

Jefferson Bank

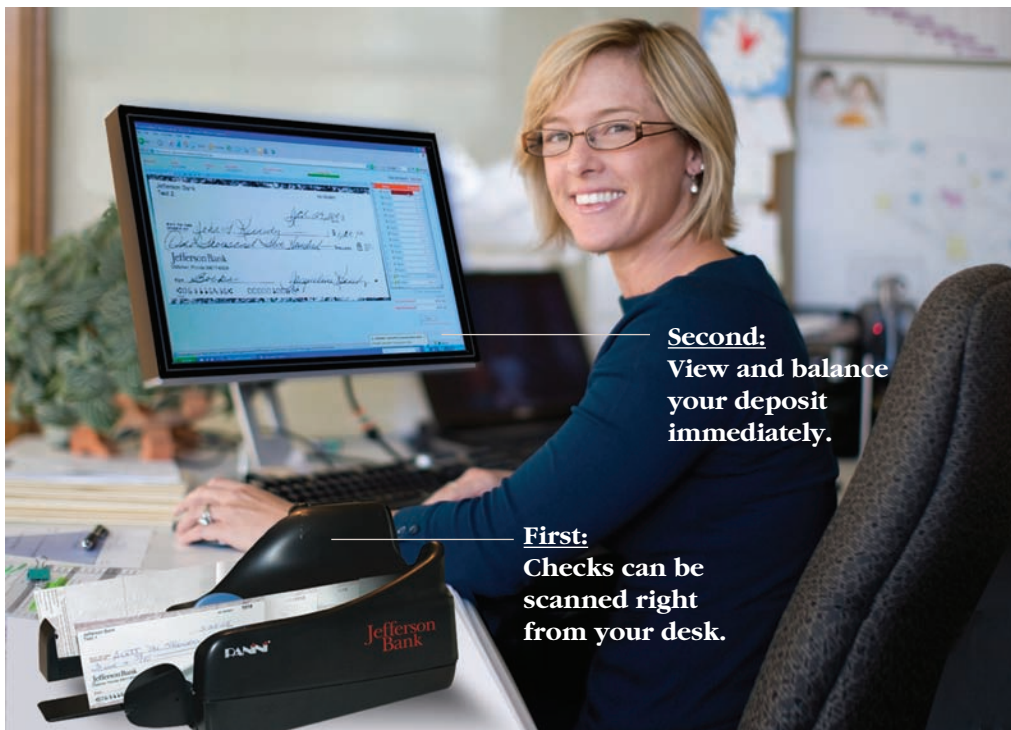


2010 Annual Report

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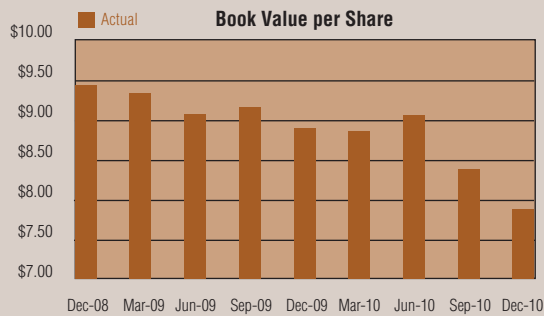
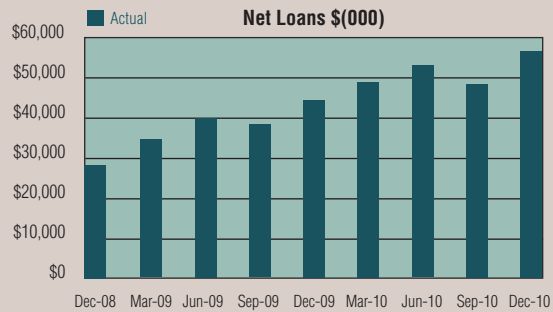
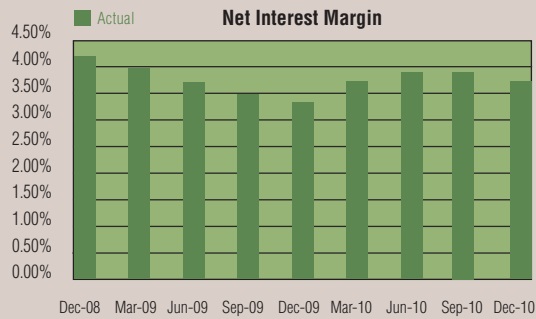
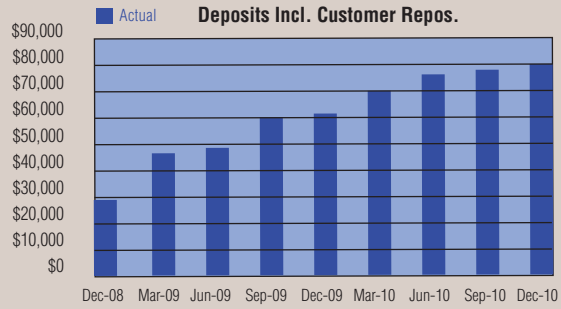
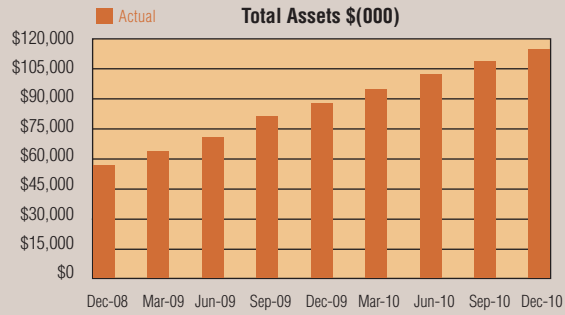
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The Future: Jefferson Bank's Electronic Banking



Second:
View and balance
your deposit
immediately.

First:
Checks can be
scanned right
from your desk.



