FirstBank

2011 Annual Report

Welcome Home...

Hamilton Branch Manager Kim Dargay has some fresh pies for Senior Business Development Officer Susan Paglione and recently-promoted Ewing Branch Manager Kristin Bachik.

Kim *is back at the branch she helped to manage at Yardville National Bank.*

Sue *manages the business development efforts of all branch managers.*

Kristin *is eager to deliver some pies and grow her branch.*

FIRST BANK

To our Shareholders, Stakeholders, Employees and Friends:

2011: a year of growth and profitability

We are encouraged by the favorable results and trends in 2011. Having set aside significant dollars in the first quarter to address some lingering pre-recapitalization loan problems, we generated profits over the next three quarters leading to annual net income of $2.1 million. Profit for the year was enhanced by a $1.8 million accounting income tax benefit. Strong growth and profits allowed us to close the year with $265 million in assets and book value per share of $6.17. We are optimistic that assets and profits will continue to grow in 2012.

Let us expand on the important progress and key developments throughout the year:

Profitability: Solid net interest income growth during the year resulted in monthly profitability during every month except March (due to the provisions mentioned above). For the year, net interest income equaled $8.6 million, an increase of $2.3 million (36%) compared to 2010. Total operating expenses increased by $750,000 (13%) compared to 2010, driven by continued investments in people and infrastructure. With net interest income growing much faster than expenses in 2011, operating profit increased by $1.4 million compared to 2010.

Loan growth and margin expansion were the two primary drivers of improved profitability.

Loan growth: the loan portfolio increased from $154 million at the end of 2010 to $207 million at the end of 2011, an increase of $53 million or 34%. Our strong loan growth compared very favorably to other banks in New Jersey. Based on our pipeline, we expect this rate of growth to continue.

Net interest margin expansion: our net interest margin (NIM) for 2011 was 3.75%, an increase from 3.06% in 2010. Holding loan yields steady while deposit costs came down helped drive the major margin improvement. A NIM of 3.75% is near the average for banks our size and in our markets.

Growth well in excess of peers, while maintaining a margin in line with peers, is a good recipe for building shareholder value.

We had other accomplishments throughout the year that we would like to highlight.

Our fourth branch location: in December we opened a new branch in Hamilton Township, Mercer County. This is our third Mercer County branch, and it helps fill a key void in our Mercer footprint. First Bank now has branches to service customers in Western, Central, and Eastern Mercer County.

Building the First Bank brand: we made great progress throughout the year expanding our "Welcome Home" advertising campaign that includes an "apple pie" theme. We continued to deliver pies to local customers and prospects and the apple pie images were used extensively in our marketing efforts. Feedback has been positive and we expect to build on this branding throughout 2012.

To summarize the year, we accomplished what we set out to accomplish: grow the franchise and make money. The strength and determination showed by our staff and our Board of Directors gives us great pride.

What can we expect for 2012?

Continued balance sheet growth: our loan and deposit pipelines remain very active. With the opening of our fourth branch, we expect overall deposit growth to accelerate. While growth at our locations that have been open for a couple of years may slow down slightly, we believe those three branches can still add significant new deposits. We have high expectations for our newest location in Hamilton, and it's off to a fast start. Our loan pipeline has remained active throughout the economic slowdown. Optimism for economic growth in 2012 may lead to additional loan growth opportunities.

Continued net interest income growth: with a healthy net interest margin, loan and deposit growth will translate to net interest income growth. As a reminder, net interest income is our largest component of revenue, generating 95% of total revenues in 2011. With an interest spread of roughly 3.50% between the yield on new earning assets and the cost of liabilities, every $1.0 million in asset growth should generate about $35,000 in additional net interest income for the Bank (before provisions for loan losses). This projected revenue growth should exceed expense growth, leading to higher operating profits in 2012.

Additional investments to build the franchise: we will continue to hire new talent to help build out our next level of management strength. Now is a great time to attract top talent. Already in 2012 we have made several key hires: i) an experienced Finance professional to be Controller for the Bank, ii) a seasoned commercial lender to help expand our Commercial and Industrial (C&I) lending, and iii) a BSA Specialist to help expand our BSA/AML program as we grow.

We are also investing in key technology. Shortly, customers will be able to set up and change ATM pin numbers right in our branches. We are exploring options for joining a nationwide ATM network that would allow our customers to get access to free ATMs throughout the country.

While we remain cost conscious, we don't want to let short-term thinking prevent us from capitalizing on long-term opportunities. We're making investments now to ensure future success.

Growth in non-interest income: our title insurance joint venture (Community Commercial Title - CCT) is very active. Our fee income is growing from this joint venture with the pipeline showing continued growth in 2012. We are seeing increased interest in our residential mortgage partnership with Aurora Financial. If this continues we should see additional fee income from this area as well. Our biggest driver of non-interest income in 2012 should be SBA loan sales. We continue to look for quality SBA 7a loans, with the expectation that the government-guaranteed portion of the loans will be sold at a premium. For the past couple of years, premiums on the sale of SBA loans have been high. If this continues in 2012, we should see additional income from this area throughout the year.

A capital offering: we will need additional capital to continue to grow the franchise. Based on budgeted growth, we anticipate a capital offering during the summer or fall of 2012. The structure of the offering is still being reviewed by the Board of Directors. We will be touching base with all of our shareholders to give them an opportunity to participate.

What could prevent us from achieving our goals in 2012?

Asset quality issues: as a relatively young bank, issues with even a small portion of the loan portfolio can hamper profits. Fortunately, the pre-recapitalization portfolio that has given us problems now makes up less than 20% of the total loan portfolio. Unfortunately, efforts to clear out problem assets have been hampered by delays in the foreclosure process. Many of the loans in the nonaccrual portfolio have been there for two or three years. Hopefully, 2012 will be the year we can make significant progress removing these troubled assets.

Our loan reserve methodology sets aside additional dollars for the pre-recap portfolio, but any additional problems in that portfolio could prevent us from achieving our goals in 2012. Problems in our post-recap loan portfolio would similarly create challenges for the bank.

A "double-dip" recession: our success is closely tied to the overall economy. When the economy struggles, people either stop borrowing or (even worse) stop paying. Recent events have brought renewed optimism for the national and the regional economy. While we believe there is good reason for this cautious confidence, we remain focused on prudent risk management to minimize problems if better economic conditions don't materialize.

An inability to raise capital: if the bank cannot raise additional capital on commercially reasonable terms, growth may need to slow. Projected profitability and retained earnings can help fuel some growth, but not at the level we have seen over the past three years. We hope an improved capital markets environment for community banks during 2012 will lead to a successful offering for First Bank. We are confident that our story of growth and profitability will be well received by existing and potential new investors.

The snowball grows…

Last year, we finished this letter with the view that momentum was starting to build at First Bank. That proved to be a good prediction. This year, the "snowball effect" seems like an appropriate analogy. When you first start building a snowman it takes a little while to get the initial snowball to a size to create enough critical mass for the base. But, you'll also remember how with each roll of the snowball, it gets significantly easier to grow. The little snowball we started with back in 2008 is really starting to grow, and in many ways things are getting easier:

- As our lending limit increases (up to $4.0 million at 12/31/11), larger loans can lead to additional loan growth.
- As our customer base grows, we get additional business from those customers and they become a great referral source for new business.
- Our infrastructure is substantially built. We will continue to enhance it, but now we're leveraging the platform, rather than building it from scratch.

We'd like to reiterate some reasons for optimism. First, the economy really seems to be improving. The dialogue with business owners has changed. Two years ago, they were not sure if we'd hit bottom. Last year, they breathed a sign of relief but were not ready to move forward. Now, they are talking about how to go out and take advantage of new opportunities. We believe small business owners are the economic engines of growth. They can help drive us toward recovery in 2012 and beyond. Second, our relationship banking model, with access to decision makers and better personal service, will continue to create new business opportunities. In essence, we believe our model will allow us to continue to take market share from the big banks.

In conclusion, to our customers, thank you for the opportunity to serve you. We appreciate the relationship we have developed and we look forward to building on it over time. To our shareholders, we appreciate your support of First Bank. Your capital has provided the foundation to allow us to take advantage of this great business opportunity.

Sincerely,

Leslie E. Goodman	Paul E. Fitzgerald	Patrick L. Ryan
Chairman of the Board	President and CEO	EVP and COO

Note: The foregoing material contains forward-looking statements concerning the financial condition, results of operations and business of the Bank. We caution that such statements are subject to a number of uncertainties, including but not limited to those set forth above under the caption "What could prevent us from achieving our goals in 2012", changes in economic activity in our markets, changes in interest rates and changes in regulation and the regulatory environment, and actual results could differ materially, and, therefore, readers should not place undue reliance on any forward-looking statements. The Bank does not undertake, and specifically disclaims, any obligation to publicly release the results of any revisions that may be made to any forward-looking statements to reflect the occurrence of anticipated or unanticipated events or circumstances after the date of such statements.

