1st Colonial Bancorp, Inc.

2008 ANNUAL REPORT

1st Colonial Bancorp, Inc.

Dear Shareholders,

Those of you who are holders of equity positions in other financial institutions will find this report to our shareholders to be both gratifying and, I think, interesting.

Many of our peer banks are reporting losses for the fiscal year 2008. We are reporting to you a net profit after taxes of $649,000. This performance did not come without significant effort on the part of your directors, officers and employees.

We had the discipline to avoid the temptations of easy, but risky returns. I speak here, of course, of sub-prime mortgages and the extension of unsound commercial loans. Certainly not all of our peer banks resisted this temptation and they are now paying the price.

At 1st Colonial National Bank we take pride in our support of our friends and neighbors and the communities we serve. In the third quarter, we rolled out our residential lending division, believing that borrowers would have more comfort in dealing with a bank than dealing with mortgage companies or brokers. Building on our tradition of reliability and trust, we have offered an unwavering commitment to provide homebuyers with unmatched financing services. We now offer extensive choices in mortgage solutions. Our experienced professionals are prepared to determine the program that is most suitable for each buyer given his or her budget and financial situation.

From an operational standpoint, we continue to be on the cutting edge of technology, offering all of the sophisticated services that a discriminating public requires.

We are proud of our performance in 2008 and in the people that have delivered this great service to our customer base.

As always if we can be of any assistance, please do not hesitate to call.

Sincerely,

Gerard M. Banmiller
President & CEO

Linda Rohrer

Ms. Linda Rohrer
Chairman of the Board

KPMG

1ST COLONIAL BANCORP, INC. AND SUBSIDIARY

Consolidated Financial Statements

December 31, 2008 and 2007

(With Independent Auditors' Report Thereon)

KPMG LLP
1601 Market Street
Philadelphia, PA 19103-2499

Independent Auditors' Report

The Board of Directors
1st Colonial Bancorp, Inc.:

We have audited the accompanying consolidated statements of financial condition of 1st Colonial Bancorp, Inc. and subsidiary (the Company) as of December 31, 2008 and 2007, and the related consolidated statements of operations, shareholders' equity and comprehensive income, and cash flows for each of the years in the three-year period ended December 31, 2008. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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 1st Colonial Bancorp, 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 three-year period ended December 31, 2008, in conformity with U.S. generally accepted accounting principles.

As more fully discussed in note 2 to the consolidated financial statements, the Company adopted Statement of Financial Accounting Standards No. 123 (revised), *Share-Based Payment*, effective January 1, 2006.

KPMG LLP

March 31, 2009

1ST COLONIAL BANCORP, INC. AND SUBSIDIARY

Consolidated Statements of Financial Condition

December 31, 2008 and 2007

(Dollars in thousands, except share data)

Assets		**2008**	**2007**
Cash and due from banks	$	5,700	5,140
Federal funds sold		5,626	13,351
Cash and cash equivalents		11,326	18,491
Short-term investments		1,000	4,099
Investments held to maturity (fair value of $29,529 at December 31, 2008 and $25,143 at December 31, 2007)		29,550	25,168
Securities available for sale (amortized cost of $36,771 at December 31, 2008 and $38,932 at December 31, 2007)		36,595	39,124
Bank stock, at cost		713	682
Mortgage loans held for sale		—	160
Loans		146,468	123,221
Less allowance for loan losses		(1,750)	(1,356)
Net loans		144,718	121,865
Premises and equipment, net		2,175	2,141
Accrued interest receivable		1,215	1,279
Deferred tax assets		827	352
Bank-owned life insurance		4,123	4,419
Other assets		576	515
Total assets	$	232,818	218,295
Liabilities and Shareholders' Equity			
Liabilities:			
Deposits	$	200,882	189,622
Other borrowings		9,484	6,302
Accrued interest payable		161	342
Other liabilities		500	307
Total liabilities		211,027	196,573
Shareholders' equity:			
Common stock, $0 par value; authorized 5,000,000 shares; issued 3,012,746 and 3,012,273 shares at December 31, 2008 and 2007, respectively, outstanding of 2,890,546 and 2,954,523 shares at December 31, 2008 and 2007, respectively		—	—
Preferred stock, 1,000,000 shares authorized, no shares issued		—	—
Additional paid-in capital		22,414	21,335
Retained earnings		316	696
Accumulated other comprehensive income (loss)		(106)	115
Treasury stock at cost 122,200 and 57,750 shares		(833)	(424)
Total shareholders' equity		21,791	21,722
Total liabilities and shareholders' equity	$	232,818	218,295

See accompanying notes to consolidated financial statements.

1ST COLONIAL BANCORP, INC. AND SUBSIDIARY

Consolidated Statements of Operations

Years ended December 31, 2008, 2007, and 2006

(Dollars in thousands, except share data)

		2008	2007	2006
Interest income:				
Loans	$	8,464	8,258	7,181
Federal funds sold and interest-bearing deposits		198	728	457
Investments:				
Taxable		2,353	2,153	1,842
Nontaxable		667	520	432
Total interest income		11,682	11,659	9,912
Interest expense:				
Deposits		5,241	6,210	4,689
Other borrowings		226	207	231
Total interest expense		5,467	6,417	4,920
Net interest income		6,215	5,242	4,992
Provision for loan losses		957	162	226
Net interest income after provision for loan losses		5,258	5,080	4,766
Other income:				
Service charges on deposit accounts		181	197	177
Gain on sales of mortgage loans held for sale		13	48	33
Mortgage fee income		42	—	—
Increase in cash value of bank-owned life insurance		409	174	170
Other income, service charges, and fees		179	161	141
Gain on sale of securities		33	—	—
Total other income		857	580	521
Other expenses:				
Compensation and employee benefits		2,681	2,100	1,987
Occupancy and equipment expenses		807	666	552
Advertising expense		203	142	168
Data processing expense		452	470	401
Professional services		319	258	226
Other operating expenses		1,139	887	819
Total other expenses		5,601	4,523	4,153
Income before income tax expense		514	1,137	1,134
Income tax expense (benefit)		(135)	250	288
Net income	$	649	887	846
Earnings per share:				
Basic earnings per share	$	0.23	0.30	0.28
Diluted earnings per share		0.22	0.29	0.27
Weighted average number of shares outstanding:				
Basic earnings per share		2,880,032	2,954,616	3,011,765
Diluted earnings per share		2,884,143	2,970,876	3,033,653

See accompanying notes to consolidated financial statements.

1[ST] COLONIAL BANCORP, INC. AND SUBSIDIARY

Consolidated Statements of Shareholders' Equity and Comprehensive Income

Years ended December 31, 2008, 2007, and 2006

(Dollars in thousands)

	Common stock	Preferred stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income (loss)	Treasury stock	Total shareholders' equity	Comprehensive income
Balance at December 31, 2005	$ —	—	19,703	531	(421)	—	19,813	
Stock dividend	—	—	677	(677)	—	—	—	
Stock issuance expenses	—	—	(5)	—	—	—	(5)	
Net unrealized gain on securities available for sale, net of tax	—	—	—	—	142	—	142	$ 142
Stock-based compensation	—	—	40	—	—	—	40	
Net income	—	—	—	846	—	—	846	846
Total comprehensive income								$ 988
Balance at December 31, 2006	—	—	20,415	700	(279)	—	20,836	
Stock dividend	—	—	891	(891)	—	—	—	
Stock issuance expenses			(4)				(4)	
Purchase of treasury stock	—	—	—	—	—	(424)	(424)	
Net unrealized gain on securities available for sale, net of tax	—	—	—	—	394	—	394	$ 394
Stock-based compensation	—	—	33	—	—	—	33	
Net income	—	—	—	887	—	—	887	887
Total comprehensive income								$ 1,281
Balance at December 31, 2007	—	—	21,335	696	115	(424)	21,722	
Stock dividend	—	—	1,029	(1,029)	—	—	—	
Stock issuance expenses	—	—	(4)	—	—	—	(4)	
Purchase of treasury stock	—	—	—	—	—	(409)	(409)	
Net unrealized gain on securities available for sale, net of tax	—	—	—	—	(221)	—	(221)	$ (221)
Stock-based compensation	—	—	54	—	—	—	54	
Net income	—	—	—	649	—	—	649	649
Total comprehensive income								$ 428
Balance at December 31, 2008	$ —	—	22,414	316	(106)	(833)	21,791	

See accompanying notes to consolidated financial statements.