March 24, 2011



Dear Fellow Jefferson Shareholders

Three years into our journey we can be proud of what has been accomplished by us as Shareholders, Directors, and Jefferson Bankers, particularly in light of sustained economic headwinds. We hope all our customers want to be Jefferson Shareholders so they too will profit while helping to “move the needle.”

Year-end is the appropriate time to review milestones and focus on our continuing vision of Jefferson Bank as the pre-eminent community-owned and supported bank in our markets.

Growth – Year-end assets of \$113,740,000; Deposits & Customer Repos of \$80,212,000; Net Loans of \$56,430,000 are best viewed in the accompanying graphs. Growth rates for 2010 over 2009 were 29%, 28% and 30%, respectively.

Net Interest Margin/Earnings – Our 2010 Net Interest Margin was 3.74%, above peer by 9 basis-points. A major contributor to the excellent margin is our commercial checking and customer repos which are 20% of our total deposits. During 2010, we were in the black 7 of 12 months and Jefferson will also be profitable for the First Quarter of 2011.

Asset Quality – At year-end Jefferson had no Non-Performing Assets. In the Third Quarter of 2010 we experienced a very significant loss on a single loan relationship. We continue to legally pursue collection; however, we are not yet optimistic about recovery.

Directors



Gary L. Blackwell,
Real Estate Developer
and Investor
New Port Richey



David L. Brandon, President
Brandon Construction
Company, Inc.
Palm Harbor

We continue to look for the best available branches. Branching opportunities will continue as we see our industry polarizing around the healthy and unhealthy banks. Last year, the Board prudently put our expansion plans on hold due to the continued slow economy and to give Jefferson time to achieve sustained profitability. We are fast approaching the level of sustained core profitability at which we can absorb the increased overhead and still maintain profitability.

Through our customers' experiences and business needs we see an economic recovery that is slowly growing. More Jefferson customers are hiring than reducing staff. We are more optimistic about the economy in 2011 than at this time last year.

If you are banking at Jefferson, we thank you. If you have not yet made the move, it's time for you to help "move the needle."

Jefferson Bank continues to be a safe haven for customers seeking stability in their banking relationship. Please refer your friends and associates to Jefferson where experienced and knowledgeable Bankers are available for relationship banking.

Respectfully,

A handwritten signature in black ink, appearing to read "R. McGivney", written over a white background.

Robert B. McGivney

Chairman / CEO

Officers

Susan L. Martin, Senior Vice President / Commercial Lender
Renee K. Jones, Vice President / Treasury Management
Joseph M. LaRussa, Vice President / Commercial Lender
Maggie E. Mathey, Vice President / Loan Operations
Linda Jouben, BSA/Compliance Officer
Patti Rhodes, Vice President / Operations

Oldsmar Branch

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

Operations

Vala H. Cox, Accountant
Kelly Denesha, Marketing / Executive Assistant
Suzan M. Frijouf, Administrative Assistant
Katie Ingle, Loan Operations Specialist
Frank Rametta, Operations Specialist
Jodi L. Shore, Operations Specialist

Mortgage Department

Beth A. Larson, Residential Lending Manager
Elena M. Katsulos, Mortgage Loan Originator /
Reverse Mortgage Specialist

Executive Officers

Robert B. McGivney,
Chairman of the Board & CEO
Below left

James P. Nelson, President
COO & Senior Lending Officer
Below center

Margaret (Mickey) M. Orr
Executive Vice President/
Chief Financial Officer
Below right

Directors



Ronald S. Hockman, President
Hockman Insurance
Agency, Inc
Tampa



Services

Directors



Stephen H. Jacobs, M.D.,
Board Certified Internal Medicine
and President of Morton Plant
Mease Primary Care
Clearwater



Robert B. McGivney, Chairman/
CEO, Jefferson Bank of Florida
Oldsmar

Business Banking

At Jefferson Bank, we know the time and energy it takes to build and maintain your growing business. That's why we designed our business checking accounts to serve your daily and long term financial needs quickly and conveniently, allowing you to focus on more important things. Consider us a motivated member of your team.

- Small Business Checking
- Business Checking
- Business Interest Checking
- Commercial Checking
- IOTA (Interest on Trust Account) Checking



Treasury Management Services

Our Treasury Management services will help improve your business' cash flow operations efficiencies. We have structured our online banking products to serve your financial needs quickly and conveniently...saving you time and money.

- Business Online Banking
- Jeff Remote Deposit – Make deposits 24-hours a day, 365 days a year from your office.
See Demo at www.JeffersonBankFL.com.
- Courier Service
- Positive Pay – Keep an eye on check fraud electronically by monitoring the checks clearing your account.
- Business Bill Pay
- Merchant Services
- ACH – Ease the volume of paper transactions by creating and transmitting electronic ACH files from your Jefferson Bank account. Use this service for Direct Deposit of your employee's payroll, Electronic Tax Payments, direct debit of recurring payments such as dues or fees.
- Wire Transfer
- Sweep Accounts
- Repurchase Agreements – Maximize your earnings. Excess funds are swept daily to a fully collateralized investment* so you can earn interest on your funds.

For more information and to set up an appointment with our Treasury Management Specialist, Renee Jones – 813-749-2780 or 727-781-7500.

*Not insured by the FDIC. Not a deposit or other obligation of, or guaranteed by Jefferson Bank. Subject to investment risks, including possible loss of the principal amount invested.



Business Lending Solutions*

Look to Jefferson Bank if you are purchasing a commercial investment property, office condo or a commercial real estate project. We are “Open for Business” and our experienced Commercial Lenders are here to provide a quick response as well as flexible and creative access to the funds you need to meet your individual requirements.