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FIRSTBANK

Financial Report

December 31, 2011

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FIRSTBANK

TABLE OF CONTENTS

ParenteBeard

Independent Auditors' Report

Board of Directors
First Bank
Hamilton, New Jersey

We have audited the accompanying statements of financial condition of First Bank as of December 31, 2011 and 2010, and the related statements of operations, changes in stockholders' equity and cash flows for the years then ended. These financial statements are the responsibility of First Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of First Bank as of December 31, 2011 and 2010, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

ParenteBeard LLC

Malvern, Pennsylvania
March 12, 2012

FIRSTBANK

STATEMENTS OF CONDITION
December 31, 2011 and 2010

(In thousands, except share data)	2011	2010
Assets		
Cash and due from banks	$ 6,311	$ 891
Federal funds sold	1,053	16,160
Interest bearing deposits with banks	14,465	–
Cash and Cash Equivalents	21,829	17,051
Interest bearing time deposits with banks	3,584	11,042
Securities available for sale	16,551	25,491
Securities held to maturity (fair value of $2,267 in 2011 and $2,055 in 2010)	2,000	2,000
Other investments	5,000	–
Loans	207,024	154,026
Less: Allowance for loan losses	3,307	2,444
Loans, net	203,717	151,582
Restricted investment in bank stocks	542	397
Bank premises and equipment, net	2,139	2,412
Accrued interest receivable	743	650
Bank-owned life insurance	5,012	–
Other real estate owned	623	–
Other assets	3,169	1,358
Total Assets	$ 264,909	$ 211,983
Liabilities and Stockholders' Equity		
Deposits:		
Non-interest bearing	$ 22,325	$ 18,211
Interest bearing	212,336	169,548
Total Deposits	234,661	187,759
FHLB advances	5,428	1,627
Collateralized borrowings	–	417
Accrued interest payable	135	90
Other liabilities	703	339
Total Liabilities	240,927	190,232
Stockholders' Equity		
Common stock, $5 par value; authorized 10,000,000 shares; issued and outstanding 3,886,965 shares in 2011 and 2010	19,403	19,403
Paid-in capital	11,067	11,005
Accumulated deficit	(6,586)	(8,689)
Accumulated other comprehensive income	98	32
Total Stockholders' Equity	23,982	21,751
Total Liabilities and Stockholders' Equity	$ 264,909	$ 211,983

See Notes to Financial Statements.

STATEMENTS OF OPERATIONS

Years Ended December 31, 2011 and 2010

(In thousands)	2011	2010
Interest Income		
Loans receivable, including fees	$ 10,909	$ 8,271
Securities	533	1,296
Interest bearing deposits and other	114	110
Federal funds sold	6	28
Total Interest and Dividend Income	11,562	9,705
Interest Expense		
Deposits	2,824	3,234
Borrowings	120	117
Total Interest Expense	2,944	3,351
Net Interest Income	8,618	6,354
Less: Provision for Loan Losses	2,080	2,279
Net Interest Income after Provision for Loan Losses	6,538	4,075
Non-Interest Income		
Service fees on deposit accounts	78	51
Securities gains, net	41	640
Gains on sales of loans held for sale	239	–
Income on bank-owned life insurance	12	–
Other non-interest income	70	39
Total Non-Interest Income	440	730
Non-Interest Expense		
Salaries and employee benefits	3,439	3,073
Occupancy and equipment	965	887
FDIC insurance premium	300	453
Professional fees	258	248
Legal fees	274	212
Data processing operations	262	264
Marketing and advertising	199	128
Telecommunications	151	138
Insurance	224	203
Other	590	305
Total Non-Interest Expense	6,662	5,911
Net Income (Loss) before Income Tax (Benefit) Expense	316	(1,106)
Income Tax (Benefit) Expense	(1,787)	2
Net Income (Loss)	$ 2,103	$ (1,108)

See Notes to Financial Statements.

FIRSTBANK

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

Years Ended December 31, 2011 and 2010

(In thousands, except share amounts)	Common Stock	Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Total
Balance - December 31, 2009	$ 17,055	$ 10,990	$ (7,581)	$ 657	$ 21,121
Common stock issued:					
Sale of 476,029 shares of common stock, net of offering costs of $30	2,348	–	–	–	2,348
Stock option expense	–	15	–	–	15
Comprehensive loss:					
Net loss	–	–	(1,108)	–	(1,108)
Net unrealized holding loss on securities available for sale arising during the period, net of reclassification adjustment for securities gains	–	–	–	(625)	(625)
Total Comprehensive Loss					(1,733)
Balance - December 31, 2010	19,403	11,005	(8,689)	32	21,751
Stock option expense	–	**62**	–	–	**62**
Comprehensive income:					
Net income	–	–	**2,103**	–	**2,103**
Net unrealized holding gain on securities available for sale arising during the period, net of reclassification adjustment for securities gains	–	–	–	**66**	**66**
Total Comprehensive Income					**2,169**
Balance - December 31, 2011	**$ 19,403**	**$ 11,067**	**$ (6,586)**	**$ 98**	**$ 23,982**

See Notes to Financial Statements.

FIRSTBANK

STATEMENTS OF CASH FLOWS

Years Ended December 31, 2011 and 2010

(In thousands)

	2011	2010
Cash Flows from Operating Activities		
Net income (loss)	$ 2,103	$ (1,108)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Provision for loan losses	2,080	2,279
Depreciation and amortization of premises and equipment	422	424
Net amortization of securities discounts	80	232
Amortization of deferred loan costs	199	41
Gains on sales of securities available for sale	(41)	(640)
Origination of loans held for sale	(2,220)	(378)
Proceeds from sales of loans held for sale	2,459	378
Gains on sales of loans held for sale	(239)	–
Stock option expense	62	15
Deferred taxes	(1,787)	–
Bank-owned life insurance	(12)	–
(Increase) decrease in accrued interest receivable	(93)	106
(Increase) decrease in other assets	(24)	278
Increase (decrease) in accrued interest payable	45	(110)
Increase (decrease) in other liabilities	364	(1)
Net Cash Provided by Operating Activities	3,398	1,516
Cash Flows from Investing Activities		
Net decrease (increase) in interest bearing time deposits with banks	7,458	(3,804)
Net increase in loans	(55,037)	(32,184)
Purchases of securities available for sale	(9,371)	(24,174)
Proceeds from maturities, calls and paydowns of securities available for sale	7,878	25,086
Proceeds from sales of securities available for sale	10,460	47,848
Proceeds from maturities, calls and paydowns of securities held to maturity	–	3,500
Purchase of restricted stocks	(145)	(149)
Purchase of other investments	(5,000)	–
Purchases of bank premises and equipment	(149)	(147)
Purchase of bank-owned life insurance	(5,000)	–
Net Cash (Used in) Provided by Investing Activities	(48,906)	15,976
Cash Flows from Financing Activities		
Net increase (decrease) in deposits	46,902	(7,910)
Proceeds from FHLB advances	5,000	–
Repayments of FHLB advances	(1,199)	(1,291)
Net proceeds from sale of common stock	–	2,348
(Repayments) proceeds from collateralized borrowings	(417)	417
Net Cash Provided by (Used in) Financing Activities	50,286	(6,436)
Net Increase in Cash and Cash Equivalents	4,778	11,056
Cash and Cash Equivalents - Beginning	17,051	5,995
Cash and Cash Equivalents - Ending	$ 21,829	$ 17,051
Supplementary Cash Flows Information		
Transfers of loans to other real estate owned	$ 623	$ –
Interest on deposits and borrowings	$ 2,899	$ 3,461
Income taxes	$ 2	$ 2

See Notes to Financial Statements.

Note 1 - Summary of Significant Accounting Policies

Nature of Operations

First Bank (the "Bank") is a New Jersey chartered bank, incorporated in 2007. The Bank commenced operations in April 2007 and conducts a general commercial and retail banking business. The Bank provides a range of lending, deposit and other financial products and services with an emphasis on commercial real estate and commercial and industrial loans to small- to mid-sized businesses and individuals. As of December 31, 2011, we operated four full-service branches located in central and southern New Jersey. In the fourth quarter of 2011 we opened a branch facility in Hamilton, New Jersey, our main office and administrative headquarters. We now have three branches located in the demographically attractive Mercer County, New Jersey market. Our fourth branch facility is located in Williamstown, New Jersey, in Gloucester County. Our existing and targeted markets are located in the corridor between New York City and Philadelphia. The Bank is subject to competition from other financial institutions and non-bank providers of financial services. As a state-chartered bank, we are subject to regulation by the New Jersey Department of Banking and Insurance and the Federal Deposit Insurance Corporation.

Subsequent Events

The Bank has evaluated subsequent events through March 12, 2012, which was the date this report was available to be issued. Management believes there were no events that occurred after December 31, 2011, but before the financial statements were available to be issued, that would require disclosure.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, assessment of other than temporary impairment of securities, restricted stocks and other investments, and the valuation of other real estate owned and deferred tax assets.

Significant Group Concentrations of Credit Risk

During 2011, our business was generated principally in central New Jersey. We generated additional business in Gloucester, Atlantic and Camden Counties in southern New Jersey. Note 2 discusses the types of securities that the Bank currently invests in. Note 3 discusses the types of lending that the Bank engages in. Although the Bank intends to have a diversified loan portfolio, its debtors' ability to honor their contracts will be influenced by the region's economy. The Bank does not have any significant concentrations to any one industry or customer.

