, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

March 14, 2008  
Date

/s/ Thomas M. Coughlin  
Thomas M. Coughlin  
Principal Accounting Officer

**EXHIBIT 32**

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER  
AND PRINCIPAL ACCOUNTING OFFICER  
PURSUANT TO SECTION 906 OF THE  
SARBANES-OXLEY ACT OF 2002**

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**Certification pursuant to  
18 U.S.C. Section 1350,  
as adopted pursuant to  
Section 906 of the Sarbanes-Oxley Act of 2002**

Donald Mindiak, President, Chief Executive Officer and Chief Financial Officer and Thomas M. Coughlin, Chief Operating Officer of BCB Bancorp, Inc. (the "Company") each certify in his capacity as an officer of the Company that he has reviewed the annual report of the Company on Form 10-K for the fiscal year ended December 31, 2007 and that to the best of his knowledge:

- (1) the report fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934; and
- (2) the information contained in the report fairly presents, in all material respects, the financial condition and results of operations of the Company.

The purpose of this statement is solely to comply with Title 18, Chapter 63, Section 1350 of the United States Code, as amended by Section 906 of the Sarbanes-Oxley Act of 2002.

March 14, 2008  
Date

/s/ Donald Mindiak  
President, Chief Executive Officer and Chief Financial Officer

March 14, 2008  
Date

/s/ Thomas M. Coughlin  
Principal Accounting Officer and Chief Operating Officer