

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549**

**FORM 10-K**

(Mark One)

- (X) Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2008
- ( ) Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from \_\_\_\_\_ to \_\_\_\_\_.

Commission file number : 001-34089

**Bancorp of New Jersey, Inc.**

(Exact name of Registrant as specified in its charter)

**New Jersey**

(State or other jurisdiction of incorporation or organization)

**20-8444387**

(I.R.S. Employer Identification)

**1365 Palisade Avenue, Fort Lee, NJ**

(Address of principal executive offices)

**07024**

(Zip Code)

**201-944-8600**

(Registrant's telephone number, including area code)

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

**Title of each class  
Common stock**

**Name of each exchange on which registered  
NYSE Alternext**

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES \_\_\_ NO [ X ]

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. YES \_\_\_ NO [ X ]

Indicate by check mark whether the Registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports); and (2) has been subject to such filing requirements for the past 90 days. YES [ X ] NO \_\_\_

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

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

Large accelerated filer	[ ]	Accelerated filer	[ ]
Non-accelerated filer	[ ]	Smaller reporting company	[X]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act.) YES [ ] NO [ X ]

The aggregate market value of the registrant's voting stock held by non-affiliates of the registrant as of June 30, 2008 was approximately \$58,115,979 based on the most recent sale price as reported to the registrant.

The number of shares outstanding of the registrant's Common Stock, no par value, outstanding as of March 10, 2009 was 5,065,281.

#### **DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the Registrant's definitive proxy statement, to be filed with the Securities and Exchange Commission in connection with its 2009 Annual Meeting of Shareholders to be held May 21, 2009, are incorporated by reference in Part III of this annual report on Form 10-K.

## TABLE OF CONTENTS

		<u>PAGE</u>
<b>PART I</b>		
Item 1	Business	4
Item 1A	Risk Factors	12
Item 1B	Unresolved Staff Comments	12
Item 2	Properties	13
Item 3	Legal Proceedings	13
Item 4	Submission of Matters to a Vote of Security Holders	13
<b>PART II</b>		
Item 5	Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	14
Item 6	Selected Financial Data	15
Item 7	Management’s Discussion and Analysis of Financial Condition and Results of Operations	16
Item 7A	Quantitative and Qualitative Disclosures about Market Risk	37
Item 8	Financial Statements and Supplementary Data	38
Item 9	Changes In and Disagreements with Accountants on Accounting and Financial Disclosure	76
Item 9A	Controls and Procedures	76
Item 9B	Other Information	77
<b>PART III</b>		
Item 10	Directors, Executive Officers and Corporate Governance	78
Item 11	Executive Compensation	78
Item 12	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	78
Item 13	Certain Relationships and Related Transactions, and Director Independence	78
Item 14	Principal Accounting Fees and Services	78
<b>PART IV</b>		
Item 15	Exhibits, Financial Statement Schedules	79

## PART I

### FORWARD-LOOKING STATEMENTS

This document contains forward-looking statements, in addition to historical information. Forward looking statements are typically identified by words or phrases such as “believe,” “expect,” “anticipate,” “intend,” “estimate,” “project,” and variations of such words and similar expressions, or future or conditional verbs such as “will,” “would,” “should,” “could,” “may,” or similar expressions. The U.S. Private Securities Litigation Reform Act of 1995 provides a safe harbor in regard to the inclusion of forward-looking statements in this document and documents incorporated by reference.

You should note that many factors, some of which are discussed elsewhere in this document and in the documents that are incorporated by reference, could affect the future financial results of Bancorp of New Jersey, Inc. and its subsidiary and could cause those results to differ materially from those expressed in the forward-looking statements contained or incorporated by reference in this document. These factors include, but are not limited, to the following:

- Current economic crisis affecting the financial industry;
- Volatility in interest rates and shape of the yield curve;
- Increased credit risk and risks associated with the real estate market;
- Operating, legal and regulatory risk;
- Economic, political and competitive forces affecting the Company’s line of business; and
- The risk that management’s analysis of these risks and forces could be incorrect, and/or that the strategies developed to address them could be unsuccessful.

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

### ITEM 1. BUSINESS

#### General

The Company is a one-bank holding company incorporated under the laws of the State of New Jersey in November, 2006 to serve as a holding company for Bank of New Jersey, referred to as the “Bank.” (Unless the context otherwise requires, all references to the “Company” in this Annual Report shall be deemed to refer also to the Bank). The Company was organized at the direction of the Board of Directors of the Bank for the purpose of acquiring all of the capital stock of the Bank. On July 31, 2007, the Company became the bank holding company of the Bank pursuant to a plan of acquisition that was approved by the boards of directors of the Company and the Bank and adopted by the stockholders of the Bank at a special meeting held July 19, 2007.

Pursuant to the plan of acquisition, the holding company reorganization was affected through a contribution of all of the outstanding shares of Bank’s class of common stock to the Company in a one-to-one exchange for shares of the Company’s class of common stock. Upon consummation of the reorganization, the Bank became the wholly-owned subsidiary of the Company and all of the former shareholders of the Bank became shareholders of the Company. The Company did not engage in any operations, other than organizational activities, or issue any shares of its class of common stock prior to consummation of the holding company reorganization. As a result, the financial statements included in Part II, Item 8 of this annual report include the effect of the holding company reorganization and represent

consolidated financial statements. The only significant activities of the Company are the ownership and supervision of the Bank.

The Bank is a commercial bank formed under the laws of the State of New Jersey on May 10, 2006. The Bank operates from its main office at 1365 Palisade Avenue, Fort Lee, New Jersey, 07024, and its additional four branch offices located at 204 Main Street, Fort Lee, New Jersey, 07024, 401 Hackensack Avenue, Hackensack, New Jersey, 07601, 458 West Street, Fort Lee, New Jersey, 07024, and 320 Haworth Avenue, Haworth, New Jersey, 07641. A sixth location at 4 Park Street, Harrington Park, New Jersey, 07640, has received approval from the New Jersey Department of Banking and Insurance. The Bank awaits approval from the Federal Deposit Insurance Corporation, "FDIC". The branch is expected to open during first quarter, 2009 upon receiving all regulatory approvals. All branch locations are in Bergen County, New Jersey.

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

### **Business of the Company**

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

The specific objectives of the Bank are:

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

### **Market Area**

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

**Extended Hours**

The Bank provides convenient full-service banking from 7:00 am to 7:00 pm weekdays and 9:00 am to 1:00 pm on Saturday in all offices except Hackensack, which offers full service banking from 8am to 6pm weekdays but no Saturdays.

**Competition**

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

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

**Concentration**

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

**Employees**

At December 31, 2008, the Company employed thirty four full-time equivalent employees. None of these employees is covered by a collective bargaining agreement. The Company believes its relations with employees to be good.

## Supervision and Regulation

### General

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

To the extent that the following information describes statutory and regulatory provisions, it is qualified in its entirety by reference to the particular statutory and regulatory provisions. Proposals to change the laws and regulations governing the banking industry are frequently raised at both the state and federal level. The likelihood and timing of any changes in these laws and regulations, and the impact such changes may have on the Company and the Bank, are difficult to ascertain. A change in applicable laws and regulations, or in the manner such laws or regulations are interpreted by regulatory agencies or courts, may have a material effect on our business, operations and earnings.

### Bank Holding Company Act

The Company is registered as a bank holding company under the Bank Holding Company Act of 1956, as amended (the "BHCA"), and is subject to regulation and supervision by the FRB. The BHCA requires the Company to secure the prior approval of the FRB before it owns or controls, directly or indirectly, more than five percent (5%) of the voting shares or substantially all of the assets of, any bank or thrift, or merges or consolidates with another bank or thrift holding company. Further, under the BHCA, the activities of the Company and any nonbank subsidiary are limited to those activities which the FRB determines to be so closely related to banking as to be a proper incident thereto, and prior approval of the FRB may be required before engaging in certain activities. In making such determinations, the FRB is required to weigh the expected benefits to the public such as greater convenience, increased competition and gains in efficiency, against the possible adverse effects, such as undue concentration of resources, decreased or unfair competition, conflicts of interest, and unsound banking practices.

The BHCA was substantially amended by the Gramm-Leach-Bliley Act ("GLBA"), which among other things permits a "financial holding company" to engage in a broader range of non-banking activities, and to engage on less restrictive terms in certain activities that were previously permitted. These expanded activities include securities underwriting and dealing, insurance underwriting and sales, and merchant banking activities. To become a financial holding company, the Company and the Bank must be "well capitalized" and "well managed" (as defined by federal law), and have at least a "satisfactory" Community Reinvestment Act ("CRA") rating. GLBA also imposes certain privacy requirements on all financial institutions and their treatment of consumer information. At this time, the Company has not elected to become a financial holding company, as we do not engage in any non-banking activities which would require us to be a financial holding company.

There are a number of restrictions imposed on the Company and the Bank by law and regulatory policy that are designed to minimize potential loss to the depositors of the Bank and the FDIC insurance funds in the event the Bank should become insolvent. For example, FRB policy requires a bank holding company to serve as a source of financial strength to its subsidiary depository institutions and to commit resources to support such institutions in circumstances where it might not do so absent such policy. While the authority of the FRB to invoke this so-called "source of strength doctrine" has been called into question, the FRB maintains that it has the authority to apply the doctrine when circumstances warrant. The FRB also has the authority under the BHCA to require a bank holding company to terminate any activity or to relinquish control of a non-bank subsidiary upon the FRB's determination that such activity or control constitutes a serious risk to the financial soundness and stability of any bank subsidiary of the bank holding company.

Any capital loan by the Company to the Bank is subordinate in right of payment to deposits and certain other indebtedness of the Bank. In addition, in the event of the Company's bankruptcy, any commitment by the Company to a federal bank regulatory agency to maintain the capital of the Bank will be assumed by the bankruptcy trustee and entitled to a priority of payment.

The Federal Deposit Insurance Act ("FDIA") provides that, in the event of the "liquidation or other resolution" of an insured depository institution, the claims of depositors of the institution (including the claims of the FDIC as a subrogee of insured depositors) and certain claims for administrative expenses of the FDIC as a receiver will have priority over other general unsecured claims against the institution. If an insured depository institution fails, insured and uninsured depositors, along with the FDIC will have priority in payment ahead of unsecured, nondeposit creditors, including the Company, with respect to any extensions of credit they have made to such insured depository institution.

### **Supervision and Regulation of the Bank**

The operations and investments of the Bank are also limited by federal and state statutes and regulations. The Bank is subject to the supervision and regulation by the New Jersey Department of Banking and Insurance and the FDIC. The Bank is also subject to various requirements and restrictions under federal and state law, including requirements to maintain reserves against deposits, restrictions on the types, amount and terms and conditions of loans that may be originated, and limits on the type of other activities in which the Bank may engage and the investments it may make. Under the GLBA, the Bank may engage in expanded activities (such as insurance sales and securities underwriting) through the formation of a "financial subsidiary." In order to be eligible to establish or acquire a financial subsidiary, the Bank must be "well capitalized" and "well managed" and may not have less than a "satisfactory" CRA rating. At this time, the Bank does not engage in any activity which would require it to maintain a financial subsidiary.

The Bank is also subject to federal laws that limit the amount of transactions between the Bank and its nonbank affiliates, including the Company. Under these provisions, transactions (such as a loan or investment) by the Bank with any nonbank affiliate are generally limited to 10% of the Bank's capital and surplus for all covered transactions with such affiliate or 20% of capital and surplus for all covered transactions with all affiliates. Any extensions of credit, with limited exceptions, must be secured by eligible collateral in specified amounts. The Bank is also prohibited from purchasing any "low quality" assets from an affiliate.

### **Securities and Exchange Commission**

The Company is also under the jurisdiction of the Securities and Exchange Commission for matters relating to the offering and sale of its securities and is subject to the Securities and Exchange Commission's rules and regulations relating to periodic reporting, reporting to shareholders, proxy solicitations, and insider-trading regulations.

### **Monetary Policy**

The earnings of the Company are and will be affected by domestic economic conditions and the monetary and fiscal policies of the United States government and its agencies. The monetary policies of the FRB have a significant effect upon the operating results of commercial banks such as the Bank. The FRB has a major effect upon the levels of bank loans, investments and deposits through its open market operations in United States government securities and through its regulation of, among other things, the discount rate on borrowings of member banks and the reserve requirements against member banks' deposits. It is not possible to predict the nature and impact of future changes in monetary and fiscal policies.

### **Deposit Insurance**

The deposits of the Bank are insured up to applicable limits per insured depositor by the FDIC. As an FDIC-insured bank, the Bank is also subject to FDIC insurance assessments. Beginning in 2007, the FDIC adopted a revised risk-based assessment system to determine the assessment rates to be paid by insured institutions. Under a final rulemaking announced by the FDIC on March 4, 2009, and depending on the institution's risk category, assessment rates will range from 12 to 45 basis points. Institutions in the lowest risk category will be charged a rate between 12 and 16 basis points; these rates increase to 22, 32 and 45 basis points, respectively, for the remaining three risk categories. These rates may be offset in the future by any dividends declared by the FDIC if the deposit reserve ratio increases above a certain amount. Given the state of the current economic environment, it is unlikely that the FDIC will lower these assessment rates, and such rates may in fact increase. Because FDIC deposit insurance premiums are "risk-based," higher premiums would be charged to banks that have lower capital ratios or higher risk profiles. Consequently, a

decrease in the Bank's capital ratios, or a negative evaluation by the FDIC, as the Bank's primary federal banking regulator, may also increase the Bank's net funding costs and reduce its net income.

Additionally, the FDIC recently adopted an interim rule that imposes a 20 basis point emergency special assessment on all insured depository institutions on June 30, 2009. The special assessment will be collected September 30, 2009, at the same time that the risk-based assessments for the second quarter of 2009 are collected. The interim rule also permits the FDIC to impose an emergency special assessment of up to 10 basis points on all insured depository institutions whenever, after June 30, 2009, the FDIC estimates that the fund reserve ratio will fall to a level that the FDIC believes would adversely affect public confidence or to a level close to zero or negative at the end of a calendar quarter. Comments received during the public comment period may affect the content of the final rule on this issue.

All FDIC-insured depository institutions must also pay an annual assessment to provide funds for the repayment of debt obligations (commonly referred to as FICO bonds) issued by the Financing Corporation, a federal corporation, in connection with the disposition of failed thrift institutions by the Resolution Trust Corporation. The assessment rate for the first quarter of 2009 is set to approximately 1.14 cents per \$100 of assessable deposits, and for second quarter 2009 at 1.04 cents per \$100 of assessable deposits.

### **Dividend Restrictions**

Under applicable New Jersey law, the Company is not permitted to pay dividends on its capital stock if, following the payment of the dividend, (1) it would be unable to pay its debts as they become due in the usual course of business or (2) its total assets would be less than its total liabilities. Further, it is the policy of the FRB that bank holding companies should pay dividends only out of current earnings and only if future retained earnings would be consistent with the Company's capital, asset quality and financial condition.