Presentation of Cash Flows

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks, interest bearing deposits with banks, and Federal funds sold. Generally, Federal funds are purchased or sold for one day periods.

Securities

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

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

Note 1 - Summary of Significant Accounting Policies (Continued)

Securities (Continued)

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

Declines in the fair value of securities held to maturity and securities available for sale below their cost that are deemed to be other than temporary are reflected in earnings as realized losses. In estimating other-than-temporary impairment losses, management considers (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the ability of the Bank to hold its investment, and whether the Bank will be required to sell the security before a recovery in fair value. The Bank recorded no impairment losses in 2011 or 2010.

Other Investments

Other investments consist of the Solomon Hess SBA Loan Fund ("Fund"), utilized for the purpose of the Bank satisfying its CRA lending requirements. As this fund operates as a private fund, shares in the Fund are not publicly traded and therefore have no readily determinable market value. An investor can have its interest in the Fund redeemed for the balance of its capital account at any quarter end, assuming it gives the Fund sixty (60) days notice. The investment in this Fund is recorded at cost. The Bank does not record other investments at fair value on a recurring basis, as this investment's carrying amount approximates fair value. The Bank recorded no impairment charge on other investments in 2011.

Restricted Investment in Bank Stocks

Restricted stock, which represents required investments in the common stock of correspondent banks, is carried at cost and as of December 31, 2011 and 2010, consists of common stock of the Federal Home Loan Bank ("FHLB") of New York and Atlantic Central Bankers Bank ("ACBB").

Management evaluates the restricted stock for impairment in accordance with ASC 942-10 Financial Services – Depository and Lending. Management's determination of whether these investments are impaired is based on their assessment of the ultimate recoverability of their cost rather than by recognizing temporary declines in value. The determination of whether a decline affects the ultimate recoverability of their cost is influenced by criteria such as (1) the significance of the decline in net assets of the FHLB and ACBB as compared to the capital stock amount for the FHLB and ACBB and the length of time this situation has persisted, (2) commitments by the FHLB and ACBB to make payments required by law or regulation and the level of such payments in relation to the operating performance of the FHLB and ACBB, and (3) the impact of legislative and regulatory changes on institutions and, accordingly, on the customer base of the FHLB and ACBB.

The Bank recorded no impairment charge related to the FHLB or ACBB stocks in 2011 or 2010.

Loans Receivable

The Bank's loan portfolio includes commercial and industrial, commercial real estate, residential and consumer segments. Commercial and industrial loans typically consist of loans to finance equipment, inventory, receivables and other working capital needs of small- to mid-sized businesses. The commercial real estate portfolio includes mortgage loans on owner-occupied and tenanted investment properties, and construction and land development loans. Residential loans are comprised of loans secured by 1–4 family and multi-family residential properties. Consumer and other loans include auto loans, personal loans, traditional installment loans and other loans.

Loans receivable that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are stated at their outstanding unpaid principal balances, net of an allowance for loan losses and deferred fees or costs. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized as an adjustment of the yield (interest income) of the related loans. The Bank generally amortizes these amounts over the contractual life of the loan.

The accrual of interest is discontinued when the contractual payment of principal or interest has become 90 days past due or management has serious doubts about further collectibility of principal or interest, even though the loan is currently

Note 1 - Summary of Significant Accounting Policies (Continued)

Loans Receivable (Continued)

performing. A loan may remain on accrual status if it is in the process of collection and is either guaranteed or well secured. When a loan is placed on nonaccrual status, unpaid interest credited to income in the current year is reversed and unpaid interest accrued in prior years is charged against the allowance for loan losses. Interest received on nonaccrual loans is generally either applied against principal or reported as interest income, according to management's judgment as to the collectibility of principal. Generally, loans are restored to accrual status when the obligation is brought current, has performed in accordance with the contractual terms for a reasonable period of time, and the ultimate collectibility of the total contractual principal and interest is no longer in doubt.

Allowance for Credit Losses

The allowance for credit losses consists of the allowance for loan losses and the reserve for unfunded lending commitments. The allowance for loan losses represents management's estimate of losses inherent in the loan portfolio as of the balance sheet date and is recorded as a reduction to loans. The reserve for unfunded lending commitments represents management's estimate of losses inherent in its unfunded loan commitments and is recorded in other liabilities on the statements of condition. The allowance for loan losses is increased by the provision for loan losses and decreased by charge offs, net of recoveries. Loans deemed to be uncollectible are charged against the allowance for loan losses, and subsequent recoveries, if any, are credited to the allowance. All, or part, of the principal balance of loans receivable are charged off to the allowance as soon as it is determined that the repayment of all, or part, of the principal balance is highly unlikely. Non-residential consumer loans are generally charged off no later than 120 days past due on a contractual basis, earlier in the event of bankruptcy, or if there is an amount deemed uncollectible. Because all identified losses are immediately charged off, no portion of the allowance for loan losses is restricted to any individual loan or groups of loans, and the entire allowance is available to absorb any and all loan losses.

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

The allowance consists of specific and general components. The specific component relates to loans that are classified as impaired. For loans that are classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers pools of loans by loan class including commercial loans not considered impaired, as well as smaller balance homogeneous loans, such as residential, consumer and other loans. These pools of loans are evaluated for loss exposure based upon historical loss rates for each of these categories of loans, adjusted for qualitative factors. These qualitative risk factors include:

1. Lending policies and procedures, including underwriting standards and collection, charge off, and recovery practices.
2. National, regional, and local economic and business conditions as well as the condition of various market segments, including the value of underlying collateral for collateral dependent loans.
3. Nature and volume of the portfolio and terms of loans.
4. Experience, ability, and depth of lending management and staff.
5. Volume and severity of past due, classified and nonaccrual loans as well as other loan modifications.
6. Quality of the Bank's loan review system, and the degree of oversight by the Bank's Board of Directors.
7. Existence and effect of any concentrations of credit and changes in the level of such concentrations.
8. Effect of external factors, such as competition and legal and regulatory requirements.

Note 1 - Summary of Significant Accounting Policies (Continued)

Allowance for Credit Losses (Continued)

Each factor is assigned a value to reflect improving, stable or declining conditions based on management's best judgment using relevant information available at the time of the evaluation. Adjustments to the factors are supported through documentation of changes in conditions in a narrative accompanying the allowance for loan loss calculation.

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

An allowance for loan losses is established for an impaired loan if its carrying value exceeds its estimated fair value. The fair values of substantially all impaired loans are measured based on the estimated fair value of the loan's collateral.

For commercial loans secured by real estate, which are comprised of investor-owned, owner-occupied, and construction, land development, and other land loans, fair values are determined primarily through third-party appraisals. When a real estate secured loan becomes impaired, a decision is made regarding whether an updated certified appraisal of the real estate is necessary. This decision is based on various considerations, including the age of the most recent appraisal, the loan-to-value ratio based on the original appraisal and the condition of the property. Appraised values are discounted to arrive at the estimated selling price of the collateral, which is considered to be the fair value. The discounts include estimated costs to sell the property.

For commercial and industrial loans secured by non-real estate collateral, such as accounts receivable, inventory and equipment, fair values are determined based on the borrower's financial statements, inventory reports, accounts receivable agings or equipment appraisals or invoices. Indications of value from these sources are generally discounted based on the age of the financial information or the quality of the assets.

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

Loans whose terms are modified are classified as troubled debt restructurings if the Bank grants such borrowers concessions and it is deemed that those borrowers are experiencing financial difficulty. Concessions granted under a troubled debt restructuring generally involve a temporary reduction in interest rate or an extension of a loan's stated maturity date. Nonaccrual troubled debt restructurings are restored to an accrual status if principal and interest payments, under the modified terms, are current for six consecutive months after modification. Loans classified as troubled debt restructurings are designated as impaired.

The allowance calculation methodology includes further segregation of loan classes into risk rating categories. The borrower's overall financial condition, repayment sources, guarantors and value of collateral, if appropriate, are evaluated annually for commercial and industrial and commercial real estate loans or when credit deficiencies arise, such as delinquent loan payments, for residential and consumer and other loans.

Credit quality risk ratings include the regulatory classifications of special mention, substandard, doubtful and loss. Loans classified as special mention have potential weaknesses that deserve management's close attention. If uncorrected, the potential weaknesses may result in deterioration of the repayment prospects. Loans classified as substandard have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They include loans that are inadequately protected by the current sound net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans classified as doubtful have all the weaknesses inherent in loans classified as substandard with the added characteristic that collection or liquidation in full, on the

Note 1 - Summary of Significant Accounting Policies (Continued)

Allowance for Credit Losses (Continued)

basis of current conditions and facts, is highly improbable. Loans classified as a loss are considered uncollectible and are charged to the allowance for loan losses. Loans not classified are rated pass.

On a quarterly basis the Bank's Asset Quality Review Committee formally reviews the ratings on all criticized and classified loans. The Bank engages an independent third-party loan review consultant to review the Bank's loan portfolio. As part of their scope they review a significant portion of criticized and classified loans.

