



Dear Fellow Shareholder:

On behalf of our board of directors, management, officers, and employees, it is with great pleasure we present our second Annual Report. The genesis of Madison was born of a desire to redefine the standard by which community banks are judged. The essence of the Madison philosophy is articulated best by our mission statement which clearly defines our objective: "Madison is passionate about creating value and providing consistently positive results for each of our constituents. Success is pivotal to our engaged professionals who are intent on establishing the standard by which others would be judged. We are driven by a belief that customer, shareholder, and employee alike deserve nothing short of excellence." We are committed to devoting the requisite attention, energy and resources to ensure that this philosophy remains integral in each of our endeavors.



We continue to take comfort in the knowledge that many of the factors contributing to the current economic maelstrom predate Madison's very existence. Importantly, management has insulated the bank from much of the credit woes that plague the financial industry today. Electing to remain conservative, with an eye toward caution in our underwriting standards, we have made a concerted effort to ensure that the integrity of our loan portfolio remains sound, while exploiting every opportunity to bolster reserves. Navigating each challenge proactively, management continues to achieve greater diversification within our loan portfolio both in terms of product and geography.

Balance, combined with a conservative approach, continues to be a Madison hallmark. Enviably yields combined with high quality assets of AAA Government Agency backed investments comprise a well balanced securities portfolio. Affording the bank greater flexibility while providing a steady stream of income, the securities portfolio ensures predictable cash flows. Strategically, the securities portfolio provides advantageous optionality as a potential source of both funding and collateral.

Consolidation, uncertainty and continued market malaise, combined with myopic extra-regional participants in the Long Island market continues to disenfranchise large numbers of underserved customers. Larger, distracted, out-of-touch institutions continue to force their client base to accept accounts and terms whose design serves the institution without regard for existing or prospective customers. Responding to this long neglected market, Madison continues to rapidly build franchise

value through a culture of quality, individuality and first rate customer service. Our foray into branch banking was a resounding success and remains a significant strength. Our Merrick branch design concept was so unique that Madison secured the coveted 2007 McGraw Hill Architectural Award of Merit for a retail building. Our continued success with an equally spectacular branch in Melville followed, and we can boast aggregating an astounding \$196.6 million of retail deposits in a scant twenty two months of operation.

Madison continues to capitalize on the best of breed in technology and practices. Our franchise is equipped to compete with cutting edge products, services, and an impressive array of delivery channels. Our team of motivated and engaged professionals, each eager to provide a welcome alternative in banking to the beleaguered and disaffected, all but assures Madison's success.

Madison remains committed and keenly focused on each of the key financial drivers that ensure maximum shareholder value. Encouraged by a return to rational pricing for retail and wholesale funding and increasingly widening spreads in the credit markets, the bank remains poised to reap benefits our economic climate, in many ways, favor a bank at our particular stage in the cycle. We will remain vigilant as we endeavor to maximize returns while effectively managing risk to deliver consistently superior financial results.

We would like to extend our appreciation as we recognize how pivotal your continued support is to our success as we look forward to a prosperous 2009!

Respectfully,



Daniel L. Murphy  
Chairman & Chief Executive Officer



Michael P. Puorro  
President



Crowe Horwath LLP  
Member Horwath International

## REPORT OF INDEPENDENT AUDITORS

Board of Directors  
Madison National Bank  
Hauppauge, New York

We have audited the accompanying statements of financial condition of Madison National Bank as of December 31, 2008 and 2007, and the related statements of income and comprehensive income, shareholders' 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 Madison National Bank as of December 31, 2008 and 2007, 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.

*Crowe Horwath LLP*  
Crowe Horwath LLP

Livingston, New Jersey  
March 23, 2009

**MADISON NATIONAL BANK**  
**STATEMENTS OF FINANCIAL CONDITION**

	December 31,	
	2008	2007
<b>ASSETS</b>		
Cash – non-interest bearing	\$ 2,364,839	\$ 1,867,047
Interest bearing deposits in other financial institutions	<u>10,028,000</u>	<u>14,288,000</u>
Cash and cash equivalents	12,392,839	16,155,047
Securities available for sale at fair value	28,080,428	40,176,254
Securities held to maturity (fair value of 19,003,811 and 13,397,219, respectively)	<u>19,537,366</u>	<u>13,116,517</u>
Total securities	47,617,794	53,292,771
Restricted stock	50,000	50,000
Federal Reserve Bank of New York stock, at cost	836,200	894,100
Federal Home Loan Bank of New York stock, at cost	1,484,700	-
Loans, net of deferred loan fees and costs	197,752,286	37,360,596
Less: allowance for loan losses	<u>(1,575,000)</u>	<u>(275,000)</u>
Loans, net	196,177,286	37,085,596
Premises and equipment, net	4,941,935	4,895,288
Due from broker	6,261,932	1,938,000
Other assets	<u>1,772,965</u>	<u>1,036,281</u>
Total assets	<u>\$ 271,535,651</u>	<u>\$ 115,347,083</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Deposits:		
NOW and money market accounts	\$ 91,970,412	\$ 24,028,292
Savings accounts	4,259,023	11,806,795
Certificates of deposit	95,358,644	46,681,407
Brokered deposits	12,993,993	-
Non-interest bearing accounts	<u>4,995,326</u>	<u>3,038,293</u>
Total deposits	209,577,398	85,554,787
Federal Home Loan Bank of New York advances	31,000,000	-
Accrued expenses	206,653	102,295
Other liabilities	<u>2,395,229</u>	<u>242,048</u>
Total liabilities	243,179,280	85,899,130
Shareholders' equity		
Common stock, \$.01 par value; 10,000,000 shares authorized, 3,350,720 shares issued and outstanding	33,507	33,507
Additional paid in capital	34,509,458	34,143,443
Retained earnings (deficit)	(6,128,730)	(5,416,398)
Accumulated other comprehensive income:		
Net unrealized gain on securities available for sale	272,120	687,401
Net unrealized (loss) on securities transferred to held to maturity	<u>(329,984)</u>	<u>-</u>
Total shareholders' equity	<u>28,356,371</u>	<u>29,447,953</u>
Total liabilities and shareholders' equity	<u>\$ 271,535,651</u>	<u>\$ 115,347,083</u>