Since it has no significant independent sources of income, the ability of the Company to pay dividends is dependent on its ability to receive dividends from the Bank. Under the New Jersey Banking Act of 1948, as amended (the "Banking Act"), a bank may declare and pay dividends only if, after payment of the dividend, the capital stock of the bank will be unimpaired and either the bank will have a surplus of not less than 50% of its capital stock or the payment of the dividend will not reduce the bank's surplus. The FDIC prohibits payment of cash dividends if, as a result, the institution would be undercapitalized or the Bank is in default with respect to any assessment due to the FDIC. Further, during the first three years of operation, cash dividends shall only be paid from net operating income, and only after an appropriate allowance for loan and lease losses is established and overall capital is adequate. These restrictions would not materially influence the Company or the Bank's ability to pay dividends at this time.

### **Capital Adequacy Guidelines**

The FRB and the FDIC has promulgated substantially similar risk-based capital guidelines applicable to banking organizations which they supervise. These guidelines are designed to make regulatory capital requirements more sensitive to differences in risk profiles among banks, to account for off balance sheet exposures, and to minimize disincentives for holding liquid assets. Under those guidelines, assets and off-balance sheet items are assigned to broad risk categories, each with appropriate weights. The resulting capital ratios represent capital as a percentage of total risk-weighted assets and off-balance sheet items.

Bank assets are given risk-weights of 0%, 20%, 50%, and 100%. In addition, certain off-balance sheet items are given similar credit conversion factors to convert them to asset equivalent amounts to which an appropriate risk-weighting will apply. Those computations result in the total risk-weighted assets. Most loans are assigned to the 100% risk category, except for performing first mortgage loans fully secured by residential property, which carry a 50% risk-weighting. Most investment securities (including, primarily, general obligation claims of states or other political subdivisions of the United States) are assigned to the 20% category, except for municipal or state revenue bonds, which have a 50% risk-weighting, and direct obligations of the U.S. Treasury or obligations backed by the full faith and credit of the U.S. Government, which have a 0% risk-weighting. In converting off-balance sheet items, direct credit substitutes, including general guarantees and standby letters of credit backing financial obligations, are given a 100% risk-weighting. Transaction-related contingencies such as bid bonds, standby letters of credit backing non-financial obligations, and undrawn commitments (including commercial credit lines with an initial maturity of more than one year), have a 50% risk-weighting. Short-term commercial letters of credit have a 20% risk-weighting, and certain short-term unconditionally cancelable commitments have a 0% risk weighting.

The minimum ratio of total capital to risk-weighted assets (including certain off-balance sheet activities, such as standby letters of credit) is 8%. At least 4% of the total capital is required to be "Tier 1 Capital," consisting of shareholders' equity and qualifying preferred stock, less certain goodwill items and other intangible assets. The remainder, or "Tier 2 Capital," may consist of (a) the allowance for loan losses of up to 1.25% of risk-weighted assets, (b) excess of qualifying preferred stock, (c) hybrid capital instruments, (d) perpetual debt, (e) mandatory convertible securities, and (f) qualifying subordinated debt and intermediate-term preferred stock up to 50% of Tier 1 Capital. Total capital is the sum of Tier 1 Capital and Tier 2 Capital less reciprocal holdings of other banking organization's capital instruments, investments in unconsolidated subsidiaries, and any other deductions as determined by the FDIC. At December 31, 2008, the Bank's Tier 1 and Total Capital ratios were 21.16 percent and 22.20 percent, respectively.

In addition, the FRB and FDIC have established minimum leverage ratio requirements for banking organizations they supervise. For banks and bank holding companies that meet certain specified criteria, including having the highest regulatory rating and not experiencing significant growth or expansion, these requirements provide for a minimum leverage ratio of Tier 1 Capital to adjusted average quarterly assets equal to three percent. Other banks and bank holding companies generally are required to maintain a leverage ratio of four to five percent. At December 31, 2008, the Company's, and the Bank's, leverage ratio were 16.95 percent. As part of the Bank's application for deposit insurance with the FDIC and as part of the bank charter approval by the New Jersey Department of Banking, the Bank is required to maintain not less than 8% Tier 1 Capital to total assets, as defined, through the first three years of operation.

As an additional means to identify problems in the financial management of depository institutions, the FDIA requires federal bank regulatory agencies to establish certain non-capital safety and soundness standards for institutions for which they are the primary federal regulator. The standards relate generally to operations and management, asset quality, interest rate exposure and executive compensation. The agencies are authorized to take action against institutions that failed to meet such standards.

#### **Prompt Corrective Action**

In addition to the required minimum capital levels described above, Federal law establishes a system of "prompt corrective actions" which Federal banking agencies are required to take, and certain actions which they have discretion to take, based upon the capital category into which a Federally regulated depository institution falls. Regulations set forth detailed procedures and criteria for implementing prompt corrective action in the case of any institution which is not adequately capitalized. Under the rules, an institution will be deemed "well capitalized" or better if its leverage ratio exceeds 5%, its Tier 1 risk based capital ratio exceeds 6%, and if the Total risk based capital ratio exceeds 10%. An institution will be deemed to be "adequately capitalized" or better if it exceeds the minimum Federal regulatory capital requirements. However, it will be deemed "undercapitalized" if it fails to meet the minimum capital requirements; "significantly undercapitalized" if it has a total risk based capital ratio that is less than 6%, a Tier 1 risk based capital ratio that is less than 3%, or a leverage ratio that is less than 3%, and "critically undercapitalized" if the institution has a ratio of tangible equity to total assets that is equal to or less than 2%.

The prompt corrective action rules require an undercapitalized institution to file a written capital restoration plan, along with a performance guaranty by its holding company or a third party. In addition, an undercapitalized institution becomes subject to certain automatic restrictions including a prohibition on payment of dividends, a limitation on asset growth and expansion, in certain cases, a limitation on the payment of bonuses or raises to senior executive officers, and a prohibition on the payment of certain "management fees" to any "controlling person." Institutions that are classified as undercapitalized are also subject to certain additional supervisory actions, including: increased reporting burdens and regulatory monitoring; a limitation on the institution's ability to make acquisitions, open new branch offices, or engage in new lines of business; obligations to raise additional capital; restrictions on transactions with affiliates; and restrictions on interest rates paid by the institution on deposits. In certain cases, bank regulatory agencies may require replacement of senior executive officers or directors, or sale of the institution to a willing purchaser. If an institution is deemed to be "critically undercapitalized" and continues in that category for four quarters, the statute requires, with certain narrowly limited exceptions, that the institution be placed in receivership.

As of December 31, 2008, the Bank was classified as "well capitalized." This classification is primarily for the purpose of applying the federal prompt corrective action provisions and is not intended to be and should not be interpreted as a representation of overall financial condition or prospects of the Bank.

#### **Community Reinvestment Act**

The CRA requires that banks meet the credit needs of all of their assessment area (as established for these purposes in accordance with applicable regulations based principally on the location of branch offices), including those of low income areas and borrowers. The CRA also requires that the FDIC assess all financial institutions that it regulates to determine whether these institutions are meeting the credit needs of the community they serve. Under the CRA, institutions are assigned a rating of “outstanding,” “satisfactory,” “needs to improve” or “unsatisfactory”. The Bank’s record in meeting the requirements of the CRA will be made publicly available and will be taken into consideration in connection with any applications with Federal regulators to engage in certain activities, including approval of a branch or other deposit facility, mergers and acquisitions, office relocations, or expansions into non-banking activities. As of December 31, 2008, the bank maintains a “satisfactory” CRA rating.

#### **USA Patriot Act**

Under the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism (USA PATRIOT) Act, financial institutions are subject to prohibitions against specified financial transactions and account relationships as well as enhanced due diligence and “know your customer” standards in their dealings with foreign financial institutions and foreign customers. Under the USA PATRIOT Act, financial institutions must establish anti-money laundering programs meeting the minimum standards specified by the Act and implementing regulations. The USA PATRIOT Act also requires the Federal banking regulators to consider the effectiveness of a financial institution’s anti-money laundering activities when reviewing bank mergers and bank holding company acquisitions.

The Bank has implemented the required internal controls to ensure proper compliance with the USA PATRIOT Act.

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

The Sarbanes-Oxley Act of 2002 comprehensively revised the laws affecting corporate governance, auditing and accounting, executive compensation and corporate reporting for entities, such as the Company, with equity or debt securities registered under the Securities Exchange Act of 1934. Among other things, Sarbanes-Oxley and its implementing regulations have established new membership requirements and additional responsibilities for our audit committee, imposed restrictions on the relationship between the Company and its outside auditors (including restrictions on the types of non-audit services our auditors may provide to us), imposed additional responsibilities for our external financial statements on our chief executive officer and chief financial officer, and expanded the disclosure requirements for our corporate insiders. The requirements are intended to allow stockholders to more easily and efficiently monitor the performance of companies and directors. The Company and its Board of Directors have, as appropriate, adopted or modified the Company’s policies and practices in order to comply with these regulatory requirements and to enhance the Company’s corporate governance practices.

Pursuant to Sarbanes-Oxley, the Company has adopted a Code of Conduct and Ethics applicable to its Board, executives and employees. This Code of Conduct can be found on the Company’s website at [www.bonj.net](http://www.bonj.net).

#### **Federal Home Loan Bank Membership**

The Bank is a member of the Federal Home Loan Bank of New York (“FHLBNY”). Each member of the FHLBNY is required to maintain a minimum investment in capital stock of the FHLBNY. The Board of Directors of the FHLBNY can increase the minimum investment requirements in the event it has concluded that additional capital is required to allow it to meet its own regulatory capital requirements. Any increase in the minimum investment requirements outside of specified ranges requires the approval of the Federal Housing Finance Agency. Because the extent of any obligation to increase our investment in the FHLBNY depends entirely upon the occurrence of a future event, potential payments to the FHLBNY is not determinable.

Additionally, in the event that the Bank fails, the right of the FHLBNY to seek repayment of funds loaned to the Bank shall take priority (a “super lien”) over all other creditors.

**Other Laws and Regulations**

The Company and the Bank are subject to a variety of laws and regulations which are not limited to banking organizations. For example, in lending to commercial and consumer borrowers, and in owning and operating its own property, the Bank is subject to regulations and potential liabilities under state and federal environmental laws.

**Future Legislation and Regulation**

In light of current conditions in the U.S. and global financial markets and the U.S. and global economy, regulators have increased their focus on the regulation of the financial services industry. Proposals that could substantially intensify the regulation of the financial services industry are expected to be introduced in the U.S. Congress, in state legislatures and from applicable regulatory authorities. These proposals may change banking statutes and regulation and our operating environment in substantial and unpredictable ways.- If enacted, these proposals could increase or decrease the cost of doing business, limit or expand permissible activities or affect the competitive balance among banks, savings associations, credit unions, and other financial institutions. We cannot predict whether any of these proposals will be enacted and, if enacted, the effect that it, or any implementing regulations, would have on our business, results of operations or financial condition.

**Statistical Disclosure by Bank Holding Companies**

The statistical disclosure required to be made by bank holding companies is included in “Management’s Discussion and Analysis of Financial Condition and Results of Operation,” in Part II, Item 7 of this annual report.

**ITEM 1A. RISK FACTORS**

As a smaller reporting company, the Company is not required to provide the information otherwise required by this Item.

**ITEM 1B. UNRESOLVED STAFF COMMENTS**

Not applicable.

**ITEM 2. PROPERTIES**

The Company, currently, conducts its business through its main office located at 1365 Palisade Avenue, Fort Lee, New Jersey, and its five branch network. The following table sets forth certain information regarding the Company's properties as of December 31, 2008.

<u>Location</u>	<u>Leased or Owned</u>	<u>Date of Lease Expiration</u>
1365 Palisade Avenue Fort Lee, NJ	Owned	N/A
204 Main Street Fort Lee, NJ	Leased	March, 2010
401 Hackensack Avenue Hackensack, NJ 07601	Leased	August, 2010
458 West Street Fort Lee, NJ 07024	Leased	December, 2025
320 Haworth Avenue Haworth, NJ 07641	Owned	N/A

A sixth branch is expected to open during the first quarter of 2009. It is a leased facility located at 4 Park Street, Harrington Park, NJ, 07640. The lease does not commence until January, 2009.

**ITEM 3. LEGAL PROCEEDINGS**

Although there is currently no litigation to which the Company and the Bank are subject, future litigation may arise during the normal course of business. Accordingly, the Company and the Bank may periodically be parties to or otherwise involved in legal proceedings, such as claims to enforce liens, claims involving the making and servicing of real property loans, and other issues incident to the Bank's business. Management does not believe that there are any threatened proceedings against the Company or the Bank which, if determined adversely, would have a material effect on the business, financial position or results of operations of the Company or the Bank.

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

None.

## PART II

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

#### Market Information

Commencing on June 3, 2008, the Company's Common Stock began trading on the American Stock Exchange under the symbol "BKJ". Subsequently, the American Stock Exchange was acquired by the New York Stock Exchange. Today, the Company's stock trades on the NYSE Alternext exchange.

Prior to June 3, 2008, our common stock was not listed for quotation on any exchange or market system and there was no established public trading market for our common stock. However, there were a limited number of trades of our common stock since our initial offering and capitalization. The following table sets forth the high and low prices at which trades of our common stock have occurred during the indicated periods. The prices are adjusted to reflect our ten percent (10%) stock distribution in January 2007 and the 2 for 1 stock split which was effective December 31, 2007.

	<u>High</u>	<u>Low</u>
Year Ended December 31, 2008		
Fourth quarter	\$12.30	\$ 8.48
Third quarter	15.97	10.51
Second quarter	25.25	13.44
First quarter	11.50	11.50
Year Ended December 31, 2007		
Fourth quarter	\$11.50	\$11.50
Third quarter	11.50	11.50
Second quarter	11.50	11.50
First quarter	11.50	9.09

#### Holders

As of March 10, 2009, there were approximately 1,186 shareholders of our common stock, which includes an estimate of shares held in street name.

#### Dividends

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

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

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

## Securities Authorized for Issuance under Equity Compensation Plans

The following table summarizes our equity compensation plan information as of December 31, 2008. Share and exercise prices are adjusted to reflect our ten percent (10%) stock distribution in January 2007 and the 2 for 1 stock split which was effective December 31, 2007.

<b>Plan Category</b>	<b>Number of shares of common stock to be issued upon exercise of outstanding options, warrants and rights</b>	<b>Weighted-average exercise price of outstanding options, warrants and rights</b>	<b>Number of shares of common stock remaining available for future issuance under equity compensation plans</b>
<i>Equity Compensation Plans approved by security holders</i>			
2006 Stock Option Plan	188,900	\$10.26	19,684
2007 Non-Qualified Stock Option Plan for Directors	414,668	\$11.50	43,334
<i>Equity compensation plans not approved by security holders</i>			
	-	-	-
Total	603,568	\$11.16	63,018

## ITEM 6. SELECTED FINANCIAL DATA

As a smaller reporting company, the Company is not required to provide the information otherwise required by this Item.

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

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

In addition to historical information, this discussion and analysis contains forward-looking statements. The forward-looking statements contained herein are subject to certain risks and uncertainties that could cause actual results to differ materially from those projected in the forward-looking statements. Important factors that might cause such a difference include, but are not limited to, those discussed in this section, and also include the current economic crisis affecting the financial industry; volatility in interest rates and shape of the yield curve; increased credit risk and risks associated with the real estate market; operating, legal, and regulatory risk; economic, political, and competitive forces affecting the Company's line of business; and the risk that management's analysis of these risks and forces could be incorrect, and/or that the strategies developed to address them could be unsuccessful as well as a variety of other matters, most, if not all of which, are beyond the Company's control. Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect management's analysis only as of the date of the report. The Company undertakes no obligation to publicly revise or update these forward-looking statements to reflect events and circumstances that arise after such date, except as may be required by applicable law or regulation.