Maximize your benefits with a relationship with Jefferson Bank. Cash is essential to your business growth. Whether you need more working capital, want to finance the purchase of equipment, vehicles or other fixed assets for your business, Jefferson Bank has the financing options for you.

At Jefferson Bank, a quality banking relationship means more than loans and deposits. It means building a relationship that will last a lifetime and making every experience rewarding for the client. We believe a quality relationship means offering the highest quality products to high quality borrowers. It also means being able to perform when your business needs it the most.

Home Mortgages*

Jefferson Bank provides the flexibility you need when purchasing or refinancing a home. We pride ourselves on personalized service, professionalism, and unsurpassed flexibility. Interest rates remain near record lows and you can count on Jefferson Bank to create a hassle-free process. Visit Elena Katsulos in person or fill out an application and click on “Get Started” at www.JeffersonBankFL.com/mortgage.html.

*All loans are subject to normal credit approval procedures and credit standards.

Reverse Mortgages

Put your home’s equity to work for you with a Reverse Mortgage from Jefferson Bank.

- Borrowers must be at least 62
- Access a portion of your home’s equity
- Use tax-free proceeds to supplement retirement cash flow, home repairs, secure a cash reserve or however you choose.
- Eligible property must be primary residence
- No income or credit score qualifications for a Reverse Mortgage



Directors



Joseph L. Oliveri, A.I.A.
Oliveri Architects
Palm Harbor



Paul J. Wikle, CCIM,
Coldwell Banker/
Commercial NRT
Wollinka-Wikle
Title Insurance Agency
Palm Harbor



With this type of loan you retain your home's title, and no monthly mortgage payment is required for as long as you continue to live in the home. As the homeowner you will continue to pay property insurance and ongoing property taxes.

Personal Banking

Jefferson Bank customers and shareholders benefit from our winning combination of people, service and convenience. You'll always find the right account for your needs at Jefferson Bank.

Jefferson Shareholder Checking

Get all the services you need in a checking account with a low minimum balance requirement and unlimited check writing. Jefferson Shareholder Checking is a low-cost, value-added solution for you.

- Free Jefferson Bank MasterCard® Debit Card
- Free imaged monthly bank statements and checks
- Free Notary Service,
- Free Official (Cashiers) Checks
- Free Online Banking with Bill Pay, and best of all,
- Free ATM's at Jefferson Bank and all Publix Presto!® ATM's.

How it benefits you

- Unlimited check writing

Quick Facts

- \$100 minimum deposit to open
- No monthly maintenance fee with a \$750 minimum daily balance or \$1,000 average monthly balance
- \$15 monthly maintenance fee below minimum balance requirement
- No monthly maintenance fee with combined deposits of \$7,500***

***Combined deposits include any Jefferson Bank personal deposit accounts except IRAs.



FINANCIAL HIGHLIGHTS

EARNINGS SUMMARY

Year Ended December 31,	2010	2009
Net Interest Income	\$3,636,000	\$2,505,000
Provision for Loan Losses	2,815,000	1,001,000
Non-Interest Income	161,000	79,000
Gain on Sale of Securities	128,000	387,000
Gain on Sale of Loans	81,000	
Non-Interest Expense	3,417,000	3,058,000
Income Taxes	820,000	394,000
Net Income/(Loss)	(1,406,000)	(694,000)
Net Interest Margin	3.74%	3.63%

BALANCE SHEET SUMMARY

Balance at December 31,	2010	2009
Total Assets	\$113,740,000	\$87,906,000
Loans (Net of allowance for loan losses of \$2,212,000 & \$1,375,000)	56,430,000	44,177,000
Securities	50,997,000	37,636,000
Total Deposits & Customer Repurchase Agreements	80,212,000	61,491,000
Stockholders' Equity	15,715,000	17,752,000
Book Value Per Share	\$7.86	\$8.88

PERIOD END DATA

December 31,	2010	2009
Tier 1 Risk-Based Capital Ratio	21.19%	30.38%
Total Risk-Based Capital Ratio	22.46%	31.64%
Leverage Ratio	13.27%	20.07%
Allowance For Losses As Percentage Of Loans	3.77%	3.02%

Jefferson Bank

Oldsmar, Florida

Audited Financial Statements

At December 31, 2010 and 2009 and For the Years Then Ended

(Together with Independent Auditors' Report)



HACKER, JOHNSON & SMITH PA

Fort Lauderdale
Fort Myers
Orlando
Tampa

Certified Public Accountants

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, 2010 and 2009, and the related statements of operations, stockholders' equity, and cash flows for the years then ended. 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, 2010 and 2009, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

HACKER, JOHNSON & SMITH PA
Tampa, Florida
February 23, 2011

JEFFERSON BANK OF FLORIDA

Balance Sheets

(\$ in thousands except per share data)

	At December 31,	
	2010	2009
Assets		
Cash and due from banks	\$ 563	692
Federal funds sold	201	79
Total cash and cash equivalents	764	771
Certificates of deposit, original maturity over 90 days	-	1,000
Securities available for sale	50,997	37,636
Loans, net of allowance for loan losses of \$2,212 and \$1,375	56,430	44,177
Federal Home Loan Bank stock	957	627
Premises and equipment, net	1,237	1,420
Accrued interest receivable	445	464
Deferred tax asset	2,639	1,383
Other assets	271	428
Total assets	\$ 113,740	87,906
Liabilities and Stockholders' Equity		
Liabilities:		
Noninterest-bearing demand deposits	11,357	9,029
Savings, NOW and money-market deposits	37,687	32,718
Time deposits	26,314	16,559
Total deposits	75,358	58,306
Customer repurchase agreements	4,854	3,185
Federal Home Loan Bank advances	14,750	8,325
Other borrowings	2,600	-
Other liabilities	463	338
Total liabilities	98,025	70,154
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	10,235	10,142
Accumulated deficit	(3,601)	(2,195)
Accumulated other comprehensive loss	(919)	(195)
Total stockholders' equity	15,715	17,752
Total liabilities and stockholders' equity	\$ 113,740	87,906

See Accompanying Notes to Financial Statements.

