



## FINANCIAL HIGHLIGHTS March 31, 2009

During 2008, Allegiance Community Bank (the “Bank”) reached many milestones and we are continuing to move forward in 2009. As of year end, the Bank’s total assets reached approximately \$109.9 million, total loans reached approximately \$74.5 million and total deposits reached approximately \$87.2 million – each reaching the highest level since the inception of the Bank. In addition, the net loss decreased approximately 23.4% to \$795,000 in 2008 versus \$1,038,000 in 2007.

As of the end of the first quarter 2009, we reached \$121.6 million in assets – an \$11.7 million or 10.6% increase over year end and \$32.1 million or 35.9% increase over the same period in 2008. Due to economic conditions and competition, our loan portfolio ended the first quarter at \$75.8 million – up \$1.3 million over year end. However, due to strong growth throughout 2008, total loans increased \$13.9 million or 22.4% over the same period in 2008. Deposits also increased in the first quarter to \$98.9 million – increasing \$11.7 million or 11.8% as compared to year end. When comparing deposits in the first quarter 2009 to the same period in 2008, the Bank’s deposit base increased \$28.1 million or 39.8% primarily due to growth in CDs with approximately 56.5% of the growth coming from brokered deposits and 42.6% coming from retail CD funding sources. Although, the Bank saw almost 40% growth in deposits comparing first quarter 2009 to first quarter 2008, deposit interest expense only increased \$53,600 or 7.3% for the same comparative periods indicating control over the Bank’s cost of funds. In addition, the Bank was able to capitalize on restructuring the Bank’s investment portfolio and recording approximately \$301,000 in gains and net income of \$41,000 for the first quarter. In addition, while we sold investments to record the gains, we were able to acquire zero risk weighted investments to replace the sold investments allowing the Bank to retain its well-capitalized position as of the end of the first quarter, and allowing the Bank to continue to record, on average, \$108,000 per month in investment income exhibiting the strength of the Balance Sheet.

Although, as a bank, we showed solid growth through the first quarter of this year, our new branch is still struggling to grow to the level of profitability needed. As of the end of the first quarter, the branch had deposits of \$14.2 million and a cost of funds of 2.66%. The Bank’s strategic direction is to focus on low cost deposits in this area with Allegiance Business Solutions (our remote deposit solution), merchant services and attorney escrow accounts.

While the loans were only up 1.7% over year end, the Bank’s pipeline still remains promising. The Bank, as of March 31, 2009, has \$5.3 million in loans awaiting closing, \$5.0 million in loans with commitments issued and \$2.3 million in loans in underwriting. However, while the loan portfolio substantially remains strong, the current economy has caused three loans amounting to \$1.3 million to go ninety days past due. The Bank believes the collateral associated with these loans and our allowance for loan losses as a ratio to gross loans (1.19%) is adequate at this time to cover any possible losses.

The Bank recorded net income for the first quarter 2009 of \$41,000 as compared to a loss of \$196,000 for the same period in 2008. As indicated earlier, the main contribution to the quarterly income was approximately \$300,000 in investment gains. In addition, we recovered \$50,000 from a loan that was previously written down in 2007. Non-interest expense increased \$129,000 or 17.9% from the first quarter 2008 to the first quarter 2009. The increase was attributable to a number of factors:

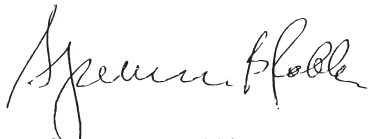
- (1) \$31,900 in FDIC insurance primarily due to \$24,000 related to a change in accounting and deposit growth,
- (2) \$20,800 in legal and professional fees due to our attempt to change charters and loan recoveries earlier this year,
- (3) \$18,800 increase in data processing fees due to growth in the Bank’s deposit base,
- (4) \$12,500 related to increased common area maintenance costs in Woodbridge due to snow removal in the first quarter,
- (5) \$10,300 in loan expense related to analyzing the home equity loan portfolio to assure proper valuations,
- (6) \$10,000 in salary and benefit expense primarily due to the increased benefit costs for employees, and
- (7) \$7,400 in advertising expense due to accruals related to the preparation for promotions for the second quarter.

Going into the second quarter the Bank has taken steps to reduce non-interest expenses and the cost of funds. Our strategy is focused on gathering low cost deposits, but at the same time we will let our brokered deposit portfolio run off as they mature, which will allow the Bank to maintain its asset size between \$100 million and \$110 million, while restructuring the Balance Sheet to allow

loan growth, reduce cost of funds and focus on retaining a well - capitalized position. This strategy, while sound, continues to be difficult due to the ever changing regulatory environment. As we indicated in our Annual Report, the second quarter FDIC insurance assessment will include approximately \$100,000 due to a special emergency assessment and approximately \$25,000 due to the base and additional brokered deposit assessments. While our strategic direction is attempting to limit our exposure to the assessment related to brokered deposits, we can only allow them to roll off as they mature and replace them with other types of deposits going forward.