### **OVERVIEW AND STRATEGY**

Our Bank charter was approved in April 2006 and the Bank opened for business on May 10, 2006. On July 31, 2007, the Company became the bank holding company of the Bank pursuant to a plan of acquisition that was approved by the boards of directors of the Company and the Bank and adopted by the shareholders of the Bank at a special meeting held July 19, 2007. On June 3, 2008, the Company's common stock was listed on a national stock exchange. We currently operate a 5 branch network and await FDIC approval to open our sixth location during the first quarter of 2009. Our main office is located at 1365 Palisade Avenue, Fort Lee, NJ 07024 and our current four additional offices are located at 204 Main Street, Fort Lee, NJ 07024, 401 Hackensack Avenue, Hackensack, NJ 07601, 458 West Street, Fort Lee, NJ 07024, and 320 Haworth Avenue, Haworth, NJ 07641. All current branches are located in Bergen County, NJ.

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

Our specific objectives are:

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

- To provide a reasonable return to shareholders on capital invested.

## **Critical Accounting Policies and Judgments**

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

### *Allowance for Loan Losses*

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

At December 31, 2008 and 2007, respectively, we consider the ALLL of \$2,371 and \$1,912 thousand adequate to cover probable losses inherent in the loan portfolio that may become uncollectible. Our evaluation considers such factors as changes in the composition and volume of the loan portfolio, the impact of changing economic conditions on the credit worthiness of our borrowers, and the overall quality of the loan portfolio. For further discussion, see “Provision for Loan Losses”, “Loan Portfolio”, “Loan Quality”, and “Allowance for Loan Losses” sections below in this discussion and analysis, as well as Note 1-Summary of Significant Accounting Policies and Note 3-Loans and Allowance for Loan Losses in the Notes to Financial Statements included in Part II, Item 8 of this annual report.

### *Deferred Tax Assets and Valuation Allowance*

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

### *Impairment of Assets*

Loans are considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect all amounts due according to contractual terms of the loan agreement. The collection of all amounts due according to contractual terms means both the contractual interest and principal payments of a loan will be collected as scheduled in the loan agreement. Impaired loans are measured based on the present value of expected future cash flows discounted at the loan's effective interest rate, or, as a practical expedient, at the loan's observable market price, or the fair value of the underlying collateral. The fair value of collateral, reduced by costs to sell on a discounted basis, is used if a loan is collateral dependent. Conforming one-to-four family residential mortgage loans, home equity and second mortgages, and consumer loans are pooled together as homogeneous loans and, accordingly, are not covered by Statement of Financial Accounting Standards (SFAS) No.114 "Accounting by Creditors for Impairment of a Loan." At December 31, 2008, we had one impaired loan which is reported at the fair value of the underlying collateral as repayment is expected solely from the collateral. At December 31, 2007, we did not have any impaired loans.

### *Investment Securities Impairment*

Periodically, we may need to assess whether there have been any events or economic circumstances to indicate that a security on which there is an unrealized loss is impaired on an other-than-temporary basis. In any such instance, we would consider many factors including the severity and duration of the impairment, our intent and ability to hold the security for a period of time sufficient for a recovery in value, recent events specific to the issuer or industry, and for debt securities, external credit ratings and recent downgrades. Securities on which there is an unrealized loss that is deemed to be other-than-temporary are written down to fair value with the write-down recorded as a realized loss in securities gains (losses). At December 31, 2008 and 2007, respectively, we did not have any other than temporary impaired securities.

## **RESULTS OF OPERATIONS - 2008 versus 2007**

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

### **NET INCOME**

For the year ended December 31, 2008, net income decreased by \$289 thousand, to \$527 thousand from \$816 thousand for the year ended December 31, 2007. The decrease in net income for the year ended December 31, 2008 compared to 2007 was directly attributable costs associated with the growth of the Company and the expansion of the branch network. Additionally, net income in 2007 included the effect of a \$202 thousand adjustment to reverse the valuation allowance previously recorded on our net deferred tax asset.

On a per share basis, basic earnings per share for the year ended December 31, 2008 were \$0.10 as compared to basic earnings per share of \$0.17 for the year ended December 31, 2007. All share data has been restated to reflect all stock dividends and stock splits through December 31, 2008.

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

Net interest income represents the difference between income on interest-earning assets and expense on interest-bearing liabilities. Net interest income depends upon the volume of interest-earning assets and interest bearing liabilities and yield earned or the interest paid on them. For the year ended December 31, 2008, net interest income increased by \$756 thousand or 12.3%, to \$6.9 million from \$6.2 million for the year ended December 31, 2007. This increase in net interest income is primarily the result of a 28.0% increase in total loans during the year. Total loans reached \$234.8 million at December 31, 2008 from \$183.5 million at December 31, 2007.

### **Average Balance Sheets**

We commenced banking operations on May 10, 2006. The following table sets forth certain information relating to our average assets and liabilities for the years ended December 31, 2008 and 2007, respectively, and for the period from May 10, 2006 through December 31, 2006, and reflects the average yield on assets and average cost of liabilities for the period indicated. Such yields are derived by dividing income or expense, on a tax-equivalent basis, by the average balance of assets or liabilities, respectively, for the periods shown. Securities available for sale are reflected in the following table at amortized cost. Non-accrual loans are included in the average loan balance. Amounts have been computed on a fully tax-equivalent basis, assuming a blended tax rate of 42% in 2008, 2007, and 2006, respectively.

**For the years ended December 31,  
(dollars in thousands)**

	2008			2007			2006		
	Average Balance	Interest	Average Yield/Cost	Average Balance	Interest	Average Yield/Cost	Average Balance	Interest	Average Yield/Cost
<b>ASSETS :</b>									
Interest-Earning Assets:									
Loans	\$209,498	\$ 12,977	6.19%	\$139,546	\$ 10,111	7.24%	\$ 43,971	\$ 1,983	6.77%
Securities	17,147	708	4.13	5,249	264	5.03	7,915	260	4.99
Federal Funds Sold	24,185	725	3.00	4,072	199	4.89	21,752	818	5.64
Interest-earning cash accounts*	9,091	45	0.49	1,038	16	1.54	-	0	0.00
Total Interest-earning Assets	<u>259,921</u>	<u>14,455</u>	5.56%	<u>149,905</u>	<u>10,590</u>	7.06%	<u>73,638</u>	<u>3,061</u>	6.26%
Non-interest earning Assets	12,074			12,297			5,011		
Allowance for Loan Losses	(2,135)			(1,863)			(486)		
<b>TOTAL ASSETS</b>	<u><u>\$269,860</u></u>			<u><u>\$160,339</u></u>			<u><u>\$78,163</u></u>		
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>									
Interest-Bearing Liabilities :									
Demand Deposits	\$ 5,632	\$ 63	1.12%	\$ 7,447	\$ 194	2.61%	\$ 3,910	\$ 60	2.30%
Savings Deposits	3,016	8	0.26	2,569	13	0.51	930	5	0.81
Money Market Deposits	53,831	1,189	2.21	38,781	1,757	4.53	16,216	422	3.89
Time Deposits	133,266	6,273	4.71	41,114	2,132	5.18	3,360	77	3.44
Short Term Borrowings	378	11	2.91	6,432	339	5.27	0	0	0.00
Total Interest-Bearing Liabilities	<u>196,123</u>	<u>7,544</u>	3.85%	<u>96,343</u>	<u>4,435</u>	4.60%	<u>24,416</u>	<u>564</u>	3.46%
Non-Interest Bearing Liabilities:									
Demand Deposits	25,361			18,920			10,384		
Other Liabilities	1,541			1,031			164		
Total Non-Interest Bearing Liabilities	<u>26,902</u>			<u>19,951</u>			<u>10,548</u>		
Stockholders' Equity	46,835			44,045			43,199		
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<u><u>\$269,860</u></u>			<u><u>\$160,339</u></u>			<u><u>\$78,163</u></u>		
Net Interest Income									
(Tax Equivalent Basis)		\$ 6,911			\$ 6,155			\$2,497	
Tax Equivalent Basis adjustment		0			0			0	
Net Interest Income		<u>\$ 6,911</u>			<u>\$ 6,155</u>			<u>\$2,497</u>	
Net Interest Rate Spread			<u>1.71%</u>			<u>2.46%</u>			<u>2.80%</u>
Net Interest Margin			<u>2.56%</u>			<u>4.10%</u>			<u>3.39%</u>
Ratio of Interest-Earning Assets to Interest-Bearing Liabilities	<u>1.33</u>			<u>1.56</u>			<u>3.02</u>		

\* Interest-earning cash accounts includes funds held at the FRB as the FRB began paying interest on deposits during the fourth quarter of 2008.

**Rate/Volume Analysis**

The following table presents, by category, the major factors that contributed to the changes in net interest income on a tax equivalent basis for the years ended December 31, 2008 and 2007, respectively.

	Year Ended December 31, 2008 versus 2007			Year Ended December 31, 2007 versus 2006		
	Increase (Decrease) due to change in Average			Increase (Decrease) due to change in Average		
	<u>Volume</u>	<u>Rate</u>	<u>Net</u>	<u>Volume</u>	<u>Rate</u>	<u>Net</u>
Interest Income :						
Loans	\$ 5,064	\$ (2,198)	\$ 2,866	\$ 7,472	\$ 656	\$ 8,128
Securities	598	(154)	444	2	2	4
Fed Funds Sold	984	(458)	526	(589)	(30)	(619)
Interest earning cash accounts	<u>124</u>	<u>(95)</u>	<u>29</u>	<u>16</u>	<u>0</u>	<u>16</u>
Total Interest Income	<u>6,770</u>	<u>(2,905)</u>	<u>3,865</u>	<u>6,901</u>	<u>628</u>	<u>7,529</u>
Interest Expense :						
Demand Deposits	(47)	181	134	111	23	134
Savings Deposits	2	6	8	15	(7)	8
Money Market Deposits	682	654	1,336	1,088	248	1,336
Time Deposits	4,773	(2,719)	2,054	1,339	715	2,054
Short Term Borrowings	<u>(319)</u>	<u>658</u>	<u>339</u>	<u>339</u>	<u>0</u>	<u>339</u>
Total Interest Expense	<u>5,091</u>	<u>(1,220)</u>	<u>3,871</u>	<u>2,892</u>	<u>979</u>	<u>3,871</u>
Net change in Interest Income	<u>\$ 1,679</u>	<u>\$ (1,685)</u>	<u>\$ (6)</u>	<u>\$ 4,009</u>	<u>\$ (351)</u>	<u>\$ 3,658</u>

**PROVISION FOR LOAN LOSSES**

For the year ended December 31, 2008, the Company's provision for loan losses was \$459,000, a decrease of \$587,000 from the provision of \$1,046,000 for the year ended December 31, 2007. The decreased provision is primarily the result of slower loan growth, which experienced an increase of 28.0% in 2008 compared to 127.5% in 2007.

**OTHER INCOME**

Other income, which was primarily attributable to service fees received from deposit accounts, for the year ended December 31, 2008, was \$237,000, an increase of \$93,000 above the \$144,000 received during the year ended December 31, 2007. The increase in other income reflects the combination of an increase in the number of accounts, an increase average deposit levels, and the level of activity in the deposit accounts.

**OTHER EXPENSES**

Other expenses for the year ended December 31, 2008 amounted to \$5,742,000, an increase of \$1,379,000 or 31.6% over the \$4,363,000 for the year ended December 31, 2007. This increase is related, primarily, to the effect of twelve months of operation for three branches which were opened during the second half of 2007 as well as data processing costs associated with the Company's growth during 2007 and costs associated with opening a fourth branch during the fourth quarter of 2008.

**INCOME TAX EXPENSE**

The income tax provision, which includes both federal and state taxes, for the years ended December 31, 2008 and 2007 was \$420,000 and \$74,000, respectively. The increase in income tax expense during 2008 resulted from the combination of increased pre-tax income in 2008 and the effect of an adjustment to reverse the valuation allowance previously recorded on our net deferred tax asset in 2007.

## **FINANCIAL CONDITION**

Total consolidated assets increased \$43.9 million, or 16.8%, from \$260.2 million at December 31, 2007 to \$304.1 million at December 31, 2008. Total loans increased from \$183.5 million at December 31, 2007 to \$234.8 million at December 31, 2008, an increase of 28.0%. Total deposits increased from \$212.9 million on December 31, 2007 to \$254.0 million at December 31, 2008, an increase of \$41.1 million, or 19.3%.

### **LOANS**

Our loan portfolio is the primary component of our assets. Total loans, which exclude net deferred fees and costs and the allowance for loan losses, increased by 28.0% from \$183.5 million at December 31, 2007, to \$234.8 million at December 31, 2008. This growth in the loan portfolio continues to be primarily attributable to recommendations and referrals from members of our board of directors, our shareholders, our executive officers, and selective marketing by our management and staff. We believe that we will continue to have opportunities for loan growth within the Bergen County market of northern New Jersey, due in part, to consolidation and closing of banking institutions within our market. We believe that it is not cost-efficient for large institutions, many of which are headquartered out of state, to provide the level of personal service to small business borrowers that these customers seek and that we intend to provide.

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

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

The following table sets forth the classification of the Company's loans by major category as of December 31, 2008, 2007, and 2006, respectively (in thousands):

	<u>December 31,</u>		
	<u>2008</u>	<u>2007</u>	<u>2006</u>
Real Estate	\$159,056	\$123,335	\$ 50,787
Commercial	33,319	27,056	14,678
Credit Lines	37,962	28,133	13,519
Consumer	<u>4,507</u>	<u>4,936</u>	<u>1,654</u>
Total Loans	<u>\$234,844</u>	<u>\$183,460</u>	<u>\$ 80,638</u>

The following table sets forth the maturity of fixed and adjustable rate loans as of December 31, 2008 (in thousands):

	<u>Within One Year</u>	<u>1 to 5 Years</u>	<u>After 5 Years</u>	<u>Total</u>
Loans with Fixed Rate				
Commercial	\$ 7,204	\$ 5,596	\$ 2,220	\$ 15,020
Real Estate	13,412	60,600	51,290	125,302
Credit Lines	46	-	-	46
Consumer	647	1,974	1,886	4,507
Loans with Adjustable Rate				
Commercial	\$ 17,339	\$ 960	\$ -	\$ 18,299
Real Estate	31,918	931	905	33,754
Credit Lines	127	-	37,789	37,916
Consumer	-	-	-	-

## LOAN QUALITY

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

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

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

At December 31, 2008, the Bank had one non-accrual residential mortgage loan of approximately \$2.0 million. . If interest had been accrued, such income would have been approximately \$135 thousand for the year ended December 31, 2008. This loan was considered impaired and was evaluated in accordance with SFAS No.114 "Accounting by Creditors for Impairment of a Loan." After evaluation, a specific reserve of \$20 thousand was deemed necessary.

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

As of December 31, 2008, 2007, and 2006, respectively, there were no concentrations of loans exceeding 10% of the Bank's total loans and the Bank had no foreign loans. The Bank's loans are primarily to businesses and individuals located in Bergen County, New Jersey.