1ST COLONIAL BANCORP, INC. AND SUBSIDIARY

Consolidated Statements of Cash Flows

Years ended December 31, 2008, 2007, and 2006

(Dollars in thousands)

		2008	2007	2006
Cash flows from operating activities:				
Net income	$	649	887	846
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization		219	239	215
Amortization of premium on securities, net		(169)	(25)	38
Amortization of deferred fees/cost, net		30	(3)	32
Stock-based compensation		54	33	40
Gain on sales of mortgage loans held for sale		(13)	(48)	(33)
Gain on sale of securities		(33)	—	—
Loss on fixed asset retirements		—	6	—
Provision for loan losses		957	162	226
Cash disbursed for mortgage banking activities		(4,050)	(12,204)	(6,928)
Cash received for mortgage banking activities		4,223	12,092	7,080
Decrease (increase) in accrued interest receivable		64	(126)	(331)
Deferred income tax benefit		(328)	(52)	(58)
(Increase) decrease in other assets		(61)	(297)	64
Increase in cash value of bank-owned life insurance, net		(409)	(174)	(170)
(Decrease) increase in accrued interest payable		(181)	167	167
Increase in other liabilities		193	6	65
Total adjustments		496	(224)	407
Net cash provided by operating activities		1,145	663	1,253
Cash flows from investing activities:				
Proceeds from maturities and sales of securities available for sale		17,108	8,500	7,500
Proceeds from maturities of securities held to maturity		35,429	16,918	23,063
Proceeds from sales of short-term investments		4,099	—	—
Purchases of short-term investments		(1,000)	(4,099)	—
Purchases of securities available for sale		(19,090)	(11,643)	(11,845)
Purchases of securities held to maturity		(39,810)	(25,907)	(17,025)
Purchase of Federal Home Loan Bank stock		(31)	(16)	(180)
Proceeds from bank-owned life insurance death benefit		705	—	—
Repayment of principal of securities available for sale		4,344	3,429	3,251
Increase in loans receivable, net		(23,840)	(11,726)	(18,619)
Capital expenditures		(253)	(408)	(88)
Net cash used in investing activities		(22,339)	(24,952)	(13,943)
Cash flows from financing activities:				
Net increase in deposits		11,260	32,803	22,618
Net increase (decrease) in other borrowings		3,182	(409)	(3,231)
Stock issuance costs		(4)	(4)	(5)
Purchase of treasury stock		(409)	(424)	—
Net cash provided by financing activities		14,029	31,966	19,382
Net (decrease) increase in cash and cash equivalents		(7,165)	7,677	6,692
Cash and cash equivalents at beginning of year		18,491	10,814	4,122
Cash and cash equivalents at end of year	$	11,326	18,491	10,814
Supplemental disclosure:				
Cash paid during the year for:				
Interest	$	5,648	6,250	4,753
Income taxes		247	480	335
Noncash items:				
Net change in unrealized gains on securities available for sale, net of taxes of $147 for 2008, $(263) for 2007, and $(95) for 2006	$	(221)	394	142
Issuance of stock dividend		1,029	891	677

See accompanying notes to consolidated financial statements.

(1) Nature of Operations

1st Colonial Bancorp, Inc. (the Company) is a Pennsylvania corporation headquartered in Collingswood, New Jersey, and the parent company of 1st Colonial National Bank (the Bank). The Bank opened for business on June 30, 2000, and provides a wide range of business and consumer financial services through its three New Jersey branch offices located in Collingswood, Westville, and Cinnaminson.

The Company was organized as the holding company for the Bank, in connection with the reorganization approved by the Bank's shareholders at the annual meeting on June 12, 2002. As a bank holding company registered under the Bank Holding Company Act of 1956, the Company is subject to the supervision and regulation of the Board of Governors of the Federal Reserve System (the FRB). The Bank is a national bank whose deposits are insured by the Federal Deposit Insurance Corporation (FDIC). The Company's operations and those of the Bank are subject to supervision and regulation by FRB, the FDIC, and the Office of the Comptroller of the Currency (OCC). The principal activity of the Bank is to provide its local communities with general commercial and retail banking services. The Bank is managed as one business segment.

(2) Summary of Significant Accounting Policies

(a) Basis of Presentation

The accompanying consolidated financial statements include the accounts of the parent company, 1st Colonial Bancorp, Inc., and its wholly owned subsidiary, 1st Colonial National Bank. Prior period amounts have been reclassified, where necessary, to conform to current year classification.

(b) Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates.

(c) Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash and amounts due from banks and federal funds sold. Generally, federal funds sold are repurchased the following day.

(d) Short-Term Investments

The Bank's short-term investments comprise certificates of deposit carried at cost.

(e) Investments Held to Maturity

Debt securities that management has the positive intent and ability to hold until maturity are classified as held-to-maturity and are carried at their remaining unpaid principal balance, net of unamortized premiums or unaccreted discounts. Premiums are amortized and discounts are accreted using a method that produces results that approximate level yield over the estimated remaining term of the underlying security.

(f) Securities Available for Sale

Securities not classified as held-to-maturity are classified as available-for-sale and are stated at fair value. Unrealized gains and losses are excluded from earnings and are reported as accumulated other comprehensive (loss) income, net of tax, as a separate component of shareholders' equity, until realized. Gains and losses are determined using the specific-identification method and are accounted for on a trade-date basis.

(g) Bank Stock

The Bank carries its investments in Atlantic Central Bankers Bank (ACBB) stock, Federal Reserve Bank (FRB) stock, and Federal Home Loan Bank of New York (FHLB) stock at their amortized cost because they do not have a readily determinable fair value. These investments are included in bank stock in the consolidated statement of financial condition.

The Bank is required to maintain an investment in ACBB stock. The Bank had $40,000 and $40,000 in ACBB stock at December 31, 2008 and 2007, respectively.

The Bank is required to maintain an investment in FRB stock. The amount of this stock requirement is based on Bank capital. The Bank had $446,000 and $446,000 in FRB stock at December 31, 2008 and 2007, respectively.

During 2006, the Bank became a member of the FHLB. The Bank is required to purchase stock based on the amount of real estate loans in the Bank's portfolio. The Bank had $227,000 and $196,000 in FHLB stock at December 31, 2008 and 2007, respectively.

(h) Mortgage Loans Held for Sale

The Bank originates and sells residential mortgage loans (without recourse) servicing released to the secondary market. This activity enables the Bank to fulfill the credit needs of the community while reducing its overall exposure to interest rate and credit risk. These loans are reported at the lower of their cost or fair market value.

(i) Loans

Loans are stated at the principal amount outstanding, net of deferred loan fees and costs. Interest income is accrued on the principal amount outstanding. Loan origination fees and related direct costs are deferred and amortized to interest income over the term of the respective loan as a yield adjustment.

