

Jefferson Bank®

ANNUAL REPORT 2008

2008



Safe, Sound, Secure

A better banking experience

2008

Letter to our Shareholders	2
Our Board of Directors, Officers, Team Members	4
Services	5
Financial Highlights	6
Independent Auditors Report	7

Dear Fellow Shareholders,

Our Vision to build a community-owned banking franchise focusing on the Professionals and Entrepreneurs in our market has started very well, in spite of the economic events of 2008. One of the defining characteristics of a “banking franchise” is above average Net Interest Margin. Jefferson excels at this thanks to our shareholders and loyal customers.

2008

We ended 2008 with total assets of \$56,765,000, net loans of \$28,132,000, and a 1.35% reserve for loan losses. Total deposits (including repurchase agreements) were \$29,441,000 which included core deposits of \$22,233,000. The operating loss for 2008 was \$944,000, under budget by \$32,000. At year-end we had 610 deposit accounts and 93 loan accounts. The Book Value at year end was \$9.43 per share.

The net interest margin for the year was 4.16%, ahead of our peers by 28%. Core deposits comprised 39% of our total assets at year end including customer repurchase agreements.

Treasury Management has been an area of emphasis and in November we were pleased to announce Renee Jones was elected Vice President of Treasury Management. At year end 31 customers were using the JEFF remote deposit scanner to make their daily deposits. Expanding this delivery channel is a strategic focus at Jefferson.

2009

As we continue to build upon a solid base, in 2009 we will add mortgage lending to our product line in the second quarter. This was part of our original plan, but the market timing in 2008 was not favorable; 2009 affords us a wonderful opportunity.

We filed the applications with our regulators for a Palm Harbor branch. This branch will be located at US 19 and Alderman Road in a former Wachovia branch. We anticipate approval and a fourth quarter branch opening. We will also be adding a West Pasco loan production office after we receive regulatory approval.



Robert B. McGivney
Chairman of the Board & CEO

In February, Eric Treichel, joined Jefferson as Vice President of Commercial Lending. Eric is a seasoned commercial and real estate lender whose bay area banking career includes 12 years at Barnett Bank.

First Quarter, 2009

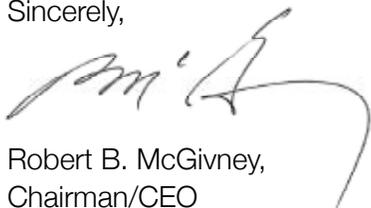
March 31 ended with total assets of \$64,387,000, net loans of \$33,877,000, and a 1.32% reserve for loan losses. Total deposits were \$45,463,000, up 54% in 3 months with core deposits of \$31,267,000. At quarter end we had 722 deposit accounts and 105 loans. The Book Value was \$9.30 per share. At quarter end 42 customers were depositing by way of the JEFF remote deposit scanner.

In late March we sold long term, fixed-rate securities to decrease interest rate risk and recognize gains of \$387,000 in exchange for lower-yielding, intermediate-term investments. Securities gains are not an operational focus at Jefferson, however, managing interest rate risk is a continuing priority.

On behalf of the Board and Jefferson Bankers, we would like to express our sincere appreciation to all of you who support Jefferson's growth with your business and referrals. Jefferson Bank provides that unique opportunity where you can influence the growth of your investment by way of your own business and your referrals.

Do your banking with your Bank – Jefferson Bank.

Sincerely,

A handwritten signature in black ink, appearing to read 'R. McGivney', with a long, sweeping flourish extending to the right.

Robert B. McGivney,
Chairman/CEO

OUR BOARD OF DIRECTORS, OFFICERS, TEAM MEMBERS

Jefferson Bank of Florida's ability to compete and succeed would not be possible without the efforts of the dedicated people we work with every day.

Our Board of Directors

Gary L. Blackwell
Melvin S. Cutler
Stephen H. Jacobs, MD
Robert B. McGivney
Joseph L. Oliveri
Paul J. Wikle

Executive Officers

Robert B. McGivney, Chairman of the Board & CEO
James P. Nelson, President, COO & Senior Lending Officer
Margaret M. Orr, Executive Vice President / Chief Financial Officer

Officers

William H. Ecob, Vice President / Operations
Renee K. Jones, Vice President / Treasury Management
Linda Jouben, BSA / Compliance Officer
Joseph M. LaRussa, Vice President / Commercial Lender
Margaret E. Mathey, Vice President / Loan Operations
Meredith A. Roun, Vice President / Financial Center Manager
Eric S. Treichel, Vice President / Commercial Lender

Oldsmar Branch

Rose M. Fasano, Personal Banker
Kathleen M. McPhillips, Assistant Manager / Personal Banker
Eleanor F. Riela, Teller
Donna L. Thompson, Teller Supervisor
Peter C. Fletcher, Courier

Operations

Amanda C. Barnette, Assistant Controller
Jodi L. Dorsey, Operations Specialist
Suzan M. Frijouf, Administrative Assistant
M. Kelly Reinbolt, Marketing / Executive Assistant



Pictured Left to Right: Robert B. McGivney, James P. Nelson, Margaret M. Orr,

Treasury Management

Business Online Banking
JEFF Remote Deposit
Business Bill Pay
ACH
Wire Transfer
Sweep Accounts
Repurchase Agreements
Escrow Accounts
Merchant Services
Courier Services
CDARS Service (Business and Personal)

Business Banking

Business Loans
Lines of Credit
Commercial Real Estate Loans

Personal Banking

Basic Checking
Shareholder Checking
Interest Checking
Interest 50 Checking
CD's
Individual Retirement Accounts (IRA)
Home Equity Loans
Auto Loans

And so much more.