**MADISON NATIONAL BANK**  
**STATEMENTS OF INCOME AND COMPREHENSIVE INCOME**

	<b>Years Ended December 31,</b>	
	<b>2008</b>	<b>2007</b>
<b>Interest Income:</b>		
Loans	\$ 8,106,649	\$ 510,718
Mortgage-backed securities	2,500,731	748,100
Other securities	737,146	600,738
Interest bearing deposits in other financial institutions	240,250	1,897,380
Total interest income	11,584,776	3,756,936
<b>Interest Expense:</b>		
NOW and money market accounts	1,763,489	497,558
Savings accounts	128,174	181,955
Certificates of deposit	2,644,966	1,334,756
Brokered deposits	218,571	-
Borrowed funds	729,744	9,573
Total interest expense	5,484,944	2,023,842
Net interest income	6,099,832	1,733,094
Provision for loan losses	1,300,000	275,000
Net interest income after provision for loan losses	4,799,832	1,458,094
<b>Non-interest Income:</b>		
Fee and other income	116,758	11,606
Gain on sale of securities	320,882	-
Total non-interest income	437,640	11,606
<b>Non-interest Expense:</b>		
Salaries	2,205,166	1,787,834
Benefits	802,425	442,449
Warrants compensation	-	480,000
Occupancy and equipment	1,216,663	859,211
Advertising and marketing	315,988	367,531
Examinations and audits	128,328	87,276
Consulting fees	227,143	138,326
Computer services	216,351	80,555
Stationery, printing and supplies	151,884	198,533
General and administrative	674,664	532,624
Foundation	-	999,000
Total non-interest expense	5,938,612	5,973,339
<b>Net (Loss) before income taxes</b>	(701,140)	(4,503,639)
Income tax expense	11,192	-
<b>Net (Loss)</b>	\$ (712,332)	\$ (4,503,639)
<b>Comprehensive Income:</b>		
Unrealized (loss) gain on available for sale securities	(765,504)	687,401
Comprehensive income (loss)	\$ (1,477,836)	\$ (3,816,238)
<b>Loss per common share:</b>		
Basic	\$ (.21)	\$ (1.29)
Diluted	\$ (.21)	\$ (1.29)

**MADISON NATIONAL BANK**  
**STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**

	<b>Years Ended December 31,</b>	
	<b>2008</b>	<b>2007</b>
<b>Common Stock (Par Value: \$0.01):</b>		
Balance at January 1	\$ 33,507	\$ -
Transferred from surplus	-	2,500
Shares issued in offering (3,350,720)	-	31,007
Balance at December 31	33,507	33,507
<b>Paid-in Capital in Excess of Par:</b>		
Balance at January 1	34,143,443	-
Transferred from surplus	-	2,497,500
Shares issued in offering (3,350,720)	-	30,976,193
Warrants issued	-	480,000
Issuance costs	-	(38,535)
Share-based compensation expense	366,015	228,285
Balance at December 31	34,509,458	34,143,443
<b>Retained Earnings (Deficit):</b>		
Balance at January 1	(5,416,398)	(912,759)
Net loss	(712,332)	(4,503,639)
Balance at December 31	(6,128,730)	(5,416,398)
<b>Surplus:</b>		
Balance at January 1	-	2,500,000
Cash contributions from organizers	-	-
Transferred to common stock	-	(2,500)
Transferred to paid in capital	-	(2,497,500)
Balance at December 31	-	-
<b>Accumulated Other Comprehensive Income, Net of Tax:</b>		
Balance at January 1	687,401	-
Net unrealized (loss) gain on securities available for sale	(765,504)	687,401
Amortization of unrealized (loss) on securities transferred to held to maturity	20,239	-
Balance at December 31	(57,864)	687,401
Total shareholders' equity	\$ 28,356,371	\$ 29,447,953

**MADISON NATIONAL BANK  
STATEMENTS OF CASH FLOWS**

	<b>Years Ended December 31,</b>	
	<b>2008</b>	<b>2007</b>
<b>Cash flows from operating activities:</b>		
Net loss	\$ (712,332)	\$ (4,503,639)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Provision for loan losses	1,300,000	275,000
Depreciation and amortization	355,792	211,731
Amortization of security premiums and accretion of discounts, net	(33,259)	(11,772)
Net realized (gain) on sales of securities	(320,882)	-
Net change in net deferred loan origination costs and fees	(209,165)	42,815
Stock-based compensation expense	366,015	228,285
Foundation	-	999,000
Warrants compensation	-	480,000
(Increase) in other assets	(736,684)	(802,145)
Increase in accounts payable and accrued expenses	104,358	27,839
Increase (decrease) in other liabilities	2,153,180	(130,234)
Net cash provided by (used in) operating activities	2,267,023	(3,183,120)
<b>Cash flows from investing activities:</b>		
Purchases of securities available for sale	(27,390,196)	(61,956,482)
Proceeds from maturities, prepayments and calls of securities available for sale	19,382,943	22,460,715
Proceeds from sales of securities available for sale	20,016,216	-
Purchase of securities held to maturity	(8,452,774)	(13,671,300)
Proceeds from maturities, prepayments and calls of securities held to maturity	1,727,665	573,469
Net (increase) in amount due to broker	(4,323,932)	(1,938,000)
Purchase of restricted stock	-	(50,000)
Net redemption (purchase) of Federal Reserve Bank of NY stock	57,900	(894,100)
Net (purchase) of Federal Home Loan Bank of NY stock	(1,484,700)	-
Purchases of premises and equipment	(402,439)	(3,007,353)
Net increase in loans	(160,182,525)	(37,403,411)
Net cash used in investing activities	(161,051,842)	(95,886,462)
<b>Cash flows from financing activities:</b>		
Net increase in deposits	124,022,611	85,554,787
Decrease in loans payable	-	(475,000)
Proceeds from Federal Home Loan Bank advances	31,000,000	-
Net cash provided by financing activities	155,022,611	85,079,787
Net (decrease) increase in cash and cash equivalents	(3,762,208)	(13,989,795)
Cash and cash equivalents at beginning of period	16,155,047	30,144,842
<b>Cash and cash equivalents at end of period</b>	<b>\$ 12,392,839</b>	<b>\$ 16,155,047</b>
<b>Supplemental cash flow information</b>		
Interest paid	\$ 5,043,877	\$ 1,935,525
Income taxes paid	11,192	-
Transfer of securities from available for sale to held to maturity	8,452,543	-

## NOTES TO FINANCIAL STATEMENTS

### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business: Madison National Bank (the "Bank") was formed on September 20, 2005, in Wilmington, Delaware. The Bank obtained a national bank charter from the Office of the Comptroller of the Currency ("OCC") and federal insurance of deposit accounts from the Federal Deposit Insurance Corporation ("FDIC"). On February 27, 2007, the Bank received final regulatory approvals and commenced banking operations at its first branch office located at 2222 Merrick Road, Merrick, New York 11566. A second branch office, located at 859 Walt Whitman Road (Route 110) Melville, New York 11747, opened on July 26, 2007. The Bank's administrative offices are located at 888 Veterans Memorial Highway, Suite 400, Hauppauge, New York 11788.