Loans are reported as nonaccrual if they are past due as to principal or interest payments for a period of 90 days or more. Exceptions may be made if a loan is deemed by management to be well collateralized and in the process of collection. Loans that are on a current payment status may also be classified as nonaccrual if there is serious doubt as to the borrower's ability to continue interest or principal payments. When a loan is placed in the nonaccrual category, interest accruals cease and uncollected accrued interest receivable is reversed and charged against current interest income. Nonaccrual loans are generally not returned to accruing status until principal and interest payments have been brought current and full collectibility is reasonably assured. Impaired loans are measured based on the present value of expected future discounted cash flows, the market price of the loan, or the fair value of the underlying collateral if the loan is collateral dependent. For purposes of applying the measurement criteria for impaired loans, the Bank excludes large groups of smaller-balance homogeneous loans, primarily consisting of residential real estate and consumer loans, as well as commercial loans with balances of less than $100,000. The recognition of interest income on impaired loans is the same as for nonaccrual loans discussed above.

(j) Allowance for Loan Losses

The allowance for loan losses reflects management's best estimate of losses, both known and inherent, in the existing loan portfolio. Management uses significant estimates to determine the allowance for loan losses. Management's estimates consider such factors as changes in the nature and volume of the portfolio, overall portfolio quality, review of specific problem loans, and current economic conditions that may affect the borrowers' ability to pay. The provision for loan losses charged to operating expenses represents the amount necessary to maintain an appropriate allowance. Loan losses are charged directly against the allowance for loan losses when loans are determined to be uncollectible. Recoveries on previously charged-off loans are added to the allowance when received.

In addition, regulatory authorities, as an integral part of their examinations, periodically review the allowance for loan losses. They may require additions to the allowance based upon their judgments about information available to them at the time of examination.

(k) Premises and Equipment

Premises and equipment are recorded at cost less accumulated depreciation and amortization. Depreciation is computed using the straight-line method over the expected useful lives of the assets. Amortization of leasehold improvements is computed using the straight-line method over the shorter of the useful lives or the remaining lease term. Software costs, furniture, and equipment have depreciable lives of 3 to 10 years. Building and improvements have estimated useful lives of 30 to 35 years. The costs of maintenance and repairs are expensed as they are incurred, and renewals and betterments are capitalized.

(l) Other Real Estate Owned

Other real estate owned is comprised of properties acquired through foreclosure proceedings or acceptance of a deed in lieu of foreclosure. Other real estate owned is recorded at the lower of the carrying value of the loan or the fair value of the property, net of estimated selling costs. Costs relating to the development or improvement of properties are capitalized, while expenses related to the operation and maintenance of properties are expensed as incurred. Gains or losses upon dispositions are reflected in earnings as realized. The Bank had no real estate owned at December 31, 2008 and 2007.

(m) Bank-Owned Life Insurance

The Bank purchased $4 million of Bank-Owned Life Insurance (BOLI) on selected officers and key employees in July 2005. The asset is carried at its cash surrender value of $4,123,000 at December 31, 2008. Income of $409,000 was recognized on BOLI for 2008 and is included in other

(Continued)

income. The Bank has an agreement to split the benefits with the employees if the employee is still working or is on disability at time of death. The maximum amount that will be paid to all employees is $1,100,000. During 2008 the Company received a split death benefit of $705,000.

(n) Earnings Per Share

Basic earnings per share is calculated as net income divided by the weighted average number of shares outstanding. Dilutive earnings per share include dilutive common stock equivalents as computed under the treasury stock method using average common stock prices. Share and per share data for all periods presented have been restated to reflect the 5% stock dividends paid on April 15, 2006, April 15, 2007, and April 15, 2008.

(o) Income Taxes

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, as well as operating loss carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is established against deferred tax assets when, in the judgment of management, it is more likely than not that such deferred tax assets will not become available.

(p) Stock Options

As of December 31, 2008, the Company had four stock-based compensation plans, which are described more fully in note 18. On January 1, 2006, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 123 (revised 2004), *Share-Based Payment* (SFAS 123R), using the modified prospective application method. This method relates to current and future periods and does not require the restatement of prior periods. SFAS 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized as compensation expense in the consolidated financial statements based on their fair values. That expense will be recognized on a straight line basis over the period during which services are provided in exchange for the award, known as the requisite service period (usually the vesting period). The impact of adopting SFAS 123R for 2006 was $39,703 or $0.01 per diluted share, of expense recorded to compensation and employee benefits.

In 2005 and prior years, the Company accounted for those plans under the recognition and measurement principles of Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees*, and related interpretations. No stock-based employee compensation cost is reflected in net income in 2005, as all options granted under these plans had an exercise price equal to the fair value of the underlying common stock on the date of grant.

(q) Recent Accounting Pronouncements

Fair Value Measurements

In September 2006, the Financial Accounting Standards Board (FASB) issued SFAS No. 157, *Fair Value Measurements* (SFAS 157). SFAS 157 establishes a single authoritative definition of fair value, sets out a framework for measuring fair value, and requires additional disclosures about fair value measurements. SFAS 157 applies only to fair value measurements that are already required or permitted by other accounting standards.

SFAS 157 is effective for fair value measurements already required or permitted by other standards for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. The Company adopted SFAS 157 effective January 1, 2008 and has determined the adoption of this statement did not have a material impact on the Company's consolidated financial statements upon adoption.

The Fair Value Option for Financial Assets and Liabilities—Including an Amendment of SFAS No. 115

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Liabilities—including an amendment of FASB Statement No. 115* (SFAS 159). SFAS 159 permits entities to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings without having to apply complex hedge accounting provisions.

SFAS 159 is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. The Company adopted SFAS 159 effective January 1, 2008 and has determined this statement did not have a material impact on the Company's consolidated financial statements upon adoption.

Noncontrolling Interest in Consolidated Financial Statements—Including an Amendment of ARB No. 51

In December 2007 the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements—an amendment of ARB No. 51* (SFAS 160). SFAS 160 improves the relevance, comparability, and transparency of the financial information that a reporting entity provides in its consolidated financial statements by establishing accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary.

SFAS 160 is effective as of the beginning of an entity's first fiscal year that begins on or after December 15, 2008. Early adoption is prohibited. The Company has not yet determined whether SFAS 160 will have a material impact on the Company's consolidated financial statements upon adoption.

Business Combinations

In December 2007, the FASB issued SFAS No. 141 (revised 2007), *Business Combination* (SFAS 141R). SFAS 141R retains the fundamental requirement of SFAS No. 141, *Business Combinations*, that the acquisition method of accounting be used for all business combinations.

However, SFAS 141R does not make significant changes to the accounting for a business combination achieved in stages, the treatment of contingent consideration, transaction and restructuring costs, and other aspects of business combination accounting. SFAS 141R will be effective with the fiscal year that begins on January 1, 2009, and will change the Company's accounting treatment for business combinations on a prospective basis.

Written Loan Commitments Recorded at Fair Value through Earnings

In November 2007, the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin (SAB) No. 109, *Written Loan Commitments Recorded at Fair Value through Earnings.* SAB No. 109 supersedes SAB No. 105, *Loan Commitments Accounted for as Derivative Instruments*, and expresses the view that expected net future cash flows related to the servicing of loans should be included in the fair value measurement of all written loan commitments that are accounted for at fair value through earnings. SAB No. 109 retains the views in SAB No. 105 that internally developed intangible assets (such as client relationship intangible assets) should not be included in the fair value measurement of derivative loan commitments. SAB No. 109 became effective on January 1, 2008 and did not have a material impact on the Company's consolidated financial statements.