Jefferson Bank
3711 Tampa Road, Oldsmar, FL 34677
813-855-7500 727-781-7500
www.JeffersonBankFL.com

Period from
December 3, 2007
(Commencement of
Banking Operations) to
December 31,

EARNINGS SUMMARY

Year Ended December 31,	2008	2007
Net Interest Income	\$1,464,000	\$75,000
Provision for Loan Losses	363,000	21,000
Non-Interest Income	31,000	1,000
Non-Interest Expense	2,618,000	193,000
Income Taxes	542,000	49,000
Net Income/(Loss)	(944,000)	(89,000)
Net Interest Margin	4.16%	5.25%

BALANCE SHEET SUMMARY

Balance at December 31	2008	2007
Total Assets	\$56,765,000	\$20,416,000
Loans (Net of allowance for loan losses of \$384,000 & \$21,000)	28,132,000	1,960,000
Securities	25,269,000	1,999,000
Total Deposits & Customer Repurchase Agreements	29,441,000	773,000
Stockholders' Equity	18,866,000	19,418,000
Book Value Per Share	\$9.43	\$9.71

PERIOD END DATA

December 31,	2008	2007
Tier 1 Risk-Based Capital Ratio	50.95%	255.92%
Total Risk-Based Capital Ratio	52.04%	256.20%
Leverage Ratio	35.08%	217.64%
Allowance For Losses As Percentage Of Loans	1.35%	1.06%

Independent Auditors' Report

Jefferson Bank of Florida
Oldsmar, Florida:

We have audited the accompanying balance sheets of Jefferson Bank of Florida (the "Bank") at December 31, 2008 and 2007, and the related statements of operations, stockholders' equity, and cash flows for the year ended December 31, 2008 and for the period from December 3, 2007 (commencement of banking operations) to December 31, 2007. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Bank at December 31, 2008 and 2007, and the results of its operations and its cash flows for the year ended December 31, 2008 and for the period from December 3, 2007 (commencement of banking operations) to December 31, 2007, in conformity with accounting principles generally accepted in the United States of America.

HACKER, JOHNSON & SMITH PA
Tampa, Florida
February 16, 2009

JEFFERSON BANK OF FLORIDA

Balance Sheets

(\$ in thousands except per share data)

	At December 31,	
	2008	2007
Assets		
Cash and due from banks	\$ 414	200
Federal funds sold	-	12,900
Certificate of deposit	-	1,250
Total cash and cash equivalents	414	14,350
Securities available for sale	25,269	1,999
Loans, net of allowance for loan losses of \$384 and \$21	28,132	1,960
Federal Home Loan Bank stock	202	-
Premises and equipment, net	1,594	1,672
Accrued interest receivable	305	20
Deferred tax asset	690	331
Other assets	159	84
Total assets	\$ <u>56,765</u>	20,416
Liabilities and Stockholders' Equity		
Liabilities:		
Noninterest-bearing demand deposits	4,109	333
Savings, NOW and money-market deposits	14,766	385
Time deposits	7,208	55
Total deposits	26,083	773
Federal funds purchased	5,193	-
Federal Home Loan Bank advance	3,000	-
Other borrowings	3,359	-
Other liabilities	264	225
Total liabilities	37,899	998
Commitments (Notes 4 and 9)		
Stockholders' equity:		
Preferred stock, no par value; 1,000,000 shares authorized, no shares issued and outstanding	-	-
Common stock, \$5 par value; 9,000,000 shares authorized, 2,000,000 issued and outstanding	10,000	10,000
Additional paid-in capital	10,063	9,976
Accumulated deficit	(1,501)	(557)
Accumulated other comprehensive income (loss)	304	(1)
Total stockholders' equity	18,866	19,418
Total liabilities and stockholders' equity	\$ <u>56,765</u>	20,416
See Accompanying Notes to Financial Statements.		

