1ST CONSTITUTION BANCORP
Form 10-K
April 15, 2008

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-K

(Mark One)
x ANNUAL REPORT UNDER SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2007

o TRANSITION REPORT UNDER SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ________ to _______

Commission file Number: 000-32891

1ST CONSTITUTION BANCORP
(Exact Name of Registrant as Specified in Its Charter)

New Jersey	22-3665653
(State or Other Jurisdiction of Incorporation or Organization)	IRS Employer Identification Number)

2650 Route 130, P.O. Box 634, Cranbury, NJ 08512
(Address of Principal Executive Offices, including Zip Code)

(609) 655-4500
(Registrant's telephone number, including area code)

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

Common Stock, No Par Value

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:

Stock Purchase Rights Relating to Common Stock, No Par Value
(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes o No x

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

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Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of “large accelerated filer,” “accelerated filer,” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	o	Accelerated filer	o
Non-accelerated filer	o	Smaller reporting company	x
(Do not check if a smaller reporting company)			

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x

The aggregate market value of the registrant’s common stock held by non-affiliates of the registrant, computed by reference to the price at which the common stock was last sold, or the average bid and asked price of such common stock, as of the last business day of the registrant’s most recently completed second quarter, is $57,045,025.

As of March 25, 2008, 3,992,715 shares of the registrant’s common stock were outstanding.

Portions of the registrant’s definitive Proxy Statement for its 2008 Annual Meeting of Shareholders are incorporated by reference into Part III of this report.

FORM 10-K

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ANNUAL REPORT ON FORM 10-K
For the fiscal year ended December 31, 2007
EXPLANATORY NOTE

In this Form 10-K, we are restating our consolidated balance sheet as of December 31, 2006, and the related consolidated statement of operations, shareholders' equity and cash flows for the year ended December 31, 2006, including the applicable notes. We have also included in this report restated unaudited consolidated financial information for each of the first three quarters of 2007 and the four quarters of 2006.

We do not plan to file an amendment to our Annual Report on Form 10-K for the year ended December 31, 2006. Nor do we plan to file amendments to our Quarterly Reports on Form 10-Q for the quarterly periods ended March 31, June 30, and September 30, 2007 and 2006, respectively. Thus, you should not rely on any of the previously filed annual or quarterly reports relating to the foregoing periods. They are superseded by this report.

For more detailed information about the restatement, please see Note 2, "Restatement of Consolidated Financial Statements For the Year Ended and As At December 31, 2006" and Note 24, "Unaudited Quarterly Financial Statements and Restatement of Interim Financial Statements" in the accompanying consolidated financial statements and "Restatement of Previously Issued Financial Results" in the "Management's Discussion and Analysis of Financial Condition and Results of Operations" section of this Annual Report on Form 10-K.

In addition, management has determined that we had material weaknesses in our internal control over financial reporting relating to quantifying and reporting current tax liabilities and deferred tax assets, failure to document and properly evaluate certain non-interest operating expenses and failure to accurately estimate accruals related to the Company's Supplemental Executive Retirement Plan. As described in more detail in Item 9A of this Annual Report, we have identified the causes of these material weaknesses and are implementing measures designed to remedy them.

Forward-Looking Statements

This Annual Report on Form 10-K contains “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995 relating to, without limitation, our future economic performance, plans and objectives for future operations, and projections of revenues and other financial items that are based on our beliefs, as well as assumptions made by and information currently available to us. The words “may,” “will,” “anticipate,” “should,” “would,” “believe,” “contemplate,” “could,” “project,” “predict,” “expect,” “estimate,” “continue,” and “intend,” as well as other similar expressions of the future, are intended to identify forward-looking statements.

These forward-looking statements generally relate to our plans, objectives and expectations for future events and include statements about our expectations, beliefs, plans, objectives, intentions, assumptions and other statements that are not historical facts. These statements are based upon our opinions and estimates as of the date they are made. Although we believe that the expectations reflected in these forward-looking statements are reasonable, such forward-looking statements are subject to known and unknown risks and uncertainties that may be beyond the our control, which could cause actual results, performance and achievements to differ materially from results, performance and achievements projected, expected, expressed or implied by the forward-looking statements.

Examples of events that could cause actual results to differ materially from historical results or those anticipated, expressed or implied include, without limitation, changes in the overall economy and the interest rate environment; the ability of customers to repay their obligations; the adequacy of the allowance for loan losses; competition; significant changes in accounting, tax or regulatory practices and requirements; changes in deposit flows, loan demand or real estate values; legislation or regulatory changes; changes in loan delinquency rates or in our levels of non-performing assets; and changes in the economic climate in the market areas in which we operate; and the economic impact of any future terrorist threats and attacks, acts of war or threats thereof and the response of the United States to any such threats and attacks. Although management has taken certain steps to mitigate any negative effect of the aforementioned items, significant unfavorable changes could severely impact the assumptions used and have an adverse effect on profitability.

Additional information concerning the factors that could cause actual results to differ materially from those in the forward-looking statements is contained in Item 1. “Business”, Item 7. “Management’s Discussion and Analysis of Financial Condition and Results of Operations”, and elsewhere in this Annual Report on Form 10-K and in our other filings with the Securities and Exchange Commission (the “SEC”). We undertake no obligation to publicly revise any forward-looking statements or cautionary factors, except as required by law.

PART I

Item 1. Business.

1st Constitution Bancorp

1st Constitution Bancorp (the “Company”) is a bank holding company registered under the Bank Holding Company Act of 1956, as amended. The Company was organized under the laws of the State of New Jersey in February 1999 for the purpose of acquiring all of the issued and outstanding stock of 1st Constitution Bank (the “Bank”) and thereby enabling the Bank to operate within a bank holding company structure. The Company became an active bank holding company on July 1, 1999. The Bank is a wholly-owned subsidiary of the Company. Other than its investment in the Bank, the Company currently conducts no other significant business activities.

The main office of the Company and the Bank is located at 2650 Route 130 North, Cranbury, New Jersey 08512, and the telephone number is (609) 655-4500.

1st Constitution Bank

The Bank, a commercial bank formed under the laws of the State of New Jersey, engages in the business of commercial and retail banking. As a community bank, the Bank offers a wide range of services (including demand, savings and time deposits and commercial and consumer/installment loans) to individuals, small businesses and not-for-profit organizations principally in Middlesex, Mercer and Somerset Counties, New Jersey. The Bank conducts its operations through its main office located in Cranbury, New Jersey, and operates ten additional branch offices in downtown Cranbury, Hamilton Square, Hightstown, Jamesburg, Montgomery, Perth Amboy, Plainsboro, West Windsor, Fort Lee and Princeton, New Jersey. The Bank's deposits are insured up to applicable legal limits by the Federal Deposit Insurance Corporation ("FDIC").

Management efforts focus on positioning the Bank to meet the financial needs of the communities in Middlesex, Mercer and Somerset Counties and the Fort Lee area of Bergen County and to provide financial services to individuals, families, institutions and small businesses. To achieve this goal, the Bank is focusing its efforts on:

- personal service;
- expansion of its branch network;
- innovative product offerings; and
- technological advances and e-commerce.