The Bank maintains an external independent loan review auditor. The loan review auditor performs examinations of a sample of commercial loans after the Bank has extended credit. The loan review auditor also monitors the integrity of our credit risk rating system. This review process is intended to identify adverse developments in individual credits, regardless of payment history. The loan review auditor reports directly to the audit committee of our Board of Directors and provides the audit committee with reports on asset quality. The loan review audit reports may be presented to our Board of Directors by the audit committee for review, as appropriate.

#### **ALLOWANCE FOR LOAN LOSSES**

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

We commenced banking operations in May, 2006, and our allowance for loan losses totaled \$2,371,000, and \$1,912,000, respectively, at December 31, 2008, and 2007. The growth of the allowance is primarily due to the growth and composition of the loan portfolio.

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

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Balance, January 1	\$ 1,912	\$ 866	\$ –
Total Charge-offs	–	–	–
Total Recoveries	–	–	–
Net charge-offs	–	–	–
Provision charged to expense	459	1,046	866
Balance, December 31	<u>\$ 2,371</u>	<u>\$ 1,912</u>	<u>\$ 866</u>
Ratio of net charge-offs to average loans Outstanding	N/A	N/A	N/A

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

	2008			2007			2006		
	Amount	% of ALL	% of Total Loans	Amount	% of ALL	% of Total Loans	Amount	% of ALL	% of Total Loans
Balance applicable to:									
Real Estate	\$1,774	74.82%	78.85%	\$1,373	71.81%	67.23%	\$ 479	55.31%	62.98%
Commercial	244	10.29%	10.84%	241	12.61%	14.75%	197	22.75%	18.20%
Credit Lines	205	8.65%	9.11%	152	7.95%	15.34%	69	7.97%	16.77%
Consumer	27	1.14%	1.20%	5	0.26%	2.68%	25	2.89%	2.05%
Sub-total	<u>2,250</u>	<u>94.90%</u>	<u>100.00%</u>	<u>1,771</u>	<u>92.63%</u>	<u>100.00%</u>	<u>770</u>	<u>88.92%</u>	<u>100.00%</u>
Unallocated Reserves	<u>121</u>	<u>5.10%</u>		<u>141</u>	<u>7.37%</u>		<u>96</u>	<u>11.08%</u>	
TOTAL	<u>\$2,371</u>	<u>100.00%</u>	<u>100.00%</u>	<u>\$1,912</u>	<u>100.00%</u>	<u>100.00%</u>	<u>\$ 866</u>	<u>100.00%</u>	<u>100.00%</u>

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

## INVESTMENT SECURITIES

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

Securities are classified as held-to-maturity, referred to as “HTM,” trading, or available for sale, referred to as “AFS,” at the time of purchase. Securities are classified as held-to-maturity if management intends and we have the ability to hold them to maturity. Such securities are stated at cost, adjusted for unamortized purchase premiums and discounts. Securities which are bought and held principally for the purpose of selling them in the near term are classified as trading securities, which are carried at market value. Realized gains and losses, as well as gains and losses from marking trading securities to market value, are included in trading revenue. Securities not classified as held-to-maturity or trading securities are classified as AFS and are stated at fair value. Unrealized gains and losses on AFS securities are excluded from results of operations, and are reported as a component of accumulated other comprehensive income, which is included in stockholders’ equity. Securities classified as AFS include securities that may be sold in response to changes in interest rates, changes in prepayment risks, the need to increase regulatory capital, or other similar requirements.

At December 31, 2008, total securities aggregated \$17,731,000 and were classified as available for sale. At December 31, 2008, the Company held no securities which it classified as held-to-maturity securities or trading securities.

The following table sets forth the carrying value of the Company’s security portfolio as of the December 31, 2008, 2007, and 2006, respectively.

	2008		2007		2006	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
<b>Available for sale</b>						
U.S. Agency obligations	\$ 17,641	\$ 17,731	\$ –	\$ –	\$ 9,560	\$ 9,599
Total available for sale	\$ 17,641	\$ 17,731	\$ –	\$ –	\$ 9,560	\$ 9,599
<b>Held to Maturity</b>						
U.S. Treasury obligation	\$ –	\$ –	\$ 1,996	\$ 2,014	\$ 1,993	\$ 2,002
Total held to maturity	\$ –	\$ –	\$ 1,996	\$ 2,014	\$ 1,993	\$ 2,002
Total Investment Securities	<u>\$ 17,641</u>	<u>\$ 17,731</u>	<u>\$ 1,996</u>	<u>\$ 2,014</u>	<u>\$11,553</u>	<u>\$11,601</u>

The following tables set forth as of December 31, 2008 and December 31, 2007, the maturity distribution of the Company's debt investment portfolio:

Maturity of Debt Investment Securities  
December 31, 2008  
(in thousands)

	<i>Securities Available for Sale</i>		
	Amortized Cost	Fair Value	Weighted Average Yield
Within 1 year	–	–	–
1 to 5 years	\$ 13,391	\$ 13,478	3.61%
Over 5 years	\$ 4,250	\$ 4,253	4.12%
	\$ 17,641	\$ 17,731	

Maturity of Debt Investment Securities  
December 31, 2007  
(in thousands)

	<i>Securities Held to Maturity</i>		
	Amortized Cost	Fair Value	Weighted Average Yield
Within 1 year	\$ 1,996	\$ 2,014	5.12%
1 to 5 years	–	–	–
Over 5 years	–	–	–
	\$ 1,996	\$ 2,014	

During 2008, the Company sold a security from its AFS portfolio and recognized a gain of \$2,000 from the transaction.

During 2007, the Company sold its entire AFS portfolio in order to fund loan growth and recognized a gain of \$4,000 from the transaction.

#### DEPOSITS

Deposits are our primary source of funds. We experienced a growth of \$41.1 million, or 19.3%, in deposits from \$212.9 million at December 31, 2007 to \$254.0 million at December 31, 2008. This market penetration was accomplished through the combined effect of branches opening during 2007 and 2008 and the continued referrals of our board of directors, stockholders, management, and staff. The Company has no foreign deposits, nor are there any material concentrations of deposits.

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

	December 31, (Dollars in Thousands)					
	2008		2007		2006	
	Amount	Average Yield/Rate	Amount	Average Yield/Rate	Amount	Average Yield/Rate
Non-interest Bearing Demand	\$ 28,187	–	\$ 23,292	–	\$ 10,244	–
Interest Bearing Demand	57,645	2.11%	52,215	4.26%	38,794	3.58%
Savings	2,644	0.26%	3,430	0.51%	1,873	0.81%
Time Deposits	165,530	4.39%	134,004	5.18%	10,956	3.44%
	<u>\$254,006</u>		<u>\$212,941</u>		<u>\$ 61,867</u>	

The Company does not actively solicit short-term deposits of \$100,000 or more because of the liquidity risks posed by such deposits. The following table summarizes the maturity of time deposits of denominations of \$100,000 or more as of December 31, 2008.

	(in thousands)
Three months or less	\$ 45,242
Over three months through twelve months	72,972
Over one year through three years	3,661
Over three years	<u>1,800</u>
Total	<u>\$ 123,675</u>

#### RETURN ON EQUITY AND ASSETS

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

Selected Financial Ratios:	At or for the year ended December 31,		
	<u>2008</u>	<u>2007</u>	<u>2006</u>
Return on Average Assets (ROA)	0.20%	0.51%	(0.72%)
Return on Average Equity (ROE)	1.13%	1.85%	(1.31%)
Equity to Total Assets at Year-End	16.24%	17.61%	40.58%
Dividend Payout Ratio	N/A	N/A	N/A

#### LIQUIDITY

Our liquidity is a measure of our ability to fund loans, withdrawals or maturities of deposits, and other cash outflows in a cost-effective manner. Our principal sources of funds are deposits, scheduled amortization and

prepayments of loan principal, maturities of investment securities, and funds provided by operations. While scheduled loan payments and maturing investments are relatively predictable sources of funds, deposit flow and loan prepayments are greatly influenced by general interest rates, economic conditions, and competition. In addition, if warranted, we would be able to borrow funds.

Our total deposits equaled \$254,005,000 and \$212,941,000, respectively, at December 31, 2008 and 2007. The growth in funds provided by deposit inflows during this period coupled with our cash position at the end of 2007 has been sufficient to provide for our loan demand.

Through the investment portfolio, we have generally sought to obtain a safe, yet slightly higher yield than would have been available to us as a net seller of overnight federal funds, while still maintaining liquidity. Through our investment portfolio, we also attempt to manage our maturity gap by seeking maturities of investments which coincide as closely as possible with maturities of deposits. Securities available for sale would also be available to provide liquidity for anticipated loan demand and liquidity needs.

Although we were a net seller of federal funds at December 31, 2008, we have a \$12 million overnight line of credit facility available with First Tennessee Bank and a \$10 million overnight line of credit with Atlantic Central Bankers Bank for the purchase of federal funds in the event that temporary liquidity needs arise. At December 31, 2008, we had drawn approximately \$853 thousand of our line at Atlantic Central Bankers Bank. We were approved as a member of the Federal Home Loan Bank of New York, or "FHLB NY," during November, 2007. The FHLB NY relationship could provide additional sources of liquidity, if required.

We believe that our current sources of funds provide adequate liquidity for our current cash flow needs.

#### **INTEREST RATE SENSITIVITY ANALYSIS**

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

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

The following table sets forth the amounts of interest-earning assets and interest-bearing liabilities outstanding at the periods indicated which we anticipated, based upon certain assumptions, will re-price or mature in each of the future time periods presented. Except as noted, the amount of assets and liabilities which re-price or mature during a particular period were determined in accordance with the earlier of the term to re-pricing or the contractual terms of the asset or liability. Because we have no interest bearing liabilities with a maturity greater than five years, we believe that a static gap for the over five year time period reflects an accurate assessment of interest rate risk. Our loan maturity assumptions are based upon actual maturities within the loan portfolio. Equity securities have been included in "Other Assets" as they are not interest rate sensitive. At December 31, 2008, we were within the target gap range established by ALCO.

Cumulative Rate Sensitive Balance Sheet							
December 31, 2008							
(in thousands)							
	0 - 3	0 - 6	0 - 1	0 - 5	5 + Years	All Others	TOTAL
	Months	Months	Year	Years			
Securities, excluding equity securities	\$-	\$-	\$-	\$13,477	\$4,254	\$-	\$17,731
Loans :							
Commercial	23,802	24,808	25,502	31,099	2,220	-	33,319
Real Estate	32,538	41,618	45,400	107,766	51,292	-	159,058
Credit Lines	37,962	37,962	37,962	37,962	-	-	37,962
Consumer	65	414	647	2,621	1,886	-	4,507
Federal Funds Sold	40,482	40,482	40,482	40,482	-	-	40,482
Other Assets	-	-	-	-	-	11,045	11,045
<b>TOTAL ASSETS</b>	<b><u>\$134,849</u></b>	<b><u>\$145,284</u></b>	<b><u>\$149,993</u></b>	<b><u>\$233,407</u></b>	<b><u>\$59,652</u></b>	<b><u>\$11,045</u></b>	<b><u>\$304,104</u></b>
Transaction /							
Demand Accounts	\$6,104	\$6,104	\$6,104	\$6,104	\$-	\$-	\$6,104
Money Market	51,541	51,541	51,541	51,541	-	-	51,541
Savings	2,644	2,644	2,644	2,644	-	-	2,644
Time Deposits	48,760	86,767	161,788	165,530	-	-	165,530
Other Liabilities	853	853	853	853	-	29,568	30,421
Equity	-	-	-	-	-	47,864	47,864
<b>TOTAL LIABILITIES AND EQUITY</b>	<b><u>\$109,902</u></b>	<b><u>\$147,909</u></b>	<b><u>\$222,930</u></b>	<b><u>\$226,672</u></b>	<b><u>\$-</u></b>	<b><u>\$77,432</u></b>	<b><u>\$304,104</u></b>
Dollar Gap	\$24,947	\$(2,625)	\$(72,937)	\$ 6,735			
Gap / Total Assets	8.20%	(0.86%)	(23.98%)	2.21%			
Target Gap Range	<b>+/- 35.00</b>	<b>+/- 30.00</b>	<b>+/- 25.00</b>	<b>+/- 25.00</b>			
RSA / RSL	122.70%	98.23%	67.28%	102.97%			
(Rate Sensitive Assets to Rate Sensitive Liabilities)							

**MARKET RISK**

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

Our profitability is affected by fluctuations in interest rates. A sudden and substantial increase or decrease in interest rates may adversely impact our earnings to the extent that the interest rates borne by assets and liabilities do not change at the same speed, to the same extent, or on the same basis. We monitor the impact of changing interest rates on our net interest income using several tools. One measure of our exposure to differential changes in interest rates between assets and liabilities is shown in our “Cumulative Rate Sensitive Balance Sheet” under the “Interest Rate Sensitivity Analysis” caption in this discussion and analysis. In the future, we may use additional analyses, including periodic “shock analysis” to evaluate the effect of interest rates upon our operations and our financial condition and to manage our exposure to interest rate risk.

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

We continually evaluate interest rate risk management opportunities. During 2008, we believed that available hedging instruments were not cost-effective, and therefore, focused our efforts on increasing our yield-cost spread through retail growth opportunities.

The following table discloses our financial instruments that are sensitive to change in interest rates, categorized by expected maturity at December 31, 2008. Market risk sensitive instruments are generally defined as on- and off-balance sheet financial instruments.

	Avg. Int. Rate	Expected Maturity/Principal Repayment December 31, 2008 (Dollars in thousands)						There- After	Total	Fair Value
		2009	2010	2011	2012	2013				
<i>Interest Rate Sensitive Assets:</i>										
Loans.....	6.19%	\$ 109,511	6,754	811	2,792	59,580	55,398	\$234,846	\$235,025	
Securities available for sale, net of equity securities.....	4.13%	—	—	2,000	1,000	10,391	4,250	\$ 17,641	\$ 17,731	
Investment Securities.....	N/A	—	—	—	—	—	—	N/A	N/A	
Fed Funds Sold.....	3.00%	\$ 69	—	—	—	—	—	\$ 69	\$ 69	
Interest-earning Cash.....	0.49%	\$ 40,107	—	—	—	—	—	\$ 40,107	\$ 40,107	
<i>Interest Rate Sensitive Liabilities :</i>										
Demand Deposits.....	1.12%	\$ 6,104	—	—	—	—	—	\$ 6,104	\$ 6,104	
Savings Deposits.....	0.26%	\$ 2,644	—	—	—	—	—	\$ 2,644	\$ 2,644	
Money Market Deposits.....	2.21%	\$51,541	—	—	—	—	—	\$51,547	\$51,547	
Time Deposits.....	4.71%	\$161,788	1,815	127	—	1,800	—	\$165,530	\$167,460	

Our short term borrowings of \$853 thousand, which consisted of a drawdown on an overnight line of credit, was outstanding as of December 31, 2008 and was repaid during January, 2009.