JEFFERSON BANK OF FLORIDA

Statements of Operations (In thousands)

	<u>Year Ended</u> <u>December 31,</u> <u>2008</u>	<u>Period from</u> <u>December 3, 2007</u> <u>(Commencement</u> <u>of Banking</u> <u>Operations) to</u> <u>December 31,</u> <u>2007</u>
Interest income:		
Loans	\$ 861	3
Securities	898	22
Federal funds and other	<u>79</u>	<u>51</u>
Total interest income	<u>1,838</u>	<u>76</u>
Interest expense:		
Deposits	324	1
Borrowings	<u>50</u>	<u>-</u>
Total interest expense	<u>374</u>	<u>1</u>
Net interest income	1,464	75
Provision for loan losses	<u>363</u>	<u>21</u>
Net interest income after provision for loan losses	<u>1,101</u>	<u>54</u>
Noninterest income-		
Service charges and fees	<u>31</u>	<u>1</u>
Noninterest expenses:		
Salaries and employee benefits	1,405	98
Occupancy and equipment	554	41
Data processing	193	14
Advertising	67	9
Professional fees	117	-
Other	<u>282</u>	<u>31</u>
Total noninterest expenses	<u>2,618</u>	<u>193</u>
Loss before income tax benefit	(1,486)	(138)
Income tax benefit	<u>542</u>	<u>49</u>
Net loss	\$ <u>(944)</u>	<u>(89)</u>

See Accompanying Notes to Financial Statements.

JEFFERSON BANK OF FLORIDA

Statements of Stockholders' Equity

**Year Ended December 31, 2008 and For the Period from December 3, 2007
(Commencement of Banking Operations) to December 31, 2007**
(\$ in thousands)

	<u>Common Stock</u>		<u>Additional</u>	<u>Accumulated</u>	<u>Accumulated</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>	<u>Paid-In</u>	<u>Deficit</u>	<u>Other</u>	<u>Stockholders'</u>
			<u>Capital</u>		<u>Compre-</u>	<u>Equity</u>
					<u>hensive</u>	
					<u>Income</u>	
					<u>(Loss)</u>	
Balance at December 3, 2007	2,000,000	\$ 10,000	9,976	(468)	-	<u>19,508</u>
Comprehensive loss:						
Net loss	-	-	-	(89)	-	(89)
Unrealized loss on securities available for sale, net of tax	-	-	-	-	(1)	<u>(1)</u>
Comprehensive loss	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u>(90)</u>
Balance at December 31, 2007	2,000,000	10,000	9,976	(557)	(1)	<u>19,418</u>
Stock-based compensation	-	-	87	-	-	<u>87</u>
Comprehensive loss:						
Net loss	-	-	-	(944)	-	(944)
Change in unrealized loss on securities available for sale, net of tax	-	-	-	-	305	<u>305</u>
Comprehensive loss	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u>(639)</u>
Balance at December 31, 2008	<u>2,000,000</u>	<u>\$ 10,000</u>	<u>10,063</u>	<u>(1,501)</u>	<u>304</u>	<u>18,866</u>

See Accompanying Notes to Financial Statements.

JEFFERSON BANK OF FLORIDA

Statements of Cash Flows (In thousands)

	<u>Year Ended</u> <u>December 31,</u> <u>2008</u>	<u>Period from</u> <u>December 3, 2007</u> <u>(Commencement</u> <u>of Banking</u> <u>Operations) to</u> <u>December 31,</u> <u>2007</u>
Cash flows from operating activities:		
Net loss	\$ (944)	(89)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	203	10
Provision for loan losses	363	21
Amortization of deferred loan fees and costs	(10)	-
Amortization of premiums and discounts on securities	(18)	-
Deferred income tax benefit	(542)	(49)
Net increase in accrued interest receivable	(285)	(20)
Net increase in other assets	(75)	(24)
Net increase (decrease) in other liabilities	39	(244)
Stock-based compensation	<u>87</u>	<u>-</u>
Net cash used in operating activities	<u>(1,182)</u>	<u>(395)</u>
Cash flows from investing activities:		
Purchase of securities available for sale	(27,358)	(2,000)
Proceeds from sale of securities available for sale	985	-
Proceeds from call of securities available for sale	2,500	-
Principal collected on securities available for sale	1,109	-
Loan originations, net	(26,525)	(1,981)
Purchase of premises and equipment	(125)	(66)
Purchase of Federal Home Loan Bank stock	<u>(202)</u>	<u>-</u>
Net cash used in investing activities	<u>(49,616)</u>	<u>(4,047)</u>
Cash flows from financing activities:		
Net increase in deposits	25,310	773
Proceeds from Federal Home Loan Bank advance	3,000	-
Net proceeds from Federal funds purchased	5,193	-
Net increase in other borrowings	<u>3,359</u>	<u>-</u>
Net cash provided by financing activities	<u>36,862</u>	<u>773</u>
Net decrease in cash and cash equivalents	(13,936)	(3,669)
Cash and cash equivalents at beginning of period	<u>14,350</u>	<u>18,019</u>
Cash and cash equivalents at end of period	\$ <u>414</u>	<u>14,350</u>

(continued)

JEFFERSON BANK OF FLORIDA

Statements of Cash Flows, Continued
(In thousands)

	Year Ended December 31, <u>2008</u>	Period from December 3, 2007 (Commencement of Banking Operations) to December 31, <u>2007</u>
Supplemental disclosure of cash flow information:		
Cash paid during the period for interest	\$ <u>335</u>	<u>-</u>
Noncash transaction-		
Accumulated other comprehensive income (loss), unrealized gain (loss) on securities available for sale, net of tax	\$ <u>305</u>	(<u>1</u>)

See Accompanying Notes to Financial Statements.