Personal Service

The Bank provides a wide range of commercial and consumer banking services to individuals, families, institutions and small businesses in central New Jersey and the Fort Lee area of Bergen County. The Bank’s focus is to understand the needs of the community and the customers and tailor products, services and advice to meet those needs. The Bank seeks to provide a high level of personalized banking services, emphasizing quick and flexible responses to customer demands.

Expansion of Branch Banking

The Bank continually evaluates opportunities for branch bank expansion, either mini branches or full service banks, to continue to grow and meet the needs of the community. During the first quarter of 2007, the Bank completed its acquisition of the Hightstown, New Jersey branch of another financial institution. During the third quarter of 2006, the Bank relocated its Plainsboro branch office from 10 Schalks Crossing Road to 11 Schalks Crossing Road and opened a new branch office at 180 Main Street, Fort Lee, Bergen County, New Jersey.

Innovative Product Offerings

In the fourth quarter of 2006, the Bank launched its new EZ Deposit service. This new product allows customers of the Bank to scan checks, using a scanning device furnished by the Bank, at the customer’s place of business and transmit them directly to the Bank for deposit into the customer’s account. The Check 21 Act allows for the creation of Image Replacement Documents (“IRD”) that are the legal equivalent of the original check. Therefore, the check images captured at customer locations are sent electronically to the Bank and customers can reduce the number of trips to the Bank, as deposits are made directly from their place of business to the Bank. The service also has a later deposit time cutoff than branch locations and this allows customers to process deposits and have them posted the same day rather than the following business day.

By the end of 2007, there were 51 EZ Deposit customers using the service and a number of customers requesting the service in 2008. Management believes that there is great customer acceptance of this service and that the demand for this service will be strong in 2008.

Technological Advances and e-Commerce

The Bank recognizes that customers want to receive service via their most convenient delivery channel, be it the traditional branch office, by telephone, ATM, or the internet. For this reason, the Bank continues to enhance its e-commerce capabilities. At www.1stconstitution.com, customers have easy access to online banking, including account access, and to the Bank’s bill payment system. Consumers can apply online for loans and interact with senior

management through the e-mail system. Business customers have access to cash management information and transaction capability through the Bank's online Business Express product offering. This overall expansion in electronic banking offers the Bank's customers another means to access the Bank's services easily and at their own convenience.

Competition

The Bank experiences substantial competition in attracting and retaining deposits and in making loans. In attracting deposits and borrowers, the Bank competes with commercial banks, savings banks, and savings and loan associations, as well as regional and national insurance companies and non-bank financial institutions, regulated small loan companies and local credit unions, regional and national issuers of money market funds and corporate and government borrowers. Within the direct market area of the Bank, there are a significant number of offices of competing financial institutions. In New Jersey generally, and in the Bank's local market specifically, large commercial banks, as well as savings banks and savings and loan associations, including Provident Savings Bank and Hudson City Savings Bank, hold a dominant market share and there has been significant merger activity in the last few years, creating even larger competitors.

Locally, the Bank's most direct competitors include Bank of America, PNC Bank, Wachovia Bank, and Sovereign Bank. The Bank is at a competitive disadvantage compared with these larger national and regional commercial and savings banks. By virtue of their larger capital, asset size or reserves, many of such institutions have substantially greater lending limits (ceilings on the amount of credit a bank may provide to a single customer that are linked to the institution's capital) and other resources than the Bank. Many such institutions are empowered to offer a wider range of services, including trust services, than the Bank and, in some cases, have lower funding costs (the price a bank must pay for deposits and other borrowed monies used to make loans to customers) than the Bank. In addition to having established deposit bases and loan portfolios, these institutions, particularly large national and regional commercial and savings banks, have the financial ability to finance extensive advertising campaigns and to allocate considerable resources to locations and products perceived as profitable.

In addition, non-bank financial institutions offer services that compete for deposits with the Bank. For example, brokerage firms and insurance companies offer such instruments as short-term money market funds, corporate and government securities funds, mutual funds and annuities. It is expected that competition in these areas will continue to increase. Some of these competitors are not subject to the same degree of regulation and supervision as the Company and the Bank and therefore may be able to offer customers more attractive products than the Bank.

However, management of the Bank believes that loans to small and mid-sized businesses and professionals, which represent the main commercial loan business of the Bank, are not always of primary importance to the larger banking institutions. The Bank competes for this segment of the market by providing responsive personalized services, local decision-making, and knowledge of its customers and their businesses.

Lending Activities

The Bank's lending activities include both commercial and consumer loans. Loan originations are derived from a number of sources including real estate broker referrals, mortgage loan companies, direct solicitation by the Bank's loan officers, existing depositors and borrowers, builders, attorneys, walk-in customers and, in some instances, other lenders. The Bank has established disciplined and systematic procedures for approving and monitoring loans that vary depending on the size and nature of the loan.

Commercial Lending

The Bank offers a variety of commercial loan services including term loans, lines of credit, and loans secured by equipment and receivables. A broad range of short-to-medium term commercial loans, both secured and unsecured, are made available to businesses for working capital (including inventory and receivables), business expansion (including acquisition and development of real estate and improvements), and the purchase of equipment and machinery. The Bank also makes construction loans to real estate developers for the acquisition, development and

construction of residential subdivisions.

Commercial loans are granted based on the borrower's ability to generate cash flow to support its debt obligations and other cash related expenses. A borrower's ability to repay commercial loans is substantially dependent on the success of the business itself and on the quality of its management. As a general practice, the Bank takes as collateral a security interest in any available real estate, equipment, inventory, receivables or other personal property of its borrowers, although occasionally the Bank makes commercial loans on an unsecured basis. Generally, the Bank requires personal guaranties of its commercial loans to offset the risks associated with such loans.

Residential Consumer Lending

A portion of the Bank’s lending activities consists of the origination of fixed and adjustable rate residential first mortgage loans secured by owner-occupied property located in the Bank’s primary market areas. Home mortgage lending is unique in that a broad geographic territory may be serviced by originators working from strategically placed offices either within the Bank’s traditional banking facilities or from affordable storefront locations in commercial buildings. The Bank also offers construction loans, second mortgage home improvement loans and home equity lines of credit.

The Bank finances the construction of individual, owner-occupied houses on the basis of written underwriting and construction loan management guidelines. First mortgage construction loans are made to contractors secured by real estate that is both a pre-sold and a “speculation” basis. Such loans are also made to qualified individual borrowers and are generally supported by a take-out commitment from a permanent lender. The Bank makes residential construction loans to individuals who intend to erect owner occupied housing on a purchased parcel of real estate. The construction phase of these loans has certain risks, including the viability of the contractor, the contractor’s ability to complete the project and changes in interest rates.

In most cases, the Bank will sell its mortgage loans with terms of 15 years or more in the secondary market. The sale to the secondary market allows the Bank to hedge against the interest rate risks related to such lending operations. This brokerage arrangement allows the Bank to accommodate its clients’ demands while eliminating the interest rate risk for the 15- to 30- year period generally associated with such loans.