In addition, to reducing non-interest expenses, we are in the process of developing a SBA loan program through a referral from two shareholders who joined our stockholder base in June of 2008 with our private placement offering. The program should be in place later in the second quarter which is expected to increase income levels.

As you can see, we continue to make progress – safe double digit increases in assets, loans and deposits; a 23.4% reduction in loss from 2007 to 2008; and net income of \$41,000 in the first quarter 2009. Many challenges – regulatory and economic - continue to face us and community banks in general. We are determined to serve the South Orange/Maplewood area and now our new community in Woodbridge, as well as enhance shareholder value. At this time, the Board of Directors and Management of the Bank would like to take this opportunity to thank you for your continued confidence in our organization.



Spencer B. Robbins  
Chairman of the Board of Directors



David J. Onderko  
President and Chief Executive Officer

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**Allegiance Community Bank**  
**Financial Highlights**  
For the quarters ended March 31, 2009 and 2008 and  
the years ended December 31, 2008, 2007 and 2006  
(dollars in thousands, except per share data)

	Quarter Ended		December 31,		
	Mar. 31, 2009(3)	Mar. 31, 2008(3)	2008	2007	2006
Net interest income	\$ 542	\$ 461	\$ 2,356	\$ 1,907	\$ 2,294
Non-interest income	\$ 403	\$ 63	\$ 146	\$ 32	\$ 131
Non-interest expense	\$ 849	\$ 720	\$ 3,090	\$ 2,775	\$ 2,717
Net income	\$ 41	\$ (196)	\$ (795)	\$ (1,038)	\$ (247)
Earnings per share (1)(2)	\$ 0.02	\$ (0.13)	\$ (0.48)	\$ (0.70)	\$ (0.17)
Avg Shs issued and outstanding (1)(2)	1,841,538	1,476,273	1,660,901	1,476,273	1,476,273
Efficiency ratio	89.8%	137.4%	144.6%	145.7%	110.4%
Total assets	\$ 21,605	\$ 89,497	\$ 109,922	\$ 85,957	\$ 74,255
Total loans	\$ 75,757	\$ 61,906	\$ 74,506	\$ 61,855	\$ 50,869
Total deposits	\$ 98,896	\$ 70,750	\$ 87,158	\$ 73,821	\$ 61,662
Other borrowings	\$ 15,500	\$ 12,500	\$ 15,500	\$ 6,000	\$ 5,250
Total equity	\$ 6,819	\$ 5,783	\$ 6,927	\$ 5,846	\$ 6,783
Book value per share (1)	\$ 3.70	\$ 3.92	\$ 4.17	\$ 3.96	\$ 4.59
Annualized return on average assets	0.14%	-0.91%	-1.37%	-1.37%	-0.25%
Annualized return on average equity	2.42%	-14.47%	-24.25%	-24.25%	-2.52%
Total capital (to risk weighted assets)	10.20%	9.60%	10.16%	9.66%	12.98%
Tier I capital ( to risk weighted assets)	8.95%	8.37%	8.92%	8.46%	11.84%
Tier I capital ( to average assets)	5.22%	5.95%	5.89%	6.48%	8.98%

(1) Share and per share information was restated to reflect the 5% stock dividend issued on May 1, 2006.

(2) Share and per share information includes 365,265 shares issued through the private placement offering on June 30, 2008 reflected in the average shares outstanding for December 31, 2008 and March 31, 2009.

(3) Financial information for March 31, 2009 and March 31, 2008 is unaudited.



### *South Orange Branch*

*200 Valley Street  
South Orange, New Jersey 07079  
Phone – 973-761-5553 Fax – 973-761-5119*

#### *Lobby Hours*

*Monday through Thursday – 9:00 AM to 4:00 PM  
Friday – 9:00 AM to 6:00 PM  
Saturday – 9:00 AM to Noon*

#### *Drive – up Hours*

*Monday through Friday – 9:00 AM to 6:00 PM  
Saturday – 9:00 AM to Noon*

### *Woodbridge Branch*

*34 Main Street, Suite 1  
Woodbridge, New Jersey 07095  
Phone – 732-636-0077 Fax – 732-636-9108*

#### *Lobby Hours*

*Monday through Friday – 9:00 AM to 5:00 PM  
Saturday – 9:00 AM to Noon*

***“Investing in the hopes and dreams  
of our local communities.”***

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**[www.allegiancebank.com](http://www.allegiancebank.com)**