The Bank engages in the general business of commercial banking in Nassau and Suffolk Counties, New York, and the greater New York metropolitan area. The Bank is operated as a locally-based commercial bank, to serve the banking needs of individuals, professionals, and businesses in a market area that recognizes the desirability of local decision making.

The Bank offers a full range of business banking and related financial services focused primarily towards serving small to medium size businesses and the professional community. The Bank uses funds deposited and other funding to loan to business and retail customers.

Use of Estimates: To prepare financial statements in conformity with U.S. generally accepted accounting principles management makes estimates and assumptions based on available information. These estimates and assumptions affect the amounts reported in the financial statements and the disclosures provided, and actual results could differ. The allowance for loan losses and fair values of financial instruments are particularly subject to change.

Cash Flows: Cash and cash equivalents include cash, deposits with other financial institutions with maturities of less than 90 days, and federal funds sold. Net cash flows are reported for customer loan and deposit transactions, interest bearing deposits in other financial institutions, and federal funds purchased and repurchase agreements.

Interest-Bearing Deposits in Other Financial Institutions: Interest-bearing deposits in other financial institutions mature within one year and are carried at cost.

Securities: Debt securities are classified as held to maturity and carried at amortized cost when management has the positive intent and ability to hold them to maturity. Debt securities are classified as available for sale when they might be sold before maturity. Equity securities with readily determinable fair values are classified as available for sale. Securities available for sale are carried at fair value, with unrealized holding gains and losses reported in other comprehensive income, net of tax.

Interest income includes amortization of purchase premium or discount. Premiums and discounts on securities are amortized on the level-yield method without anticipating prepayments, except for mortgage backed securities where prepayments are anticipated. Gains and losses on sales are recorded on the trade date and determined using the specific identification method. Transfer of securities between available for sale and held to maturity are accounted for at fair value at date of transfer. The unrecognized gain (loss) at date of transfer is reflected in accumulated other comprehensive income and then accreted or amortized into income or expense over the related security's contractual life.

## NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Declines in the fair value of securities below their cost that are other than temporary are reflected as realized losses. In estimating other-than-temporary losses, management considers: the length of time and extent that fair value has been less than cost, the financial condition and near term prospects of the issuer, and the Bank's ability and intent to hold the security for a period sufficient to allow for any anticipated recovery in fair value.

Loans: Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at the principal balance outstanding, net of unearned interest, deferred loan fees and costs, and an allowance for loan losses. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized in interest income using the level-yield method without anticipating prepayments.

Interest income on mortgage and commercial loans is discontinued at the time the loan is 90 days delinquent unless the loan is well-secured and in process of collection. Past due status is based on the contractual terms of the loan. 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 received for loans placed on nonaccrual is reversed against interest income. Interest received on such 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 a valuation allowance for probable incurred credit losses. 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. Management estimates the allowance balance required using past loan loss experience, the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, economic conditions, and other factors. Allocations of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in management's judgment, should be charged off.

The allowance consists of specific and general components. The specific component relates to loans that are individually classified as impaired or loans otherwise classified as substandard or doubtful. The general component covers non-classified loans and is based on historical loss experience adjusted for current factors.

A loan is impaired when full payment under the loan terms is not expected. If a loan is impaired, a portion of the allowance is allocated so that the loan is reported, net, at the present value of estimated future cash flows using the loan's existing rate or at the fair value of collateral if repayment is expected solely from the collateral. Large groups of smaller balance homogeneous loans, such as consumer and residential real estate loans, are collectively evaluated for impairment, and accordingly, they are not separately identified for impairment disclosures.

Premises and Equipment: Premises and equipment, including leasehold improvements, are carried at cost net of accumulated depreciation and amortization. Equipment, which includes furniture and fixtures, are depreciated over the assets' estimated useful lives using the straight-line method. Leasehold improvements are amortized using the straight-line method over the shorter of the related lease term or the estimated useful life of the improvement.

## **NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Loan Commitments and Related Financial Instruments: Financial instruments include off-balance sheet credit instruments, such as commitments to make loans and commercial letters of credit, issued to meet customer financing needs. The face amount for these items represents the exposure to loss, before considering customer collateral or ability to repay. Such financial instruments are recorded when they are funded.

Comprehensive Income: Comprehensive income consists of net income and other comprehensive income. Other comprehensive income includes unrealized gains and losses on securities available for sale which are also recognized as separate components of equity.

Reclassifications: Certain reclassifications have been made to prior-period financial statements to conform to the 2008 presentation.

### Adoption of New Accounting Standards:

In September 2006, the Financial Accounting Standards Board (“FASB”) issued Statement No. 157, Fair Value Measurements (FAS 157). This Statement defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. This Statement establishes a fair value hierarchy about the assumptions used to measure fair value and clarifies assumptions about risk and the effect of a restriction on the sale or use of an asset. The standard was effective for fiscal years beginning after November 15, 2007. In February 2008, the FASB issued Staff Position (“FSP”) 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, and interim periods within those fiscal years. The impact of adoption was not material. In October 2008, the FASB issued FSP 157-3, Determining the Fair Value of a Financial Asset when the Market for That Asset Is Not Active. This FSP clarifies the application of FAS 157 in a market that is not active. The impact of adoption was not material.

In February 2007, the FASB issued Statement No. 159, The Fair Value Option for Financial Assets and Financial Liabilities. The standard provides companies with an option to report selected financial assets and liabilities at fair value and establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities. The new standard was effective for the Bank on January 1, 2008. The Bank did not elect the fair value option for any financial assets or financial liabilities as of January 1, 2008.

FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes (“FIN 48”), issued July 2006, was effective as of January 1, 2007. The Bank has elected to defer adoption of FIN 48, in accordance with the provisions of FASB Staff Position No. FIN 48-3, which permits certain nonpublic enterprises to delay adoption until fiscal years beginning after December 15, 2008. Upon adoption of FIN 48, the Bank will recognize a tax benefit only if it is more likely than not the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized will be the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the more-likely-than-not test, no tax benefit will be recorded. Currently, the Bank accounts for contingencies associated with certain tax positions in accordance with Statement of Financial Accounting Standards (“SFAS”) No. 5, Accounting for Contingencies, which provides the recording of a contingency based on the probability of certain events to transpire that range from probable to remote as opposed to applying a more likely than not recognition threshold.

## NOTE 2 - COMPLETION OF STOCK OFFERING

The Bank filed a Registration Statement on Form SB-2 on May 18, 2006, which as amended was declared effective by the OCC as of October 5, 2006. Pursuant to such registration statement, the Bank sold 3.25 million shares of its common stock at a price of \$10 per share, for an aggregate consideration of \$32.5 million (the "Offering").

On February 27, 2007, the Bank received final approval from the OCC to begin banking operations. Subscription funds from the Offering which were being held in an escrow account by the Bank's escrow agent, Atlantic Central Bankers Bank ("ACBB") prior to February 27, 2007, were released from the escrow account and deposited into our federal funds sold account at ACBB. The capital raised through stock subscriptions, as well as interest earned, has become part of the working capital of the Bank.

In connection with the organization of the Bank, the Bank established The Madison National Foundation, a charitable organization formed to support charitable causes and community development in the Bank's market area. Following completion of its initial public offering, the Bank contributed 100,000 shares of its authorized but unissued common stock to the Foundation. Inclusive of the shares issued to the Foundation, total shares outstanding at December 31, 2008 and 2007 were 3,350,720.

As a result of the registration statement being declared effective, the Bank became subject to the periodic reporting obligations set forth in Section 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). On February 6, 2008, the Bank filed with the Office of the Comptroller of the Currency a Form 15, "Certification and Notice of Termination of Registration Under Section 12(g) of the Securities Exchange Act of 1934 or Suspension of Duty to File Reports Under Sections 13 and 15(d) of the Securities Exchange Act of 1934." Upon such filing, the Bank's obligation to file periodic reports was suspended.

## NOTE 3 – EARNINGS (LOSS) PER SHARE

Basic earnings (loss) per share is computed by dividing net income (loss) by the weighted average number of common shares outstanding for the period. Diluted earnings (loss) per share reflects the potential dilution that could occur if securities or other contracts to issue common stock (such as stock warrants and options) were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings (loss) of the entity. Diluted earnings (loss) per share is computed by dividing net income (loss) by the weighted-average number of shares outstanding for the period plus common-equivalent shares computed using the treasury stock method. None of the organizer warrants or stock options were considered in computing diluted earnings (loss) per share because to do so would have been antidilutive. Computation of (loss) per share follows.

	Year Ended December 31,	
	<u>2008</u>	<u>2007</u>
Net (loss)	\$ (712,332)	\$ (4,503,639)
Net (loss) prior to issuance	-	(179,604)
Adjusted net (loss)	<u>\$ (712,332)</u>	<u>\$ (4,324,035)</u>
Weighted average common shares outstanding	3,350,720	3,350,720
Basic (loss) per common share	<u>\$ (.21)</u>	<u>\$ (1.29)</u>
Diluted (loss) per common share	<u>\$ (.21)</u>	<u>\$ (1.29)</u>

#### NOTE 4 – STOCK BASED COMPENSATION

Upon organization of the Bank, each organizer who provided “at risk” money for the Bank received one share of the Bank common stock for each \$10.00 of organizational funds contributed by such organizer and one warrant for each such share of common stock for a total of 250,000 warrants.

Each warrant is fully exercisable upon issuance and will expire seven years from such date. Prior to exercise, the warrants will not entitle their holders to voting rights or dividends. The warrants may not be sold, assigned, transferred, pledged or otherwise encumbered (whether by operation of law or otherwise), except as provided by will or the laws of descent and distribution. The warrants are subject to exercise, forfeiture or modification as directed by the OCC or the FDIC, should the Bank’s regulatory capital ever fall below regulatory requirements, or a higher requirement as the OCC may determine, or if the existence of outstanding warrants impairs the Bank’s ability to raise capital.

All warrants are accounted for under SFAS No. 123R, Share Based Payment. SFAS 123R requires all share-based payments, including grants of certain warrants, be recognized as compensation expense over the service period (generally the vesting period) in the consolidated financial statements based on their fair values. Accordingly, there was \$0 and \$480,000, respectively, in stock-based compensation expense for the year ended December 31, 2008 and 2007. There were no stock warrants granted during 2008. The per share weighted-average fair value of stock warrants granted during 2007 was \$1.92 on the date of grant using the Black-Scholes pricing model with the following weighted-average assumptions for 2007: expected dividend yield of 0%, a volatility rate of 11.75%, a risk-free interest rate of 4.5%, and an expected life of 4 years.

The following table summarizes stock warrant activity in 2008:

	<u>Number of Shares</u>	<u>Weighted Average Exercise Price</u>
Outstanding at January 1, 2008	250,000	\$ 10.00
Granted	-	-
Exercised	-	-
Forfeited	-	-
Outstanding at December 31, 2008	<u>250,000</u>	<u>\$ 10.00</u>
Exercisable as of December 31, 2008	<u>250,000</u>	<u>\$ 10.00</u>

At the April 30, 2007, Annual Meeting, shareholders approved the adoption of the Madison National Bank 2007 Stock Option Plan (“Plan”). The total number of shares of common stock reserved for issuance pursuant to awards granted under the Plan is 502,608. The Board of Directors elected to award 474,500 stock options under the Plan during the year ended December 31, 2007. The fair value of options awarded on May 16, 2007, was estimated on the date of grant using the Black-Scholes option pricing model with the following weighted-average assumptions: risk-free interest rate of 4.62%, expected volatility of 11.75% and expected life of five years. The fair value of options awarded on June 28, 2007, was estimated on the date of grant using the Black-Scholes option pricing model with the following weighted-average assumptions: risk-free interest rate of 5.02%, expected volatility of 11.75% and expected life of five years. The per share weighted-average fair value of stock options granted during 2007 was \$2.31. The total stock-based compensation expense for the year ended December 31, 2008 and 2007, was approximately \$366,015 and \$228,285, respectively. Unamortized stock-based compensation expense at December 31, 2008 is \$503,745 and will be amortized over a remaining period of one and half years.