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

## CAPITAL

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

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

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

The following table summarizes the Bank's risk-based capital and leverage ratios at December 31, 2008, as well as regulatory capital category definitions:

	<b>December 31, 2008</b>	<b>Minimum Requirements to be "Adequately Capitalized"</b>	<b>Minimum Requirements to be "Well Capitalized"</b>
Risk-Based Capital :			
Tier 1 Capital Ratio	21.16%	4.0%	6.0%
Total Capital Ratio	22.20%	8.0%	10.0%
Leverage Ratio	16.95%	4.0%	5.0%

The capital levels detailed above represent the continued effect of our successful stock subscription, in combination with the profitability experienced during 2008 and 2007, respectively. As we continue to employ our capital and continue to grow our operations, we expect that our capital ratios will decrease, but that we will remain a "well-capitalized" institution.

**CONTRACTUAL OBLIGATIONS**

As of December 31, 2008, the Company had the following contractual obligations as provided in the table below (in thousands):

**Contractual Obligations**

	Payment due by Period				Total Amounts Committed
	Less than 1 year	1 to 3 years	4 to 5 years	After 5 years	
Minimum annual rental under Non-cancelable operating leases	437	592	546	2,941	\$ 4,516
Short term borrowings	853	–	–	–	853
Remaining contractual maturities of time deposits.....	<u>161,788</u>	<u>1,942</u>	<u>1,800</u>	<u>–</u>	<u>\$165,530</u>
Total Contractual Obligations	<u>\$163,078</u>	<u>2,534</u>	<u>2,346</u>	<u>2,941</u>	<u>\$170,899</u>

Additionally, the Bank had certain commitments to extend credit to customers. A summary of commitments to extend credit at December 31, 2008 is provided as follows (in thousands):

Commercial real estate, construction, and Land development secured by land.....	\$13,001
Home Equity Loans.....	17,871
Standby letters of credit and other.....	<u>574</u>
	<u>\$31,446</u>

**FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK**

The Bank's commitments to extend credit and letters of credit constitute financial instruments with off-balance sheet risk. See Note 14 of the notes to consolidated financial statements included in this report for additional discussion of "Off-Balance Sheet" items.

**IMPACT OF INFLATION AND CHANGING PRICES**

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

**RECENTLY ISSUED ACCOUNTING STANDARDS**

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

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

As a smaller reporting company, the Company is not required to provide the information otherwise required by this Item.

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

During 2007, the Company and the Bank effected a bank holding company reorganization, as a result of which the assets, liabilities, and stockholders' equity of the Bank immediately prior to the holding company reorganization were carried forward on the Company's consolidated financial statements.

The following audited financial statements are set forth in this Annual Report on Form 10-K on the pages listed in the Index to Consolidated Financial Statements below.

**INDEX TO CONSOLIDATED FINANCIAL STATEMENTS**

	Page
	-----
Report of Independent Registered Public Accounting Firm.....	40
Consolidated Balance Sheets as of December 31, 2008 and 2007.....	41
Consolidated Statements of Income for the years ended December 31, 2008 and 2007 .....	42
Consolidated Statements of Stockholders' Equity for the years ended December 31, 2008 and 2007.....	43
Consolidated Statements of Cash Flows for the years ended December 31, 2008 and 2007, .....	44
Notes to Consolidated Financial Statements.....	45

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

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

We have audited the consolidated balance sheets of Bancorp of New Jersey, Inc. and subsidiary (the “Company”) as of December 31, 2008 and 2007, and the related consolidated statements of income, stockholders’ equity and comprehensive income, and cash flows for each of the years in the two-year period ended December 31, 2008. The Company’s management is responsible for these consolidated financial statements. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Bancorp of New Jersey, Inc. and subsidiary as of December 31, 2008 and 2007, and the results of their operations and their cash flows for each of the years in the two year period ended December 31, 2008, in conformity with accounting principles generally accepted in the United States of America.

/s/ Beard Miller Company LLP

Malvern, Pennsylvania  
March 31, 2009

## CONSOLIDATED BALANCE SHEETS

December 31, 2008 and 2007  
(Dollars in thousands, except share data)

<b>Assets</b>	<b><u>2008</u></b>	<b><u>2007</u></b>
Cash and due from banks	\$ 304	\$ 8,481
Interest bearing deposits in banks	40,107	543
Federal funds sold	69	57,091
Total cash and cash equivalents	<u>40,480</u>	<u>66,115</u>
Securities available for sale	17,731	–
Securities held to maturity (fair value approximates \$2,014 at December 31, 2007)	–	1,996
Restricted investment in bank stock, at cost	346	328
Loans	234,846	183,460
Deferred loan fees and costs, net	90	76
Allowance for loan losses	<u>(2,371)</u>	<u>(1,912)</u>
Net loans	232,565	181,624
Premises and equipment, net	10,284	8,300
Accrued interest receivable	847	613
Other assets	<u>1,851</u>	<u>1,269</u>
Total assets	<u>\$ 304,104</u>	<u>\$ 260,245</u>
<b>Liabilities and Stockholders' Equity</b>		
Deposits :		
Noninterest-bearing demand deposits	\$ 28,187	\$ 23,292
Interest bearing deposits:		
Savings, money market and time deposits	102,144	96,948
Time deposits of \$100 or more	<u>123,675</u>	<u>92,701</u>
Total deposits	254,006	212,941
Short term borrowings	853	–
Accrued expenses and other liabilities	<u>1,381</u>	<u>1,464</u>
Total liabilities	256,240	214,405
Commitments and contingencies	–	–
Stockholders' equity :		
Common stock, no par value. Authorized 20,000,000 shares; issued and outstanding 5,065,283 shares at December 31, 2008; and 4,970,090 at December 31, 2007	47,133	45,689
Retained Earnings	678	151
Accumulated other comprehensive income	<u>53</u>	<u>–</u>
Total stockholders' equity	<u>47,864</u>	<u>45,840</u>
Total liabilities and stockholders' equity	<u>\$ 304,104</u>	<u>\$ 260,245</u>

See accompanying notes to consolidated financial statements.

## CONSOLIDATED STATEMENTS OF INCOME

Years ended December 31, 2008 and 2007  
(Dollars in thousands, except per share data)

	<u>2008</u>	<u>2007</u>
Interest income:		
Loans, including fees	\$ 12,977	\$ 10,087
Securities	708	264
Federal funds sold and other	770	215
Total interest income	<u>14,455</u>	<u>10,566</u>
Interest expense:		
Savings and money markets	1,260	1,964
Time deposits	6,273	2,132
Short term borrowings	11	339
Total interest expense	<u>7,544</u>	<u>4,435</u>
Net interest income	6,911	6,131
Provision for loan losses	<u>459</u>	<u>1,046</u>
Net interest income after provision for loan losses	6,452	5,085
Non interest income		
Fees and service charges on deposit accounts	220	152
Fees earned from mortgage referrals	15	12
Gains on sale of securities	2	4
Total non interest income	<u>237</u>	<u>168</u>
Non interest expense:		
Salaries and employee benefits	3,276	2,451
Occupancy and equipment expense	1,124	810
Advertising and marketing expenses	44	51
Data processing	303	181
Legal fees	46	156
Other operating expenses	949	714
Total other expenses	<u>5,742</u>	<u>4,363</u>
Income before income taxes	947	890
Income tax expense	<u>420</u>	<u>74</u>
Net Income	<u>\$ 527</u>	<u>\$ 816</u>
Earnings per share:		
Basic	\$ 0.10	\$ 0.17
Diluted	\$ 0.10	\$ 0.17

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

See accompanying notes to consolidated financial statements.

## CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME

Years ended December 31, 2008 and 2007  
(Dollars in Thousands)

	<u>Common Stock</u>	<u>Additional Paid – In Capital</u>	<u>Retained Earnings (Accumulated Deficit)</u>	<u>Accumulated Other Comprehensive (loss)income</u>	<u>Total</u>
Balance at December 31, 2006	\$ 23,998	\$ 19,667	\$ (665)	\$ 39	\$ 43,039
Exchange of common stock – holding company reorganization	19,667	(19,667)	–	–	–
Exercise of stock options (22,000 shares)	200	–	–	–	200
Exercise of warrants (104,936 shares)	1,141	–	–	–	1,141
Recognition of stock option expense	183	–	–	–	183
Issuance of common stock (43,478 shares)	500	–	–	–	500
Comprehensive income:					
Net income	–	–	816	–	816
Unrealized losses on securities available for sale	–	–	–	(39)	(39)
Total comprehensive income					777
Balance at December 31, 2007	\$45,689	\$ –	\$ 151	\$ –	\$45,840
Exercise of warrants (76,195 shares)	821	–	–	–	821
Exercise of stock options (19,998 shares)	230	–	–	–	230
Recognition of stock option expense	393	–	–	–	393
Comprehensive income:					
Net income	–	–	527	–	527
Unrealized gains on securities available for sale	–	–	–	53	53
Total comprehensive income					580
Balance at December 31, 2008	\$47,133	\$ –	\$ 678	\$ 53	\$47,864

See accompanying notes to consolidated financial statements.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31, 2008 and 2007  
(In Thousands)

	<u>2008</u>	<u>2007</u>
Cash flows from operating activities:		
Net income	\$ 527	\$ 816
Adjustments to reconcile net income to net cash provided by		
Operating activities:		
Provision for loan losses	459	1,046
Deferred tax benefit	(206)	(607)
Depreciation and amortization	345	193
Recognition of stock option expense	393	183
Fees earned from mortgage referrals	(15)	(12)
Gain on sale of securities	(2)	(4)
Changes in operating assets and liabilities:		
Increase in accrued interest receivable	(234)	(174)
Increase in other assets	(398)	(8)
(Decrease)Increase in accrued expenses and other liabilities	(82)	323
Net cash provided by operating activities	787	1,756
Cash flows from investing activities:		
Purchases of securities available for sale	(32,641)	—
Proceeds from maturity of securities held to maturity	1,996	—
Proceeds from called and matured securities available for sale	13,000	—
Proceeds from sales of securities available for sale	2,002	9,565
Purchase of restricted investment in bank stock	(18)	(228)
Net increase in loans	(51,400)	(102,851)
Purchases of premises and equipment	(2,329)	(3,881)
Net cash used in investing activities	(69,390)	(97,395)
Cash flows from financing activities:		
Net increase in deposits	41,064	151,074
Net increase in short term borrowings	853	—
Proceeds from issuance of common stock	—	500
Proceeds from exercise of stock options	821	200
Proceeds from exercise of warrants	230	1,141
Net cash provided by financing activities	42,968	152,915
(Decrease) Increase in cash and cash equivalents	(25,635)	57,276
Cash and cash equivalents at beginning of year	66,115	8,839
Cash and cash equivalents at end of year	<u>\$ 40,480</u>	<u>\$ 66,115</u>
Supplemental information:		
Cash paid during the year for:		
Interest	\$7,920	\$3,558
Taxes	\$ 372	\$ 578

See accompanying notes to consolidated financial statements.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 1. Summary of Significant Accounting Policies

#### *Basis of Financial Statement Presentation*

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

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

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

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

Certain amounts in the prior period's financial statements have been reclassified to conform to the December 31, 2008 presentation. These reclassifications did not have an impact on income.

#### *Nature of Operations*

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

#### *Use of Estimates*

Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, the valuation of the deferred tax asset, the determination of other-than-temporary impairment on securities, and the potential impairment of restricted stock. While management uses available information to recognize estimated losses on loans, future additions may be necessary based on changes in economic conditions. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the Bank's allowance for loan losses on loans. These agencies may require the Bank to recognize additions to the allowance based on their judgements of information available to them at the time of their examination.

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

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

Bancorp of New Jersey, Inc.'s activities are, primarily, with customers located within Bergen County, New Jersey. The Company does not have any significant concentration to any one industry

or customers within its primary service area. Note 3 describes the types of lending the Company engages in. Although the Company actively manages the diversification of the loan portfolio, a substantial portion of the debtors' ability to honor their contracts is dependent on the strength of the local economy.

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

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

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

Interest bearing deposits from banks are carried at cost.

#### ***Regulators***

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

#### ***Securities***

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

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

#### ***Premises and Equipment***

Premises and equipment are stated at historical cost, less accumulated depreciation and amortization. Depreciation of fixed assets is accumulated on a straight-line basis over the estimated useful lives of the related assets. Leasehold improvements are amortized on a straight-line basis over the shorter of their estimated useful lives or the term of the related lease. The estimated lives of our premises and equipment range from 3 years for computer related equipment to 30 years for building costs associated with newly constructed buildings. Maintenance and repairs are charged to expense in the year incurred.

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

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

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

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

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Company does not separately identify individual consumer and residential loans for impairment disclosures, unless such loans are the subject of a restructuring agreement. As of December 31, 2008, there is one residential mortgage loan which is non-accrual and has been reviewed for impairment. There are no loans which have been considered for a restructuring agreement.

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

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

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

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

In December, 2004, the FASB issued Statement of Financial Accounting Standard (“SFAS”) No. 123 (revised 2004), “Share-Based Payment,” (“SFAS No. 123(R)”). SFAS No. 123(R) addresses the accounting for share-based payment transactions in which an enterprise receives employee service in exchange for (a) equity instruments of the enterprise or (b) liabilities that are based on the fair value of the enterprise’s equity instruments or that may be settled by the issuance of such equity instruments. SFAS No. 123(R) requires an entity to recognize the grant-date fair value of stock options and other equity-based compensation issued to employees within the income statement using a fair-value-based method, eliminating the intrinsic value method of accounting previously permissible under APB No. 25, “Accounting for Stock Issued to Employees”, and related interpretations. The Company accounts for stock options under the recognition and measurement principles of SFAS No. 123(R).

As a result of adopting SFAS No.123(R), the Company recorded compensation expense of \$393,000 and \$183,000 during 2008 and 2007, respectively. At December 31, 2008, the Company had unrecognized compensation expense amounting to approximately \$1,037,000 related to un-vested options. The unrecognized expense will be recognized over the remaining vesting terms.

### ***Income Taxes***

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

The Company adopted the provisions of FASB Interpretation 48 (“FIN 48”), Accounting for Uncertainty in Income Taxes, on January 1, 2007. Previously, the Bank had accounted for tax contingencies in accordance with Statement of Financial Accounting Standards 5, Accounting for Contingencies. As required by FIN 48, which clarifies SFAS 109, Accounting for Income Taxes, the Company recognizes the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the more-likely-than-not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement with the relevant tax authority. At the adoption date, the Bank applied FIN 48 to all tax positions for which the statute of limitations remained open. As a result of the adoption of FIN 48, there was no material effect on the Company’s consolidated financial position or results of operations and no adjustment to retained earnings.

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

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

### ***Comprehensive Income***

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

**Advertising**

The Company expenses advertising costs as incurred.

**Transfer of Financial Assets**

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

**Restricted Investment in Bank Stock**

Restricted stock, is comprised of stock in the Federal Home Loan Bank of New York and Atlantic Central Bankers' Bank. Federal law requires a member institution of the Federal Home Loan Bank to hold stock according to a predetermined formula. All restricted stock is recorded at cost as of December 31, 2008 and 2007.

Management evaluates the restricted stock for impairment in accordance with Statement of Position (SOP) 01-6, *Accounting by Certain Entities (Including Entities With Trade Receivables) That Lend to or Finance the Activities of Others*. 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 as compared to the capital stock amount for the FHLB and the length of time this situation has persisted, (2) commitments by the FHLB to make payments required by law or regulation and the level of such payments in relation to the operating performance of the FHLB, and (3) the impact of legislative or regulatory changes on institutions and, accordingly, on the customer base of the FHLB.