Simplified Expected Term of Share Options

In December 2007, the SEC issued SAB No. 110, *Simplified Expected Term of Share Options*, and extended, under certain circumstances, the availability of a "simplified" method for estimating the expected term of "plain vanilla" share options in accordance with SFAS 123R. The adoption of SAB No. 110 did not have a material impact on the Company's consolidated financial statements.

(3) Common Stock Dividends

On December 18, 2008, the Company declared a 5% stock dividend to all shareholders of record as of April 1, 2009 payable on April 15, 2009.

On November 21, 2007, the Company declared a 5% stock dividend to all shareholders of record as of April 1, 2008 payable on April 15, 2008.

On April 15, 2007, the Company paid a 5% stock dividend to all shareholders of record as of April 1, 2007. On April 15, 2006, the Company paid a 5% stock dividend to all shareholders of record as of April 1, 2006. On April 15, 2005, the Company paid a 5% stock dividend to all shareholders of record as of April 1, 2005. The number of shares and earnings-per-share amounts were restated to reflect the stock dividends paid as of the earliest date presented herein.

(4) Cash and Due from Banks

The Bank is required to maintain certain daily average reserve balances in accordance with FRB requirements. At December 31, 2008 and 2007, the FRB reserve requirement was $25,000.

In addition, the Bank was required to maintain $200,000 in cash reserves at its correspondent banks at December 31, 2008 and 2007. This cash reserve is included in cash and cash equivalents in the consolidated statements of financial condition.

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(5) Investment Securities

A comparison of amortized cost and approximate fair value of investment securities held to maturity and securities available for sale at December 31, 2008 and 2007 is as follows (dollars in thousands):

	2008			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Investments held to maturity:				
Municipal securities	$ 29,550	25	(46)	29,529
Total	$ 29,550	25	(46)	29,529
Securities available for sale:				
U.S. government securities	$ 2,998	63	—	3,061
Mortgage-backed securities	29,575	624	(615)	29,584
Municipal bonds	4,198	—	(248)	3,950
Total	$ 36,771	687	(863)	36,595

	2007			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Investments held to maturity:				
Municipal securities	$ 25,168	10	(35)	25,143
Total	$ 25,168	10	(35)	25,143
Securities available for sale:				
U.S. government securities	$ 13,586	33	(8)	13,611
Mortgage-backed securities	21,701	171	(29)	21,843
Municipal bonds	3,645	47	(22)	3,670
Total	$ 38,932	251	(59)	39,124

(Continued)

The scheduled maturities of investments held to maturity and securities available for sale at December 31, 2008 are as follows (dollars in thousands):

	Investments held to maturity		Securities available for sale	
	Amortized cost	Fair value	Amortized cost	Fair value
Due in one year or less	$ 29,550	29,529	2,997	3,061
Due after one year up to five years	—	—	1,118	1,135
Due after five years up to ten years	—	—	4,049	4,142
Due after ten years	—	—	28,607	28,257
Total	$ 29,550	29,529	36,771	36,595

Proceeds from sales and maturities of securities available for sale totaled $17,108,000 during 2008 and none in 2007. Gains realized from the sale of securities were $33,000 in 2008. There were no gains or losses realized in 2007.

At December 31, 2008, the Company pledged $64,758,000 in investment securities as collateral for uninsured municipal deposits, uninsured deposits underlying retail repurchase agreements, FHLB for potential borrowings, and a secured line of credit with a commercial bank.

Gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in continuous unrealized loss positions, at December 31, 2008 are as follows (dollars in thousands):

	Less than 12 months		Over 12 months		Total	
	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
Investments held to maturity:						
Municipal securities	$ 20,349	46	—	—	20,349	46
Total	20,349	46	—	—	20,349	46
Securities available for sale:						
U.S. government securities	—	—	—	—	—	—
Mortgage-backed securities	2,806	615	—	—	2,806	615
Municipal securities	3,737	218	213	30	3,950	248
Total	6,543	833	213	30	6,756	863
Total temporarily impaired investments	$ 26,892	879	213	30	27,105	909

For all of the above investment securities, the unrealized losses are generally due to changes in interest rates and, as such, are considered to be temporary by the Company. The temporary impairment of fixed rate investments is likely to continue in a rising interest rate environment. The contractual terms of these

(Continued)

investments do not permit the issuer to settle the securities at a price less than the amortized cost of the investment. Because the Company has the ability and intent to hold these investments until a market price recovery or maturity, these investments are not considered other than temporarily impaired.

All temporarily impaired investments are bank-qualified investments. There has been no significant change in the credit quality of issuers since the securities were purchased.

(6) Loans Receivable

Loans receivable consist of the following at December 31, 2008 and 2007 (dollars in thousands):

		2008	2007
Commercial	$	30,066	23,277
Real estate – commercial		66,667	54,686
Real estate – residential		36,453	31,499
Construction		9,458	10,105
Consumer		3,757	3,584
		146,401	123,151
Less allowance for loan losses		(1,750)	(1,356)
Deferred loan costs		67	70
Loans receivable, net	$	144,718	121,865

The Bank is subject to a loans-to-one-borrower limitation of 15% of capital funds. At December 31, 2008, the loans-to-one-borrower limitation was $3,181,000; this excludes an additional 10% of adjusted capital funds or $2,120,000, which may be loaned if collateralized by readily marketable securities as defined by regulations. At December 31, 2008, there are no loans outstanding or committed to any one borrower that individually or in the aggregate exceed that limit.

The Bank lends primarily to customers in its local market area. Most loans are mortgage loans. Mortgage loans include loans secured by commercial and residential real estate and construction loans. Accordingly, lending activities could be affected by changes in the general economy, the regional economy, or real estate values. At December 31, 2008 and 2007, mortgage loans totaled $112,578,000 and $96,290,000, respectively. Mortgage loans represent 76.9% and 78.2% of total gross loans at December 31, 2008 and 2007, respectively.

The Bank had 12 nonaccruing loans at December 31, 2008 in the amount of $1,736,000. All of the nonaccruing loans are impaired. The Bank has identified reserves totaling $323,000 for these loans. The Bank had 17 additional impaired loans that were still accruing. The balances of these loans were $2,695,000 for which the Bank identified reserves of $232,000. The balance of the nonaccruing loans are secured and in the process of collection. The Bank had 10 nonaccruing loans at December 31, 2007 in the amount of $531,000, nine of which were impaired. Four of the impaired loans were written off in 2008.

Average impaired loans were $2,225,000 and $461,000 for the years ended December 31, 2008 and 2007, respectively.

The following is a summary of the activity of the allowance for loan losses (dollars in thousands):

	2008	2007	2006
Balance, beginning of year	$ 1,356	1,225	1,154
Provision for loan losses	957	162	226
Charge-offs, net	(563)	(31)	(155)
Balance, end of year	$ 1,750	1,356	1,225

(7) Premises and Equipment, Net

Premises and equipment at December 31, 2008 and 2007 are summarized as follows (dollars in thousands):

	2008	2007
Furniture and equipment	$ 1,268	1,114
Building and land	1,492	1,490
Leasehold improvements	702	605
	3,462	3,209
Accumulated depreciation and amortization	(1,287)	(1,068)
Premises and equipment, net	$ 2,175	2,141

Depreciation and amortization expense was $219,000, $239,000, and $215,000 for the years ended December 31, 2008, 2007, and 2006, respectively, and is recorded in occupancy and equipment expenses.

The Company leases its main office and operations center, both of which are located in Collingswood, New Jersey. The Company relocated its operations center in May 2007. The Company owns its branch located in Westville, New Jersey. The Westville branch opened in January 2003. The Company owns its branch located in Cinnaminson, New Jersey. The Cinnaminson branch opened in September 2005.