**NOTE 4 – STOCK BASED COMPENSATION (Continued)**

The Bank established the Plan to grant awards to any employee, officer or director of the Bank. The purpose of the Plan is to promote the success, and enhance the value of the Bank by linking the personal, financial and economic interests of employees, officers and directors of the Bank to those of the Bank's shareholders and by providing such persons with additional incentives for outstanding performance. Awards may be made for a period of ten years from the effective date of the Plan.

Under the Plan, each granted stock option entitles the holder to purchase shares of the Bank's common stock at an exercise price equal to 100% of the fair market value of the stock on the date of grant. Options vest over a three-year period from the date of grant and may be exercised for a period of up to ten years from the date of grant. If a participant's service terminates by reason of death or disability, or in the event of a change in control, all of the participant's outstanding options will become fully vested and exercisable.

A summary of options outstanding under the Bank's stock compensation plan as of December 31, 2008, and changes during the year-to-date period then ended is presented below:

	<u>Number of Options</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Remaining Contractual Term (Years)</u>	<u>Aggregate Intrinsic Value</u>
Outstanding at January 1, 2008	474,500	\$ 10.00		
Granted	-	-		
Exercised	-	-		
Forfeited or expired	-	-		
Outstanding at December 31, 2008	<u>474,500</u>	<u>\$ 10.00</u>	<u>8.4</u>	<u>\$ -</u>
Exercisable as of December 31, 2008	<u>158,167</u>	<u>\$ 10.00</u>	<u>8.4</u>	<u>\$ -</u>

There were no options exercised or granted during the year ended December 31, 2008.

**NOTE 5 – SECURITIES**

The carrying amount, unrealized gains and losses and fair value of securities available for sale were as follows:

	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
<u>December 31, 2008</u>				
Mortgage-backed	\$ 27,808,308	\$ 272,120	\$ -	\$ 28,080,428
Total securities available for sale	<u>\$ 27,808,308</u>	<u>\$ 272,120</u>	<u>\$ -</u>	<u>\$ 28,080,428</u>
<u>December 31, 2007</u>				
U.S. Government agency	\$ 14,002,422	\$ 47,437	\$ -	\$ 14,049,859
Mortgage-backed	<u>25,486,431</u>	<u>639,964</u>	<u>-</u>	<u>26,126,395</u>
Total securities available for sale	<u>\$ 39,488,853</u>	<u>\$ 687,401</u>	<u>\$ -</u>	<u>\$ 40,176,254</u>

**NOTE 5 – SECURITIES (Continued)**

The carrying amount, unrealized gains and losses and fair value of securities held to maturity were as follows:

	Amortized <u>Cost</u>	Gross Unrealized <u>Gains</u>	Gross Unrealized <u>Losses</u>	Fair <u>Value</u>
<u>December 31, 2008</u>				
Mortgage-backed	\$ 11,412,370	\$ 288,245	\$ -	\$ 11,700,615
Other securities:				
Corporate bonds	1,827,172	4,548	-	1,831,720
Capital trust notes	<u>6,297,824</u>	<u>-</u>	<u>(826,348)</u>	<u>5,471,476</u>
Total securities held to maturity	<u>\$ 19,537,366</u>	<u>\$ 292,793</u>	<u>\$ (826,348)</u>	<u>\$ 19,003,811</u>
 <u>December 31, 2007</u>				
Mortgage-backed	<u>\$ 13,116,517</u>	<u>\$ 280,702</u>	<u>\$ -</u>	<u>\$ 13,397,219</u>
Total securities held to maturity	<u>\$ 13,116,517</u>	<u>\$ 280,702</u>	<u>\$ -</u>	<u>\$ 13,397,219</u>

During 2008, the Bank transferred certain investments from available for sale to held to maturity. On the date of transfer, the carrying value of these securities was \$8,452,543 and the market value was \$8,102,320. The unrealized loss on the date of transfer is being amortized over the contractual term of the investment. The Bank had \$836,200 and \$894,100 of Federal Reserve Bank of New York stock, at cost, at December 31, 2008 and 2007, respectively. The Bank is required to own such stock based upon a percentage of the Bank's capital. The Bank had \$1,484,700 and \$0 of Federal Home Loan Bank of New York ("FHLB-NY") stock, at cost, at December 31, 2008 and 2007, respectively. The Bank is required to maintain this investment in order to have access to funding resources provided by the FHLB-NY. In addition, the Bank was required to purchase stock of a bankers bank. This stock is classified as restricted stock and is held at cost. For the years ended December 31, 2008 and 2007, the Bank had \$50,000 of restricted stock.

The fair value of debt securities and carrying amount, if different, at year end 2008 by contractual maturity were as follows. Securities not due at a single maturity date, primarily mortgage-backed securities, are shown separately.

	<u>Held to Maturity</u>		<u>Available for Sale</u>
	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Fair Value</u>
Due in one year or less	\$ -	\$ -	\$ -
Due from one to five years	1,827,172	1,831,720	-
Due from five to ten years	-	-	-
Due after ten years	6,297,824	5,471,476	-
Mortgage-backed	<u>11,412,370</u>	<u>11,700,615</u>	<u>28,080,428</u>
Total	<u>\$ 19,537,366</u>	<u>\$ 19,003,811</u>	<u>\$ 28,080,428</u>

Securities pledged at year-end 2008 and 2007 had a carrying amount of \$34,812,100 and \$0, respectively, and were pledged to secure FHLB-NY advances. The largest non-government agency holding as of year end 2008 is a subordinated debenture issued by Astoria Financial under Astoria Capital Trust I with a carrying amount of \$3,041,036 and a fair value of \$2,250,000.

**NOTE 5 – SECURITIES (Continued)**

No securities were in an unrealized loss position greater than twelve months at December 31, 2008 and 2007. Unrealized losses on securities less than twelve months have not been recognized into income because the issuers of the bonds remain financially sound, management has the intent and ability to hold for the foreseeable future or maturity, and the decline in fair value is largely due to changes in interest rates. The fair value is expected to recover as the bonds approach maturity.