JEFFERSON BANK OF FLORIDA

Notes to Financial Statements

**At December 31, 2008 and 2007 and for the Year Ended December 31, 2008
and for the Period from December 3, 2007 (Commencement of Banking Operations)
to December 31, 2007**

(1) Summary of Significant Accounting Policies

Organization. Jefferson Bank of Florida (the "Bank") is a state (Florida)-chartered commercial bank. The Bank began its organizational phase in January, 2007. These financial statements do not include the activities during the organizational phase but include the period from December 3, 2007, the date banking operations commenced, through December 31, 2007. The Bank offers a variety of banking and financial services to individual and corporate customers through its banking office located in Oldsmar, Florida. The deposit accounts of the Bank are insured up to the applicable limits by the Federal Deposit Insurance Corporation.

The following is a description of the significant accounting policies and practices followed by the Bank, which conform to accounting principles, generally accepted in the United States of America and prevailing practices within the banking industry.

Use of Estimates. In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, 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 reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relates to the determination of the allowance for loan losses and deferred tax assets.

Cash and Cash Equivalents. For purposes of the statement of cash flows, cash and cash equivalents include cash and balances due from banks, federal funds sold and certificates of deposits, all of which mature within ninety days.

At December 31, 2008 and 2007, the Bank was not required by law or regulation to maintain cash reserves with the Federal Reserve Bank, in accounts with other banks or in the vault.

Securities. Securities may be classified as either trading, held to maturity or available for sale. Trading securities are held principally for resale and recorded at their fair values. Unrealized gains and losses on trading securities are included immediately in operations. Held-to-maturity securities are those which the Bank has the positive intent and ability to hold to maturity and are reported at amortized cost. Available-for-sale securities consist of securities not classified as trading securities nor as held-to-maturity securities. Unrealized holding gains and losses, net of tax, on available-for-sale securities are excluded from operations and reported in accumulated other comprehensive income (loss). Gains and losses on the sale of available-for-sale securities are recorded on the trade date determined using the specific-identification method. Premiums and discounts on securities available for sale are recognized in interest income using the interest method over the period to maturity.

(continued)

JEFFERSON BANK OF FLORIDA

Notes to Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

Loans. Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off are reported at their outstanding principal adjusted for any charge-offs, the allowance for loan losses, and any deferred fees or costs.

Commitment and loan origination fees are capitalized and certain direct origination costs are deferred. Both are recognized as an adjustment of the yield of the related loan.

The accrual of interest on loans is discontinued at the time the loan is ninety days delinquent unless the loan is well collateralized and in process of collection. In all cases, loans are placed on nonaccrual or charged-off at an earlier date if collection of principal or interest is considered doubtful. All interest accrued but not collected for loans that are placed on nonaccrual or charged-off is reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Allowance for Loan Losses. The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to operations. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectibility of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

The allowance consists of specific and general components. The specific component relates to loans that are classified as impaired. For such loans, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers all other loans and is based on historical industry loss experience adjusted for qualitative factors.

(continued)

JEFFERSON BANK OF FLORIDA

Notes to Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

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

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Bank does not separately identify individual residential real estate loans, lines of credit and consumer loans for impairment disclosures.

Premises and Equipment. Leasehold improvements, furniture, fixtures and equipment, and software are stated at cost less accumulated depreciation and amortization. Depreciation and amortization expense are computed using the straight-line method over the estimated useful life of each type of asset, or the lease term which includes certain renewal options, if shorter.

Transfer of Financial Assets. Transfers of financial assets 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.

Comprehensive Loss. Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net loss. Although certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale securities, are reported as a separate component of the equity section of the balance sheet, such items, along with net loss, are components of comprehensive loss. The only component of other comprehensive loss was unrealized holding gains (losses) on securities available for sale.

(continued)

JEFFERSON BANK OF FLORIDA

Notes to Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

Income Taxes. Deferred income tax assets and liabilities are recorded to reflect the tax consequences on future years of temporary differences between revenues and expenses reported for financial statement and those reported for income tax purposes. Deferred tax assets and liabilities are measured using the enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be realized or settled. A deferred tax asset has been recognized because management believes it is more likely than not that the asset will be realized against future taxable income.

Fair Value Measurements. Effective January 1, 2008, the Bank adopted Statement of Financial Accounting Standards ("SFAS") No. 157, *Fair Value Measurements* ("SFAS 157"). SFAS 157 defines fair value, establishes a framework for measuring fair value and enhances disclosures about fair value measurements.

SFAS 157 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. SFAS 157 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1: Observable inputs such as quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities that are not active; and model-driven valuations whose inputs are observable or whose significant value drivers are observable. Valuations may be obtained from, or corroborated by, third-party pricing services.

Level 3: Unobservable inputs to measure fair value of assets and liabilities for which there is little, if any market activity at the measurement date, using reasonable inputs and assumptions based upon the best information at the time, to the extent that inputs are available without undue cost and effort.