(8) Deposits

Deposits consist of the following major classifications at December 31, 2008 and 2007 (dollars in thousands):

	2008			2007		
	Weighted average rate	Amount	Percentage of total deposits	Weighted average rate	Amount	Percentage of total deposits
Interest checking	2.14%	$ 47,028	23.4%	4.38%	$ 60,266	31.8%
Noninterest checking	—	28,218	14.0	—	27,368	14.4
Money market	2.14	12,043	6.0	1.87	7,144	3.8
Savings	2.68	51,111	25.4	3.89	58,561	30.9
Certificates of deposit	3.49	62,482	31.2	4.82	36,283	19.1
Total	2.79	$ 200,882	100.0%	3.59	$ 189,622	100.0%

The Bank has a concentration of deposits from local municipalities. Municipal deposits, which are mostly interest-checking accounts, were $37,309,000 or 18.6% of total deposits at December 31, 2008 and $47,671,000 or 25.1% of total deposits at December 31, 2007. Municipal deposit accounts in excess of $250,000 are collateralized by investment securities with a carrying value of $41,091,000 at December 31, 2008.

Certificates of deposit accounts of $100,000 and over totaled $29,291,000 and $25,420,000 at December 31, 2008 and 2007, respectively.

Interest expense on deposits consisted of the following for the years ended December 31, 2008, 2007, and 2006 (dollars in thousands):

		2008	2007	2006
Interest checking	$	1,567	1,844	1,431
Money market		201	152	181
Savings		1,514	1,814	1,213
Certificates of deposit		1,959	2,400	1,864
Interest expense on deposits	$	5,241	6,210	4,689

The following is a schedule of certificates of deposit by maturities as of December 31, 2008 (dollars in thousands):

Year ending December 31:		
2009	$	56,742
2010		4,311
2011		580
2012		800
2013		49
Total	$	62,482

(9) Borrowing Availability

At December 31, 2008, the Bank had a secured line of credit with First Tennessee Bank in the aggregate amount of $2 million, and an unsecured line of credit with Atlantic Central Bankers Bank in the aggregate amount of $7.5 million. At December 31, 2008, the Bank did not have any amount outstanding against its lines of credit. The Bank had borrowed funds outstanding for 17 days in 2008. The amounts outstanding ranged from $15,000 to $7,948,000. Total outstanding borrowings averaged $100,000 for the year ended December 31, 2008. At December 31, 2007, the Bank had a secured line of credit with First Tennessee Bank in the aggregate amount of $2 million, and an unsecured line of credit with Atlantic Central Bankers Bank in the aggregate amount of $5 million. At December 31, 2007, the Bank did not have any amount outstanding against its lines of credit. The Bank had borrowed funds outstanding for 31 days in 2007. The amounts outstanding ranged from $112,000 to $3,000,000. Total outstanding borrowings averaged $34,000 for the year ended December 31, 2007.

In addition, the Bank sold securities under agreements to repurchase as another funding source. As of December 31, 2008 and 2007, the Bank had $9,484,000 and $6,302,000, respectively, of securities sold under agreements to repurchase. As of December 31, 2008, these repurchase agreements had fixed rates ranging from 2.00% to 3.50% and terms ranging from 2 days to 885 days. The underlying securities for the repurchase agreements were U.S. government securities and mortgage-backed securities with an aggregate market value of $12,992,000 and $7,050,000 as of December 31, 2008 and 2007, respectively.

(10) Earnings Per Share

The following is a reconciliation of the numerators and denominators of the basic and diluted earnings per share calculation for the years ended December 31, 2008, 2007, and 2006 (dollars in thousands, except per share data):

	Net income	Weighted average number of shares outstanding	Per share amount
2008:			
Basic earnings per share	$ 649	2,880,032	$ 0.23
Effect of dilutive stock equivalents	—	4,111	(0.01)
Diluted earnings per share	$ 649	2,884,143	$ 0.22
2007:			
Basic earnings per share	$ 887	2,954,616	$ 0.30
Effect of dilutive stock equivalents	—	16,260	(0.01)
Diluted earnings per share	$ 887	2,970,876	$ 0.29
2006:			
Basic earnings per share	$ 846	3,011,765	$ 0.28
Effect of dilutive stock equivalents	—	21,888	(0.01)
Diluted earnings per share	$ 846	3,033,653	$ 0.27

Earnings per share is calculated on the basis of weighted average number of shares outstanding. Options to purchase 291,115, 263,287, and 253,690, shares of common stock were outstanding at December 31, 2008, 2007, and 2006, respectively. All unexercised warrants expired during 2006. Options and warrants, to the extent dilutive, were included in the denominator in the computation of earnings per diluted share. Options to purchase 264,026, 167,471, and 139,480 shares were antidilutive for 2008, 2007, and 2006, respectively, and therefore, excluded from the calculation of earnings per diluted common share. No warrants were antidilutive for 2006.

(11) Fair Value of Financial Instruments

The following required disclosure of the estimated fair value of financial instruments has been determined by the Company using available market information and appropriate valuation methodologies. However, considerable judgment is necessarily required to interpret market data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Company could realize in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

The methods and assumptions used to estimate the fair values of each class of financial instrument are as follows:

(a) Cash and Cash Equivalents, Short-Term Investments, Accrued Interest Receivable, and Accrued Interest Payable

The items are generally short term in nature, and accordingly, the carrying amounts reported in the consolidated statements of financial condition are reasonable approximations of their fair values.

(b) Investment Securities

Fair values for investment securities are based on quoted market prices, if available. If quoted market prices are not available, then fair values are based on quoted market prices of comparable instruments.

(c) Bank Stock

The carrying value of bank stock in the accompanying consolidated statements of financial condition approximates fair value.

(d) Loans and Mortgage Loans Held for Sale

For variable rate loans that reprice frequently and with no significant change in credit risk, fair value is based on carrying value. The fair value for other loans receivable was estimated using a discounted cash flow analysis, which uses interest rates currently being offered for loans with similar terms to borrowers of similar credit quality. Consideration was given to prepayment speeds, economic conditions, risk characteristics, and other factors considered appropriate.

(e) Deposits

The fair values of deposits subject to immediate withdrawal, such as interest and noninterest checking, statement savings, and money market demand deposit accounts, are equal to their carrying amounts in the accompanying consolidated statements of financial condition. Fair values for certificates of deposit are estimated by discounting future cash flows using interest rates currently offered on certificates of deposit with similar remaining maturities.

(f) Other Borrowings

The fair value of other borrowings is established using a discounted cash flow calculation that applies interest rates currently being offered on borrowings with similar terms.

(g) Off-Balance-Sheet Instruments

Off-balance-sheet instruments are primarily comprised of loan commitments and unfunded lines of credit that are generally priced at market rate at the time of funding. Therefore, these instruments have nominal value prior to funding.