**NOTE 6 - LOANS**

The following table sets forth the composition of the loan portfolio at December 31, 2008 and 2007:

	<u>2008</u>	<u>2007</u>
Real Estate		
Multi-family	\$ 98,424,751	\$ -
Commercial	26,889,220	7,190,404
Home equity	4,931,981	1,312,101
Construction and land	26,555,257	12,324,513
Commercial	11,739,189	3,359,328
Taxi Medallion	28,933,619	13,119,629
Consumer	<u>14,934</u>	<u>451</u>
Subtotal	197,488,951	37,306,426
Add: Net deferred loan costs	263,335	54,170
Allowance for loan losses	<u>(1,575,000)</u>	<u>(275,000)</u>
Loans, net	<u>\$ 196,177,286</u>	<u>\$ 37,085,596</u>

Activity in the allowance for loans losses for the year ended December 31, 2008 and 2007, were as follows:

	<u>2008</u>	<u>2007</u>
Beginning balance	\$ 275,000	\$ -
Provision for loan losses	1,300,000	275,000
Loans charged-off	-	-
Recoveries	<u>-</u>	<u>-</u>
Ending balance	<u>\$ 1,575,000</u>	<u>\$ 275,000</u>

Individually impaired loans were as follows:

	<u>2008</u>	<u>2007</u>
Year-end loans with no allocated allowance for loan losses	\$ -	\$ -
Year-end loans with allocated allowance for loan losses	<u>3,095,375</u>	<u>-</u>
Total	<u>\$ 3,095,375</u>	<u>\$ -</u>

**NOTE 6 – LOANS (Continued)**

	<u>2008</u>	<u>2007</u>
Amount of the allowance for loan losses allocated	\$ 407,000	\$ -
Average of individually impaired loans during year	\$ 773,844	\$ -
Interest income recognized during impairment	-	-
Cash-basis interest income recognized	-	-

Nonaccrual loans and loans past due 90 days still on accrual were as follows:

	<u>2008</u>	<u>2007</u>
Loans past due over 90 days still on accrual	\$ -	\$ -
Nonaccrual loans	3,095,375	-

Nonaccrual loans and loans past due 90 days still on accrual include both smaller balance homogeneous loans that are collectively evaluated for impairment and individually classified impaired loans.

**NOTE 7 - PREMISES AND EQUIPMENT**

The following is a summary of premises and equipment at December 31:

	<u>2008</u>	<u>2007</u>
Leasehold improvements	\$ 3,996,629	\$ 3,800,746
Furniture and fixtures	490,940	424,316
Office equipment	<u>1,017,166</u>	<u>881,957</u>
	5,504,735	5,107,019
Less: Accumulated depreciation	<u>(562,800)</u>	<u>(211,731)</u>
	<u>\$ 4,941,935</u>	<u>\$ 4,895,288</u>

Depreciation expense was \$355,792 and \$211,731 for the year ended December 31, 2008 and 2007, respectively.

**NOTE 8 – LEASES**

The Bank entered into a 15 year, non-cancelable operating lease on its Merrick branch premises commencing on February 1, 2006. The lease contains two renewal options for periods of 5 years each and includes rent escalation clauses. In addition, the lease provides for additional payments based upon real estate taxes, interest and other charges.

The Bank entered into a 6 year, operating lease on its Hauppauge headquarters premises commencing on June 1, 2006. The lease contains one renewal option for a period of 5 years and includes rent escalation clauses. In addition, the lease provides for additional payments based upon real estate taxes, interest and other charges.

**NOTE 8 – LEASES (Continued)**

The Bank assumed an 11.5 year, operating lease on its Melville branch premises commencing on September 1, 2006. The lease contains one renewal option for a period of 5 years and includes rent escalation clauses. In addition, the lease provides for additional payments based upon real estate taxes, interest and other charges.

Rental and common area expense for the years ended December 31, 2008 and 2007 was \$706,818 and \$472,061, respectively.

Projected minimum annual rental payments are as follows:

2009	\$ 579,636
2010	598,283
2011	617,532
2012	492,494
2013	366,973
Thereafter	<u>2,201,278</u>
	<u>\$ 4,856,196</u>

On February 29, 2008, the Bank entered into a 20 year operating lease related to a new branch location in Levittown. The lease contains two renewal options for a period of 5 years each and includes rent escalation clauses. Lease payments will range from \$10,000 to \$19,424 per month over the term of the lease. In addition, the lease provides for additional payments based upon real estate taxes, interest and other charges. Future lease payments are contingent upon receipt of final municipal and regulatory approvals which has not been obtained as of March 2009. Since the contingency for lease payments has not been met, the related payments are not included in the preceding table.

**NOTE 9 – DEPOSITS**

Time deposits of \$100,000 or more were \$56,047,766 and \$21,218,635 at December 31, 2008 and 2007, respectively.

Scheduled maturities of time deposits for the next five years are as follows:

2009	\$ 86,185,800
2010	21,806,557
2011	-
2012	299,548
2013	<u>60,732</u>
	<u>\$ 108,352,637</u>

Deposits obtained through a brokered relationship were \$12,993,993 and \$0 at December 31, 2008 and 2007, respectively.

## NOTE 10 – FEDERAL HOME LOAN BANK OF NEW YORK ADVANCES

FHLB-NY advances totaled \$31,000,000 and \$0, respectively, at December 31, 2008 and 2007. The contractual maturities of the outstanding FHLB-NY advances at December 31, 2008 were as follows:

	<u>Amount</u>	<u>Weighted Average Interest Rate</u>
2010	\$ 1,500,000	2.31%
2011	2,500,000	2.63
2013	5,500,000	2.83
2015	1,500,000	2.09
2018	<u>20,000,000</u>	<u>3.21</u>
	<u>\$ 31,000,000</u>	<u>3.00%</u>

Each advance is payable at its maturity date, with a prepayment penalty for fixed rate advances. All advances are callable. The advances were collateralized by \$16,272,500 of first mortgage loans under a blanket lien arrangement at year-end 2008 and \$34,812,100 of securities. Based on this collateral and the Bank's holdings of FHLB stock, the Bank is eligible to borrow an additional \$20,084,600 at year-end 2008.