In addition, Federal and state regulatory agencies, as an integral part of their examination process, periodically review the Bank's allowance for loan losses and may require the Bank to recognize additions to the allowance based on their judgments about information available to them at the time of their examination, which may not be currently available to management. Based on management's comprehensive analysis of the loan portfolio, management believes the level of the allowance for loan losses at December 31, 2011 is adequate.

Other Real Estate Owned

Other real estate owned is real estate that is acquired through foreclosure or deed in lieu of foreclosure in partial or total satisfaction of loans. The properties are recorded at the lower of cost or fair value less estimated disposal costs at the date acquired. When a property is acquired, the excess of the loan balance over the fair value is charged to the allowance for loan losses. Any subsequent writedowns that may be required to the carrying value of the property are included in other non-interest expense. Gains realized from the sale of other real estate are included in other non-interest income, while losses are included in non-interest expense.

Transfers of Financial Assets

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

Bank Premises and Equipment

Bank premises and equipment are stated at cost less accumulated depreciation. Depreciation is computed on the straight-line method over the estimated useful lives of the related assets, ranging from one to seven years. Leasehold improvements are amortized over the term of the lease or estimated useful lives, whichever is shorter.

Bank-Owned Life Insurance

The Bank owns bank-owned life insurance ("BOLI") to help offset the cost of employee benefits. BOLI is recorded at its cash surrender value. The change in the cash surrender value is included as a component of non-interest income and is exempt from federal and state income taxes as long as the policies are held until the death of the insured individuals.

Advertising Costs

The Bank follows the policy of charging the costs of advertising to expense as incurred.

Income Taxes

The Bank accounts for income taxes in accordance with the accounting guidance set forth in FASB ASC Topic 740, *Income Taxes*.

Income tax accounting guidance results in two components of income tax expense: current and deferred. Current income tax expense reflects taxes to be paid or refunded for the current period by applying the provisions of the enacted tax law to the taxable income or excess of deductions over revenues. The Bank determines deferred income taxes using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is based on the tax effects of the differences between the book and tax bases of assets and liabilities, and enacted changes in tax rates and laws are recognized in the period in which they occur.

Note 1 - Summary of Significant Accounting Policies (Continued)

Income Taxes (Continued)

Deferred income tax expense or benefit results from changes in deferred tax assets and liabilities between periods. Deferred tax assets are reduced by a valuation allowance if, based on the weight of evidence available, it is more likely than not that some portion or all of a deferred tax asset will not be realized.

The Bank accounts for uncertain tax positions if it is more likely than not, based on the technical merits, that the tax position will be realized or sustained upon examination. The term more likely than not means a likelihood of more than 50 percent; the terms examined and upon examination also include resolution of the related appeals or litigation processes, if any. A tax position that meets the more-likely-than-not recognition threshold is initially and subsequently measured as the largest amount of tax benefit that has a greater than 50 percent likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. The determination of whether or not a tax position has met the more-likely-than-not recognition threshold considers the facts, circumstances, and information available at the reporting date and is subject to management's judgment.

The Bank recognizes interest and penalties on income taxes, if any, as a component of the provision for income taxes. There were no interest and penalties recognized in 2011 or 2010.

Off-Balance Sheet Financial Instruments

In the ordinary course of business, the Bank enters into off-balance sheet financial instruments consisting of commitments to extend credit. Such financial instruments are recorded in the statements of condition when they are funded.

Stock-Based Compensation

The Bank applies FASB ASC Topic 718 Stock-Based Compensation, which contains a fair value-based method for valuing stock-based compensation, and measures compensation cost at the grant date based on the fair value of the award. Compensation is recognized over the service period, which is usually the vesting period.

Earnings Per Share

Basic earnings per share represents the effect of earnings upon the weighted average number of shares outstanding for the period. Diluted earnings per share reflects the effect of earnings upon weighted average shares including the potential dilution that could occur if securities or contracts to issue common stock were converted or exercised, utilizing the treasury stock method.

Comprehensive Income (Loss)

Accounting principles generally accepted in the United States of America require that recognized revenue, expenses, and gains and losses be included in net income. Although certain changes in assets and liabilities, such as unrealized gains and losses on available for sale securities, are reported as a separate component of the stockholders' equity section of the statements of condition, such items, along with net income (loss), are components of comprehensive income (loss).

The components of other comprehensive income (loss) and related tax effects for the years ended December 31 are as follows:

(In thousands)	2011	2010
Unrealized holding gains on available for sale securities arising during the year	**$ 107**	$ 15
Reclassification adjustment for gains realized in net income	**(41)**	(640)
Other comprehensive income (loss), net	**$ 66**	$ (625)

Reclassifications

Certain reclassifications have been made to 2010 information to conform to the 2011 presentation. The reclassifications had no effect on the results of operations.

Note 2 - Securities

The amortized cost and fair value of securities available for sale at December 31, 2011 and 2010 are as follows:

2011

(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Government-sponsored agencies	$ 3,000	$ 1	$ –	$ 3,001
Mortgage-backed securities	10,496	177	–	10,673
Corporate obligations	2,956	6	(85)	2,877
Total	$ 16,452	$ 184	$ (85)	$ 16,551

2010

(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Government-sponsored agencies	$ 4,752	$ –	$ (49)	$ 4,703
Mortgage-backed securities	19,718	259	(177)	19,800
Corporate obligations	989	–	(1)	988
Total	$ 25,459	$ 259	$ (227)	$ 25,491

The Bank held no private label mortgage-backed securities at December 31, 2011 or 2010.

The amortized cost and fair value of securities held to maturity at December 31, 2011 and 2010 are as follows:

2011

(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Government-sponsored agencies	$ 2,000	$ 267	$ –	$ 2,267

2010

(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Government-sponsored agencies	$ 2,000	$ 55	$ –	$ 2,055

Note 2 - Securities (Continued)

The amortized cost and fair value of securities available for sale and securities held to maturity at December 31, 2011 by contractual maturity are shown below. Certain of these securities have call features which allow the issuer to call the security prior to maturity at the issuer's discretion.

(In thousands)	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due after one year through five years	$ 2,005	$ 1,960	$ –	$ –
Due after five years through ten years	3,951	3,918	2,000	2,267
Mortgage-backed securities	10,496	10,673	–	–
Total	$ 16,452	$ 16,551	$ 2,000	$ 2,267

The following tables provide additional information regarding securities available for sale with unrealized losses at December 31, 2011 and 2010.

	December 31, 2011					
	Less than 12 months		12 months or longer		Total	
(In thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Securities Available for Sale:						
U.S. Government-sponsored agencies	$ –	$ –	$ –	$ –	$ –	$ –
Mortgage-backed securities	–	–	–	–	–	–
Corporate obligations	1,877	(85)	–	–	1,877	(85)
Total	$ 1,877	$ (85)	$ –	$ –	$ 1,877	$ (85)

	December 31, 2010					
	Less than 12 months		12 months or longer		Total	
(In thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Securities Available for Sale:						
U.S. Government-sponsored agencies	$ 4,703	$ (49)	$ –	$ –	$ 4,703	$ (49)
Mortgage-backed securities	6,607	(177)	–	–	6,607	(177)
Corporate obligations	988	(1)	–	–	988	(1)
Total	$ 12,298	$ (227)	$ –	$ –	$ 12,298	$ (227)

There were no securities held to maturity with unrealized losses at December 31, 2011 and 2010.

Note 2 - Securities (Continued)

The Bank evaluates all securities with unrealized losses quarterly to determine whether the loss is other than temporary. At December 31, 2011, the Bank determined that all unrealized losses were temporary in nature. This conclusion was based on several factors, including the strong credit quality of the securities with unrealized losses and the low level and short time frame of the unrealized losses.

At December 31, 2011 there were 16 issues that made up the Bank's securities portfolio. There were two issues that had unrealized losses of less than 12 months. The two issues were corporate obligations. The two issues had a fair value of $1.9 million with unrealized losses of $85,000. There were no issues that had unrealized losses of twelve months or longer.

Proceeds from the sale of securities available for sale during 2011 and 2010 were $10.5 million and $47.8 million, respectively. Gross gains of $113,400 and $744,455 were realized on those sales for 2011 and 2010, respectively. Gross losses of $72,400 and $104,150 were realized on those sales for 2011 and 2010, respectively.

Securities with a carrying value of approximately $9.5 million and $4.2 million at December 31, 2011 and 2010, respectively, were pledged to the FHLB as collateral for advances and for other purposes as required or permitted by law.

Note 3 - Loans Receivable

The composition of loans receivable at December 31, 2011 and 2010 is as follows:

(In thousands)	2011	2010
Commercial and industrial	**$ 33,788**	$ 25,287
Commercial real estate	**134,101**	97,400
Residential	**29,974**	22,083
Consumer and other	**9,343**	9,378
Total Loans	**$ 207,206**	$ 154,148
Less: Allowance for loan losses	**(3,307)**	(2,444)
Net deferred loan fees	**(182)**	(122)
Loans, net	**$ 203,717**	$ 151,582

Commercial real estate loans are comprised of investor-owned, owner-occupied, and construction, land development, and other land loans. Residential loans are comprised of loans secured by 1-4 family and multi-family residential properties.