The Bank in most cases requires borrowers to obtain and maintain title, fire, and extended casualty insurance, and, where required by applicable regulations, flood insurance. The Bank maintains its own errors and omissions insurance policy to protect against loss in the event of failure of a mortgagor to pay premiums on fire and other hazard insurance policies. Mortgage loans originated by the Bank customarily include a “due on sale” clause, which gives the Bank the right to declare a loan immediately due and payable in certain circumstances, including, without limitation, upon the sale or other disposition by the borrower of the real property subject to a mortgage. In general, the Bank enforces due on sale clauses. Borrowers are typically permitted to refinance or repay loans at their option without penalty.

Non-Residential Consumer Lending

Non-residential consumer loans made by the Bank include loans for automobiles, recreation vehicles, and boats, as well as personal loans (secured and unsecured) and deposit account secured loans. The Bank also conducts various indirect lending activities through established retail companies in its market areas. Non-residential consumer loans are attractive to the Bank because they typically have a shorter term and carry higher interest rates than are charged on other types of loans. Non-residential consumer loans, however, do pose additional risk of collectibility when compared to traditional types of loans, such as residential mortgage loans granted by commercial banks.

Consumer loans are granted based on employment and financial information solicited from prospective borrowers as well as credit records collected from various reporting agencies. Stability of the borrower, willingness to pay and credit history are the primary factors to be considered. The availability of collateral is also a factor considered in making such a loan. The Bank seeks collateral that can be assigned and has good marketability with a clearly adequate margin of value. The geographic area of the borrower is another consideration, with preference given to borrowers in the Bank’s primary market areas.

Supervision and Regulation

Banking is a complex, highly regulated industry. The primary goals of the bank regulatory scheme are to maintain a safe and sound banking system and to facilitate the conduct of monetary policy. In furtherance of those goals, Congress has created several largely autonomous regulatory agencies and enacted a myriad of legislation that governs banks, bank holding companies and the banking industry. This regulatory framework is intended primarily for the protection of depositors and not for the protection of the Company's shareholders. Descriptions of, and references to, the statutes and regulations below are brief summaries thereof, and do not purport to be complete. The descriptions are qualified in their entirety by reference to the specific statutes and regulations discussed.

State and Federal Regulations

The Company is a bank holding company within the meaning of the Bank Holding Company Act of 1956, as amended (the “BHCA”). As a bank holding company, the Company is subject to inspection, examination and supervision by the Board of Governors of the Federal Reserve System (the “Federal Reserve Board”) and is required to file with the Federal Reserve Board an annual report and such additional information as the Federal Reserve Board may require pursuant to the BHCA. The Federal Reserve Board may also make examinations of the Company and its subsidiaries. The Company is subject to capital standards similar to, but separate from, those applicable to the Bank.

Under the BHCA, bank holding companies that are not financial holding companies generally may not acquire the ownership or control of more than 5% of the voting shares, or substantially all the assets, of any company, including a bank or another bank holding company, without the Federal Reserve Board’s prior approval. The Company has not applied to become a financial holding company but did obtain such approval to acquire the shares of the Bank. A bank holding company that does not qualify as a financial holding company is generally limited in the types of activities in which it may engage to those that the Federal Reserve Board had recognized as permissible for bank holding companies prior to the date of enactment of the Gramm-Leach-Bliley Financial Services Modernization Act of 1999. For example, a holding company and its banking subsidiary are prohibited from engaging in certain tie-in arrangements in connection with any extension of credit or lease or sale of any property or the furnishing of services. At present, the Company does not engage in any significant activity other than owning the Bank.

In addition to federal bank holding company regulation, the Company is registered as a bank holding company with the New Jersey Department of Banking and Insurance (the “Department”). The Company is required to file with the Department copies of the reports it files with the federal banking and securities regulators.

Capital Adequacy

The Company is required to comply with minimum capital adequacy standards established by the Federal Reserve Board. There are two basic measures of capital adequacy for bank holding companies and the depository institutions that they own: a risk based measure and a leverage measure. All applicable capital standards must be satisfied for a bank holding company to be considered in compliance.

The Federal Deposit Insurance Corporation Improvement Act of 1991 (“FDICIA”) required each federal banking agency to revise its risk-based capital standards to ensure that those standards take adequate account of interest rate risk, concentration of credit risk and the risks of non-traditional activities. In addition, pursuant to FDICIA, each federal banking agency has promulgated regulations, specifying the levels at which a bank would be considered “well capitalized,” “adequately capitalized,” “undercapitalized,” “significantly undercapitalized,” or “critically undercapitalized,” and to take certain mandatory and discretionary supervisory actions based on the capital level of the institution.

The regulations implementing these provisions of FDICIA provide that a bank will be classified as “well capitalized” if it (i) has a total risk-based capital ratio of at least 10.0 percent, (ii) has a Tier 1 risk-based capital ratio of at least 6.0 percent, (iii) has a Tier 1 leverage ratio of at least 5.0 percent, and (iv) meets certain other requirements. A bank will be classified as “adequately capitalized” if it (i) has a total risk-based capital ratio of at least 8.0 percent, (ii) has a Tier 1 risk-based capital ratio of at least 4.0 percent, (iii) has a Tier 1 leverage ratio of (a) at least 4.0 percent, or (b) at least 3.0 percent if the institution was rated 1 in its most recent examination and is not experiencing or anticipating significant growth, and (iv) does not meet the definition of “well capitalized.” A bank will be classified as “undercapitalized” if it (i) has a total risk-based capital ratio of less than 8.0 percent, (ii) has a Tier 1 risk-based capital ratio of less than 4.0 percent, or (iii) has a Tier 1 leverage ratio of (a) less than 4.0 percent, or (b) less than 3.0 percent if the institution was rated 1 in its most recent examination and is not experiencing or anticipating significant growth. A bank will be classified as “significantly undercapitalized” if it (i) has a total risk-based capital ratio of less than 6.0

percent, (ii) has a Tier 1 risk-based capital ratio of less than 3.0 percent, or (iii) has a Tier 1 leverage ratio of less than 3.0 percent. An institution will be classified as "critically undercapitalized" if it has a tangible equity to total assets ratio that is equal to or less than 2.0 percent. An insured depository institution may be deemed to be in a lower capitalization category if it receives an unsatisfactory examination.

As of December 31, 2007, the Bank's capital ratios exceed the requirements to be considered a well capitalized institution under these regulations.

The risk-based capital guidelines for bank holding companies such as the Company currently require a minimum ratio of total capital to risk-weighted assets (including off-balance sheet activities, such as standby letters of credit) of 8%. At least half of the total capital is required to be Tier 1 capital, consisting principally of common shareholders' equity, non-cumulative perpetual preferred stock, a limited amount of cumulative perpetual preferred stock and minority interest in the equity accounts of consolidated subsidiaries, less goodwill. The remainder of the total capital (Tier 2 capital) may consist of a limited amount of subordinated debt and intermediate-term preferred stock, certain hybrid capital instruments and other debt securities, perpetual preferred stock and a limited amount of the general loan loss allowance. At December 31, 2007, the Company maintained a Tier 1 capital ratio of 15.59% and total qualifying capital ratio of 17.76%.