## NOTE 11 – INCOME TAXES

Deferred tax assets and liabilities are recognized for the future tax effect of differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in earnings in the period that includes the enactment date. In the event it is more likely than not that a deferred tax asset will not be realized, a valuation allowance will be recorded.

Income tax expense (benefit) was as follows:

	<u>2008</u>	<u>2007</u>
Current expense		
Federal	\$ 11,192	\$ -
State	<u>-</u>	<u>-</u>
	11,192	-
Deferred expense		
Federal	(236,018)	(2,102,278)
State	<u>-</u>	<u>-</u>
	(236,018)	(2,102,278)
Change in valuation allowance	<u>(236,018)</u>	<u>2,102,278</u>
Income tax expense	<u>\$ 11,192</u>	<u>\$ -</u>

Effective tax rates differ from federal statutory rate of 34% applied to loss before income taxes due to the following:

	<u>2008</u>	<u>2007</u>
Federal statutory rate times financial statement loss	\$ (238,388)	\$ (2,102,278)
Effect of:		
Other	13,562	-
Change in valuation allowance	<u>236,018</u>	<u>2,102,278</u>
Total	<u>\$ 11,192</u>	<u>\$ -</u>

## NOTE 11 – INCOME TAXES (Continued)

At December 31, 2008 and 2007, deferred tax assets and liabilities were due to the following:

	<u>2008</u>	<u>2007</u>
Deferred tax assets		
Allowance for loan losses	\$ 614,504	\$ 109,164
Deferred organization costs	512,594	551,525
Contribution deduction	383,563	408,244
Deferred compensation	426,454	281,161
Net operating loss deduction	841,457	1,292,067
Other	<u>11,192</u>	<u>-</u>
Gross deferred tax assets	2,789,764	2,642,161
Deferred tax liabilities		
Income not realized for tax purposes	-	(228,479)
Other	<u>(140,064)</u>	<u>-</u>
Gross deferred tax liabilities	(140,064)	(228,479)
Valuation allowance	<u>(2,649,700)</u>	<u>(2,413,682)</u>
Net deferred tax assets	<u>\$ -</u>	<u>\$ -</u>

Realization of deferred tax assets associated with the net operating loss carryforwards is dependent upon generating sufficient taxable income prior to their expiration. Accordingly, management has established a valuation allowance.

At December 31, 2008, the Bank had net operating loss carryforwards of approximately \$2,119,754 which expire in 2027 and a charitable contribution carryforward of approximately \$966,250 which expires in 2012. At December 31, 2007, the Bank had net operating loss carryforwards of approximately \$2,679,333 which expire in 2027 and a charitable contribution carryforward of approximately \$1,028,426 which expires in 2012.

## NOTE 12 – REGULATORY CAPITAL

Banks are subject to regulatory capital requirements administered by federal banking agencies. Capital adequacy guidelines and, additionally for banks, prompt corrective action regulations, involve quantitative measures of assets, liabilities, and certain off-balance-sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators. Failure to meet capital requirements can initiate regulatory action. Management believes as of December 31, 2008 and 2007, the Bank meets all capital adequacy requirements to which it is subject.

Prompt corrective action regulations provide five classifications: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized, although these terms are not used to represent overall financial condition. If adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as is asset growth and expansion, and capital restoration plans are required.

As a condition of its approval, the FDIC requires that the Bank maintain a Tier 1 leverage ratio of at least 8% for its first three years of operation. Under these guidelines, the Bank is considered well capitalized as of December 31, 2008 and 2007. Management is unaware of any conditions or events that management believes have changed the institution's category.

## NOTE 12 – REGULATORY CAPITAL (Continued)

The following table sets forth the Bank's risk-based capital amounts and ratios as of December 31, 2008 and 2007:

	<u>Actual</u>		<u>Required For Capital Adequacy Purposes</u>		<u>To Be Well Capitalized Under Prompt Corrective Action Regulations</u>	
	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>
<u>2008</u>						
Total Capital to risk weighted assets	\$ 30,006	12.70%	\$18,900	8.00%	\$23,625	10.00%
Tier 1 (Core) Capital to risk weighted assets	28,431	12.03	18,900	8.00	18,900	8.00
Tier 1 (Core) Capital to average assets	28,431	11.17	20,354	8.00	20,354	8.00
<u>2007</u>						
Total Capital to risk weighted assets	29,036	45.92%	5,058	8.00%	6,323	10.00%
Tier 1 (Core) Capital to risk weighted assets	28,761	45.49	5,058	8.00	5,058	8.00
Tier 1 (Core) Capital to average assets	28,761	25.73	8,942	8.00	8,942	8.00

## NOTE 13 – RELATED PARTY TRANSACTIONS

Certain related parties have provided architectural services to the Bank relating to the construction of the Bank's branches. Fees paid for these services totaled \$120,900 and \$146,000 in 2008 and 2007, respectively. At December 31, 2008 and 2007, there were \$33,645 and \$0, respectively, additional service commitments.

The Bank has granted loans to principal officers and directors and their affiliates amounting to approximately \$998,500 and \$499,000 at December 31, 2008 and 2007, respectively.

Deposits held at the Bank by related parties, which include executive officers, directors, and companies in which directors of the Board have a significant ownership interest, approximated \$2,816,825 and \$2,755,000 at December 31, 2008 and 2007, respectively.

## NOTE 14 – LOAN COMMITMENTS AND OTHER RELATED ACTIVITIES

Some financial instruments, such as loan commitments, credit lines, letters of credit, and overdraft protection, are issued to meet customer financing needs. These are agreements to provide credit or to support the credit of others, as long as conditions established in the contract are met, and usually have expiration dates. Commitments may expire without being used. Off-balance-sheet risk to credit loss exists up to the face amount of these instruments, although material losses are not anticipated. The same credit policies are used to make such commitments as are used for loans, including obtaining collateral at exercise of the commitment.

The contractual amounts of financial instruments with off-balance sheet risk at December 31, 2008, were as follows:

	<u>Fixed Rate</u>	<u>Variable Rate</u>
Unfunded loans	\$ 11,332,033	\$ 1,819,974
Unused lines of credit	5,782,861	3,675,097

At December 31, 2008 and 2007, the Bank had a line of credit of \$5,000,000 with an unaffiliated correspondent bank to provide short-term credit for liquidity requirements. As of December 31, 2008 and 2007, the Bank had no borrowings outstanding on this line of credit.