In February 2008, the Financial Accounting Standards Board ("FASB") issued FASB Staff Position ("FSP") No. FAS 157-2, *Effective Date of FASB Statement No. 157*. This FSP delays the effective date of FAS 157 for all nonfinancial assets and nonfinancial 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. The impact of adoption had no effect on the Bank.

(continued)

JEFFERSON BANK OF FLORIDA

Notes to Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

Fair Value Measurements, Continued. In October 2008, the FASB issued FASB Staff Position No. 157-3, *Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active*. This FASB Staff Position clarifies the application of SFAS 157, in determining the fair value of a financial asset when the market for that financial asset is not active. This FASB Staff Position was effective upon issuance.

The following describes valuation methodologies used for assets measured at fair value:

Securities Available for Sale. Where quoted prices are available in an active market, securities are classified within level 1 of the valuation hierarchy. Level 1 securities include highly liquid government bonds, certain mortgage products and exchange-traded equities. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows. Examples of such instruments, which would generally be classified within level 2 of the valuation hierarchy, include certain collateralized mortgage and debt obligations and certain high-yield debt securities. In certain cases where there is limited activity or less transparency around inputs to the valuation, securities are classified within level 3 of the valuation hierarchy. Securities classified within level 3 include certain residual interests in securitizations and other less liquid securities.

Advertising. The Bank expenses all media advertising as incurred.

Preopening and Organizational Costs. Preopening and organizational costs were \$468,000, net of taxes. Prior to the commencement of banking operations, all costs had been charged to expense as incurred.

Off-Balance Sheet Instruments. In the ordinary course of business the Bank has entered into off-balance sheet financial instruments consisting of commitments to extend credit, unused lines of credit and standby letters of credit. Such financial instruments are recorded in the financial statements when they are funded.

Stock-Based Compensation. The Bank follows the fair value recognition provisions of SFAS Statement No. 123(R), *Share-Based Payment* ("SFAS 123(R)"), and expenses the fair value of any stock options granted. SFAS 123(R) requires the measurement and recognition of compensation for all stock-based awards made to employees and directors including stock options based on estimated fair values. Under the fair value recognition provisions of SFAS 123(R), the Bank recognizes stock-based compensation in salaries and employee benefits for officers and employees and in other expense for directors in the statements of operations.

(continued)

JEFFERSON BANK OF FLORIDA

Notes to Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

Recent Pronouncements. In December 2007, the FASB issued SFAS No. 141(R), *Business Combinations* ("SFAS 141(R)"). SFAS 141(R) is effective for the Bank's financial statements for the year beginning January 1, 2009. SFAS 141(R) requires the acquiring entity in a business combination to recognize all (and only) the assets acquired and liabilities assumed in the transaction; establishes the acquisition date fair value as the measurement objective for all assets acquired and liabilities assumed; and requires the acquirer to disclose to investors and other users all of the information they need to evaluate and understand the nature and financial effect of the business combination. Acquisition related costs including finder's fees, advisory, legal, accounting valuation and other professional and consulting fees are required to be expensed as incurred. The adoption of this statement had no current effect on the Bank.

In May 2008, the FASB issued SFAS No. 162, *The Hierarchy of Generally Accepted Accounting Principles* ("SFAS 162"). This statement identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements that are presented in conformity with generally accepted accounting principles ("GAAP") in the United States. This Statement was effective in December 2008. The adoption of SFAS 162 had no effect on the Bank.

On February 20, 2008, the FASB issued FSP No. FAS 140-3, *Accounting for Transfers of Financial Assets and Repurchase Financing Transactions* ("FSP 140-3"). FSP 140-3 requires that an initial transfer of a financial asset and a repurchase financing that was entered into contemporaneously with, or in contemplation of, the initial transfer be evaluated together as a linked transaction under SFAS 140, unless certain criteria are met. FSP 140-3 is effective for the Bank's financial statements for the year beginning January 1, 2009. The adoption of FSP 140-3 had no effect on the Bank.

(continued)

JEFFERSON BANK OF FLORIDA

Notes to Financial Statements, Continued

(2) Securities Available for Sale

Securities have been classified according to management's intention. The carrying amount of securities available for sale and their approximate fair values are summarized as follows (in thousands):

	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
<i>At December 31, 2008:</i>				
U.S. Government agency securities	\$ 13,674	140	(2)	13,812
Mortgage-backed securities	<u>11,108</u>	<u>349</u>	<u>-</u>	<u>11,457</u>
	\$ <u>24,782</u>	<u>489</u>	<u>(2)</u>	<u>25,269</u>
<i>At December 31, 2007:</i>				
U.S. Government agency security	1,500	2	-	1,502
Mortgage-backed security	<u>500</u>	<u>-</u>	<u>(3)</u>	<u>497</u>
	\$ <u>2,000</u>	<u>2</u>	<u>(3)</u>	<u>1,999</u>

Available for sale securities at December 31, 2008 measured at fair value on a recurring basis are summarized below (in thousands):

	<u>Fair Value As of December 31, 2008</u>	<u>Fair Value Measurements at December 31, 2008 Using</u>		
		<u>Quoted Prices In Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Available-for-sale securities	\$ <u>25,269</u>	<u>-</u>	<u>25,269</u>	<u>-</u>