During 2011, the Bank sold commercial real estate loans consisting of the guaranteed portion of Small Business Administration loans, aggregating approximately $2.5 million.

Note 4 - Allowance for Loan Losses

The changes in the allowance for loan losses for the years ended December 31, 2011 and 2010 are as follows:

(In thousands)	2011	2010
Balance - beginning	$ 2,444	$ 1,883
Loans charged off	(1,241)	(1,723)
Recoveries of loans charged off	24	5
Net charge offs	(1,217)	(1,718)
Provision for loan losses	2,080	2,279
Balance - ending	$ 3,307	$ 2,444

The changes in the allowance for loan losses by loan class at December 31, 2011 are as follows:

	Year Ended December 31, 2011				
(In thousands)	Commercial and Industrial	Commercial Real Estate	Residential	Consumer and Other	Total
Allowance for loan losses:					
Balance – beginning	$ 556	$ 1,509	$ 310	$ 69	$ 2,444
Loans charged off	967	33	222	19	1,241
Recoveries of loans charged off	(15)	–	(9)	–	(24)
Net charge offs	952	33	213	19	1,217
Provision for loan losses	945	871	(35)	299	2,080
Balance – ending	$ 549	$ 2,347	$ 62	$ 349	$ 3,307

The allowance for loan losses and recorded investment in loans receivable at December 31, 2011 and 2010 are as follows:

	December 31, 2011				
(In thousands)	Commercial and Industrial	Commercial Real Estate	Residential	Consumer and Other	Total
Allowance for loan losses:					
Ending balance	$ 549	$ 2,347	$ 62	$ 349	$ 3,307
Ending balance individually evaluated for impairment	–	64	5	–	69
Ending balance collectively evaluated for impairment	$ 549	$ 2,283	$ 57	$ 349	$ 3,238
Loans receivable:					
Ending balance	$33,788	$134,101	$29,974	$ 9,343	$207,206
Ending balance individually evaluated for impairment	223	5,800	1,134	333	7,490
Ending balance collectively evaluated for impairment	$33,565	$128,301	$28,840	$ 9,010	$199,716

Note 4 - Allowance for Loan Losses (Continued)

(In thousands)	Commercial and Industrial	Commercial Real Estate	Residential	Consumer and Other	Total
	December 31, 2010				
Allowance for loan losses:					
Ending balance	$ 556	$ 1,509	$ 310	$ 69	$ 2,444
Ending balance individually evaluated for impairment	214	77	55	–	346
Ending balance collectively evaluated for impairment	$ 342	$ 1,432	$ 255	$ 69	$ 2,098
Loans receivable:					
Ending balance	$ 25,287	$ 97,400	$ 22,083	$ 9,378	$ 154,148
Ending balance individually evaluated for impairment	544	3,684	692	107	5,027
Ending balance collectively evaluated for impairment	$ 24,743	$ 93,716	$ 21,391	$ 9,271	$ 149,121

There were no loans acquired with deteriorated credit quality for the years ended December 31, 2011 and 2010.

The following tables present the classes of the loan portfolio summarized by the aggregate pass rating and the classified ratings of special mention, substandard and doubtful within the Bank's internal risk rating system as of December 31, 2011 and 2010:

(In thousands)	Pass	Special Mention	Substandard	Doubtful	Total
	December 31, 2011				
Commercial and industrial	**$ 33,565**	**$ –**	**$ 223**	**$ –**	**$ 33,788**
Commercial real estate	**127,054**	**1,247**	**5,800**	**–**	**134,101**
Residential	**28,654**	**186**	**1,134**	**–**	**29,974**
Consumer and other	**8,957**	**53**	**333**	**–**	**9,343**
Total	**$198,230**	**$ 1,486**	**$ 7,490**	**$ –**	**$ 207,206**

(In thousands)	Pass	Special Mention	Substandard	Doubtful	Total
	December 31, 2010				
Commercial and industrial	$ 23,983	$ 759	$ 296	$ 249	$ 25,287
Commercial real estate	93,718	–	2,686	996	97,400
Residential	20,678	713	692	–	22,083
Consumer and other	9,271	–	107	–	9,378
Total	$ 147,650	$ 1,472	$ 3,781	$ 1,245	$ 154,148

Note 4 - Allowance for Loan Losses (Continued)

The performance and credit quality of the loan portfolio are also monitored by analyzing the age of the loans receivable as determined by the length of time a recorded payment is past due. The following tables present the classes of the loan portfolio summarized by past due status as of December 31, 2011 and 2010:

(In thousands)	December 31, 2011 30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Past Due > 90 Days and Still Accruing	Nonaccrual
Commercial and industrial	**$ –**	**$ –**	**$ 224**	**$ 224**	**$ –**	**$ 224**
Commercial real estate	**659**	**–**	**4,018**	**4,677**	**–**	**4,018**
Residential	**–**	**–**	**1,134**	**1,134**	**–**	**1,134**
Consumer and other	**–**	**36**	**385**	**421**	**52**	**333**
Total	**$ 659**	**$ 36**	**$ 5,761**	**$ 6,456**	**$ 52**	**$ 5,709**

(In thousands)	December 31, 2010 30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Past Due > 90 Days and Still Accruing	Nonaccrual
Commercial and industrial	$ 795	$ 84	$ 594	$ 1,473	$ 50	$ 544
Commercial real estate	171	457	2,776	3,404	44	2,732
Residential	231	398	692	1,321	–	692
Consumer and other	–	–	148	148	41	107
Total	$ 1,197	$ 939	$ 4,210	$ 6,346	$ 135	$ 4,075

Nonperforming assets consist of nonperforming loans and other real estate owned. Nonperforming loans consist of loans on which accrual of interest has been discontinued (nonaccrual) and loans 90 days past due or more on which interest is still accruing.

A summary of nonperforming assets at December 31, 2011 and 2010 is as follows:

(In thousands)	2011	2010
Nonaccrual loans:		
Commercial and industrial	**$ 224**	$ 544
Commercial real estate	**4,018**	2,732
Residential	**1,134**	692
Consumer and other	**333**	107
Total nonaccrual loans	**5,709**	4,075
Loans past due 90 days or more and still accruing:		
Commercial and industrial	**–**	50
Commercial real estate	**–**	44
Consumer and other	**52**	41
Total loans past due 90 days or more and still accruing	**52**	135
Total nonperforming loans	**5,761**	4,210
Other real estate owned	**623**	–
Total nonperforming assets	**$ 6,384**	$ 4,210

Note 4 - Allowance for Loan Losses (Continued)

Trouble Debt Restructured Loans

From time to time, the Bank may extend, restructure, or otherwise modify the terms of existing loans, on a case-by-case basis, to remain competitive and retain certain borrowers, as well as assist other borrowers who may be experiencing financial difficulties. If a borrower is experiencing financial difficulties and a concession is made by way of a modification the Bank would not otherwise consider, the loan would be classified as a troubled debt restructured loan ("TDR").

The Bank adopted the amendments in Accounting Standards Update 2011-02 as of January 1, 2011. As required, the Bank reassessed all loan restructurings that occurred on or after January 1, 2011 for potential identifications as TDRs. As a result of the reassessment the Bank concluded it had no TDRs at December 31, 2011.

The following tables summarize information in regards to impaired loans by loan portfolio class as of December 31, 2011 and 2010:

	December 31, 2011			Year Ended December 31, 2011		
(In thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized	Interest Income Recognized on a Cash Basis
Impaired loans without a valuation allowance:						
Commercial and industrial	$ 223	$ 805	$ –	$ 263	$ –	$ –
Commercial real estate	4,864	4,863	–	3,466	42	–
Residential	963	1,150	–	854	–	–
Consumer and other	333	343	–	191	–	1
Total	$ 6,383	$ 7,161	$ –	$ 4,774	$ 42	$ 1
Impaired loans with a valuation allowance:						
Commercial and industrial	$ –	$ –	$ –	$ –	$ –	$ –
Commercial real estate	936	936	64	943	54	–
Residential	171	206	5	89	–	–
Consumer and other	–	–	–	–	–	–
Total	$ 1,107	$ 1,142	$ 69	$ 1,032	$ 54	$ –
Total impaired loans:						
Commercial and industrial	$ 223	$ 805	$ –	$ 263	$ –	$ –
Commercial real estate	5,800	5,799	64	4,409	96	–
Residential	1,134	1,356	5	943	–	–
Consumer and other	333	343	–	191	–	1
Total	$ 7,490	$ 8,303	$ 69	$ 5,806	$ 96	$ 1

Note 4 - Allowance for Loan Losses (Continued)

(In thousands)	December 31, 2010			Year Ended December 31, 2010		
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized	Interest Income Recognized on a Cash Basis
Impaired loans without a valuation allowance:						
Commercial and industrial	$ 148	$ 564	$ –	$ 453	$ –	$ –
Commercial real estate	2,732	3,646	–	2,250	–	–
Residential	128	368	–	154	–	–
Consumer and other	107	107	–	109	–	–
Total	$ 3,115	$ 4,685	$ –	$ 2,966	$ –	$ –
Impaired loans with a valuation allowance:						
Commercial and industrial	$ 397	$ 401	$ 214	$ 293	$ –	$ –
Commercial real estate	951	951	77	874	89	–
Residential	564	564	55	329	–	–
Consumer and other	–	–	–	–	–	–
Total	$ 1,912	$ 1,916	$ 346	$ 1,496	$ 89	$ –
Total impaired loans:						
Commercial and industrial	$ 545	$ 965	$ 214	$ 746	$ –	$ –
Commercial real estate	3,683	4,597	77	3,124	89	–
Residential	692	932	55	483	–	–
Consumer and other	107	107	–	109	–	–
Total	$ 5,027	$ 6,601	$ 346	$ 4,462	$ 89	$ –

Note 5 - Bank Premises and Equipment

The components of premises and equipment at December 31, 2011 and 2010 are as follows:

(In thousands)	2011	2010
Leasehold improvements	**$ 2,337**	$ 2,282
Furniture and fixtures	**249**	186
Equipment and data processing software	**1,071**	996
Construction in process	**–**	44
	3,657	3,508
Less: Accumulated depreciation	**(1,518)**	(1,096)
Total	**$ 2,139**	$ 2,412

Depreciation expense on bank premises and equipment included in non-interest expense in the statements of operations for the periods ended December 31, 2011 and 2010 was $422,331 and $424,124, respectively.