In addition to the risk-based capital guidelines, the federal banking regulators established minimum leverage ratio (Tier 1 capital to total assets) guidelines for bank holding companies. These guidelines provide for a minimum leverage ratio of 3% for those bank holding companies which have the highest regulatory examination ratings and are not contemplating or experiencing significant growth or expansion. All other bank holding companies are required to maintain a leverage ratio of at least 1% to 2% above the 3% stated minimum. The Company's leverage ratio at December 31, 2007 was 12.67%.

On April 10, 2002, 1st Constitution Capital Trust I ("Trust I"), a statutory business trust and a wholly owned subsidiary of the Company, issued $5.0 million of variable rate trust preferred securities (the "Trust Preferred Securities") in a pooled institutional placement transaction maturing April 22, 2032. Trust I utilized the $5.0 million proceeds along with $155,000 invested in Trust I by the Company to purchase $5,155,000 of floating rate subordinated debentures issued by the Company and due to mature on April 22, 2032 (the "Subordinated Debentures"). The Subordinated Debentures constituted the sole assets of Trust I, had terms that mirrored the Trust Preferred Securities and were redeemable in whole or part prior to maturity after April 22, 2007. Trust I was obligated to distribute all proceeds of a redemption of these Subordinated Debentures, whether voluntary or upon maturity, to holders of the Trust Preferred Securities. The Company's obligation with respect to the Trust Preferred Securities and the Subordinated Debentures, when taken together, provided a full and unconditional guarantee on a subordinated basis by the Company of the obligations of Trust I to pay amounts when due on the Trust Preferred Securities. On February 23, 2007, the Company notified Wilmington Trust Company, as Indenture Trustee, of the Company's intention to redeem the Subordinated Debentures on April 22, 2007, and the Company redeemed the Subordinated Debentures on that date, as discussed below.

On May 30, 2006, 1st Constitution Bancorp established 1st Constitution Capital Trust II, a Delaware business trust subsidiary ("Trust II"), for the sole purpose of issuing $18 million of trust preferred securities (the "Capital Securities"). The Capital Securities were issued in connection with a pooled offering involving approximately 50 other financial institution holding companies. All of the Capital Securities were sold to a single pooling vehicle. The proceeds from the sale of the Capital Securities were loaned to the Company under 30-year floating rate junior subordinated debentures issued to Trust II by the Company. The debentures are the only asset of Trust II. Interest payments on the debentures flow through Trust II to the pooling vehicle. Payments of distributions by Trust II to the pooling vehicle are guaranteed by the Company.

Effective April 22, 2007, the Company redeemed all of the Subordinated Debentures. The redemption price was 100% of the aggregate $5,155,000 principal amount of the Subordinated Debentures, plus approximately $236,882 of accrued interest thereon through the redemption date. As a result of the redemption of the Subordinated Debentures, a like amount of capital securities issued by Trust I was redeemed under the same terms and conditions. This redemption does not impact the Capital Securities issued by Trust II on May 30, 2006.

Restrictions on Dividends

The primary source of cash to pay dividends, if any, to the Company's shareholders and to meet the Company's obligations is dividends paid to the Company by the Bank. Dividend payments by the Bank to the Company are subject to the New Jersey Banking Act of 1948 (the "Banking Act") and the Federal Deposit Insurance Act (the "FDIA"). Under the Banking Act and the FDIA, the Bank may not pay any dividends if after paying the dividend, it would be undercapitalized under applicable capital requirements. In addition to these explicit limitations, the federal regulatory agencies are authorized to prohibit a banking subsidiary or bank holding company from engaging in an unsafe or unsound banking practice. Depending upon the circumstances, the agencies could take the position that paying a dividend would constitute an unsafe or unsound banking practice.

It is the policy of the Federal Reserve Board that bank holding companies should pay cash dividends on common stock only out of income available over the immediately preceding year and only if prospective earnings retention is consistent with the organization's expected future needs and financial condition. The policy provides that bank holding companies should not maintain a level of cash dividend that undermines the bank holding company's ability to serve as a source of strength to its banking subsidiary. A bank holding company may not pay dividends when it is insolvent.

The Company has never paid a cash dividend and the Company's Board of Directors has no plans to pay a cash dividend in the foreseeable future. The Bank paid a stock dividend every year from 1993 to 1999, when it was acquired by the Company. The Company has paid a stock dividend every year since its formation in 1999. From 1999 through 2006, the Company paid a 5% stock dividend each year. On December 21, 2006, the Company declared a 6% stock dividend, which was paid on January 31, 2007 to shareholders of record as of the close of business on January 23, 2007. On December 20, 2007, the Company declared another 6% stock dividend, which was paid on February 6, 2008 to shareholders of record as of the close of business on January 23, 2008. The Company also declared a two-for-one stock split on January 20, 2005, which was paid on February 28, 2005 to shareholders of record on February 10, 2005. All share and per share data has been retroactively adjusted for stock dividends.

Priority on Liquidation

The Company is a legal entity separate and distinct from the Bank. The rights of the Company as the sole shareholder of the Bank, and therefore the rights of the Company's creditors and shareholders, to participate in the distributions and earnings of the Bank when the Bank is not in bankruptcy, are subject to various state and federal law restrictions as discussed above under the heading "Restrictions of Dividends." In the event of a liquidation or other resolution of an insured depository institution such as the Bank, the claims of depositors and other general or subordinated creditors are entitled to a priority of payment over the claims of holders of an obligation of the institution to its shareholders (the Company) or any shareholder or creditor of the Company. The claims on the Bank by creditors include obligations in respect of federal funds purchased and certain other borrowings, as well as deposit liabilities.

Financial Institution Legislation

The Gramm-Leach-Bliley Financial Modernization Act of 1999 (the "Modernization Act") became effective in early 2000. The Modernization Act:

- allows bank holding companies meeting management, capital and Community Reinvestment Act standards to engage in a substantially broader range of non-banking activities than is permissible for a bank holding company, including insurance underwriting and making merchant banking investments in commercial and financial companies; if a bank holding company elects to become a financial holding company, it files a certification, effective in 30 days, and thereafter may engage in certain financial activities without further approvals;

- allows banks to establish subsidiaries to engage in certain activities which a financial holding company could engage in, if the bank meets certain management, capital and Community Reinvestment Act standards;

- allows insurers and other financial services companies to acquire banks and removes various restrictions that currently apply to bank holding company ownership of securities firms and mutual fund advisory companies; and establishes the overall regulatory structure applicable to financial holding companies that also engage in insurance and securities operations.

The Modernization Act modified other financial laws, including laws related to financial privacy and community reinvestment.

The Modernization Act also amends the BHCA and the Bank Merger Act to require the federal banking agencies to consider the effectiveness of a financial institution's anti-money laundering activities when reviewing an application under these acts.