(Continued)

The estimated fair value of the Company's financial instruments at December 31, 2008 and 2007 was as follows (dollars in thousands):

	2008		2007	
	Carrying amount	**Estimated fair value**	**Carrying amount**	**Estimated fair value**
Financial assets:				
Cash and cash equivalents	$ 11,326	11,326	18,491	18,491
Short-term investments	1,000	1,000	4,099	4,099
Investments held to maturity	29,550	29,529	25,168	25,143
Investments available for sale	36,595	36,595	39,124	39,124
Bank stock, at cost	713	713	682	682
Mortgages held for sale	—	—	160	160
Loans receivable, net	144,718	146,027	121,865	119,443
Accrued interest receivable	1,215	1,215	1,279	1,279
Total financial assets	$ 225,117	226,405	210,868	208,421
Financial liabilities:				
Demand deposits	$ 75,246	75,246	87,634	87,634
Money market deposits	12,043	12,043	7,144	7,144
Savings deposits	51,111	51,111	58,561	58,561
Certificates of deposit	62,482	62,933	36,283	36,437
Other borrowings	9,484	9,634	6,302	6,289
Accrued interest payable	161	161	342	342
Total financial liabilities	$ 210,527	211,128	196,266	196,407
	Notional amount		**Notional amount**	
Off-balance-sheet instruments:				
Commitments to extend credit	$ 17,015		16,518	

(12) Income Taxes

Total income tax expense (benefit) was allocated for the years ended December 31, 2008, 2007, and 2006, as follows (dollars in thousands):

		2008	2007	2006
Income tax expense (benefit)	$	(135)	250	288
Shareholders' equity for unrealized gain (loss) on securities available for sale		(147)	263	95
	$	(282)	513	383

Income tax expense (benefit) consisted of the following for the years ended December 31, 2008, 2007, and 2006 (dollars in thousands):

		2008	2007	2006
Federal:				
Current	$	137	199	238
Deferred		(300)	(48)	(49)
		(163)	151	189
State:				
Current		56	103	108
Deferred		(28)	(4)	(9)
		28	99	99
Total	$	(135)	250	288

The following is a reconciliation between expected tax expense at the statutory rate of 34% and actual tax expense (dollars in thousands):

		2008	2007	2006
At federal statutory rate	$	175	387	385
Adjustments resulting from:				
State tax, net of federal benefit		19	65	64
Tax-exempt interest income		(196)	(154)	(125)
Bank-owned life insurance		(139)	(59)	(58)
Stock-based compensation		5	4	9
Other		1	7	13
Total	$	(135)	250	288

Significant deferred tax assets and liabilities of the Bank at December 31, 2008 and 2007 are as follows (dollars in thousands):

	2008	2007
Deferred tax assets:		
Bad debt reserves – loans	$ 619	513
Nonaccrual interest	19	
Deferred rent	37	35
Deferred compensation	28	
SFAS 123R	30	11
Charitable contributions	57	10
Alternative minimum tax credit	161	21
Unrealized losses on securities available for sale	70	—
Total gross deferred tax assets	1,021	590
Deferred tax liabilities:		
Depreciation	(24)	(9)
Deferred loan costs	(133)	(103)
Prepaid expenses	(37)	(49)
Unrealized gains on available-for-sale securities	—	(77)
Total gross deferred tax liabilities	(194)	(238)
Net deferred tax assets	$ 827	352

The realizability of deferred tax assets is dependent upon various 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.

Based upon these and other factors, management has determined that it is more likely than not that the Company will realize the benefits of deferred tax assets that exist at December 31, 2008.

As of December 31, 2008, the Company has charitable contribution carryforwards of $142,000 that, if unutilized, will expire after December 31, 2012. The Company also has an alternative minimum tax credit carryforward of $161,000 with an indefinite life.

Effective January 1, 2007, the Company adopted FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109* (FIN 48). As of December 31, 2008 and December 31, 2007, the Company had no material unrecognized tax benefits or accrued interest and penalties. The Company's policy is to account for interest as a component of interest expense and penalties as a component of other expense.

As of December 31, 2008, federal tax years 2005 through 2008 were open for examination.

(13) Properties

The Bank operates from its main office in Collingswood, New Jersey, and its branch offices in Westville, New Jersey, and Cinnaminson, New Jersey. In addition, the Bank maintains an operations center in Collingswood, New Jersey.

The Westville branch location was purchased on August 30, 2002. Subsequent to regulatory approval and renovation, this new branch opened in January 2003. The Cinnaminson branch location was purchased on June 6, 2005. Subsequent to regulatory approval and renovation, this new branch opened in September 2005.

The main office and operations center are leased. The main office lease expires in December 2014, with an option to renew for an additional five-year term.

In January 2007, the Bank signed a lease agreement for a new corporate lending and operations center. The Bank took occupancy in May 2007. The Bank has signed an initial seven-year lease with 3 ten-year options.

In January 2008, the Bank signed a lease for additional space in the lending and operations center for the executive offices. The lease is coterminus with the lease for the lending and operations center. The minimum lease payments are included in the following table.

Future minimum payments under leases, assuming exercise of renewal options, are summarized as follows (dollars in thousands):

2009	$	230
2010		236
2011		243
2012		249
2013		255
Thereafter		6,161
	$	7,374

Total rent expense was $275,000, $188,000, and $117,000 for the years ended December 31, 2008, 2007, and 2006, respectively.

(14) Commitments and Contingencies

(a) 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. These financial instruments include commitments to extend credit to meet the financing needs of its customers. Such commitments have been made in the normal course of business and at current prevailing market terms. The commitments, once funded, are principally to originate commercial loans and other loans secured by real estate. The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

Commitments issued to potential borrowers of the Bank at December 31, 2008 and 2007 were as follows (dollars in thousands):

		2008	2007
Fixed rate commitments	$	901	1,335
Variable/adjustable rate commitments		16,114	15,183
Total	$	17,015	16,518

(b) Legal Proceedings

At December 31, 2008, the Company was neither engaged in any existing nor aware of any pending legal proceedings. From time to time, the Bank is a party to legal proceedings within the normal course of business wherein it enforces its security interest in loans made by it, and other matters of a similar nature.

(15) Related-Party Transactions

The Bank routinely enters into transactions with its directors and executive officers. Such transactions are made in the ordinary course of business on substantially the same terms and conditions, including interest rates and collateral, as those prevailing at the same time for comparable transactions with other customers, and do not, in the opinion of management, involve more than normal credit risk or present other unfavorable features. The aggregate amount of loans to such related parties was $498,000 and $430,000 at December 31, 2008 and 2007, respectively. During 2008 and 2007, new loans and credit line advances to such related parties amounted to $109,000 and $0, respectively, and repayments amounted to $41,000 and $59,000, respectively. The aggregate amount of deposits from related parties was $17,892,000 and $14,149,000 at December 31, 2008 and 2007, respectively.

The Bank engaged in certain property inspection services and branch renovations with an entity that is affiliated with a director of the Bank. Such aggregate services amounted to fees of $2,000, $7,000, and $5,000 for the years ended December 31, 2008, 2007, and 2006, respectively. The majority of these fees were capitalized as premises and equipment. The Bank engages a law firm that is affiliated with a director of the Bank for certain debt collection services. Total fees for such services amounted to $36,000, $16,000, and $13,000 for the years ended December 31, 2008, 2007, and 2006, respectively. In management's opinion, the terms of the services provided were substantially equivalent to that which would have been obtained from unaffiliated parties. A director of the Bank owns the land on which the building housing the Bank's administrative offices is located. The Bank is the sole tenant of the building. Pursuant to a land lease with the owner of the building, the director is entitled to annual rent payments of $60,000. Prior to the director entering into this transaction, the Bank received an opinion from an independent third-party real estate appraiser that the economic rental value of the land was $60,000 per year.

(16) Dividend Policy

(a) Company

The Company has not paid a cash dividend since its inception in June 2000. Any payment of cash dividends to its shareholders would be dependent on the payment of a cash dividend from the Bank to the Company. The payment of cash dividends by the Bank to the Company is limited under federal banking law. The Company's future dividend policy is subject to the discretion of its board of directors and will depend upon a number of factors, including future earnings, financial conditions, cash needs, and general business conditions. Holders of common stock will be entitled to receive dividends as and when declared by the board of directors out of funds legally available for that purpose.