Construction in process at December 31, 2010 was for new corporate office space in Hamilton, New Jersey. That corporate office space was put into service in January 2011.

Note 6 - Deposits

The components of deposits at December 31, 2011 and 2010 are as follows:

(In thousands)	2011	2010
Non-interest bearing demand	$ 22,325	$ 18,211
Interest bearing demand	7,324	4,792
Money market and savings	98,633	72,326
Time, $100,000 and over	41,566	32,888
Time, other	64,813	59,542
Total	$ 234,661	$ 187,759

The bank had no brokered deposits at December 31, 2011. Brokered deposits totaled $99,000 at December 31, 2010.

At December 31, 2011, the scheduled maturities of time deposits are as follows:

(In thousands)	
2012	$ 54,899
2013	19,161
2014	23,399
2015	2,389
2016	6,531
Total	$ 106,379

Note 7 - Borrowings

The Bank's borrowings consist of FHLB advances and other collateralized borrowings. The advances as of December 31, 2011 and 2010 mature as follows:

(In thousands)	2011	2010
2011	$ –	$ 1,000
2012	–	–
2013	428	627
2014	–	–
2015	–	–
2016	5,000	–
Total	$ 5,428	$ 1,627

At December 31, 2011, the Bank had two outstanding advances, both with fixed interest rates. The advance due in 2013 is amortizing and collateralized by securities and carries an interest rate of 4.58%. The advance due in 2016 is collateralized by securities and carries an interest rate of 2.41%.

At December 31, 2010, the Bank had two outstanding advances, both with fixed interest rates. The advance that paid off in 2011 was collateralized by securities and carried an interest rate of 3.81%.

The Bank originates and sells loans guaranteed by the Small Business Administration. The Bank retains the unguaranteed portion of the loans and the servicing on the loans sold and the Bank receives a fee based upon the principal balance outstanding. At December 31, 2010, the Bank had one loan in the process of being sold. As required under previous guidance, ASC 860-20, this potential sale was carried on the balance sheet as a collateralized borrowing ($417,000) until the expiration of the recourse provisions with a secondary market purchaser, which was 90 days. This loan was sold in 2011 at the end of the recourse period.

Note 7 - Borrowings (Continued)

As a member of the FHLB we are eligible to borrow funds up to 50% of total assets from the FHLB subject to its stock and collateral requirements. At December 31, 2011 we had approximately $9.4 million in unpledged securities available as collateral for borrowing. The Bank has a line of credit with ACBB in the amount of $4.0 million. There were no borrowings on these facilities at December 31, 2011 or 2010.

Note 8 - Lease Commitments

In the 4th quarter of 2010 the Bank entered into a lease for new corporate office space in Hamilton, New Jersey. The initial term of the lease is five years with options to extend. The Bank is required to pay for its portion of certain operating expenses including real estate taxes, insurance, utilities, and maintenance and repairs in addition to the base rent. The Bank exercised its option to lease additional space for a bank branch located adjacent to the corporate office space in the third quarter of 2011. The Bank currently has in place lease agreements for its branch facilities in Williamstown, Lawrence and Ewing, all originated in 2009. The Williamstown lease is a ground lease with an initial term of 20 years with options to extend. The Lawrence and Ewing lease agreements both have initial terms of five years with options to extend. The branch leases include costs related to real estate taxes, insurance, utilities and maintenance costs in addition to the base rent.

Future minimum lease payments by year and in the aggregate, under lease agreements, are as follows:

(In thousands)	
2012	$ 343
2013	350
2014	229
2015	232
2016	85
Thereafter	1,170
Total	$ 2,409

Total lease rental expense was $328,329 and $264,728 for the years ended December 31, 2011 and 2010, respectively.

Note 9 - Stockholders' Equity

During 2010, the Bank offered for sale up to 600,000 shares of the Bank's common stock at a price of $5.00 per share to First Bank shareholders and members of the public. The Bank sold 476,029 shares of common stock which resulted in proceeds of approximately $2.3 million, net of offering costs of $30,368.

In 2008, the Bank sold 2,444,916 units which consisted of one share of common stock and one quarter warrant at $7.90 per unit, which resulted in net proceeds of $19.2 million. One full warrant will enable the holder to purchase one share of common stock at an exercise price of $9.00 per share. A total of 611,204 warrants were issued as part of the recapitalization. The warrants have a term of five years from the date of issuance. No warrants were exercised during 2011 or 2010.

In its initial stock offering in 2007, the Bank issued 241,502 warrants. Of these warrants, 96,620 were issued to organizers with a fair value of $205,250. These warrants are immediately exercisable at $10.00 per share and expire ten years from the issue date. The remaining 144,882 warrants will expire five years from the date of issuance. Each warrant exercised will enable the warrant holder to purchase one share of common stock at $9.00 per share. No warrants were exercised in 2011 or 2010.

Note 10 - Income Taxes

The components of income tax (benefit) expense consist of the following for the years ended December 31:

(In thousands)	2011	2010
Federal:		
Current	$ –	$ –
Deferred	(1,506)	–
Total	(1,506)	–
State:		
Current	2	2
Deferred	(283)	–
Total	(281)	2
Total Income Tax (Benefit) Expense	$ (1,787)	$ 2

The components of the net deferred tax asset at December 31, 2011 and 2010 are as follows:

(In thousands)	2011	2010
Deferred Tax Asset		
Allowance for Loan Loss	$ 836	$ 609
Contribution carryforward	–	5
Organization costs	13	15
Net operating loss carryforwards	2,409	2,917
Deferred Loan Costs	97	73
Total Deferred Tax Asset	3,355	3,619
Deferred Tax Liability		
Cash Basis Adjustment	(142)	(242)
Depreciation	(234)	(268)
Total Deferred Tax Liability	(376)	(510)
Valuation Allowance	(1,192)	$ (3,109)
Net Deferred Tax Asset	$ 1,787	$ –

The net deferred tax asset is included in other assets in the statements of condition.

The Bank has net operating loss carryforwards available for income tax purposes of approximately $6.0 million for federal purposes expiring through 2031 and $4.8 million for state purposes expiring through 2017. The Bank's federal and state income tax returns are open for examination from the 2008 tax return year and forward.

The decrease in valuation allowance at December 31, 2011 is the result of decreased net operating loss carryforwards to offset taxable earnings and management's estimate of net operating loss carryforwards more likely than not to be utilized in the foreseeable future.

Note 10 - Income Taxes (Continued)

Reconciliations of the statutory federal income tax at a rate of 34% to the income tax reported in the statements of operations are as follows for the years ended December 31:

	2011	2010
Federal income at statutory rate	**34.0%**	34.0%
State tax, net of federal benefit	**-6.0%**	0.0%
Change in valuation allowance	**-606.4%**	-34.0%
Bank-owned life insurance	**-1.5%**	0.0%
Meals and entertainment	**1.5%**	0.0%
Other	**13.9%**	0.0%
	-564.5%	0.0%

Note 11 - Earnings Per Share

The Bank's calculation of earnings per share in accordance with ASC Topic 260, Earnings per Share, is as follows:

(In thousands, except per share data)	For the Year Ended December 31, 2011	2010
Net income (loss) available to common stockholders	**$ 2,103**	$ (1,108)
Basic weighted average common shares outstanding	**3,887**	3,649
Plus: Effect of dilutive common stock equivalents	**–**	–
Diluted weighted average number of common shares outstanding	**3,887**	3,649
Earnings (loss) per share:		
Basic	**$ 0.54**	$ (0.30)
Diluted	**$ 0.54**	$ (0.30)

Common stock equivalents consisting of stock options for 344,500 shares and 322,000 shares for the years ended December 31, 2011 and 2010, respectively, and outstanding warrants of 852,706 were not considered in computing diluted earnings per share because they were anti-dilutive as the exercise price exceeded the average market price.