Additional proposals to change the laws and regulations governing the banking and financial services industry are frequently introduced in Congress, in the state legislatures and before the various bank regulatory agencies. The likelihood and timing of any such changes and the impact such changes might have on the Company cannot be determined at this time.

The Sarbanes-Oxley Act of 2002 ("Sarbanes-Oxley Act"), which became law on July 30, 2002, added new legal requirements affecting corporate governance, accounting and corporate reporting for companies with publicly traded securities.

The Sarbanes-Oxley Act provides for, among other things:

- a prohibition on personal loans made or arranged by the issuer to its directors and executive officers (except for loans made by a bank subject to Regulation O);
- independence requirements for audit committee members;
- disclosure of whether at least one member of the audit committee is a "financial expert" (as such term is defined by the SEC) and if not, why not;
- independence requirements for outside auditors;
- a prohibition by a company's registered public accounting firm from performing statutorily mandated audit services for the company if the company's chief executive officer, chief financial officer, comptroller, chief accounting officer or any person serving in equivalent positions had been employed by such firm and participated in the audit of such company during the one-year period preceding the audit initiation date;
- certification of financial statements and annual and quarterly reports by the principal executive officer and the principal financial officer;
- the forfeiture of bonuses or other incentive-based compensation and profits from the sale of an issuer's securities by directors and senior officers in the twelve month period following initial publication of any financial statements that later require restatement due to corporate misconduct;
- disclosure of off-balance sheet transactions;
- two-business day filing requirements for insiders filing Forms 4;
- disclosure of a code of ethics for financial officers and filing a Form 8-K for a change or waiver of such code;
- "real time" filing of periodic reports;
- posting of certain SEC filings and other information on the company website;
- the reporting of securities violations "up the ladder" by both in-house and outside attorneys;
- restrictions on the use of non-GAAP financial measures;
- the formation of a public accounting oversight board; and
- various increased criminal penalties for violations of securities laws.

Additionally, Section 404 of the Sarbanes-Oxley Act requires that a public company subject to the reporting requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), include in its annual report (i) a management's report on internal control over financial reporting assessing the company's internal controls, and (ii) an

auditor's attestation report, completed by the registered public accounting firm that prepares or issues an accountant's report which is included in the company's annual report, attesting to the effectiveness of management's internal control assessment. Because we are neither a "large accelerated filer" nor an "accelerated filer", under current rules we are not required to provide management's report on internal control over financial reporting until we file our annual report for 2007, and compliance with the auditor's attestation report requirement is not required until we file our annual report for 2008.

Each of the national stock exchanges, including the Nasdaq Global Market where the Company's common stock is listed, have implemented new corporate governance rules, including rules strengthening director independence requirements for boards, and the adoption of charters for the nominating, corporate governance, and audit committees. The rule changes are intended to, among other things, make the board of directors independent of management and allow shareholders to more easily and efficiently monitor the performance of companies and directors. These increased burdens have increased the Company's legal and accounting fees and the amount of time that the Board of Directors and management must devote to corporate governance issues.

Effective August 29, 2002, as directed by Section 302(a) of Sarbanes-Oxley, the Company's principal executive officer and principal financial officer are each required to certify that the Company's Quarterly and Annual Reports do not contain any untrue statement of a material fact. The rules have several requirements, including having these officers certify that: they are responsible for establishing, maintaining and regularly evaluating the effectiveness of the Company's internal controls; they have made certain disclosures to the Company's auditors and the audit committee of the Board of Directors about the Company's internal controls; and they have included information in the Company's Quarterly and Annual Reports about their evaluation and whether there have been significant changes in the Company's internal controls or in other factors that could significantly affect internal controls subsequent to the evaluation.

As part of the USA Patriot Act, signed into law on October 26, 2001, Congress adopted the International Money Laundering Abatement and Financial Anti-Terrorism Act of 2001 (the "Act"). The Act authorizes the Secretary of the Treasury, in consultation with the heads of other government agencies, to adopt special measures applicable to financial institutions such as banks, bank holding companies, broker-dealers and insurance companies. Among its other provisions, the Act requires each financial institution: (i) to establish an anti-money laundering program; (ii) to establish due diligence policies, procedures and controls that are reasonably designed to detect and report instances of money laundering in United States private banking accounts and correspondent accounts maintained for non-United States persons or their representatives; and (iii) to avoid establishing, maintaining, administering, or managing correspondent accounts in the United States for, or on behalf of, a foreign shell bank that does not have a physical presence in any country. In addition, the Act expands the circumstances under which funds in a bank account may be forfeited and requires covered financial institutions to respond under certain circumstances to requests for information from federal banking agencies within 120 hours.

The Department of Treasury has issued regulations implementing the due diligence requirements. These regulations require minimum standards to verify customer identity and maintain accurate records, encourages cooperation among financial institutions, federal banking agencies, and law enforcement authorities regarding possible money laundering or terrorist activities, prohibits the anonymous use of "concentration accounts," and requires all covered financial institutions to have in place an anti-money laundering compliance program.

The Bank, a New Jersey-chartered commercial bank, is subject to supervision and examination by the New Jersey Department of Banking and Insurance. The Bank is also subject to regulation by the FDIC, which is its principal federal bank regulator.

The Bank must comply with various requirements and restrictions under federal and state law, including the maintenance of reserves against deposits, restrictions on the types and amounts of loans that may be granted and the interest that may be charged thereon, limitations on the types of investments that may be made and the services that may be offered, and restrictions on dividends as described in the preceding section. Consumer laws and regulations also affect the operations of the Bank. In addition to the impact of regulation, commercial banks are affected significantly by the actions of the Federal Reserve Board which influence the money supply and credit availability in the national economy.

Community Reinvestment Act

Under the Community Reinvestment Act ("CRA"), as implemented by FDIC regulations, a bank has a continuing and affirmative obligation, consistent with its safe and sound operation, to help meet the credit needs of its entire community, including low- and moderate-income neighborhoods. CRA does not establish specific lending requirements or programs for financial institutions nor does it limit an institution's discretion to develop the types of products and services that it believes are best suited to its particular community, consistent with CRA. CRA requires the FDIC to assess an institution's record of meeting the credit needs of its community and to take such record into account in its evaluation of certain applications by the applicable institution. The CRA requires public disclosure of an institution's CRA rating and requires that the FDIC provide a written evaluation of an institution's CRA performance utilizing a four-tiered descriptive rating system. An institution's CRA rating is considered in determining whether to grant charters, branches and other deposit facilities, relocations, mergers, consolidations and acquisitions. Performance less than satisfactory may be the basis for denying an application. At its last CRA examination, the Bank was rated "satisfactory" under CRA.

FIRREA

Under the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 ("FIRREA"), a depository institution insured by the FDIC can be held liable for any loss incurred by, or reasonably expected to be incurred by, the FDIC in connection with (i) the default of a commonly controlled FDIC-insured depository institution or (ii) any assistance provided by the FDIC to a commonly controlled FDIC-insured depository institution in danger of default. These provisions have commonly been referred to as FIRREA's "cross guarantee" provisions. Further, under FIRREA, the failure to meet capital guidelines could subject a bank to a variety of enforcement remedies available to federal regulatory authorities.