The scheduled maturities of securities available for sale at December 31, 2008 are as follows (in thousands):

	<u>Amortized Cost</u>	<u>Fair Value</u>
Due from five to ten years	\$ 6,692	6,749
Due after ten years	6,982	7,063
Mortgage-backed securities	<u>11,108</u>	<u>11,457</u>
	\$ <u>24,782</u>	<u>25,269</u>

(continued)

JEFFERSON BANK OF FLORIDA

Notes to Financial Statements, Continued

(2) Securities Available for Sale, Continued

There were no sales of securities in 2007. Security sales transactions in 2008 are summarized as follows (in thousands):

Principal received from sales	\$ <u>985</u>
Gross gains	\$ <u>-</u>
Gross losses	\$ <u>-</u>

The security with a gross unrealized loss at December 31, 2008 and length of time that the individual security has been in a continuous loss position, is as follows (in thousands):

	Less Than Twelve Months		Over Twelve Months	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
<i>Securities Available for Sale-</i>				
U.S. Government agency security	\$(2)	<u>993</u>	<u>-</u>	<u>-</u>

Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Bank to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

The unrealized loss on one investment security was caused by market conditions. It is expected that the security would not be settled at a price less than the par value of the investment. Because the decline in fair value is attributable to changes in market conditions and not credit quality, and because the Bank has the ability and intent to hold this investment until a market price recovery or maturity, this investment is not considered other-than-temporarily impaired.

(continued)

JEFFERSON BANK OF FLORIDA

Notes to Financial Statements, Continued

(3) Loans

The components of loans are as follows (in thousands):

	<u>At December 31,</u>	
	<u>2008</u>	<u>2007</u>
Residential real estate	\$ 4,182	83
Commercial real estate	17,874	775
Commercial	6,059	745
Lines of credit	182	290
Consumer	<u>212</u>	<u>85</u>
Total loans	28,509	1,978
Add (deduct):		
Net deferred loan costs	7	3
Allowance for loan losses	<u>(384)</u>	<u>(21)</u>
Loans, net	\$ <u>28,132</u>	<u>1,960</u>

An analysis of the change in the allowance for loan losses follows (in thousands):

	<u>Year Ended</u> <u>December 31,</u> <u>2008</u>	<u>Period Ended</u> <u>December 31,</u> <u>2007</u>
Beginning balance	\$ 21	-
Provision for loan losses	<u>363</u>	<u>21</u>
Ending balance	\$ <u>384</u>	<u>21</u>

The Bank had no impaired loans in 2008 or 2007. Also, at December 31, 2008 and 2007, the Bank had no nonaccrual loans or loans which were over ninety days past due but still accruing interest.

The Bank grants the majority of its loans to borrowers throughout Pinellas County, Florida. Although the Bank has a diversified loan portfolio, a significant portion of its borrowers' ability to honor their contracts is dependent upon the economy of this area.

(continued)

JEFFERSON BANK OF FLORIDA

Notes to Financial Statements, Continued

(4) Premises and Equipment

A summary of premises and equipment follows (in thousands):

	<u>At December 31,</u>	
	<u>2008</u>	<u>2007</u>
Leasehold improvements	\$ 1,113	1,094
Furniture, fixtures and equipment	660	568
Software	<u>34</u>	<u>20</u>
Total, at cost	1,807	1,682
Less accumulated depreciation and amortization	<u>(213)</u>	<u>(10)</u>
Premises and equipment, net	<u>\$ 1,594</u>	<u>1,672</u>

The Bank leases its retail banking facility and office suite under operating lease agreements. The Bank facility lease expires in 2017 and contains three five year renewal options. The office suite lease expires in 2012 and contains four three year renewal options. These leases require monthly lease payments and common area maintenance charges. The leases contain escalation clauses during the term of the lease. Rent expense under these operating leases for the year ended December 31, 2008 and the period ended December 31, 2007 was approximately \$237,000 and \$19,000, respectively. Future minimum rental commitments under these noncancelable leases, which includes certain renewal options, are approximately as follows (in thousands):

<u>Year Ending</u> <u>December 31,</u>	<u>Minimum</u> <u>Annual</u> <u>Rental</u> <u>Payment</u>
2009	\$ 195
2010	197
2011	200
2012	206
2013	212
Thereafter	<u>3,005</u>
	<u>\$ 4,015</u>

(5) Deposits

The aggregate amount of time deposits, each with a minimum denomination of \$100,000 was approximately \$4,457,000 at December 31, 2008. There were no such deposits at December 31, 2007.

(continued)

JEFFERSON BANK OF FLORIDA

Notes to Financial Statements, Continued

(5) Deposits, Continued

At December 31, 2008, maturities of time deposits are as follows (in thousands):

<u>Year Ending December 31,</u>	<u>Amount</u>
2009	\$ 5,185
2010	2,013
2012	<u>10</u>
	<u>\$ 7,208</u>

(6) Federal Home Loan Bank Advance

A summary of the Bank's Federal Home Loan Bank of Atlanta ("FHLB") advance at December 31, 2008 by maturity and interest rate follows (in thousands):

<u>Maturity</u>	<u>Rate</u>	
Daily	Variable ⁽¹⁾	\$ <u>3,000</u>

⁽¹⁾ .46% at December 31, 2008.