Note 12 - Stock-Based Compensation

In 2009, the Bank adopted both the First Bank 2009 Stock Option Plan–A (the "A" Plan) and the First Bank 2009 Stock Option Plan–B (the "B" Plan). The A Plan authorizes the Board of Directors to grant options to purchase up to an aggregate of 409,640 shares of the Bank's common stock, up to 170,547 of which may be non-qualified options. Under the B Plan, the Bank may grant non-qualified options to purchase up to 102,000 shares of common stock, as of the effective date of the Plans, to officers, other employees and directors. Shares granted under the Plan to directors are non-qualified options. The shares granted under the Plan to officers and other employees can be non-qualified options or incentive stock options (ISO's), subject to the limitations under Section 422 of the Internal Revenue Code.

Note 12 - Stock-Based Compensation (Continued)

All options granted under the Plans have a term that shall not exceed ten years and a vesting period of three years. The exercise price of the options granted under the Plans as ISO's are to be granted at an exercise price of not less than 100% of the fair market value of the Bank's common stock on the date of grant. All non-qualified options must have an exercise price of at least 100% of fair market value at the date of grant. Fair market value is to be determined by the Board of Directors in good faith.

The tables below present the activity in the Bank's stock option plans for each of the years in the two-year period ended December 31, 2011 and 2010.

	Plan A		Plan B	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Balance, December 31, 2009	–	$ –	–	$ –
Shares:				
Granted	242,000	$ 5.00	80,000	$ 5.00
Balance, December 31, 2010	242,000	$ 5.00	80,000	$ 5.00
Shares:				
Granted	22,500	$ 5.00	–	$ –
Balance, December 31, 2011	264,500	$ 5.00	80,000	$ 5.00
Shares exercisable as of December 31, 2011	82,667		26,667	
Weighted-average fair value of options granted during the year	$ 12,649		$ –	

The fair value for these options was estimated at the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions for 2011 and 2010: dividend yield of 0%; expected volatility of approximately 30%; risk-free interest rate of 1.45% and an expected life of the options of six years. The volatility percentage for 2011 and 2010 was based on the average expected volatility of similar public financial institutions in the Bank's market area. The fair value of options granted in 2011 and 2010 was approximately $0.56 per option.

The weighted average remaining contractual life of options outstanding at December 31, 2011 is 8.83 years. The aggregate intrinsic value of outstanding options was $0 at December 31, 2011.

Stock-based compensation expense related to outstanding stock options was approximately $62,000 and $15,100 for the years ended December 31, 2011 and 2010, respectively. As of December 31, 2011, there was approximately $118,000 of unrecognized compensation costs related to non-vested stock options granted in 2011 and 2010. This cost is expected to be recognized over a weighted average period of 1.88 years.

Note 13 - Transactions with Executive Officers, Directors and Principal Stockholders

The Bank has had, and may be expected to have in the future, banking transactions in the ordinary course of business with its executive officers, directors, principal stockholders, their immediate families and affiliated companies (commonly referred to as related parties), on the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with others. Loans receivable and deposits of related parties totaled $6,670,000 and $10,408,000, respectively, at December 31, 2011.

Note 13 - Transactions with Executive Officers, Directors and Principal Stockholders (Continued)

Loans receivable and deposits of related parties totaled $3,636,000 and $6,523,000, respectively, at December 31, 2010. Payments and originations of loans receivable from related parties during 2011 were $858,000 and $3,892,000, respectively. Included in the payment number is $326,200 in loans to a former director who did not stand for reelection in 2011. Payments and originations of loans receivable from related parties during 2010 were $3,252,000 and $2,900,000, respectively. Included in the payment number was $3,000,000 in loans to a former director who resigned from the Board in December 2010. None of our related party loans were past due or on nonaccrual status as of December 31, 2011 or 2010.

Note 14 - Other Commitments and Contingent Liabilities

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

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 and letters of credit is represented by the contractual amount of those instruments. The credit risk associated with these financial instruments is essentially the same as that involved in extending loans to customers. The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments.

At December 31, 2011 and 2010, total commitments to extend credit amounted to $33.9 million and $24.8 million, respectively. At December 31, 2011 the Bank had performance standby letters of credit of $3.2 million. These letters of credit are primarily related to performance guarantees on real estate development.

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

In 2009 First Bank's South Jersey Market Manager terminated his employment with the Bank. At the time of termination this executive had a Severance Agreement with the Bank. Subject to regulatory approval and meeting the terms and conditions of this Severance Agreement, the Bank would have been obligated to pay this executive a lump sum severance payment of one and one-half (1.5) times his then current annual salary, but in no event less than $180,000. In the 4th quarter of 2009, the Bank had accrued $198,000 for this possible severance payment. As part of the process to get regulatory approval for the severance payment, the Bank would have had to make certain certifications regarding the executive's job performance while employed at First Bank. The Bank informed the regulator that it was unable to make all of the certifications required by the regulation and the regulator then deemed the application as withdrawn for failure to submit the required conditions for consideration. The Bank has informed this former executive of that decision of the regulator. There has been no further action on this matter during 2010 and 2011.

The Bank is party, in the ordinary course of business, to litigation involving collection matters, contract claims and other miscellaneous causes of action arising from its business. Management does not consider that any such proceedings depart from usual routine litigation. In 2009, another financial institution commenced an action against First Bank alleging the Bank had breached a loan participation agreement between the two parties. The plaintiffs in that action are seeking to require the Bank to purchase back the loan participation in the amount of $659,000. The Bank continues to defend the action. The discovery phase of that case was completed in 2011 with an expected trial date in 2012. No expense was recorded in 2011 or 2010 regarding this matter.

Note 15 - Regulatory Matters

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet the minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. The guidelines require all banks to maintain a minimum ratio of total risk-based capital to total risk-weighted assets of 8%, maintain a minimum ratio of Tier 1 capital to total risk-weighted assets of 4% and Tier 1 capital to average assets of 4%. However, as a newly chartered bank, the Bank was subject to an enhanced leverage capital requirement of 8% until April 23, 2010. The Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors. Management believes, as of December 31, 2011, that the Bank meets all capital adequacy requirements to which it is subject.

The Bank's capital amounts and ratios, and regulatory minimum capital ratios at December 31, 2011 and 2010 are presented below:

	Actual		For Capital Adequacy Purposes		To Be Well-Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
(Dollar Amounts in Thousands)						
December 31, 2011:						
Total capital (to risk-weighted assets)	**$ 26,123**	**11.56%**	**$ 18,073**	**8.00%**	**$ 22,591**	**10.00%**
Tier 1 capital (to risk-weighted assets)	**23,293**	**10.31**	**9,036**	**4.00**	**13,554**	**6.00**
Tier 1 capital (to average assets)	**23,293**	**9.29**	**10,034**	**4.00**	**12,543**	**5.00**
December 31, 2010:						
Total capital (to risk-weighted assets)	$ 23,802	14.31%	$ 13,304	8.00%	$ 16,630	10.00%
Tier 1 capital (to risk-weighted assets)	21,719	13.06	6,652	4.00	9,978	6.00
Tier 1 capital (to average assets)	21,719	10.22	8,499	4.00	10,624	5.00

On September 30, 2009 the Bank entered into a Cease and Desist Order (Order) with the Federal Deposit Insurance Corporation (FDIC) and the New Jersey Department of Banking and Insurance (NJ DOBI) regarding the conduct of certain of its operations, maintaining specified capital levels and addressing other concerns identified in the FDIC's Report of Examination as of March 31, 2009. On January 28, 2011 the FDIC and NJ DOBI formally terminated the Order. With the removal of the Order, First Bank is now considered "well-capitalized" under Prompt Corrective Action Capital Provisions.

The Bank is subject to certain restrictions on the amount of dividends that it may declare due to regulatory considerations. The New Jersey Banking Act of 1948 provides that cash dividends may be declared and paid out of accumulated net earnings or out of surplus, provided that the Bank's surplus may not be less than 50% of the Bank's capital account. In addition, as a policy, the FDIC and NJ DOBI will not permit a de novo bank to pay cash dividends until it has earned back its pre-opening costs and initial operating losses.

Note 16 - Fair Value Measurements and Fair Values of Financial Instruments

Management uses its best judgment in estimating the fair value of the Bank's financial instruments; however, there are inherent weaknesses in any estimation technique. Therefore, for substantially all financial instruments, the fair value estimates herein are not necessarily indicative of the amounts the Bank could have realized in a sales transaction on the dates indicated. The fair value amounts have been measured as of their respective year-ends and have not been re-evaluated or updated for purposes of these financial statements subsequent to those respective dates. As such, the fair values of these financial instruments subsequent to the respective reporting dates may be different than the amounts reported at each year-end.