FIRREA also imposes certain independent appraisal requirements upon a bank's real estate lending activities and further imposes certain loan-to-value restrictions on a bank's real estate lending activities. The bank regulators have promulgated regulations in these areas.

Insurance of Deposits

The Bank's deposits are insured up to a maximum of $100,000 per depositor under the Deposit Insurance Fund. The FDICIA is applicable to depository institutions and deposit insurance. The FDICIA requires the FDIC to establish a risk-based assessment system for all insured depository institutions. Under this legislation, the FDIC is required to establish an insurance premium assessment system based upon: (i) the probability that the insurance fund will incur a loss with respect to the institution, (ii) the likely amount of the loss, and (iii) the revenue needs of the insurance fund. In compliance with this mandate, the FDIC has developed a matrix that sets the assessment premium for a particular institution in accordance with its capital level and overall rating by the primary regulator. Under the matrix as currently in effect, the assessment rate ranges from 0 to 27 basis points of assessed deposits. The Bank is also subject to a quarterly FICO assessment.

Employees

The Company has two paid employees. Banking operations are conducted by the Bank, and as of December 31, 2007, the Bank had 100 full-time employees and 12 part-time employees. Neither the Bank's nor the Company's employees are represented by any collective bargaining group. The Bank and the Company each considers its relations with such employees to be good.

Item 1A. Risk Factors.

The common stock of the Company is speculative in nature and involves a significant degree of risk. The risk factors below are not listed in order of importance.

The Company faces significant competition.

The Company faces significant competition from many other banks, savings institutions and other financial institutions which have branch offices or otherwise operate in the Company's market area. Non-bank financial institutions, such as securities brokerage firms, insurance companies and money market funds, engage in activities which compete directly with traditional bank business, which has also led to greater competition. Many of these competitors have substantially greater financial resources than the Company, including larger capital bases that allow them to attract customers seeking larger loans than the Company is able to accommodate and the ability to aggressively advertise their products. There can be no assurance that the Company and the Bank will be able to successfully compete with these entities in the future. See "BUSINESS -- Competition."

The Company's business is affected by economic conditions and related uncertainties.

Commercial banking is affected, directly and indirectly, by local, domestic, and international economic and political conditions, and by government monetary and fiscal policies. Conditions such as inflation, recession, unemployment, volatile interest rates, tight money supply, scarce natural resources, real estate values, international conflicts and other factors beyond the control of the Company may adversely affect the potential profitability of the Company. A downtrend in several areas, such as real estate, construction and consumer spending, could have a material adverse impact on the Company's ability to maintain or increase profitability.

The Company is subject to interest rate risk.

The Company's earnings are largely dependent upon its net interest income. Net interest income is the difference between interest income earned on interest-earning assets such as loans and securities and interest expense paid on interest-bearing liabilities such as deposits and borrowed funds. Interest rates are highly sensitive to many factors that are beyond the Company's control, including general economic conditions and policies of various governmental and regulatory agencies and, in particular, the Board of Governors of the Federal Reserve System. Changes in monetary policy, including changes in interest rates, could influence not only the interest the Company receives on loans and securities and the amount of interest it pays on deposits and borrowings, but such changes could also affect (i) the Company's ability to originate loans and obtain deposits, (ii) the fair value of the Company's financial assets and liabilities, and (iii) the average duration of the Company's mortgage-backed securities portfolio. If the interest rates paid on deposits and other borrowings increase at a faster rate than the interest rates received on loans and other investments, the Company's net interest income, and therefore earnings, could be adversely affected. Earnings could also be adversely affected if the interest rates received on loans and other investments fall more quickly than the interest rates paid on deposits and other borrowings.

Although management believes it has implemented effective asset and liability management strategies to reduce the potential effects of changes in interest rates on the Company's results of operations, any substantial, unexpected, prolonged change in market interest rates could have a material adverse effect on the Company's financial condition and results of operations.

The Company is subject to risks associated with speculative construction lending.

The risks associated with speculative construction lending include the borrower's inability to complete the construction process on time and within budget, the sale of the project within projected absorption periods, the economic risks associated with real estate collateral, and the potential of a rising interest rate environment. Such loans may include financing the development and/or construction of residential subdivisions. This activity may involve financing land purchase, infrastructure development (i.e. roads, utilities, etc.), as well as construction of residences or multi-family dwellings for subsequent sale by developer/builder. Because the sale of developed properties is integral to the success of developer business, loan repayment may be especially subject to the volatility of real estate market values. Management has established underwriting and monitoring criteria to minimize the inherent risks of speculative commercial real estate construction lending. Further, management concentrates lending efforts with developers demonstrating successful performance on marketable projects within the Bank's lending areas.

Federal and state government regulation impact the Company's operations.

The operations of the Company and the Bank are heavily regulated and will be affected by present and future legislation and by the policies established from time to time by various federal and state regulatory authorities. In particular, the monetary policies of the Federal Reserve Board have had a significant effect on the operating results of banks in the past and are expected to continue to do so in the future. Among the instruments of monetary policy used

by the Federal Reserve Board to implement its objectives is changes in the discount rate charged on bank borrowings. It is not possible to predict what changes, if any, will be made to the monetary policies of the Federal Reserve Board or to existing federal and state legislation or the effect that such changes may have on the future business and earnings prospects of the Company.

The Company and the Bank are subject to examination, supervision and comprehensive regulation by various federal and state agencies. Compliance with the rules and regulations of these agencies may be costly and may limit growth and restrict certain activities, including payment of dividends, investments, loans and interest rate charges, interest rates paid on deposits, and locations of offices. The Bank is also subject to capitalization guidelines set forth in federal legislation. See “BUSINESS -- Supervision and Regulation.”

The laws and regulations applicable to the banking industry could change at any time, and we cannot predict the impact of these changes on our business and profitability. Because government regulation greatly effects the business and financial results of all commercial banks and bank holding companies, the cost of compliance could adversely affect the Company’s ability to operate profitably.

If economic conditions deteriorate, particularly in the Bank’s market area, our results of operations and financial condition could be adversely affected as borrowers' ability to repay loans declines and the value of the collateral securing our loans decreases.

Our financial results may be adversely affected by changes in prevailing economic conditions, particularly in the Bank’s market area, including decreases in real estate values, changes in interest rates which may cause a decrease in interest rate spreads, adverse employment conditions, the monetary and fiscal policies of the federal government and other significant external events.

Decreases in local real estate values would adversely affect the value of property used as collateral for our loans. Adverse changes in the economy also may have a negative effect on the ability of our borrowers to make timely repayments of their loans, which would have an adverse impact on our earnings.

If our allowance for loan losses is not sufficient to cover actual loan losses, our earnings could decrease.

We make various assumptions and judgments about the collectibility of our loan portfolio, including the creditworthiness of our borrowers and the value of the real estate and other assets serving as collateral for the repayment of many of our loans. In determining the amount of the allowance for loan losses, we review our loans and our loss and delinquency experience, and we evaluate economic conditions. If our assumptions are incorrect, our allowance for loan losses may not be sufficient to cover losses inherent in our loan portfolio, resulting in additions to our allowance. Material additions to our allowance would materially decrease our net income.