(b) Bank

The amount of dividends that may be paid by the Bank depends upon the Bank's earnings and capital position, and is limited by federal law, regulations, and policies. As a national bank subject to the regulations of the OCC, the Bank must obtain approval for any dividend if the total of all dividends declared in any calendar year would exceed the total of its net profits, as defined by applicable regulations, for that year, combined with its retained net profits for the preceding two years, less any required transfers to surplus. In addition, the Bank may not pay a dividend in an amount greater than its undivided profits then on hand after deducting its losses and bad debts.

In addition, the OCC is authorized to determine under certain circumstances relating to the financial condition of a national bank that the payment of dividends would be an unsafe or unsound practice and to prohibit payment thereof. The payment of dividends that depletes a bank's capital base could be deemed to constitute an unsafe or unsound practice.

(17) Employee Benefits

The Bank instituted a noncontributory 401(k) for all current employees in August 2005. All eligible employees are 100% vested in any required safe harbor contributions. The Bank made safe harbor contributions in the amount of $56,000 and $56,000 during 2008 and 2007, respectively.

(18) Stock Option Plans and Stock Warrants

The Company accounts for our stock based compensation plans in accordance with SFAS 123R. The table below shows the effects of stock based awards, in total, in the Company's Consolidated Statements of Operations.

		Years ended December 31		
Effects of stock-based compensation		**2008**	**2007**	**2006**
Compensation expense	$	54,442	32,822	39,703
Tax benefit		13,643	6,920	4,640
Net income effect	$	40,799	25,902	35,063
Basic earnings per share	$	0.01	0.01	0.01
Diluted earnings per share		0.01	0.01	0.01

Common stock options and warrants for all periods presented herein were adjusted to reflect the 5% stock dividends paid on April 15, 2008, April 15, 2007, and April 15, 2006. These stock dividends had no impact on stock compensation expense recognized or to be recognized on previously granted options.

(a) Stock Options

Two stock option programs were adopted in April 2003.

The 2003 Employee Stock Option Plan, as amended in April 2005, provides up to 173,644 options for key employees. The exercise price of options granted under this program will be equal to at least the fair market value of common stock as of the grant date. The options granted in 2008 vest in five equal annual installments or upon retirement. These options expire 10 years from the grant date.

The 2003 Outside Director Plan, as amended in April 2005 and May 2008, provides up to 190,763 options for nonemployee directors. The exercise price of options granted under this program will be equal to at least the fair market value of common stock as of the grant date. The options granted in 2006, 2007 and 2008 vest in five equal annual installments or upon retirement. These options expire 10 years from the grant date.

The Bank adopted its Employee and Outside Director Stock Option Plans in connection with its formation in 2000. The Company adopted the Bank's plans as part of its formation and acquisition of the Bank in 2002. The discussion that follows refers to these two stock option plans as the Original Employee Stock Option Plan and the Original Outside Director Stock Option Plan.

A total of 58,984 options were granted under the Original Employee Stock Option Plan. The exercise price of all options granted under the Original Employee Plan was equal to the fair market value of the common stock at grant date. All of these options are fully vested and expire 10 years after the grant date. No options are available for future grants under the Original Employee Stock Option Plan. At December 31, 2008, 48,527 options were outstanding under this plan.

A total of 36,152 options were granted under the Original Outside Director Stock Option Plan. The exercise price of all options granted under the Original Outside Director Plan was equal to the fair market value of the common stock at grant date. All options outstanding under the Original Outside Director Plan are fully vested. Options expire 10 years after the grant date. No options are available for future grants under the Original Outside Director Stock Option Plan. At December 31, 2008, 34,280 options were outstanding under this plan.

A summary status of the Company's stock option plans as of December 31, 2008 and 2007, and the changes during the years then ended, is as follows:

	2008		2007	
	Shares	Weighted average exercise price	Shares	Weighted average exercise price
Outstanding, beginning of year	263,287	$ 8.02	253,960	$ 8.01
Granted	49,429	6.57	9,450	8.29
Forfeited or cancelled	(21,601)	8.58	(123)	8.95
Outstanding, end of year	291,115	7.73	263,287	8.02
Options exercisable at December 31	249,731	7.87	252,558	7.97

The weighted average fair value of options granted during 2008, 2007, and 2006 was $2.50, $3.61, and $4.19, respectively.

The total fair value of shares vested during 2008, 2007, and 2006 was $54,442, $31,301, and $39,703, respectively.

The Company issues new shares upon the exercise of stock options.

The following table summarizes all stock options outstanding and exercisable for option plans as of December 31, 2008:

	Aggregate intrinsic value	Weighted average remaining contractual life
Stock options:		
Outstanding	$ 2,125	5.5 years
Exercisable	2,125	4.9 years

Nonvested Stock Options

At December 31, 2008, total unrecognized compensation cost related to nonvested options was $108,539. The Company expects to record that expense over a weighted average period of 3.2 years.

To estimate the fair value of stock option awards, we use the Black-Scholes valuation method, which incorporates the assumptions summarized in the table below. The table also summarizes the fair value of each option grant in 2008, 2007, and 2006.

Grant date	Option plan	Exercise price	Fair value per option	Risk-free rate	Cash dividends	Expected life	Expected volatility
May 2008	Director	$ 6.20	2.50	3.26%	none	6.5 years	29%
February 2008	Director	6.65	2.50	3.26	none	6.5 years	29
February 2008	Employee	6.65	2.50	3.26	none	6.5 years	29
May 2007	Director	8.29	3.61	4.57	none	6.5 years	34
May 2006	Director	9.57	4.19	5.01	none	6.5 years	36

- The risk free interest rate is the U.S. Treasury rate commensurate with the expected life of options on the date of their grant.
- The volatility of the Company’s stock is based on a combination of historical volatility and peer data over a span of time equal to the expected life of stock option awards, which is the period of time the Company estimates that stock options granted will remain outstanding.
- The Company used the simplified method to estimate the expected life of stock options granted in 2008 and 2007. The simplified method averages an award’s weighted average vesting period and its contractual term

(19) Regulatory Matters

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

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the following table) of Total and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier I capital (as defined) to average assets (as defined). Management believes, as of December 31, 2008 and 2007, the Bank meets all capital adequacy requirements to which it is subject.

As of December 31, 2008, the most recent notification from the FDIC categorized the Bank as well-capitalized under the regulatory framework for prompt corrective action. To be categorized as well-capitalized, the Bank must maintain minimum total risk-based, Tier I risk-based, and Tier I leverage ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the institution’s category.

The Bank's actual capital amounts and ratios at December 31, 2008 and 2007 are presented in the following table (dollars in thousands):

	Actual		For capital adequacy purpose		To be well capitalized under prompt corrective action provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
At December 31, 2008:						
Total capital (to risk-weighted assets)	$ 21,206	13.09%	12,962	8%	16,203	10%
Tier I capital (to risk-weighted assets)	19,456	12.01	6,481	4	9,722	6
Tier I capital (to average assets)	19,456	8.11	9,597	4	11,997	5
At December 31, 2007:						
Total capital (to risk-weighted assets)	$ 20,137	14.10	11,423	8%	14,278	10%
Tier I capital (to risk-weighted assets)	18,781	13.15	5,711	4	8,567	6
Tier I capital (to average assets)	18,781	8.25	9,106	4	11,382	5

(20) Parent Company Financial Information

A summary of the statements of financial condition at December 31, 2008 and 2007 is as follows (dollars in thousands):

Assets	2008	2007
Cash in subsidiary	$ 2,364	2,751
Investment in subsidiary	19,349	18,896
Prepaid income taxes	80	70
Other assets	3	5
Total assets	$ 21,796	21,722
Liabilities and Shareholders' Equity		
Other liabilities	$ 5	—
Shareholders' equity	21,791	21,722
Total liabilities and stockholders' equity	$ 21,796	21,722