Note 16 - Fair Value Measurements and Fair Values of Financial Instruments (Continued)

The Bank measures fair value by following accounting principles generally accepted in the United States of America. Management utilizes a fair value hierarchy that prioritizes the inputs to valuation methods used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

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

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

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

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

For financial assets measured at fair value on a recurring basis, the fair value measurements by level within the fair value hierarchy at December 31, 2011 are as follows:

Description	**December 31, 2011**	**(Level 1) Quoted Prices in Active Markets for Identical Assets**	**(Level 2) Significant Other Observable Inputs**	**(Level 3) Significant Unobservable Inputs**
(In thousands)				
Securities available for sale:				
U.S. Government sponsored agencies........	**$ 3,001**	**$ –**	**$ 3,001**	**$ –**
Mortgage-backed securities	**10,673**	**–**	**10,673**	**–**
Corporate obligations..................................	**2,877**	**–**	**2,877**	**–**
Total..	**$ 16,551**	**$ –**	**$ 16,551**	**$ –**

For financial assets measured at fair value on a recurring basis, the fair value measurements by level within the fair value hierarchy at December 31, 2010 are as follows:

Description	December 31, 2010	(Level 1) Quoted Prices in Active Markets for Identical Assets	(Level 2) Significant Other Observable Inputs	(Level 3) Significant Unobservable Inputs
(In thousands)				
Securities available for sale:				
U.S. Government sponsored agencies........	$ 4,703	$ –	$ 4,703	$ –
Mortgage-backed securities	19,800	–	19,800	–
Corporate obligations..................................	988	–	988	–
Total..	$ 25,491	$ –	$ 25,491	$ –

Note 16 - Fair Value Measurements and Fair Values of Financial Instruments (Continued)

For financial assets measured at fair value on a nonrecurring basis, the fair value measurements by level within the fair value hierarchy at December 31, 2011 are as follows:

Description	December 31, 2011	(Level 1) Quoted Prices in Active Markets for Identical Assets	(Level 2) Significant Other Observable Inputs	(Level 3) Significant Unobservable Inputs
(In thousands)				
Impaired loans	$ 1,038	$ –	$ –	$ 1,038

For financial assets measured at fair value on a nonrecurring basis, the fair value measurements by level within the fair value hierarchy at December 31, 2010 are as follows:

Description	December 31, 2010	(Level 1) Quoted Prices in Active Markets for Identical Assets	(Level 2) Significant Other Observable Inputs	(Level 3) Significant Unobservable Inputs
(In thousands)				
Impaired loans	$ 1,566	$ –	$ –	$ 1,566

The following information should not be interpreted as an estimate of the fair value of the entire Bank since a fair value calculation is only provided for a limited portion of the Bank's assets and liabilities. Due to a wide range of valuation techniques and the degree of subjectivity used in making the estimates, comparisons between the Bank's disclosures and those of other companies may not be meaningful. The following methods and assumptions were used to estimate the fair values of the Bank's financial instruments at December 31, 2011 and 2010.

Cash and Cash Equivalents (Carried at Cost)

The carrying amounts reported in the statements of condition for cash and short-term instruments approximate those assets' fair values.

Interest Bearing Time Deposits (Carried at Cost)

Fair values of CDs with other banks are estimated using a discounted cash flow analysis and rate that approximates CDs with comparable remaining terms.

Securities

The fair value of securities is determined by matrix pricing (Level 2), which is a mathematical technique used widely in the industry to value debt securities without relying exclusively on quoted market prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted prices.

Other Investments (Carried at Cost)

The Solomon Hess SBA Loan Fund operates as a private fund. Shares in the Fund are not publicly traded and therefore have no readily determinable market value. Therefore, this investment's carrying value approximates fair value.

Note 16 - Fair Value Measurements and Fair Values of Financial Instruments (Continued)

Loans Receivable (Carried at Cost)

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

Impaired Loans (Generally Carried at Fair Value)

The Bank generally measures impaired loans based on the fair value of the loan's collateral. Fair value is generally determined based upon independent third-party appraisals of the properties, or discounted cash flows based upon the expected proceeds. These assets are included as Level 3 fair values, based upon the lowest level of input that is significant to the fair value measurements.

Restricted Investment in Bank Stocks (Carried at Cost)

The carrying amount of restricted investment in bank stocks approximates fair value, and considers the limited marketability of such securities.

Accrued Interest Receivable and Payable (Carried at Cost)

The carrying amounts of accrued interest receivable and accrued interest payable approximate their fair value.

Deposits (Carried at Cost)

The fair values disclosed for nonmaturity deposits (e.g., interest and non-interest checking, savings and money market accounts) are, by definition, equal to the amount payable on demand at the reporting date (i.e., their carrying amounts). Fair values for time deposits are estimated using a discounted cash flow calculation that applies interest rates currently being offered in the market on time deposits to a schedule of aggregated expected monthly maturities on time deposits.

FHLB Advances (Carried at Cost)

Fair values of FHLB advances are estimated using a discounted cash flow analysis, based on quoted prices for new FHLB advances with similar credit risk characteristics, terms and remaining maturity. These prices obtained from this active market represent a market value that is deemed to represent the transfer price if the liability were assumed by a third party.

Collateralized Borrowings (Carried at Cost)

The carrying amount of collateralized borrowings approximates its fair value.

Off-Balance Sheet Financial Instruments

Fair values for off-balance sheet financial instruments (lending commitments and letters of credit are disclosed in Note 14) are based on fees currently charged in the market to enter into similar agreements, taking into account, the remaining terms of the agreements and the counterparties' credit standing. The fair value of these instruments is considered immaterial.

Note 16 - Fair Value Measurements and Fair Values of Financial Instruments (Continued)

The fair values of the Bank's financial instruments are as follows at December 31, 2011:

(In thousands)	2011 Carrying Amount	2011 Fair Value
Assets:		
Cash and due from banks	**$ 6,311**	**$ 6,311**
Federal funds sold	**1,053**	**1,053**
Interest bearing deposits with banks	**14,465**	**14,465**
Interest bearing time deposits with banks	**3,584**	**3,591**
Securities available for sale	**16,551**	**16,551**
Securities held to maturity	**2,000**	**2,267**
Other investments	**5,000**	**5,000**
Restricted bank stocks	**542**	**542**
Net loans	**203,717**	**205,389**
Accrued interest receivable	**743**	**743**
Liabilities:		
Demand, savings and money market deposits	**128,282**	**128,282**
Time deposits	**106,379**	**108,073**
FHLB advances	**5,428**	**5,660**
Accrued interest payable	**135**	**135**

The fair values of the Bank's financial instruments are as follows at December 31, 2010:

(In thousands)	2010 Carrying Amount	2010 Fair Value
Assets:		
Cash and due from banks	$ 891	$ 891
Federal funds sold	16,160	16,160
Interest bearing time deposits with banks	11,042	11,054
Securities available for sale	25,491	25,491
Securities held to maturity	2,000	2,055
Restricted bank stocks	397	397
Net loans	151,582	150,980
Accrued interest receivable	650	650
Liabilities:		
Demand, savings and money market deposits	95,329	95,329
Time deposits	92,430	93,293
FHLB advances	1,627	1,673
Collateralized borrowings	417	417
Accrued interest payable	90	90

FIRSTBANK

Officers

President and Chief Executive Officer
Paul E. Fitzgerald

Executive Vice President and Chief Operating Officer
Patrick L. Ryan

First Senior Vice Presidents
Peter J. Cahill
Chief Lending Officer

Stephen F. Carman
Treasurer/Chief Financial Officer

Daniel J. O'Donnell
Secretary/Chief Legal & Compliance Officer

Senior Vice Presidents
Kenneth C. Dragos
Chief Information & Technology Officer

Frank Durand III
Branch Administration & Security

Susan Valentino-Paglione
Senior Business Development Officer

Marian Sorrentino
Bank Secrecy Act Officer

Vice Presidents
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Commercial Lending Relationship Manager

Elizabeth F. Camishion
IT Support Specialist

Kimberly Cerasi
Human Resources and Executive Administrator

Scott W. Civil
Commercial Lending Relationship Manager

Michael B. Cook
Commercial Lending Relationship Manager

Marianne E. DeSimone
Commercial Lending Relationship Manager

David J. DiStefano
Commercial Lending Relationship Manager

Vincent P. Ditta
Commercial Lending Relationship Manager

John C. Pettit
Williamstown Branch Manager

Katherine M. Rowley
Lawrence Branch Manager

Board of Directors

Leslie E. Goodman
Chairman of the Board

Paul E. Fitzgerald
President and Chief Executive Officer

Patrick L. Ryan
Executive Vice President and Chief Operating Officer

Elbert G. Basolis, Jr.
President and owner of Garrison Enterprises, Inc.

David H. Gibbons
President of Elberon Development Co., LLC

Peter D. Halstead
Retired banker and corporate financial consultant

Sidney L. Hofing
President and Chief Executive Officer, The Eagle Group, Inc.

Maria K. Jinks, D.C.
Chiropractic Physician

Glenn M. Josephs
Partner, Friedman LLP

Samuel D. Marrazzo
President, Marrazzo's Thriftway

Patrick M. Ryan
Owner, North Buffalo Advisors LLC

John E. Strydesky
Certified Public Accountant

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Williamstown Branch Manager John Pettit shares an apple pie with Lawrence Branch Manager Kathy Rowley.

John *has helped lead a resurgence in deposits at the Williamstown branch.*

Kathy *manages our largest branch with over $100 million in deposits.*

WELCOME HOME...

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