Management believes no impairment charge is necessary related to the FHLB restricted stock as of December 31, 2008.

**NOTE 2. Securities**

The Company held no securities in the held to maturity category at December 31, 2008.  
 A summary of securities available for sale at December 31, 2008 is as follows (in thousands):

<b><u>December 31, 2008</u></b>	Amortized <u>Cost</u>	Gross Unrealized <u>Gains</u>	Gross Unrealized <u>Losses</u>	Fair <u>Value</u>
Government Sponsored Enterprise obligations	<u>\$ 17,641</u>	<u>\$ 90</u>	<u>\$ —</u>	<u>\$ 17,731</u>

The Company held no securities in the available for sale category at December 31, 2007.  
 A summary of securities held to maturity at December 31, 2007 is as follows (in thousands):

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

Securities with an amortized cost of \$2.0 million, and a fair value of \$2.0 million, were pledged to secure public funds on deposit at December 31, 2008. Securities with an amortized cost of \$1.9 million, and a fair value of \$2.0 million, were pledged to secure public funds on deposit at December 31, 2007.

During 2008, the Company sold a security from its AFS portfolio and recognized a gain of \$2,000 from the transaction. During 2007, the Company sold its entire AFS portfolio in order to fund loan growth and recognized a gain of \$4,000 from the transaction.

The following tables set forth as of December 31, 2008, the maturity distribution of the Company's available for sale portfolio (in thousands):

	<u>Amortized Cost</u>	<u>Fair Value</u>
Within 1 year	—	—
1 to 5 years	\$ 13,391	\$ 13,478
Over 5 years	\$ 4,250	\$ 4,253
	<u>\$ 17,641</u>	<u>\$ 17,731</u>

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

Loans at December 31, 2008 and 2007, respectively, are summarized as follows (in thousands):

	<b>December 31,</b>	
	<b>2008</b>	<b>2007</b>
Real estate	\$159,058	\$123,335
Commercial	33,319	27,056
Credit lines	37,962	28,133
Consumer	4,507	4,936
	<u>\$234,846</u>	<u>\$183,460</u>

The Bank grants commercial, mortgage and installment loans to those New Jersey residents and businesses within its local trading area. Its borrowers' abilities to repay their obligations are dependent upon various factors, including the borrowers' income and net worth, cash flows generated by the underlying collateral, value of the underlying collateral and priority of the Bank's lien on the property. Such factors are dependent upon various economic conditions and individual circumstances beyond the Bank's control; the Bank is therefore subject to risk of loss. The Bank believes its lending policies and procedures adequately minimize the potential exposure to such risks and that adequate provisions for loan losses are provided for all known and inherent risks.

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

	<b>Years ended December 31,</b>	
	<b>2008</b>	<b>2007</b>
Balance at beginning of year	\$ 1,912	\$ 866
Provision charged to expense	459	1,046
Loans charged off	-	-
Recoveries	-	-
	<u>\$ 2,371</u>	<u>\$ 1,912</u>

At December 31, 2008, the Bank had one impaired (non-accrual) residential mortgage loan of approximately \$2.0 million, with a specific reserve of approximately \$20 thousand. The specific reserve was determined based on the fair value of collateral and expected future cash flows. Interest income on such loans is recognized only when actually collected. During the year ended December 31, 2008, the Bank recognized interest income of approximately \$45 thousand. Interest income that would have been record had the loan been on the accrual status, amounted to approximately \$90 thousand.

**NOTE 4. Premises and Equipment**

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

	<b>2008</b>	<b>2007</b>
Land	\$ 5,152	\$ 3,350
Building	4,642	4,409
Furniture and fixtures	507	375
Equipment	576	414
	<u>10,877</u>	<u>8,548</u>
Less accumulated depreciation and amortization	593	248
Total premises and equipment, net	<u>\$ 10,284</u>	<u>\$ 8,300</u>

Depreciation expense amounted to \$345 thousand and \$193 thousand for the years ended December 31, 2008 and 2007, respectively.

**NOTE 5. Deposits**

At December 31, 2008 and 2007, respectively, a summary of the maturity of time deposits (which includes certificates of deposit and individual retirement account (IRA) certificates) is as follows (in thousands):

	<u>2008</u>	<u>2007</u>
Three months or less	\$ 48,760	\$ 20,408
Over three months through twelve months	113,028	112,475
Over 1 year through 2 years	1,815	921
Over 2 years through 3 years	127	141
Over 3 years through 4 years	-	12
Over 4 years through 5 years	1,800	47
Over 5 years	-	-
	<u>\$165,530</u>	<u>\$134,004</u>

**NOTE 6. Short Term Borrowings**

At December 31, 2008, we drew down approximately \$853 thousand through our overnight line of credit at Atlantic Central Bankers Bank. We have a \$12 million overnight line of credit facility available with First Tennessee Bank and a \$10 million overnight line of credit with Atlantic Central Bankers Bank for the purchase of federal funds in the event that temporary liquidity needs arise. Additionally, we were approved as a member of the Federal Home Loan Bank of New York (FHLBNY) in November, 2007. The FHLBNY relationship could provide additional sources of liquidity, if required. We believe that our current sources of funds provide adequate liquidity for our current cash flow needs.

**NOTE 7. Income Taxes**

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

	<u>2008</u>	<u>2007</u>
Federal:		
Current	\$ 480	\$ 519
Deferred	(160)	(349)
State:		
Current	146	162
Deferred	(46)	(258)
Income tax expense	<u>\$ 420</u>	<u>\$ 74</u>

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

	<u>2008</u>	<u>2007</u>
Deferred tax assets:		
Start up expenses	\$ 433	\$ 468
Allowance for loan losses	854	744
Accrued expenses	76	50
Stock compensation plans	162	39
Total gross deferred tax assets	1,525	1,301
Deferred tax liabilities:		
Deferred loan costs	(68)	(63)
Prepaid expenses	(57)	(36)
Unrealized gains on AFS securities	(36)	-
Other	(23)	(31)
Total gross deferred tax liabilities	(184)	(130)
Net deferred tax asset	<u>\$ 1,341</u>	<u>\$ 1,171</u>

The realizability of deferred tax assets is dependent upon a variety of factors, including the generation of future taxable income, the existence of taxes paid and recoverable, the reversal of deferred tax liabilities and tax planning strategies. During 2007 and 2008, the Company sustained continued profitability, continued to pay taxes, and recognized deferred tax benefits. Based upon these and other factors, management believes it is more likely than not that the Company will realize the benefits of these remaining deferred tax assets. The net deferred tax asset is included in other assets on the consolidated balance sheet.

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

	<u>2008</u>	<u>2007</u>
Computed "expected" tax expense	\$ 322	\$ 303
Increase(decrease) in taxes resulting from:		
State taxes, net of federal income tax (benefit)expense	66	(63)
Non-deductible penalties	-	5
Stock-based compensation	29	28
Meals and entertainment	3	3
Change in valuation allowance	-	(202)
	<u>\$ 420</u>	<u>\$ 74</u>

The Company is subject to income taxes in the U.S. and various state and local jurisdictions. Tax regulations are subject to interpretation of the related tax laws and regulations and require significant judgment to apply. Corporate tax returns for the years 2005 through 2008 remain open to examination by taxing authorities.

**NOTE 8. Leases**

The Bank leases banking facilities under operating leases which expire at various dates through December 31, 2026. These leases do contain certain options to renew the leases. Rental expense amounted to \$454,000 and \$430,000, respectively, for the years ended December 31, 2008 and December 31, 2007.

The following is a schedule of future minimum lease payments (exclusive of payments for maintenance, insurance, taxes and any other costs associated with offices) for operating leases with initial or remaining terms in excess of one year from December 31, 2008 (in thousands):

Year ending December 31:	
2009	\$437
2010	330
2011	262
2012	269
2013	277
Thereafter	<u>2,941</u>
	<u>\$4,516</u>

**NOTE 9. Related-party Transactions**

The Bank has made, and expects to continue to make, loans in the future to our directors and executive officers and their family members, and to firms, corporations, and other entities in which they and their family members maintain interests. All such loans require the prior approval of our board of directors. None of such loans at December 31, 2008 and 2007, respectively, were nonaccrual, past due, restructured or potential problems, and all of such loans were made in the ordinary course of business, on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable loans with persons not related to the Company or the Bank and did not involve more than the normal risk of collectibility or present other unfavorable features.

The following table represents a summary of related-party loans during 2008 (in thousands)

Outstanding loans at beginning of the year	\$ 13,849
New Loans	11,959
Repayments	<u>(6,003)</u>
Outstanding loans at end of the year	<u>\$ 19,805</u>

Two of our directors have acted as the Bank's counsel on several loan closings. During 2008, and 2007 the total cost of such work has been reimbursed by the respective loan customers and totals \$88,000 and \$149,000, respectively. Additionally, one of these directors has acted as legal counsel to the Bank on several matters. The total amount paid for legal fees, for non-loan related matters was approximately \$11,000 in 2008 and approximately \$10,000 in 2007.

The Company's or the Bank's commercial insurance policy, as well as other policies, has been placed with various insurance carriers by an insurance agency of which one of our directors is the President. Gross insurance premiums paid to carriers through this agency was approximately \$87,000 and \$73,000 in 2008 and 2007, respectively.

One of our directors provided appraisal services on several loan closings. Although certain of these payments are reimbursed by our customer, the total amount paid for appraisal services during 2008 and 2007 was approximately \$24,000 and \$13,000, respectively.

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

**NOTE 10. Earnings Per Share**

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

(In thousands, except per share data)	For the Year Ended December 31,	
	2008	2007
Net income applicable to common stock	\$527	\$ 816
Weighted average number of common shares outstanding – basic	5,023	4,856
<b>Basic earnings per share</b>	<b>\$0.10</b>	<b>\$ 0.17</b>
Net income applicable to common stock	\$527	\$ 816
Weighted average number of common shares outstanding - diluted		
Weighted average number of common shares outstanding	5,023	4,856
Effect of dilutive warrants	67	24
Weighted average number of common shares outstanding	5,090	4,880
<b>Diluted earnings per share</b>	<b>\$0.10</b>	<b>\$0.17</b>

Stock options for 614,968 and 658,300 shares of common stock were not considered in computing diluted earnings per common share for 2008 and 2007, respectively, because they were anti-dilutive.

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

Under its initial stock offering which closed in 2005, the Bank sold 4,798,594 shares of common stock at \$9.09 per share, as adjusted for the subsequent 10% stock distribution and the 2 for 1 stock split. The stock offering resulted in net proceeds of \$42,684,000. For every five shares of common stock purchased in the offering, one warrant to purchase one additional share of the Bank's common stock was issued, exercisable at any time through May 10, 2009. Subsequent to year end, the Company has extended the expiration date of the warrants to September 15, 2009. 959,720 warrants were issued to purchase common stock at \$10.91 per share, as adjusted for the 10% stock distribution and the 2 for 1 stock split. Between 2006 and 2008, there were 181,131 warrants exercised for total proceeds of \$1,974,000. As part of the holding company reorganization on July 31, 2007, all outstanding warrants were exchanged to purchase Bancorp of New Jersey, Inc. common stock. At December 31, 2008, there were 778,488 warrants outstanding.

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

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

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

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

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

**NOTE 12. Benefit Plans**

***2006 Stock Option Plan***

During 2006, the Bank's stockholders approved the 2006 Stock Option Plan. At the time of the holding company reorganization, the 2006 Stock Option Plan was assumed by the Company. The plan allows directors and employees of the Company to purchase up to 239,984 shares of the Company's common stock, in each case as adjusted following our ten percent (10%) stock distribution in January 2007 and the 2 for 1 stock split effective December 31, 2007. The option price per share is the market value of the Bank's stock on the date of grant. The option price and number of shares underlying options outstanding on the date of our ten percent (10%) stock distribution in January 2007 and the December 2007 2 for 1 stock split have been equitably adjusted to account for such stock distributions. At December 31, 2008, incentive stock options to purchase 220,300 shares have been issued to employees of the Bank.

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

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

A summary of stock option activity under the 2006 Stock Option Plan during 2008 and 2007 is presented below:

	Number of Shares	Weighted Average Exercise price per share	Average Intrinsic Value (1)
Outstanding at December 31, 2006	124,300	\$9.09	
Granted	96,000	\$11.50	
Forfeited	—		
Exercised	(22,000)	\$9.09	
Outstanding at December 31, 2007	198,300	\$10.26	<u>\$246,543</u>
Granted	—	—	
Forfeited	(9,400)	\$10.37	
Exercised	—	—	
Outstanding at December 31, 2008	<u>188,900</u>	<u>\$10.26</u>	<u>\$139,786</u>
Exercisable at December 31, 2008	<u>106,673</u>	<u>\$9.53</u>	<u>\$156,810</u>

(1) The aggregate intrinsic value of a stock option in the table above represents the total pre-tax intrinsic value (the amount by which the current market value of the underlying stock exceeds the exercise price of the option) that would have been received by the option holders had they exercised their options on December 31, 2008. This amount changes based on the changes in the market value in the Company's stock.

Information pertaining to options outstanding under the 2006 Stock Option Plan at December 31, 2008 is as follows:

Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual life (years)	Weighted Average Exercise Price
\$9.09	97,900	7.83	\$9.09
\$11.50	<u>91,000</u>	8.92	\$11.50
	188,900		

Under the 2006 Stock Option Plan, there were a total of 82,227 unvested options at December 31, 2008, and approximately \$252,000 remains to be recognized in expense over the next four years. There were no options related to the 2006 Stock Option Plan exercised during 2008. The total intrinsic value for options that were exercised during 2007 was approximately \$53,000.

### **2007 Director Plan**

During 2007, the Bank's stockholders approved the 2007 Non-Qualified Stock Option Plan for Directors. At the time of the holding company reorganization, the 2007 Non-Qualified Stock Option Plan was assumed by the Company. This plan provides for 480,000 options to purchase shares of the Company's common stock to be issued to non-employee directors of the Company. At December 31, 2008, non-qualified options to purchase 414,668 shares of the Company's stock were issued to non-employee directors of the Company.

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

A summary of the stock option activity during 2008 is as follows:

	Number of Shares	Weighted Average Exercise price per share	Average Intrinsic Value (1)	Weighted Average Remaining Contractual life (years)
Outstanding at December 31, 2007	460,000	\$11.50	\$ —	8.81
Granted	—	—		
Forfeited	(23,334)	\$11.50		
Exercised	(21,998)	\$11.50		
Outstanding at December 31, 2008	<u>414,668</u>	<u>\$11.50</u>	\$ —	
Exercisable at December 31, 2008	<u>86,658</u>			

(1) The aggregate intrinsic value of a stock option in the table above represents the total pre-tax intrinsic value (the amount by which the current market value of the underlying stock exceeds the exercise price of the option) that would have been received by the option holders had they exercised their options on December 31, 2008 and 2007, respectively. This amount changes based on the changes in the market value in the Company's stock.

Under the 2007 Directors Stock Option Plan, there were a total of 414,668 outstanding options at December 31, 2008, and approximately \$757,000 remains to be recognized in expense over the next four years. During 2008, no Director Options were granted.

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

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

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

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

There were no options granted during 2008.