A summary of the statements of operations for the years ended December 31, 2008, 2007, and 2006 is as follows (dollars in thousands):

		2008	2007	2006
Equity income from subsidiary	$	675	936	902
Interest income		53	—	—
Total income		728	936	902
Other expenses:				
Other operating expenses		89	68	64
Total other expenses		89	68	64
Income before income tax benefit		639	868	838
Income tax benefit		(10)	(19)	(8)
Net income	$	649	887	846

A summary of the statements of cash flows for the years ended December 31, 2008, 2007, and 2006 is as follows (dollars in thousands):

	2008	2007	2006
Cash flows from operating activities:			
Net income	$ 649	887	846
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Equity in income from subsidiary	(674)	(936)	(902)
Stock-based compensation	54	33	40
Increase in prepaid income taxes	(10)	(19)	(16)
Decrease (increase) in other assets	2	(1)	(3)
Increase in other liabilities	5	—	—
Total adjustments	(623)	(923)	(881)
Net cash provided by (used in) operating activities	26	(36)	(35)
Cash flows from investing activities:			
Investment in subsidiary	—	—	—
Net cash used in investing activities	—	—	—
Cash flows from financing activities:			
Cost of processing stock dividend	(4)	(4)	(5)
Purchase of treasury stock, at cost	(409)	(424)	
Warrant exercise for common stock, net	—	—	—
Net cash used in financing activities	(413)	(428)	(5)
Net decrease in cash and cash equivalents	(387)	(464)	(40)
Cash and cash equivalents at beginning of year	2,751	3,215	3,255
Cash and cash equivalents at end of year	$ 2,364	2,751	3,215
Noncash items:			
Net change in unrealized gains (losses) on securities available for sale, net of taxes of $147 for 2008, $(263) for 2007, and $(95) for 2006	$ (221)	394	142
Issuance of stock dividend	1,029	891	677

(Continued)

(21) Other Comprehensive Income (Loss)

Other comprehensive income (loss) components and related tax benefits are as follows for the years ended December 31, 2008, 2007, and 2006 (dollars in thousands):

	2008		
	Before-tax amount	Tax benefit (expense)	Net-of-tax amount
Unrealized gains (losses) on securities available for sale:			
Unrealized holding gains (losses) arising during the year	$ (335)	134	(201)
Less reclassification adjustment for gains included in net income	(33)	13	(20)
Other comprehensive gain (loss)	$ (368)	147	(221)

	2007		
	Before-tax amount	Tax benefit (expense)	Net-of-tax amount
Unrealized gains (losses) on securities available for sale:			
Unrealized holding gains (losses) arising during the year	$ 657	(263)	394
Less reclassification adjustment for gains (losses) included in net income	—	—	—
Other comprehensive gain (loss)	$ 657	(263)	394

	2006		
	Before-tax amount	Tax benefit (expense)	Net-of-tax amount
Unrealized gains (losses) on securities available for sale:			
Unrealized holding gains (losses) arising during the year	$ 237	(95)	142
Less reclassification adjustment for gains (losses) included in net income	—	—	—
Other comprehensive gain (loss)	$ 237	(95)	142

(Continued)

(22) Fair Value Measurement

The following disclosures are made in conjunction with the initial application of SFAS 157 in 2008.

SFAS 157 establishes a fair value hierarchy based on the nature of data inputs for fair value determinations, under which the Company is required to value each asset using assumptions that market participants would utilize to value that asset. When the Company uses its own assumptions, it is required to disclose additional information about the assumptions used and the effect of the measurement on earnings or the net change in assets for the period.

The value of the Company's investment securities that generally include state and municipal securities, U.S. government agencies, and mortgage-backed securities are reported at fair value. These securities are valued by an independent third party. The third party's evaluations are based on market data. The third-party utilize evaluated pricing models that vary by asset and incorporate available trade, bid, and other market information. For securities that do not trade on a daily basis, their pricing applications apply available information such as benchmarking and matrix pricing. The market inputs normally sought in the evaluation of securities include benchmark yields, reported trades, broker/dealer quotes (only obtained from market makers or broker/dealers recognized as market participants), issuer spreads, two-sided markets, benchmark securities, bid, offers, and reference data. For certain securities, additional inputs may be used or some market inputs may not be applicable. Inputs are prioritized differently on any given day based on market conditions.

U.S. government agencies are evaluated and priced using multidimensional relational models and option adjusted spreads. State and municipal securities are evaluated on a series of matrices including reported trades and material event notices. Mortgage-backed securities are evaluated using matrix correlation to treasury or floating index benchmarks, prepayment speeds, monthly payment information, and other benchmarks. Other investments are evaluated using a broker-quote based application, including quotes from issuers. These investment securities are classified as available-for-sale.

The value of the investment portfolio is determined using three broad levels of inputs:

Level 1 – Quoted prices in active markets for identical securities;

Level 2 – Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active and model-derived valuations whose inputs are observable or whose significant value drivers are observable.

Level 3 – Instruments whose significant value drivers are unobservable.

(Continued)

These levels are not necessarily an indication of the risks or liquidity associated with these investments. The following table summarizes the assets at December 31, 2008, which are recognized on the Company's consolidated statements of financial condition using fair value measurement determined based on the differing levels of input.

Fair value measurement at December 31, 2008	**Total**	**Quoted prices in active markets for identical assets (level 1)**	**Significant other observable inputs (level 2)**	**Significant unobservable inputs (level 3)**
		(Dollars in thousands)		
Investments:				
U.S. government securities	$ 3,061	—	3,061	—
Mortgage-backed securities	29,584	—	29,584	—
Municipal bonds	3,950	—	3,950	—
Total assets measured on a recurring basis at fair value	$ 36,595	—	36,595	—

The provisions of SFAS 157 related to disclosures surrounding nonfinancial assets and nonfinancial liabilities have not been applied because, in February 2008, the FASB deferred the required implementation of these disclosures until 2009.

The Company has no fair value measurements as of December 31, 2008, which have been made on a nonrecurring basis.

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Stock Listing

1st Colonial's Common Stock is traded on the OTC Bulletin Board under the Symbol "FCOB"

Board of Directors	Linda M. Rohrer, Chairman Thomas A. Clark, III, Esquire John J. Donnelly, IV Harrison Melstein	Gerard M. Banmiller Letitia G. Colombi Eduardo F. Enriquez, M.D. Stanley H. Molotsky	Mary R. Burke, Ed.D. Gerald J. DeFelicis Michael C. Haydinger
1st Colonial National Bank Board of Directors	Linda M. Rohrer, Chairman Curt Byerley Gerald J. DeFelicis Michael C. Haydinger Stanley H. Molotsky	Gerard M. Banmiller Thomas A. Clark, III, Esquire John J. Donnelly, IV Harvey Johnson, Esquire	Mary R. Burke, Ed.D. Letitia G. Colombi Eduardo F. Enriquez, M.D. Harrison Melstein
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Executive Officers

Gerard M. Banmiller, President and Chief Executive Officer
James E. Strangfeld, Executive Vice President and Chief Operating Officer
Paul D. Castignani, Senior Vice President, Chief Financial Officer and Secretary

Auditors

KPMG LLP
1601 Market Street
Philadelphia, Pennsylvania 19103

Counsel

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A Professional Corporation
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Market Makers

The following registered broker dealers make a market in 1st Colonial's common stock:

Stifel, Nicolaus & Co., Inc.
Janney Montgomery Scott LLC

Registrar and Transfer Agent

StockTrans, Inc.
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