In addition, bank regulators periodically review our allowance for loan losses and may require us to increase our provision for loan losses or recognize further loan charge-offs. Any increase in our allowance for loan losses or loan charge-offs as required by these regulatory authorities might have a material adverse effect on our financial condition and results of operations.

We have significant investments in mortgage-backed securities and securities of this kind may be subject to deterioration in value in certain market conditions.

The Company owned as of December 31, 2007 $80,876,181 in collateralized mortgages and mortgage-backed securities. Several financial institutions have reported significant write-downs of the value of mortgage related securities. Certain of these types of securities may also not be marketable except at significant discounts. While management of the Company is as of the date of this report unaware of any material exposures in its portfolio of these securities, market conditions could further deteriorate and result in the recognition of losses in the value of these securities.

We had a material weakness in our internal control over financial reporting as of December 31, 2007, and we cannot assure that we have developed an effective remediation plan.

We have identified deficiencies in our internal control over financial reporting and have developed a plan to remediate such deficiencies. We cannot assure you that such plan will adequately address these deficiencies or that we have discovered all of the deficiencies that may exist in our internal control over financial reporting.

Item 1B. Unresolved Staff Comments

Not applicable.

Item 2. Properties.

The following table provides certain information with respect to our eleven banking offices as of December 31, 2007:

Location	Leased or Owned	Original Year Leased or Acquired	Year of Lease Expiration
Main Office 2650 Route 130 Cranbury, New Jersey	Leased	1989	2010
Village Office 74 North Main Street Cranbury, New Jersey	Owned	2005	
Montgomery Office 947 State Road Princeton, New Jersey	Leased	1995	2010
Plainsboro Office Plainsboro Village Center 11 Shalks Crossing Road Plainsboro, New Jersey	Leased	1998	2021
Hamilton Office 3659 Nottingham Way Hamilton, New Jersey	Leased	1999	2014
Princeton Office The Windrows at Princeton Forrestal 200 Windrow Drive Princeton, New Jersey	Leased	2001	2011
Perth Amboy Office 145 Fayette Street Perth Amboy, New Jersey	Leased	2003	2015
Jamesburg Office 1 Harrison Street Jamesburg, New Jersey	Owned	2002	
West Windsor Office 44 Washington Road Princeton Jct, New Jersey	Leased	2004	2019

Fort Lee Office 180 Main Street Fort Lee, New Jersey	Leased	2006	2014
Hightstown Office 140 Mercer Street Hightstown, New Jersey	Leased	2007	2009

Management believes the foregoing facilities are suitable for the Company's and the Bank's present and projected operations.

Item 3. Legal Proceedings.

The Company may, in the ordinary course of business, become a party to litigation involving collection matters, contract claims and other legal proceedings relating to the conduct of its business. The Company may also have various commitments and contingent liabilities which are not reflected in the accompanying consolidated statement of condition. Management is not aware of any present legal proceedings or contingent liabilities and commitments that would have a material impact on the Company's financial position or results of operations.

Item 4. Submission of Matters to a Vote of Security Holders.

No matters were submitted to a vote of the Company's shareholders during the fourth quarter of the fiscal year ended December 31, 2007.

PART II

Item 5. Market for Registrant's Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities.

The common stock of the Company trades on the Nasdaq Global Market under the trading symbol "FCCY". The following are the high and low sales prices per share for 2007 and 2006, as reported on the Nasdaq Global Market.

	2007		2006	
	High	Low	High	Low
First Quarter	$ 18.25	$ 16.06 (1)	$ 18.64	$ 15.26 (1)
Second Quarter	$ 17.59	$ 15.92 (1)	$ 17.58	$ 15.55 (1)
Third Quarter	$ 16.76	$ 13.73 (1)	$ 16.91	$ 15.30 (1)
Fourth Quarter	$ 15.64	$ 13.25 (1)	$ 17.77	$ 15.58 (1)

(1) Prices have been retroactively adjusted for the 6% stock dividend declared December 20, 2007 and paid February 6, 2008 to shareholders of record on January 23, 2008.

As of March 25, 2008, there were approximately 331 record holders of the Company's common stock.

The Company paid a 6% stock dividend on February 6, 2008 and January 31, 2007 and a 5% dividend on January 31, 2006. The Company has never paid a cash dividend and there are no plans to pay a cash dividend at this time. All per share data has been retroactively adjusted for stock dividends. The Company will retain its earnings in order to provide capital for growth of the Bank.

Issuer Purchases of Equity Securities

In 2005, the Board of Directors authorized a stock repurchase program under which the Company may repurchase in open market or privately negotiated transactions up to 5% of its common shares outstanding at that date. The Company undertook this repurchase program in order to increase shareholder value. The following table provides common stock repurchases made by or on behalf of the Company during the three months ended December 31, 2007.

Issuer Purchases of Equity Securities (1)

Period		Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased As Part of Publicly Announced Plan or Program	Maximum Number of Shares That May Yet be Purchased Under the Plan or Program
Beginning	Ending				
October 1, 2007	October 31, 2007	-	-	-	161,430
November 1, 2007	November 30, 2007	400	$ 15.70	400	161,030
December 1, 2007	December 31, 2007	-	-	-	161,030
	Total	400	$ 15.70	400	161,030

(1) The Company's common stock repurchase program covers a maximum of 185,787 shares of common stock of the Company, representing 5% of the outstanding common stock of the Company on July 21, 2005, as adjusted for the 6% stock dividend declared December 21, 2006 and paid January 31, 2007 and the 6% stock dividend declared December 20, 2007 and paid February 6, 2008.

Item 6. Selected Financial Data.

Not required.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operation.

This discussion should be read in conjunction with the consolidated financial statements, notes and tables included elsewhere in this report. Throughout the following sections, the "Company" refers to 1st Constitution Bancorp and its wholly owned subsidiaries, 1st Constitution Bank, 1st Constitution Capital Trust I, and 1st Constitution Capital Trust II, the "Bank" refers to 1st Constitution Bank, and the "Trusts" refers to 1st Constitution Capital Trust I and 1st Constitution Capital Trust II, collectively. The purpose of this discussion and analysis is to assist in the understanding and evaluation of the Company's financial condition, changes in financial condition and results of operations.

Restatement of Previously Issued Financial Results

The Company is restating its consolidated balance sheet as of December 31, 2006, and the related consolidated statement of operations, shareholders' equity and cash flows for the year ended December 31, 2006, including the applicable notes, as well as its unaudited consolidated financial information for each of the first three quarters of 2007 and the four quarters of 2006. For more information about the restatement, please see the Explanatory Note to this

report and Note 2, “Restatement of Consolidated Financial Statements For the Year Ended and As At December 31, 2006” and Note 24, “Unaudited Quarterly Financial Statements and Restatement of Interim Financial Statements” in the accompanying consolidated financial statements.