JEFFERSON BANK OF FLORIDA

Statements of Operations
(In thousands)

	<u>Year Ended December 31,</u>	
	<u>2010</u>	<u>2009</u>
Interest income:		
Loans	\$ 2,928	2,096
Securities	1,543	1,213
Federal funds and other	<u>6</u>	<u>1</u>
Total interest income	<u>4,477</u>	<u>3,310</u>
Interest expense:		
Deposits	736	731
Borrowings	<u>105</u>	<u>74</u>
Total interest expense	<u>841</u>	<u>805</u>
Net interest income	3,636	2,505
Provision for loan losses	<u>2,815</u>	<u>1,001</u>
Net interest income after provision for loan losses	<u>821</u>	<u>1,504</u>
Noninterest income:		
Service charges and fees	161	79
Net gain on sale of securities available for sale	128	387
Gain on sale of loans held for sale	<u>81</u>	<u>-</u>
Total noninterest income	<u>370</u>	<u>466</u>
Noninterest expenses:		
Salaries and employee benefits	1,762	1,608
Occupancy and equipment	611	574
Data processing	337	259
Advertising	77	53
Professional fees	183	115
Other	<u>447</u>	<u>449</u>
Total noninterest expenses	<u>3,417</u>	<u>3,058</u>
Loss before income tax benefit	(2,226)	(1,088)
Income tax benefit	<u>820</u>	<u>394</u>
Net loss	<u>\$(1,406)</u>	<u>(694)</u>

See Accompanying Notes to Financial Statements.

JEFFERSON BANK OF FLORIDA

Statements of Stockholders' Equity

Years Ended December 31, 2010 and 2009

(\$ 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>Income</u>	<u>Equity</u>
					<u>(Loss)</u>	
Balance at December 31, 2008	2,000,000	\$ 10,000	10,063	(1,501)	304	<u>18,866</u>
Stock-based compensation	-	-	79	-	-	<u>79</u>
Comprehensive loss:						
Net loss	-	-	-	(694)	-	(694)
Change in unrealized gain on securities available for sale, net of tax benefit	-	-	-	-	(499)	<u>(499)</u>
Comprehensive loss						<u>(1,193)</u>
Balance at December 31, 2009	2,000,000	10,000	10,142	(2,195)	(195)	<u>17,752</u>
Stock-based compensation	-	-	93	-	-	<u>93</u>
Comprehensive loss:						
Net loss	-	-	-	(1,406)	-	(1,406)
Change in unrealized loss on securities available for sale, net of tax benefit	-	-	-	-	(724)	<u>(724)</u>
Comprehensive loss						<u>(2,130)</u>
Balance at December 31, 2010	<u>2,000,000</u>	<u>\$ 10,000</u>	<u>10,235</u>	<u>(3,601)</u>	<u>(919)</u>	<u>15,715</u>

See Accompanying Notes to Financial Statements.

JEFFERSON BANK OF FLORIDA

Statements of Cash Flows

(In thousands)

	<u>Year Ended December 31,</u>	
	<u>2010</u>	<u>2009</u>
Cash flows from operating activities:		
Net loss	\$ (1,406)	(694)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation	221	211
Provision for loan losses	2,815	1,001
Amortization of deferred loan fees and costs	34	(2)
Amortization of premiums and discounts on securities	(38)	84
Net gain on sale of securities available for sale	(128)	(387)
Deferred income tax benefit	(820)	(394)
Origination of loans held for sale	(5,517)	-
Proceeds from sale of loans held for sale	5,598	-
Gain on sale of loans held for sale	(81)	-
Net decrease (increase) in accrued interest receivable	19	(159)
Net decrease (increase) in other assets	157	(269)
Net increase in other liabilities	125	74
Stock-based compensation	<u>93</u>	<u>79</u>
Net cash provided by (used in) operating activities	<u>1,072</u>	<u>(456)</u>
Cash flows from investing activities:		
Purchase of securities available for sale	(86,510)	(38,469)
Proceeds from sale of securities available for sale	12,377	11,058
Proceeds from calls of securities available for sale	58,735	13,700
Principal collected on securities available for sale	1,043	849
Loan originations, net	(15,102)	(17,044)
Purchase of premises and equipment	(38)	(37)
Purchase of Federal Home Loan Bank stock	(330)	(425)
Redemption (purchase) of certificates of deposit, original maturity over 90 days	<u>1,000</u>	<u>(1,000)</u>
Net cash used in investing activities	<u>(28,825)</u>	<u>(31,368)</u>
Cash flows from financing activities:		
Net increase in deposits	17,052	32,223
Proceeds from Federal Home Loan Bank advances, net	6,425	5,325
Net decrease in Federal funds purchased	-	(5,193)
Net increase in other borrowings	2,600	-
Net increase (decrease) in customer repurchase agreements	<u>1,669</u>	<u>(174)</u>
Net cash provided by financing activities	<u>27,746</u>	<u>32,181</u>
Net (decrease) increase in cash and cash equivalents	(7)	357
Cash and cash equivalents at beginning of year	<u>771</u>	<u>414</u>
Cash and cash equivalents at end of year	\$ <u>764</u>	<u>771</u>

(continued)

JEFFERSON BANK OF FLORIDA

Statements of Cash Flows, Continued
(In thousands)

	<u>Year Ended December 31,</u>	
	<u>2010</u>	<u>2009</u>
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	\$ <u>848</u>	<u>784</u>
Noncash transaction-		
Accumulated other comprehensive loss, unrealized loss on securities available for sale, net of tax	\$ <u>(724)</u>	<u>(499)</u>

See Accompanying Notes to Financial Statements.