## NOTE 15 – FAIR VALUES

Statement 157 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: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The fair values of securities available for sale are determined by obtaining quoted prices on nationally recognized securities exchanges (Level 1 inputs) or matrix pricing, which is a mathematical technique widely used to in the industry to value debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted securities (Level 2 inputs).

The fair value of impaired loans with specific allocations of the allowance for loan losses is generally based on recent real estate appraisals. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are typically significant and result in a Level 3 classification of the inputs for determining fair value.

**NOTE 15 – FAIR VALUES (Continued)**

Assets and Liabilities Measured on a Recurring Basis

Assets and liabilities measured at fair value on a recurring basis are summarized below:

	Fair Value Measurements at December 31, 2008 Using		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:			
Available for sale securities	\$ -	\$28,080,048	\$ -

Assets and Liabilities Measured on a Non-Recurring Basis

Assets and liabilities measured at fair value on a non-recurring basis are summarized below:

	Fair Value Measurements at December 31, 2008 Using		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:			
Impaired loans	\$ -	\$ -	\$2,688,375

The following represent impairment charges recognized during the period:

Impaired loans, which are measured for impairment using the fair value of the collateral for collateral dependent loans, had a carrying amount of \$3,095,375, with a valuation allowance of \$407,000, resulting in an additional provision-for loan losses of \$407,000 for the period.

Carrying amount and estimated fair values of financial instruments at year end were as follows:

	2008		2007	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets				
Cash and cash equivalents	\$ 12,392,839	\$ 12,392,839	\$ 16,155,047	\$ 16,155,047
Securities available for sale	28,080,428	28,080,428	40,176,254	40,176,254
Securities held to maturity	19,537,366	19,003,811	13,116,517	13,397,219
Loans, net	196,177,286	195,143,447	37,085,596	37,311,939
Accrued interest receivable	1,290,445	1,290,445	644,214	644,214
Financial liabilities				
Deposits	\$209,577,398	\$210,356,731	\$ 85,554,787	\$ 85,169,487
Accrued interest payable	529,384	529,384	88,317	88,317
Borrowings	31,000,000	31,031,168	-	-

#### **NOTE 15 – FAIR VALUES (Continued)**

The methods and assumptions used to estimate fair value are described as follows:

Carrying amount is the estimated fair value for cash and cash equivalents, Federal Reserve Bank of New York stock, restricted stock, accrued interest receivable and payable, demand deposits, short-term debt, and variable rate loans or deposits that reprice frequently and fully. As discussed previously, security fair values are based on market prices or dealer quotes, and if no such information is available, on the rate and term of the security and information about the issuer. For fixed rate loans or deposits and for variable rate loans or deposits with infrequent repricing or repricing limits, fair value is based on discounted cash flows using current market rates applied to the estimated life and credit risk. As discussed previously, fair values for impaired loans are estimated using discounted cash flow analysis or underlying collateral values. Fair value of debt is based on current rates for similar financing. The fair value of off-balance-sheet items is not considered material.

#### **NOTE 16 – SUBSEQUENT EVENTS**

On October 30, 2008, the Board of Directors approved the formation of a holding company. On March 16, 2009, the Bank received shareholder approval to reorganize into a one-bank holding company structure (the “Reorganization”). In connection with the Reorganization, the Bank is to form Madison National Bancorp, Inc. (the “Company”), a New York State corporation, to serve as its holding company. The Reorganization will be effected by an exchange of all of the outstanding shares of Bank Common Stock for shares of Company Common Stock (the “Share Exchange”). Following the Share Exchange, the Bank will be a wholly owned subsidiary of the Company and former shares of Bank Common Stock represent the same number of shares of Company Common Stock. The Bank will pay the various costs associated with its formation, as well as other subsequent expenses as incurred. Since this transaction is considered an internal reorganization, it will be accounted for at historical cost.

## CORPORATE INFORMATION

### **Board of Directors**

**Daniel L. Murphy**  
Chairman, Chief Executive Officer & Founder

**Michael P. Puorro**  
President & Founder

**Richard M. Berman**  
Partner  
Friedman, LLP

**John F. Coffey**  
Retired Banker

**Gerald J. Kaiser**  
Retired Attorney & Founder

**Brian H. Madden**  
President  
Liberty Title Agency

**Robert R. McMillan**  
Of Counsel Bee Ready Fishbein Hatter & Donovan, LLP

**Donald J. Musso**  
President, Fin Pro, Inc. & Founder

**John R. Sorrenti**  
President  
JRS Architect, P.C.

### **Officers of the Bank**

**Daniel L. Murphy**  
Chairman, Chief Executive Officer & Founder

**Michael P. Puorro**  
President & Founder

**William P. Mackey**  
Executive Vice President  
Chief Financial Officer

**Estela M. Mendes**  
Executive Vice President  
Chief Retail Banking Officer  
BSA & Compliance Officer

**Bonnie Seider**  
Senior Vice President  
Corporate Secretary

**Lisa A. DiIorio**  
Senior Vice President  
Controller

**Maureen P. Kiedaisch**  
Senior Vice President  
Director of Human Resources & Training

**Ron Agostino**  
Vice President  
Retail Systems Officer & Network Manager

**James F. Morris**  
Vice President  
Commercial Lender

**Robert Marrali**  
Vice President  
Commercial Loan Officer

**Michelle McAteer**  
Vice President  
Assistant Controller

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### **Shareholder Information**

Registrar and Transfer Company  
10 Commerce Drive  
Cranford, NJ 07016-3572

### **Stock Listing**

Madison National Bank is traded on the  
OTCBB under the symbol MNBX.

### **Annual Meeting**

The 2008 Annual Meeting will be held on  
May 12, 2009 at 9:00 am at the Corporate Headquarters  
at 888 Veterans Memorial Highway, Hauppauge, NY

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### **General Counsel**

Malizia Spidi & Fisch  
901 New York Avenue, NW  
Washington, DC 20001

### **Independent Auditors**

Crowe Horwath LLP  
354 Eisenhower Parkway  
Livingston, NJ 07309

“This statement has not been reviewed or confirmed  
for accuracy or relevance by the Office of the  
Comptroller of the Currency.”