Advances from the FHLB are collateralized by a blanket floating lien on the Bank's qualifying residential and commercial real estate loans.

(7) Other Borrowings

The Bank enters into repurchase agreements with customers. These agreements require the Bank to pledge securities as collateral for the balance in the accounts. At December 31, 2008, the balance totaled \$3,359,000 and the Bank had pledged securities as collateral for these agreements with a carrying value of \$8,649,000. The Bank had no repurchase agreements at December 31, 2007.

(8) Income Taxes

The components of the income tax benefit are as follows (in thousands):

	<u>Year Ended December 31, 2008</u>	<u>Period Ended December 31, 2007</u>
Deferred:		
Federal	\$ 463	42
State	<u>79</u>	<u>7</u>
Total deferred	\$ <u>542</u>	<u>49</u>

(continued)

JEFFERSON BANK OF FLORIDA

Notes to Financial Statements, Continued

(8) Income Taxes, Continued

The reasons for the difference between the statutory Federal income tax rate of 34% and the effective tax rates are summarized as follows (dollars in thousands):

	<u>Year Ended</u> <u>December 31, 2008</u>		<u>Period Ended</u> <u>December 31, 2007</u>	
	<u>Amount</u>	<u>% of</u> <u>Pretax</u> <u>Loss</u>	<u>Amount</u>	<u>% of</u> <u>Pretax</u> <u>Loss</u>
Income tax benefit at statutory rate	\$ 505	34.0%	\$ 47	34.0%
Increase (decrease) resulting from:				
State taxes, net of Federal tax benefit	52	3.5	5	3.6
Stock-based compensation	(14)	(.9)	-	-
Non-deductible expenses	<u>(1)</u>	<u>(.1)</u>	<u>(3)</u>	<u>(2.1)</u>
	<u>\$ 542</u>	<u>36.5%</u>	<u>\$ 49</u>	<u>35.5%</u>

Tax effects of temporary differences that give rise to the deferred tax assets and liabilities are as follows (in thousands):

	<u>At December 31,</u>	
	<u>2008</u>	<u>2007</u>
Deferred tax assets:		
Organizational and start-up costs	\$ 346	371
Allowance for loan losses	111	-
Net operating loss carryforwards	501	1
Stock-based compensation	<u>17</u>	<u>-</u>
Deferred tax assets	<u>975</u>	<u>372</u>
Deferred tax liabilities:		
Allowance for loan losses	-	(21)
Accrual to cash conversion	(59)	(11)
Premises and equipment	(43)	(9)
Unrealized gain on securities available for sale	<u>(183)</u>	<u>-</u>
Deferred tax liabilities	<u>(285)</u>	<u>(41)</u>
Net deferred tax asset	<u>\$ 690</u>	<u>331</u>

At December 31, 2008, the Bank has net operating loss carryforwards of approximately \$1.3 million available to offset future taxable income. These carryforwards will expire in 2028.

(continued)

JEFFERSON BANK OF FLORIDA

Notes to Financial Statements, Continued

(9) Off-Balance Sheet Financial Instruments

The Bank is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments are commitments to extend credit, unused lines of credit and standby letters of credit and may involve, to varying degrees, elements of credit risk in excess of the amount recognized in the balance sheet. The contract amounts of these instruments reflect the extent of involvement the Bank has in these financial instruments.

The Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and unused lines of credit is represented by the contractual amount of those instruments. The Bank uses the same credit policies in making commitments as it does for on-balance sheet instruments.

Commitments to extend credit and unused lines of credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since some of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained if deemed necessary by the Bank upon extension of credit is based on management's credit evaluation of the counterparty.

Standby letters of credit are conditional lending commitments issued by the Bank to guarantee the performance of a client to a third party to support public and private borrowing arrangements. The letters of credit issued expire in 2009. The credit risk involved in issued letters of credit is essentially the same as that involved in extending loan facilities to clients.

Commitments to extend credit typically result in loans with a market interest rate when funded. A summary of the amounts of the Bank's financial instruments with off-balance sheet risk at December 31, 2008 follows (in thousands):

	<u>Contract Amount</u>
Commitments to extend credit	\$ <u>800</u>
Unused lines of credit	\$ <u>7,150</u>
Standby letters of credit	\$ <u>1,613</u>

(continued)

JEFFERSON BANK OF FLORIDA

Notes to Financial Statements, Continued

(10) Stock Option Plan

In 2007, the Bank established a stock option plan for key employees and directors of the Bank. Under the plan, both incentive stock options and nonstatutory stock options can be granted. A total of 300,000 options can be granted under the plan. All options expire ten years from the date of grant. The options granted in 2008 vest 20% immediately and 20% each year over a four year period. At December 31, 2008, 44,000 shares remain available for grant. A summary of stock option activity under this plan is as follows:

	<u>Number of Options</u>	<u>Weighted- Average Exercise Price</u>	<u>Weighted- Average Remaining Contractual Term</u>
Outstanding at December 31, 2007	-	\$ -	
Granted	<u>256,000</u>	10.00	
Outstanding at December 31, 2008	<u>256,000</u>	\$ <u>10.00</u>	<u>9.93 years</u>
Exercisable at December 31, 2008	<u>51,200</u>	\$ <u>10.00</u>	<u>9.93 years</u>

The fair value of each option granted in 2008 was estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions:

Risk-free interest rate	4.26%
Dividend yield	-
Expected stock volatility	6.18%
Expected life in years	6
Per share grant-date fair value of options issued during the year	\$ <u>1.56</u>

The Bank used the guidance in Staff Accounting Bulletin No. 107 issued by the Securities and Exchange Commission to determine the estimated life of options issued. Expected volatility is based on historical volatility of similar financial institutions. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant. The dividend yield assumption is based on the Bank's history and expectation of dividend payments.

At December 31, 2008, there was \$313,000 of total unrecognized compensation expense related to nonvested stock options granted under the plan. The cost is expected to be recognized over the next 3.9 years. The total fair value of shares vesting and recognized as compensation expense was approximately \$87,000 for the year ended December 31, 2008 and the associated income tax benefit recognized was approximately \$17,000.

(continued)

JEFFERSON BANK OF FLORIDA

Notes to Financial Statements, Continued

(11) Related Party Transactions

The Bank enters into transactions during the ordinary course of business with officers and directors of the Bank and entities in which they hold a significant financial interest. The following summarizes these transactions (in thousands):

	<u>Year Ended</u> <u>December 31,</u> <u>2008</u>	<u>Period Ended</u> <u>December 31,</u> <u>2007</u>
Loans:		
Beginning balance	\$ 766	-
Additions	2,509	766
Principal repayments	(2,909)	<u>-</u>
Balance	\$ <u>366</u>	<u>766</u>
Deposits	\$ <u>2,927</u>	<u>510</u>

(12) Sale of Common Stock

The Bank completed the sale of 2,000,000 shares of common stock at \$10 per share (\$5 par value) prior to the commencement of banking operations and incurred approximately \$24,000 of stock offering costs. The initial proceeds were allocated as follows (in thousands):

Common stock	\$ 10,000
Additional paid-in capital	<u>9,976</u>
	\$ <u>19,976</u>

(13) Dividend Restrictions

The Bank is limited in the amount of cash dividends that may be paid. The amount of cash dividends that may be paid is based on the Bank's net earnings of the current year combined with the Bank's retained earnings of the preceding two years, as defined by state banking regulations. However, for any dividend declaration, the Bank must consider additional factors such as the amount of current period net earnings, liquidity, asset quality, capital adequacy and economic conditions. It is likely that these factors would further limit the amount of dividends which the Bank could declare. In addition, bank regulators have the authority to prohibit banks from paying dividends if they deem such payment to be an unsafe or unsound practice.

(14) Employee Benefit Plan

The Bank established a 401(k) plan (the "Plan") in 2008, which is available to employees who have completed ninety days of service and have attained age eighteen. The Bank's expense related to the Plan was approximately \$59,000 for the year ended December 31, 2008.

(continued)

JEFFERSON BANK OF FLORIDA

Notes to Financial Statements, Continued

(15) Regulatory Matters

The Bank is subject to various regulatory capital requirements administered by the 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 percents (set forth in the table below) of total and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier I capital (as defined) to average assets (as defined). Management believes, as of December 31, 2008, that the Bank meets all capital adequacy requirements to which it is subject.

As of December 31, 2008, the most recent notification from the regulatory authorities categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as adequately capitalized the Bank must maintain minimum total risk-based, Tier I risk-based, and Tier I leverage percents as set forth in the table. There are no conditions or events since that notification that management believes have changed the Bank's category. The Bank's actual capital amounts and percents are also presented in the table (\$ in thousands):

	<u>Actual</u>		<u>For Capital Adequacy Purposes</u>		<u>For Well Capitalized Purposes</u>	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
<i>As of December 31, 2008:</i>						
Total Capital (to Risk-Weighted Assets)	\$ 18,257	52.04%	\$ 2,807	8.00%	\$ 3,508	10.00%
Tier I Capital (to Risk-Weighted Assets)	17,872	50.95	1,403	4.00	2,105	6.00
Tier I Capital (to Average Assets)	17,872	35.08	2,038	4.00	2,548	5.00*
<i>As of December 31, 2007:</i>						
Total Capital (to Risk-Weighted Assets)	19,110	256.20	597	8.00	746	10.00
Tier I Capital (to Risk-Weighted Assets)	19,089	255.92	298	4.00	448	6.00
Tier I Capital (to Average Assets)	19,089	217.64	351	4.00	439	5.00*

* The Bank is required to maintain 8.00% throughout the first three years of operations.

Jefferson Bank®

www.JeffersonBankFL.com

Member FDIC

3711 Tampa Road, Oldsmar, FL 34677 813-855-7500 727-781-7500