JEFFERSON BANK OF FLORIDA

Notes to Financial Statements

At December 31, 2010 and 2009 and for the Years Then Ended

(1) Summary of Significant Accounting Policies

Organization. Jefferson Bank of Florida (the "Bank") is a state (Florida)-chartered commercial bank. 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.

Management has evaluated all significant events occurring subsequent to the balance sheet date through February 23, 2011, which is the date the financial statements were available to be issued, determining no events require additional disclosure in the financial statements.

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 ("GAAP"), 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 statements of cash flows, cash and cash equivalents include cash and balances due from banks and federal funds sold, all of which mature within ninety days.

At December 31, 2010, the Bank was required by law or regulation to maintain a \$16,000 cash reserve with the Federal Reserve Bank, in accounts with other banks or in the vault. At December 31, 2009, the Bank was not required by law or regulation to maintain such 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 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.

Loans Held for Sale. Mortgage loans originated and intended for sale in the secondary market are carried at the lower of cost or estimated fair value in the aggregate. There were no loans held for sale as of December 31, 2010 and 2009.

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 uncollectability 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 collectability 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 shorter of the estimated useful life of each type of asset, or the lease term which includes certain renewal options.

Transfer of Financial Assets. Transfers of financial assets or a participating interest in an entire financial asset 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. A participating interest is a portion of an entire financial asset that (1) conveys proportionate ownership rights with equal priority to each participating interest holder (2) involves no recourse (other than standard representations and warranties) to, or subordination by, any participating interest holder, and (3) does not entitle any participating interest holder to receive cash before any other participating interest holder.

(continued)

JEFFERSON BANK OF FLORIDA

Notes to Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

Comprehensive Loss. Accounting principles generally require that recognized revenue, expenses, gains and losses be included in operations. 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 components of other comprehensive loss and related tax effects are as follows (in thousands):

	Year Ended December 31,	
	2010	2009
Unrealized holding losses on available for sale securities	\$(1,032)	(411)
Reclassification adjustment for gains realized in operations	<u>(128)</u>	<u>(387)</u>
Net change in unrealized losses	(1,160)	(798)
Income tax effect	<u>436</u>	<u>299</u>
Net amount	\$ <u>(724)</u>	<u>(499)</u>

Income Taxes. The Bank accounts for income taxes in accordance with current income tax accounting guidance required by GAAP, which sets out a consistent framework to determine the appropriate level of tax reserves to maintain for uncertain tax positions.

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

Deferred income tax expense results from changes in deferred tax assets and liabilities between periods. Deferred tax assets are recognized if it is more likely than not, based on the technical merits, that the tax position will be realized or sustained upon examination. The term more likely than not means a likelihood of more than 50 percent; the terms examined and upon examination also include resolution of the related appeals or litigation processes, if any. A tax position that meets the more-likely-than-not recognition threshold is initially and subsequently measured as the largest amount of tax benefit that has a greater than 50 percent likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. The determination of whether or not a tax position has met the more-likely-than-not recognition threshold considers the facts, circumstances, and information available at the reporting date and is subject to management's judgment. Deferred tax assets are reduced by a valuation allowance if, based on the weight of evidence available, it is more likely than not that some portion or all of a deferred tax asset will not be realized. As of December 31, 2010, management is not aware of any uncertain tax positions that would have a material effect on the Bank's financial statements.

(continued)

JEFFERSON BANK OF FLORIDA

Notes to Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

Income Taxes, Continued. The Bank recognizes interest and penalties on income taxes as a component of income tax expense.

Fair Value Measurements. GAAP defines fair value, establishes a framework for measuring fair value and enhances disclosures about fair value measurements.

Fair value is defined 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. GAAP 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.

The following describes valuation methodologies used for assets and liabilities 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.

(continued)

JEFFERSON BANK OF FLORIDA

Notes to Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

Fair Value Measurements, Continued.

Impaired Loans. Estimates of fair value are determined based on a variety of information, including the use of available appraisals, estimates of market value by licensed appraisers or local real estate brokers and the knowledge and experience of the Bank's management related to values of properties in the Bank's market areas. Management takes into consideration the type, location and occupancy of the property as well as current economic conditions in the area the property is located in assessing estimates of fair value. Accordingly, fair value estimates for impaired loans are classified as Level 3.

Fair Values of Financial Instruments. The following methods and assumptions were used by the Bank in estimating fair values of financial instruments:

Cash and Cash Equivalents. The carrying amounts approximate fair value.

Securities. Fair values for securities available for sale are based on the framework for measuring fair value. The fair value of Federal Home Loan Bank stock is based on its redemption value.

Loans. For variable-rate loans that reprice frequently and have no significant change in credit risk, fair values are based on carrying values. Fair values for fixed-rate mortgage (e.g. one-to-four family residential), commercial real estate and commercial loans are estimated using discounted cash flow analyses, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality.

Accrued Interest Receivable. The carrying amount approximates fair value.

Deposit Liabilities. The fair values disclosed for demand, NOW, money-market and savings deposits are, by definition, equal to the amount payable on demand at the reporting date (that is, their carrying amounts). Fair values for fixed-rate time deposits are estimated using a discounted cash flow calculation that applies interest rates currently being offered on time deposits to a schedule of aggregated expected monthly maturities of time deposits.

Federal Home Loan Bank Advances. Fair values of advances from Federal Home Loan Bank are estimated using discounted cash flow analysis based on the Bank's current incremental borrowing rates for similar types of borrowings.

Other Borrowings. The carrying amount of other borrowings approximates fair value.

Off-Balance-Sheet Financial Instruments. Fair values for off-balance-sheet lending commitments are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties' credit standing.