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

***Defined Contribution Plan***

The Company currently offers a 401(k) profit sharing plan covering all full-time employees, wherein employees can invest up to 15% of their pretax earnings, up to the legal limit. The Company matches a percentage of employee contributions at the board's discretion. The Company made a matching contribution of approximately \$41,000 and \$33,000 during 2008 and 2007, respectively.

**NOTE 13. Regulatory Capital Requirements**

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

Quantitative measures established by regulations to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier 1 capital (as defined) to average assets (as defined). As of December 31, 2008, management believes that the Company and the Bank meet all capital adequacy requirements to which they are subject.

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

The following is a summary of the Bank's actual capital amounts and ratios as of December 31, 2008 and 2007, respectively, compared to the FDIC minimum capital adequacy requirements and the FDIC requirements for classification as a well-capitalized institution (dollars in thousands):

	<u>Bank actual</u>		<u>FDIC requirements</u>			
	<u>Amount</u>	<u>Ratio</u>	<u>Minimum capital adequacy</u>		<u>For classification as well capitalized</u>	
			<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>
December 31, 2008:						
Leverage (Tier 1) Capital	\$47,811	16.95%	\$ 11,281	4.00%	\$14,101	5.00%
Risk-based capital:						
Tier 1	\$47,811	21.16%	\$ 9,040	4.00%	\$13,560	6.00%
Total	\$50,182	22.20%	\$18,080	8.00%	\$22,600	10.00%
December 31, 2007:						
Leverage (Tier 1) Capital	\$45,840	22.27%	\$ 8,235	4.00%	\$10,293	5.00%
Risk-based capital:						
Tier 1	\$45,840	25.06%	\$ 7,315	4.00%	\$10,973	6.00%
Total	\$47,752	26.11%	\$14,631	8.00%	\$18,289	10.00%

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

In addition to the above, as part of the Bank's application for deposit insurance with the FDIC and as part of the bank charter approval by the New Jersey Department of Banking, the Bank is required to maintain not less than 8% Tier 1 Capital to total assets, as defined, through the first three years of operation.

**NOTE 14. Financial Instruments with Off-Balance Sheet Risk**

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

The Bank uses the same credit policies and collateral requirements in making commitments and conditional obligations as it does for on-balance-sheet loans. Commitments to extend credit are agreements to lend to customers as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since the commitments may expire without being drawn upon, therefore, the total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation of the borrower. Outstanding available loan commitments, primarily for commercial real estate, construction, and land development loans at December 31, 2008 totaled \$30.9 million compared to \$48.6 million at December 31, 2007.

Most of the Bank's lending activity is with customers located in Bergen County, New Jersey. At December 31, 2008 and 2007, the Bank had outstanding letters of credit to customers totaling \$574,000 and \$1,103,000, respectively, whereby the Bank guarantees performance to a third party. These letters of credit generally have fixed expiration dates of one year or less. The fair value of these letters of credits is estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements. At December 31, 2008 and 2007, such amounts were deemed not material.

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

The parent company, Bancorp of New Jersey, Inc, was incorporated during November, 2006. The holding company reorganization with Bank of New Jersey was consummated on July 31, 2007. Accordingly, the financial information of the parent company, Bancorp of New Jersey, Inc, for 2007 is only available as of and for the five month period ended December 31, 2007. The following information represents the parent only Balance Sheets as of December 31, 2008 and 2007, respectively, and the Statements of Income for the twelve months ended December 31, 2008 and for the five months ended December 31, 2007 and should be read in conjunction with the notes to the consolidated financial statements.

	<i>Balance Sheet</i>	
	(in thousands)	
	<b>December 31,</b>	
	<b>2008</b>	<b>2007</b>
Assets:		
Investment in subsidiary, net	\$ 47,864	\$ 45,840
Total assets	<u>\$ 47,864</u>	<u>\$ 45,840</u>
Stockholders' equity:	<u>\$ 47,864</u>	<u>\$ 45,840</u>

**Statement of Income**

For the twelve month period ended December 31, 2008 and  
the five month period ended December 31, 2007  
(in thousands)

	<i>2008</i>	<i>2007</i>
Equity in undistributed earnings of subsidiary bank	\$ 527	\$ 816
	<hr/>	<hr/>
Net income	\$ 527	\$ 816
	<hr/> <hr/>	<hr/> <hr/>

**Statement of Cash Flow**

For the twelve months ended December 31, 2008 and  
the five months ended December 31, 2007  
(in thousands)

	<i>2008</i>	<i>2007</i>
Cash flows from operating activities:		
Net income	\$ 527	\$ 816
Adjustments to reconcile net income to net cash provided by operating activities:		
Equity in undistributed earnings of the subsidiary bank	(527)	(816)
Decrease in other assets, net	-	-
Net cash provided by operating activities	-	-
	<hr/>	<hr/>
Cash flows from investing activities:		
Capital contributed to subsidiary bank	(1,051)	(1,585)
Net cash used in financing activities	(1,051)	(1,585)
	<hr/>	<hr/>
Cash flows from financing activities:		
Proceeds from exercise of warrants	821	1,085
Proceeds from issuance of common stock	230	500
Net cash provided by financing activities	1,051	1,585
	<hr/>	<hr/>
Net change in cash for the period	-	-
Net cash at beginning of year	-	-
	<hr/>	<hr/>
Net cash at end of year	\$ -	\$ -
	<hr/> <hr/>	<hr/> <hr/>

## NOTE 16. Fair Value Measurement and Fair Value of Financial Instruments

Management uses its best judgment in estimating the fair value of the Company'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 Company could have realized in sales transaction on the dates indicated. The estimated 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 estimated fair values of these financial instruments subsequent to the respective reporting dates may be different than the amounts reported at each year-end.

In September 2006, the Financial Accounting Standards Board ("FASB") issued Statement No. 157, *Fair Value Measurements* ("SFAS 157"), which defines fair value, establishes a framework for measuring fair value under GAAP, and expands disclosures about fair value measurements. SFAS 157 applies to other accounting pronouncements that require or permit fair value measurements. The Company adopted SFAS 157 effective for its fiscal year beginning January 1, 2008.

In December 2007, the FASB issued FASB Staff Position 157-2, *Effective Date of FASB Statement No. 157* ("FSP 157-2"). FSP 157-2 delays the effective date of SFAS 157 for all non-financial assets and liabilities, except those that are recognized or disclosed at fair value on a recurring basis (at least annually) to fiscal years beginning after November 15, 2008 and interim periods within those fiscal years. As such, the Company only partially adopted the provisions of SFAS 157, and will begin to account and report for non-financial assets and liabilities in 2009. In October, 2008, the FASB issued FASB Staff Position 157-3, *Determining the Fair Value of a Financial Asset When the Market for that Asset is Not Active* ("FSP 157-3"), to clarify the application of the provisions of SFAS 157 in an inactive market and how an entity would determine fair value in an inactive market. FSP 157-3 is effective immediately and applies to the Company's December 31, 2008 consolidated financial statements. The adoption of SFAS 157 and FSP 157-3 had no impact on the amounts reported in the financial statements.

SFAS 157 establishes a fair value hierarchy that prioritizes the inputs to valuation methods used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under SFAS 157 are as follows:

- *Level 1 Inputs* - Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.
- *Level 2 Inputs* - 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 Inputs* - Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e. supported with little or no market activity).

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

For financial assets measured at fair value on a recurring basis, the fair value measurements by level within the fair value hierarchy used at December 31, 2008 are as follows:

Description	December 31, 2008	(Level 1) Quoted Prices in Active Markets for Identical Assets	(Level 2) Significant Other Observable Inputs	(Level 3) Significant Unobservable Inputs
Securities available for sale	\$17,731	\$ -	\$17,731	\$ -

For financial assets measured at fair value on a nonrecurring basis, the fair value measurements by level within the fair value hierarchy used at December 31, 2008 are as follows:

Description	December 31, 2008	(Level 1) Quoted Prices in Active Markets for Identical Assets	(Level 2) Significant Other Observable Inputs	(Level 3) Significant Unobservable Inputs
Impaired loans	\$1,977	\$ -	\$ -	\$1,977

As discussed above, the Company has delayed its disclosure requirements of non-financial assets and liabilities.

The following information should not be interpreted as an estimate of the fair value of the entire Company since a fair value calculation is only provided for a limited portion of the Company'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 Company'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 Company's financial instruments at December 31, 2008 and 2007:

***Cash and Cash Equivalents (Carried at cost)***

The carrying amounts reported in the balance sheet for cash and cash equivalents approximate those assets' fair values.

### ***Securities***

The fair value of securities available for sale (carried at fair value) and held to maturity (carried at amortized cost) are determined by obtaining market prices on nationally recognized securities exchanges (level 1), or 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. For certain securities which are not traded in active markets or are subject to transfer restrictions, valuations are adjusted to reflect illiquidity and/or non-transferability, and such adjustments are generally based on available market evidence (Level 3). In the absence of such evidence, management's best estimate is used. Management's best estimate consists of both internal and external support on certain Level 3 investments. Internal cash flow models using a present value formula that includes assumptions market participants would use along with indicative exit pricing obtained from broker/dealers (where available) were used to support fair values of certain Level 3 investments.

### ***Restricted Investment in Bank Stock (Carried at Cost)***

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

### ***Loans Receivable (Carried at Cost)***

The fair value of loans are estimated using discounted cash flow analyses, using market rates at the balance sheet date that reflect the credit and the 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 repriced frequently and with no significant change in credit risk, fair values are based on carrying values.

### ***Impaired loans***

Impaired loans are those that are accounted for under FASB Statement No. 114, *Accounting by Creditors for Impairment of a Loan* ("SFAS 114"), in which the Company has measured impairment generally based on the fair value of the loan's collateral. Fair value is generally determined based upon independent third-party appraisals of the properties, or discounted cash flows based 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.

The fair value consists of the loan balance of \$1,997,000 net of a specific reserve of \$20,000. Additional provisions for loan losses of \$439,000 were recorded during the year.

### ***Accrued Interest Receivable and Payable (Carried at Cost)***

The carrying amount of accrued interest receivable and accrued interest payable approximates fair value.

### ***Deposits (Carried at Cost)***

The fair values disclosed for demand deposits (e.g., interest and noninterest checking, passbook 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 fixed rate certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered in the market on certificates to a schedule of aggregated expected monthly maturities of time deposits.

### ***Federal Funds Purchased and Short-Term Borrowings (Carried at Cost)***

The carrying amount of federal funds purchased approximates fair value.

Fair value estimates and assumptions are set forth below for the Company's financial instruments at December 31, 2008 and 2007 (in thousands):

	<u>2008</u>		<u>2007</u>	
	<u>Carrying amount</u>	<u>Estimated Fair Value</u>	<u>Carrying amount</u>	<u>Estimated Fair Value</u>
Financial assets:				
Cash and cash equivalents	\$ 40,480	\$ 40,480	\$ 66,115	\$ 66,115
Securities available for sale	17,641	17,731	–	–
Securities held to maturity	–	–	1,996	2,014
Restricted investment in bank stock	346	346	328	328
Net loans	232,565	232,744	181,624	181,068
Accrued interest receivable	847	847	613	613
Financial liabilities:				
Deposits	254,005	255,935	212,941	212,933
Federal funds purchased	853	853	–	–
Accrued interest payable	541	541	917	917

### ***Limitation***

The preceding fair value estimates were made at December 31, 2008 and 2007 based on pertinent market data and relevant information on the financial instrument. These estimates do not include any premium or discount that could result from an offer to sell at one time the Company's entire holdings of a particular financial instrument or category thereof. Since no market exists for a substantial portion of the Company's financial instruments, fair value estimates were necessarily based on judgments regarding future expected loss experience, current economic conditions, risk assessment of various financial instruments, and other factors. Given the innately subjective nature of these estimates, the uncertainties surrounding them and the matter of significant judgment that must be applied, these fair value estimates cannot be calculated with precision. Modifications in such assumptions could meaningfully alter these estimates.

Since these fair value approximations were made solely for on- and off-balance-sheet financial instruments at December 31, 2008 and 2007, no attempt was made to estimate the value of anticipated future business. Furthermore, certain tax implications related to the realization of the unrealized gains and losses could have a substantial impact on these fair value estimates and have not been incorporated into the estimates.

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

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

Three Months Ended  
(in thousands, except per share data)

	<u>December 31</u>	<u>September 30</u>	<u>June 30</u>	<u>March 31</u>
<b>2008</b>				
Interest income	\$ 3,653	\$ 3,543	\$ 3,530	\$ 3,729
Interest expense	<u>1,779</u>	<u>1,689</u>	<u>1,862</u>	<u>2,214</u>
Net interest income	1,874	1,854	1,668	1,515
Provision for loan losses	146	88	67	158
Other expense, net	1,422	1,349	1,422	1,312
Provision for federal and state income taxes	<u>132</u>	<u>179</u>	<u>77</u>	<u>32</u>
Net income	\$ <u><u>174</u></u>	\$ <u><u>238</u></u>	\$ <u><u>102</u></u>	\$ <u><u>13</u></u>
Earnings per share:				
Basic	\$ <u><u>0.03</u></u>	\$ <u><u>0.05</u></u>	\$ <u><u>0.02</u></u>	\$ <u><u>0.00</u></u>
Diluted	\$ <u><u>0.03</u></u>	\$ <u><u>0.05</u></u>	\$ <u><u>0.02</u></u>	\$ <u><u>0.00</u></u>
<b>2007</b>				
Interest income	\$ 3,328	\$ 2,886	\$ 2,391	\$ 1,965
Interest expense	<u>1,649</u>	<u>1,242</u>	<u>903</u>	<u>641</u>
Net interest income	1,679	1,644	1,488	1,324
Provision for loan losses	140	278	239	389
Other expense, net	1,290	1,066	963	880
Provision(benefit) for federal and state income taxes	<u>111</u>	<u>(144)</u>	<u>80</u>	<u>27</u>
Net income	\$ <u><u>138</u></u>	\$ <u><u>444</u></u>	\$ <u><u>206</u></u>	\$ <u><u>28</u></u>
Earnings per share:				
Basic	\$ <u><u>0.03</u></u>	\$ <u><u>0.09</u></u>	\$ <u><u>0.04</u></u>	\$ <u><u>0.01</u></u>
Diluted	\$ <u><u>0.03</u></u>	\$ <u><u>0.09</u></u>	\$ <u><u>0.04</u></u>	\$ <u><u>0.01</u></u>

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

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

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

Staff Accounting Bulletin No. 110 (SAB 110) amends and replaces Question 6 of Section D.2 of Topic 14, "Share-Based Payment," of the Staff Accounting Bulletin series. Question 6 of Section D.2 of Topic 14 expresses the views of the staff regarding the use of the "simplified" method in developing an estimate of expected term of "plain vanilla" share options and allows usage of the "simplified" method for share option grants prior to December 31, 2007. SAB 110 allows public companies which do not have historically sufficient experience to provide a reasonable estimate to continue use of the "simplified" method for estimating the expected term of "plain vanilla" share option grants after December 31, 2007. SAB 110 became effective January 1, 2008 and did not have a material impact on the consolidated financial statements.