(continued)

JEFFERSON BANK OF FLORIDA

Notes to Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

Advertising. The Bank expenses all media advertising 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 expenses the fair value of any stock options granted. 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. The expense is recognized on a straight-line basis over the vesting period.

Recent Pronouncements. In January 2010, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2010-06, *Improving Disclosures about Fair Value Measurements (Topic 820)*, which amends the guidance for fair value measurements and disclosures. This guidance requires a reporting entity to disclose separately the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and to describe the reasons for the transfers. Furthermore, it requires a reporting entity to present separately information about purchases, sales, issuances, and settlements in the reconciliation for fair value measurements using significant unobservable inputs; clarifies existing fair value disclosures about the level of disaggregation and about inputs and valuation techniques used to measure fair value; and amends guidance on employers' disclosures about postretirement benefit plan assets to require that disclosures be provided by classes of assets instead of by major categories of assets. It was effective for annual reporting periods beginning January 1, 2010, except for the disclosures about purchases, sales, issuances, and settlements in the rollforward of activity in Level 3 fair value measurements. Those disclosures were effective January 1, 2011. In the period of initial adoption, entities will not be required to provide the amended disclosures for any previous periods presented for comparative purposes. The adoption of this ASU had no effect on the Bank's financial statements.

In July 2010, the FASB issued ASU 2010-20, *Receivables (Topic 310): Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses*. The new disclosures will require significantly more information about credit quality in a financial institution's loan portfolio. This statement addresses only disclosures and does not change recognition or measurement of the allowance. The disclosures are effective for annual reporting periods ending on or after December 15, 2011. The adoption of this ASU is not expected to have a material impact on the Bank's financial statements.

(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, 2010:</i>				
U.S. Government agency securities	\$ 34,046	41	(826)	33,261
Mortgage-backed securities	<u>18,422</u>	<u>2</u>	<u>(688)</u>	<u>17,736</u>
	\$ <u>52,468</u>	<u>43</u>	<u>(1,514)</u>	<u>50,997</u>
<i>At December 31, 2009:</i>				
U.S. Government agency securities	36,139	37	(350)	35,826
Mortgage-backed securities	<u>1,808</u>	<u>12</u>	<u>(10)</u>	<u>1,810</u>
	\$ <u>37,947</u>	<u>49</u>	<u>(360)</u>	<u>37,636</u>

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

	<u>Fair Value</u>	<u>Fair Value Measurements 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>
<i>At December 31, 2010-</i>				
Available-for-sale securities	\$ <u>50,997</u>	<u>-</u>	<u>50,997</u>	<u>-</u>
<i>At December 31, 2009-</i>				
Available-for-sale securities	\$ <u>37,636</u>	<u>-</u>	<u>37,636</u>	<u>-</u>

During the years ended December 31, 2010 and 2009, no securities were transferred in or out of Level 1, Level 2 or Level 3.

(continued)

JEFFERSON BANK OF FLORIDA

Notes to Financial Statements, Continued

(2) Securities Available for Sale, Continued

The scheduled maturities of securities available for sale at December 31, 2010 are as follows (in thousands):

	<u>Amortized Cost</u>	<u>Fair Value</u>
Due from one to five years	\$ 7,018	6,936
Due from five to ten years	15,050	14,703
Due after ten years	11,978	11,622
Mortgage-backed securities	<u>18,422</u>	<u>17,736</u>
	\$ <u>52,468</u>	<u>50,997</u>

Security sales transactions are summarized as follows (in thousands):

	<u>Year Ended December 31,</u>	
	<u>2010</u>	<u>2009</u>
Principal received from sales	\$ <u>12,377</u>	<u>11,058</u>
Gross gains	\$ <u>130</u>	<u>387</u>
Gross losses	\$ <u>2</u>	<u>-</u>

The securities with gross unrealized losses at December 31, 2010 and length of time that the individual securities have been in a continuous loss position, is as follows (in thousands):

	<u>Less Than Twelve Months</u>		<u>Over Twelve Months</u>	
	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
U.S. Government agency securities	\$ (826)	25,170	-	-
Mortgage-backed securities	<u>(688)</u>	<u>17,551</u>	<u>-</u>	<u>-</u>
	\$ <u>(1,514)</u>	<u>42,721</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.

(continued)

JEFFERSON BANK OF FLORIDA

Notes to Financial Statements, Continued

(2) Securities Available for Sale, Continued

The unrealized loss on eighteen investment securities was caused by market conditions. It is expected that the securities would not be settled at a price less than the par value of the investments. 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 these investments until a market price recovery or maturity, these investments are not considered other-than-temporarily impaired.

At December 31, 2010 and 2009, securities with a book value of approximately \$42,280,000 and \$27,399,000, respectively were pledged to secure Federal Home Loan Bank advances, other borrowings and State of Florida public funds.

(3) Loans

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

	<u>At December 31,</u>	
	<u>2010</u>	<u>2009</u>
Residential real estate	\$ 11,013	6,319
Commercial real estate	38,245	28,374
Commercial	8,725	10,258
Lines of credit	369	256
Consumer	<u>248</u>	<u>283</u>
Total loans	58,600	45,490
Add (deduct):		
Net deferred loan costs	42	62
Allowance for loan losses	<u>(2,212)</u>	<u>(1,375)</u>
Loans, net	\$ <u>56,430</u>	<u>44,177</u>

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

	<u>Year Ended December 31,</u>	
	<u>2010</u>	<u>2009</u>
Beginning balance	\$ 1,375	384
Provision for loan losses	2,815	1,001
Net charge-offs	<u>(1,978)</u>	<u>(10)</u>
Ending balance	\$ <u>2,212</u>	<u>1,375</u>

(continued)

JEFFERSON BANK OF FLORIDA

Notes to Financial Statements, Continued

(3) Loans, Continued

The Bank grants the majority of its loans to borrowers throughout the Tampa Bay Area. 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. The Bank does not have significant concentrations to any one industry or customer.

The following summarizes the amount of impaired loans (in thousands):

	<u>At December 31,</u>	
	<u>2010</u>	<u>2009</u>
Collateral-dependent loans identified as impaired:		
Gross loans with related allowance for losses recorded	\$ 1,226	-
Less allowances on these loans	<u>(619)</u>	<u>-</u>
Net loans with related allowance	<u>607</u>	<u>-</u>
Net investment in collateral-dependent impaired loans	<u>607</u>	<u>-</u>
Noncollateral-dependent loans identified as impaired:		
Gross loans with related allowance for losses recorded	273	-
Less allowance on these loans	<u>(273)</u>	<u>-</u>
Net loans with related allowance	<u>-</u>	<u>-</u>
Net investment in noncollateral-dependent impaired loans	<u>-</u>	<u>-</u>
Net investment in impaired loans	\$ <u>607</u>	<u>-</u>

The average net investment in impaired loans and interest income recognized and received on impaired loans is as follows (in thousands):

	<u>Year Ended December 31,</u>	
	<u>2010</u>	<u>2009</u>
Average investment in impaired loans	\$ <u>460</u>	<u>-</u>
Interest income recognized on impaired loans	\$ <u>75</u>	<u>-</u>
Interest income received on impaired loans	\$ <u>75</u>	<u>-</u>

At December 31, 2010 and 2009, the Bank had no nonaccrual loans or loans which were over ninety days past due but still accruing interest.

(continued)

JEFFERSON BANK OF FLORIDA

Notes to Financial Statements, Continued

(3) Loans, Continued

Impaired collateral-dependent loans are carried at the lower of cost or fair value. At December 31, 2009, there were no impaired loans. At December 31, 2010, those impaired collateral-dependent loans which are measured at fair value on a nonrecurring basis are as follows (in thousands):

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total Provision</u>	<u>Provision Recorded in Operations in 2010</u>
Commercial real estate	\$ 260	-	-	260	269	269
Commercial	300	-	-	300	300	300
Other	<u>47</u>	<u>-</u>	<u>-</u>	<u>47</u>	<u>50</u>	<u>50</u>
Total	\$ <u>607</u>	<u>-</u>	<u>-</u>	<u>607</u>	<u>619</u>	<u>619</u>

(4) Premises and Equipment

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

	<u>At December 31,</u>	
	<u>2010</u>	<u>2009</u>
Leasehold improvements	\$ 1,113	1,113
Furniture, fixtures, equipment and software	<u>767</u>	<u>731</u>
Total, at cost	1,880	1,844
Less accumulated depreciation and amortization	<u>(643)</u>	<u>(424)</u>
Premises and equipment, net	\$ <u>1,237</u>	<u>1,420</u>

(continued)

JEFFERSON BANK OF FLORIDA

Notes to Financial Statements, Continued

(4) Premises and Equipment, Continued

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 two office suite leases expire in 2012 and contain four three-year renewal options and three three-year renewal options, respectively. 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 years ended December 31, 2010 and 2009 was approximately \$251,000 and \$234,000, respectively. Future minimum rental commitments under these noncancelable leases, which includes certain renewal options, are approximately as follows (in thousands):

<u>Year Ending December 31,</u>	<u>Minimum Annual Rental Payment</u>
2011	\$ 193
2012	184
2013	182
2014	188
2015	193
Thereafter	<u>1,855</u>
	<u>\$ 2,795</u>

(5) Deposits

The aggregate amount of time deposits, each with a minimum denomination of \$100,000 was approximately \$17,034,000 and \$10,925,000 at December 31, 2010 and 2009, respectively.

At December 31, 2010, maturities of time deposits are as follows (in thousands):

<u>Year Ending December 31,</u>	<u>Amount</u>
2011	\$ 17,129
2012	7,619
2013	1,137
2014	<u>429</u>
	<u>\$ 26,314</u>

(continued)

JEFFERSON BANK OF FLORIDA

Notes to Financial Statements, Continued

(6) Federal Home Loan Bank Advances

A summary of the Bank's Federal Home Loan Bank of Atlanta ("FHLB") advances at December 31, 2010 and 2009 by maturity and interest rate follows (in thousands):

<u>Maturity</u>	<u>Rate</u>	<u>At December 31,</u>	
		<u>2010</u>	<u>2009</u>
Daily	Variable ⁽¹⁾	\$ 4,250	5,825
2012	2.13%	2,500	2,500
2012	Variable ⁽²⁾	4,000	-
2012	0.61%	<u>4,000</u>	<u>-</u>
		\$ <u>14,750</u>	<u>8,325</u>

⁽¹⁾ 0.47% at December 31, 2010.

⁽²⁾ 0.18% at December 31, 2010.

Advances from the FHLB are collateralized by a blanket floating lien on the Bank's qualifying residential and commercial real estate loans. Also, the Bank had pledged securities as collateral for these advances with a carrying value of approximately \$10,364,000 at December 31, 2010.

(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, 2010 and 2009, the balance totaled \$4,854,000 and \$3,185,000, respectively, and the Bank had pledged securities as collateral for these agreements with a carrying value of approximately \$6,843,000 and \$6,212,000, respectively.

Also, at December 31, 2010, the Bank had an available \$11,484,000 revolving line of credit with the Federal Reserve Bank. The Bank had pledged loans with a current balance of \$19,466,000 for this line of credit. At December 31, 2010, the Bank had \$2,600,000 outstanding on this line of credit at a variable rate of 0.75%.