Staff Accounting Bulletin No. 109 (SAB 109), "Written Loan Commitments Recorded at Fair Value Through Earnings" expresses the views of the staff regarding written loan commitments that are accounted for at fair value through earnings under generally accepted accounting principles. To make the staff's views consistent with current authoritative accounting guidance, the SAB revises and rescinds portions of SAB No. 105, "Application of Accounting Principles to Loan Commitments." Specifically, the SAB revises the Securities and Exchange Commission staff's views on incorporating expected net future cash flows related to loan servicing activities in the fair value measurement of a written loan commitment. The SAB retains the staff's views on incorporating expected net future cash flows related to internally-developed intangible assets in the fair value measurement of a written loan commitment. The staff expects registrants to apply the views in Question 1 of SAB 109 to derivative loan commitments issued or modified in fiscal quarters beginning after December 15, 2007. The guidance in SAB 109 became effective on January 1, 2008 and did not have a material impact on the Company's financial statements.

In February 2008, the FASB issued a FASB Staff Position ("FSP") FAS 140-3, Accounting for Transfers of Financial Assets and Repurchase Financing Transactions. This FSP addresses the issue of whether or not these transactions should be viewed as two separate transactions or as one "linked" transaction. The FSP includes a "rebuttable presumption" that presumes linkage of the two transactions unless the presumption can be overcome by meeting certain criteria. The FSP will be effective for fiscal years beginning after November 15, 2008 and will apply only to original transfers made after that date; early adoption was not allowed. Management does not expect the implementation of this FSP to have a material impact on the Company's consolidated financial statements.

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities--an amendment of FASB Statement No. 133, (Statement 161). SFAS No. 161 requires entities that utilize derivative instruments to provide qualitative disclosures about their objectives and strategies for using such instruments, as well as any details of credit-risk-related contingent features contained within derivatives. SFAS No. 161 also requires entities to disclose additional information about the amounts and location of derivatives located within the financial statements, how the provisions of SFAS No. 133 have been applied, and the impact that hedges have on an entity's financial position, financial performance, and cash flows. SFAS No. 161 is effective for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. Management does not expect the implementation of this FSP to have a material impact on the Company's consolidated financial statements.

In May 2008, the FASB issued SFAS No. 162, The Hierarchy of Generally Accepted Accounting Principles. SFAS No. 162 identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with GAAP. The hierarchy of authoritative accounting guidance is not expected to change current practice but is expected to facilitate the FASB's plan to designate as authoritative its forthcoming codification of accounting standards. This Statement is effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board's ("PCAOB") related amendments to AU Section 411, The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles, to remove the GAAP hierarchy from its auditing standards. The hierarchical guidance provided by SFAS No. 162 is not expected to have a significant impact on the Company's consolidated financial condition or results of operations.

In May 2008, the FASB issued FSP APB 14-1, Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement). FSP APB 14-1 requires issuers of convertible debt that may be settled wholly or partly in cash to account for the debt and equity components separately. The FSP is effective for financial statements issued for fiscal years beginning after December 15, 2008 and interim periods within those years, and must be applied retrospectively to all periods presented. Early adoption was prohibited. FSP APB 14-1 is not expected to have a significant impact on the Company's consolidated financial condition or results of operations.

In June 2008, the EITF of the FASB discussed public comments received on EITF Issue No. 08-3, Accounting by Lessees for Nonrefundable Maintenance Deposits. The Task Force reached a consensus that lessees should account for nonrefundable maintenance deposits as deposit assets if it is probable that maintenance activities will occur and the deposit is therefore realizable. Amounts on deposit that are not probable of being used to fund future maintenance activities should be charged to expense. The consensus is effective for fiscal years beginning after December 15, 2008, and should be initially applied by recording a cumulative-effect adjustment to opening retained earnings in the period of adoption. Early application is not permitted. EITF Issue No. 08-3 is not expected to have a significant impact on the Company's consolidated financial condition or results of operations.

In September 2008, the FASB issued FSP 133-1 and FIN 45-4, Disclosures about Credit Derivatives and Certain Guarantees: An Amendment of FASB Statement No.133 and FASB Interpretation No. 45; and Clarification of the Effective Date of FASB Statement No. 161 (FSP 133-1 and FIN 45-4). FSP 133-1 and FIN 45-4 amend and enhance disclosure requirements for sellers of credit derivatives and financial guarantees. They also clarify that the disclosure requirements of SFAS No. 161 are effective for quarterly periods beginning after November 15, 2008, and fiscal years that include those periods. FSP 133-1 and FIN 45-4 is effective for reporting periods (annual or interim) ending after November 15, 2008. The implementation of this standard did not have a material impact on the Company's consolidated financial condition or results of operations.

In September 2008, the FASB ratified EITF Issue No. 08-5, Issuer's Accounting for Liabilities Measured at Fair Value With a Third-Party Credit Enhancement (EITF 08-5). EITF 08-5 provides guidance for measuring liabilities issued with an attached third-party credit enhancement (such as a guarantee). It clarifies that the issuer of a liability with a third-party credit enhancement should not include the effect of the credit enhancement in the fair value measurement of the liability. EITF 08-5 is effective for the first reporting period beginning after December 15, 2008. The implementation of this standard did not have a material impact on the Company's consolidated financial condition or results of operations.

In October 2008, the FASB issued FSP SFAS No. 157-3, Determining the Fair Value of a Financial Asset When The Market for That Asset Is Not Active (FSP 157-3), to clarify the application of the provisions of SFAS 157 in an inactive market and how an entity would determine fair value in an inactive market. FSP 157-3 was effective immediately and applied to our September 30, 2008 financial statements. The application of the provisions of FSP 157-3 did not materially affect the Company's consolidated financial condition or results of operations as of and for the year ended December 31, 2008.

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

Not applicable.

**ITEM 9A. CONTROLS AND PROCEDURES**

*Evaluation of Disclosure Controls and Procedures*

As of the end of the period covered by this Annual Report on Form10-K, the Company's management including the Chief Executive Officer and Chief Financial Officer, evaluated the Company's disclosure controls and procedures related to the recording, processing, summarization, and reporting of information in the Company's periodic reports that the Company files with the Securities and Exchange Commission.

Based on their evaluation as of December 31, 2008, the Company's Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures are effective to ensure that the information required to be disclosed by the Company in the reports that the Company files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized, and reported within the time periods specified in SEC rules and forms.

*Management's Annual Report On Internal Control Over Financial Reporting*

Our management is responsible for establishing and maintaining adequate internal control over financial reporting for the Company.

Our internal control over financial reporting is a process designed by, or under the supervision of, our chief executive officer and chief financial officer, and effected by our board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. It includes policies and procedures that pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of our assets; provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and board of directors; and provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

Our management, with the participation of our chief executive officer and chief financial officer, evaluated the effectiveness of our internal control over financial reporting as of December 31, 2008 using the "Internal Control - Integrated Framework" set forth by the Committee of Sponsoring Organizations ("COSO"). Based on such evaluation, management determined that, as of December 31, 2008, our internal control over financial reporting was effective.

This annual report does not include an attestation report of our registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by our registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit us to provide only management's report in this annual report.

*Changes in Internal Controls Over Financial Reporting*

There have been no changes in the Company's internal control over financial reporting that occurred during the last fiscal quarter to which this Annual Report on Form 10-K relates that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

*Limitations on Effectiveness of Controls*

All internal control systems, no matter how well designed and operated, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance that the objectives of the internal control system will be met. The design of any control system is based, in part, upon the benefits of the control system relative to its costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision making can be faulty, and that controls can be circumvented by the individual acts of some persons, by collusion of two or more people or by management override of controls. In addition, over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. In addition, the design of any control system is based in part upon certain assumptions about the likelihood of future events. Because of inherent limitation in a cost effective control system, misstatements due to error or fraud may occur and not be detected.

**ITEM 9B. OTHER INFORMATION**

Not applicable.

### **PART III**

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

The Company responds to this Item by incorporating by reference the material responsive to this Item in the Company's definitive proxy statement to be filed with the Securities and Exchange Commission in connection with its 2009 Annual Meeting of Shareholders to be held May 21, 2009.

#### **ITEM 11. EXECUTIVE COMPENSATION**

The Company responds to this Item by incorporating by reference the material responsive to this Item in the Company's definitive proxy statement to be filed with the Securities and Exchange Commission in connection with its 2009 Annual Meeting of Shareholders to be held May 21, 2009.

#### **ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

The Company responds to this Item by incorporating by reference the material responsive to this Item in the Company's definitive proxy statement to be filed with the Securities and Exchange Commission in connection with its 2009 Annual Meeting of Shareholders to be held May 21, 2009.

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

The Company responds to this Item by incorporating by reference the material responsive to this Item in the Company's definitive proxy statement to be filed with the Securities and Exchange Commission in connection with its 2009 Annual Meeting of Shareholders to be held May 21, 2009.

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

The Company responds to this Item by incorporating by reference the material responsive to this Item in the Company's definitive proxy statement to be filed with the Securities and Exchange Commission in connection with its 2009 Annual Meeting of Shareholders to be held May 21, 2009.

## PART IV

### ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

- (a) The following portions of the Company's consolidated financial statements are set forth in Item 8 of this Annual Report:
- (i) Consolidated Balance Sheets as of December 31, 2008 and 2007.
  - (ii) Consolidated Statements of Income for the years ended December 31, 2008 and 2007.
  - (iii) Consolidated Statements of Stockholders' Equity for the years ended December 31, 2008 and 2007.
  - (iv) Consolidated Statements of Cash Flows for the years ended December 31, 2008 and 2007.
  - (v) Notes to Consolidated Financial Statement
  - (vi) Reports of Independent Registered Public Accounting Firms

(b) Financial Statement Schedules

All financial statement schedules are omitted as the information, if applicable, is presented in the consolidated financial statement or notes thereto.

(c) Exhibits

The exhibits filed or incorporated by reference as a part of this report are listed in the Exhibit Index which appears at page 82.

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

BANCORP OF NEW JERSEY, INC.

By: /s/ Albert F. Buzzetti

-----  
Albert F. Buzzetti  
Chairman, President and CEO

Dated : March 31, 2009

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

Name	Title	Date
----- /s/ Albert F. Buzzetti ----- Albert F. Buzzetti	Chairman, President, and Chief Executive Officer	March 31, 2009
----- /s/ Armand Leone, Jr. ----- Armand Leone, Jr.	Vice Chairman and Director	March 31, 2009
----- /s/ Michael Bello ----- Michael Bello	Director	March 31, 2009
----- /s/ Jay Blau ----- Jay Blau	Director	March 31, 2009
----- /s/ Albert L. Buzzetti ----- Albert L. Buzzetti	Director	March 31, 2009
----- /s/ Gerald A. Calabrese, Jr. ----- Gerald a. Calabrese, Jr.	Director	March 31, 2009
----- /s/ Stephen Crevani ----- Stephen Crevani	Director	March 31, 2009
----- /s/ John K. Daily ----- John K. Daily	Director	March 31, 2009
----- /s/ Anthony M. Lo Conte ----- Anthony M. Lo Conte	Director	March 31, 2009
----- /s/ Rosario Luppino ----- Rosario Luppino	Director	March 31, 2009
----- /s/ Howard Mann ----- Howard Mann	Director	March 31, 2009

/s/ Josephine Mauro ----- Josephine Mauro	Director	March 31, 2009
/s/ Joel P. Paritz ----- Joel P. Paritz	Director	March 31, 2009
/s/ Christopher M. Shaari ----- Christopher M. Shaari	Director	March 31, 2009
/s/ Anthony Siniscalchi ----- Anthony Siniscalchi	Director	March 31, 2009
/s/ Mark Sokolich ----- Mark Sokolich	Director	March 31, 2009
/s/ Diane M. Spinner ----- Diane M. Spinner	Executive Vice President and Director	March 31, 2009

<u>Exhibit No.</u>	<u>Description</u>
2.1	(A) Plan of Acquisition
3.1	(A) Certificate of Incorporation
3.2	(A) Amended and Restated Bylaws
4.1	(A) Specimen form of stock certificate
10.1	(A) Change In Control Agreement between the Bank and Albert F. Buzzetti*
10.2	(A) Change In Control Agreement between the Bank and Michael Lesler*
10.3	(A) Change In Control Agreement between the Bank and Leo J. Faresich*
10.4	(A) Change In Control Agreement between the Bank and Diane M. Spinner*
10.5	(A) 2006 Stock Option Plan*
10.6	(A) Form of Stock Option Award Agreement*
10.7	(B) 2007 Non-Qualified Stock Option Plan For Directors
10.8	(C) Form of Stock Option Award Agreement
21	Subsidiaries of the Registrant
23	Consent of Beard Miller Company LLP
31.1	Rule 13a-14(a) Certification of the Principal Executive Officer
31.2	Rule 13a-14(a) Certification of the Principal Financial Officer
32	Section 1350 Certifications

\* Management contract or compensatory plan, contract or arrangement.

(A) Incorporated by reference to the exhibit to registrant's Registration Statement on Form S-4 (Registration No. 333-141124), filed with the Securities and Exchange Commission on March 7, 2007, as amended by Amendment No. 1 on Form S-4/A, filed on April 27, 2007, and Amendment No. 2 on Form S-4/A, filed on May 15, 2007

(B) Incorporated by reference to "Exhibit A" to the proxy statement/prospectus included in the registrant's Registration Statement on Form S-4 (Registration No. 333-141124), filed with the Securities and Exchange Commission on March 7, 2007, as amended by Amendment No. 1 on Form S-4/A, filed on April 27, 2007, and Amendment No. 2 on Form S-4/A, filed on May 15, 2007

(C) Incorporated by reference to the registrant's Quarterly Report on Form 10-Q, for the quarterly period ended September 30, 2007, filed with the Securities and Exchange Commission on November 14, 2007

**SUBSIDIARIES OF THE REGISTRANT**

Bank of New Jersey, a New Jersey state-chartered bank.

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRMS**

Bancorp of New Jersey, Inc.  
Fort Lee, New Jersey

We hereby consent to the incorporation by reference in Registration Statement Nos. 333-150662 and 333-150663 on Form S-8 or our report dated March 31, 2009 relating to the consolidated financial statements, appearing in the Company's Annual Report of Form 10-K for the year ended December 31, 2008.

/s/ Beard Miler Company LLP

Beard Miller Company LLP  
Malvern, Pennsylvania  
March 31, 2009

**RULE 13a-14(a) CERTIFICATION  
OF THE PRINCIPAL EXECUTIVE OFFICER**

I, Albert F. Buzzetti, President and Chief Executive Officer, certify that:

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

Date: March 31, 2009

/s/ Albert F. Buzzetti  
 \_\_\_\_\_  
 Albert F. Buzzetti  
 President and Chief Executive Officer

**RULE 13a-14(a) CERTIFICATION  
OF THE PRINCIPAL FINANCIAL OFFICER**

I, Michael Lesler, Executive Vice President and Chief Financial Officer, certify that:

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

Date: March 31, 2009

/s/ Michael Lesler \_\_\_\_\_  
Michael Lesler  
Executive Vice President and  
Chief Financial Officer

## SECTION 1350 CERTIFICATIONS

In connection with the Annual Report of Bancorp of New Jersey, Inc. (the "Company") on Form 10-K for the period ending December 31, 2008 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned certify, pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities and Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Albert F. Buzzetti  
Albert F. Buzzetti  
President and Chief Executive Officer

/s/ Michael Lesler  
Michael Lesler  
Executive Vice President  
and Chief Financial Officer

March 31, 2009