(8) Income Taxes

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

	<u>Year Ended December 31,</u>	
	<u>2010</u>	<u>2009</u>
Deferred:		
Federal	\$ 700	336
State	<u>120</u>	<u>58</u>
Total deferred	\$ <u>820</u>	<u>394</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 December 31,</u>			
	<u>2010</u>		<u>2009</u>	
	<u>Amount</u>	<u>% of Pretax Loss</u>	<u>Amount</u>	<u>% of Pretax Loss</u>
Income tax benefit at statutory rate	\$ 757	34.0%	\$ 370	34.0%
Increase (decrease) resulting from:				
State taxes, net of Federal tax benefit	79	3.5	38	3.5
Stock-based compensation	(13)	(.6)	(13)	(1.3)
Nondeductible expenses	<u>(3)</u>	<u>(.1)</u>	<u>(1)</u>	<u>-</u>
	<u>\$ 820</u>	<u>36.8%</u>	<u>\$ 394</u>	<u>36.2%</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>2010</u>	<u>2009</u>
Deferred tax assets:		
Organizational and start-up costs	\$ 296	321
Allowance for loan losses	637	211
Net operating loss carryforwards	1,244	918
Stock-based compensation	54	34
Unrealized losses on securities available for sale	552	116
Other	<u>26</u>	<u>18</u>
Deferred tax assets	<u>2,809</u>	<u>1,618</u>
Deferred tax liabilities:		
Deferred loan costs	(86)	(46)
Accrual to cash conversion	(73)	(116)
Premises and equipment	<u>(11)</u>	<u>(73)</u>
Deferred tax liabilities	<u>(170)</u>	<u>(235)</u>
Net deferred tax asset	<u>\$ 2,639</u>	<u>1,383</u>

At December 31, 2010, the Bank has net operating loss carryforwards of approximately \$3.3 million available to offset future taxable income. These carryforwards will begin to expire in 2028.

The Bank's Federal and state income tax returns filed since inception remain subject to examination by the respective taxing authorities.

(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 2011. 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, 2010 follows (in thousands):

	<u>Contract Amount</u>
Commitments to extend credit	\$ <u>4,173</u>
Unused lines of credit	\$ <u>13,140</u>
Standby letters of credit	\$ <u>1,865</u>

(continued)

JEFFERSON BANK OF FLORIDA

Notes to Financial Statements, Continued

(10) Fair Value of Financial Instruments

The estimated fair values of the Bank's financial instruments at December 31, 2010 are as follows (in thousands):

	<u>Carrying Amount</u>	<u>Fair Value</u>
Financial assets:		
Cash and cash equivalents	\$ 764	764
Securities available for sale	50,997	50,997
Loans	56,430	56,409
Accrued interest receivable	445	445
Federal Home Loan Bank stock	957	957
Financial liabilities:		
Deposits	75,358	75,606
Federal Home Loan Bank advances	14,750	15,013
Other borrowings	7,454	7,454
Off-balance-sheet financial instruments	-	-

(11) Stock Option Plan

The Bank has 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 vest over a four or five year period. There were no options granted, exercised or forfeited during 2009. At December 31, 2010, 24,000 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, 2008 and 2009	256,000	\$ 10.00	
Granted	42,500	10.00	
Forfeited	<u>(22,500)</u>	10.00	
Outstanding at December 31, 2010	<u>276,000</u>	\$ <u>10.00</u>	<u>8.58 years</u>
Exercisable at December 31, 2010	<u>110,000</u>	\$ <u>10.00</u>	<u>7.93 years</u>

(continued)

JEFFERSON BANK OF FLORIDA

Notes to Financial Statements, Continued

(11) Stock Option Plan, Continued

There were no options granted, exercised or forfeited during 2009. The fair value of each option granted during 2010 was estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions:

Risk-free interest rate	3.73%
Dividend yield	-
Expected stock volatility	9.0%
Expected life in years	6
Per share grant-date fair value of options issued during the year	\$ <u>1.15</u>

The Bank used the guidance 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, 2010, there was approximately \$190,000 of total unrecognized compensation expense related to nonvested stock options granted under the plan. The cost is expected to be recognized over the next forty months. The total fair value of shares vesting and recognized as compensation expense was approximately \$93,000 and \$79,000 for the years ended December 31, 2010 and 2009, respectively, and the associated income tax benefit recognized was approximately \$20,000 and \$16,000, respectively.

(12) 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 December 31,</u>	
	<u>2010</u>	<u>2009</u>
Loans:		
Beginning balance	\$ 2,780	366
Additions	1,902	3,346
Principal repayments	<u>(2,277)</u>	<u>(932)</u>
Balance	\$ <u>2,405</u>	<u>2,780</u>
Deposits	\$ <u>3,030</u>	<u>3,585</u>

(continued)

JEFFERSON BANK OF FLORIDA

Notes to Financial Statements, Continued

(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 has a 401(k) plan (the "Plan") 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 \$93,000 and \$82,000 for the years ended December 31, 2010 and 2009, respectively.

(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, 2010, that the Bank meets all capital adequacy requirements to which it is subject.

(continued)

JEFFERSON BANK OF FLORIDA

Notes to Financial Statements, Continued

(15) Regulatory Matters, Continued

As of December 31, 2010, 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 percentages 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, 2010:</i>						
Total Capital (to Risk-Weighted Assets)	\$ 15,127	22.46%	\$ 5,388	8.00%	\$ 6,735	10.00%
Tier I Capital (to Risk-Weighted Assets)	14,268	21.19	2,693	4.00	4,040	6.00
Tier I Capital (to Average Assets)	14,268	13.27	4,301	4.00	5,376	5.00
<i>As of December 31, 2009:</i>						
Total Capital (to Risk-Weighted Assets)	17,317	31.64	4,379	8.00	5,473	10.00
Tier I Capital (to Risk-Weighted Assets)	16,624	30.38	2,189	4.00	3,283	6.00
Tier I Capital (to Average Assets)	16,624	20.07	3,313	4.00	4,142	5.00

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