The following discussion and analysis of the Company’s financial condition and results of operations incorporate the restated amounts.

Critical Accounting Policies and Estimates

"Management's Discussion and Analysis of Financial Condition and Results of Operation" is based upon the Company's consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. Note 1 to the Company's Consolidated Financial Statements for the year ended December 31, 2007 contains a summary of the Company's significant accounting policies. Management believes the Company's policy with respect to the methodology for the determination of the allowance for loan losses involves a higher degree of complexity and requires management to make difficult and subjective judgments which often require assumptions or estimates about highly uncertain matters. Changes in these judgments, assumptions or estimates could materially impact results of operations. This critical policy and its application is periodically reviewed with the Audit Committee and the Board of Directors. The provision for loan losses is based upon management's evaluation of the adequacy of the allowance, including an assessment of known and inherent risks in the portfolio, giving consideration to the size and composition of the loan portfolio, actual loan loss experience, level of delinquencies, detailed analysis of individual loans for which full collectibility may not be assured, the existence and estimated net realizable value of any underlying collateral and guarantees securing the loans, and current economic and market conditions. Although management uses the best information available to it, the level of the allowance for loan losses remains an estimate which is subject to significant judgment and short-term change. Various regulatory agencies, as an integral part of their examination process, periodically review the Company's allowance for loan losses. Such agencies may require the Company to make additional provisions for loan losses based upon information available to them at the time of their examination. Furthermore, the majority of the Company's loans are secured by real estate in the State of New Jersey. Accordingly, the collectibility of a substantial portion of the carrying value of the Company's loan portfolio is susceptible to changes in local market conditions and may be adversely affected should real estate values decline or the Central New Jersey area experience an adverse economic shock. Future adjustments to the allowance for loan losses may be necessary due to economic, operating, regulatory and other conditions beyond the Company's control.

Results of Operations

The Company reported net income for the 12 months ended December 31, 2007 of $5,442,782, an increase of 15.2% from the $4,724,962 reported for the 12 months ended December 31, 2006. Diluted net income per share was $1.35 for the year ended December 31, 2007 compared to $1.18 reported for the year ended December 31, 2006. Basic net income per share for the year ended December 31, 2007 was $1.37 as compared to the $1.21 reported for the year ended December 31, 2006. All share information has been restated for the effect of a 6% stock dividend declared on December 20, 2007 and paid on February 6, 2007 to shareholders of record on January 23, 2008.

Key performance ratios remained strong for the 2007 fiscal year as compared to the prior year. Return on average assets ("ROA") and return on average equity ("ROE") were 1.29% and 14.32%, respectively, for the year ended December 31, 2007, compared to 1.24% and 14.73%, respectively, for the year ended December 31, 2006.

The Company's earnings for the 2007 fiscal year reflect continuing momentum across a broad range of product and service offerings. Increased lending activity, coupled with increases in deposits through branch network expansion and secondary market loan sales volume, as well as a reduction in the provision for loan losses in 2007 versus 2006, fueled both the record earnings and balance sheet growth.

Management believes that the Company has positioned itself for continued success with the combination of a strong capital base, a commitment to provide exceptional customer service, and a commitment to maintain the technology necessary to provide its customers with easy access to the financial products and services offered by the Bank.

Net Interest Income

Net interest income, the Company's largest and most significant component of operating income, is the difference between interest and fees earned on loans and other earning assets, and interest paid on deposits and borrowed funds. This component represented 87.4% of the Company's net revenues for the year ended December 31, 2007. Net interest income also depends upon the relative amount of interest earning assets, interest-bearing liabilities, and the interest rate earned or paid on them.

The following tables set forth the Company's consolidated average balances of assets and liabilities and shareholders' equity as well as interest income and expense on related items, and the Company's average yield or rate for the years ended December 31, 2007 and 2006. The average rates are derived by dividing interest income and expense by the average balance of assets and liabilities, respectively.

Average Balance Sheets with Resultant Interest and Rates

(yields on a tax-equivalent basis)	2007			2006			
	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate	Average Balance
Assets:							
Federal Funds Sold/Short-Term Investments	$ 1,653,896	$ 101,171	6.12%	$ 1,457,568	$ 85,012	5.14%	$ 850,7
Investment Securities:							
Collateralized Mortgage Obligations / Mortgage Backed Securities	80,876,181	4,278,288	5.29%	70,048,748	3,448,780	4.92%	75,758,3
Obligations of States and Political Subdivisions (4)	22,968,401	1,296,032	5.64%	16,198,497	895,172	5.53%	18,975,7
Total	103,844,582	5,574,320	5.37%	86,247,245	4,343,952	5.04%	94,734,0
Loan Portfolio:							
Construction	129,285,776	11,486,944	8.88%	125,022,769	11,129,600	8.90%	94,253,1
Residential Real Estate	8,878,427	657,928	7.41%	8,072,109	517,146	6.41%	9,127,6
Commercial and Commercial Real Estate	117,463,693	9,140,142	7.78%	99,521,245	7,706,864	7.74%	93,871,6
Installment	1,542,082	129,483	8.40%	2,013,438	167,126	8.30%	2,394,0
All Other Loans	35,201,373	3,698,990	10.51%	37,111,086	3,645,808	9.82%	31,772,1
Total (1)	292,371,351	25,113,487	8.59%	271,740,647	23,166,544	8.53%	231,418,6
Total Interest-Earning Assets	397,869,829	30,788,978	7.74%	359,445,460	27,595,508	7.68%	327,003,4
Allowance for Loan Losses	(3,270,810)			(2,662,370)			(2,177,2
Cash and Due From Banks	10,254,911			9,391,415			9,130,5
Other Assets	17,648,099			15,422,593			12,893,3
Total Assets	$ 422,502,029			$ 381,597,098			$ 346,850,0
Liabilities and Shareholders' Equity:							
Interest-Bearing Liabilities:							
Money Market and NOW Accounts	$ 83,597,940	$ 1,737,487	2.08%	$ 87,135,125	$ 1,455,755	1.67%	$ 101,189,3
Savings Accounts	64,408,442	2,017,580	3.13%	44,867,384	939,324	2.09%	33,671,6
Certificates of Deposit	67,236,813	3,170,322	4.72%	58,183,657	2,907,883	5.00%	77,183,1
Certificates of Deposit of $100,000 and Over	54,252,087	2,711,467	5.00%	43,870,647	1,385,119	3.16%	9,771,2
Other Borrowed Funds	29,580,685	1,514,907	5.12%	32,539,699	1,687,749	5.19%	31,143,6

Trust Preferred Securities	19,534,247	1,438,876	7.37%	14,863,014	1,141,667	7.68%	5,000,0
Total Interest-Bearing Liabilities	318,610,214	12,590,639	3.95%	281,459,526	9,517,497	3.38%	257,959,
Net Interest Spread (2)			3.79%			4.30%	
Non-interest Bearing Demand Deposits	60,892,433			63,040,519			57,792,9
Other Liabilities	4,989,809			5,013,813			3,447,5
Total Liabilities	384,492,456			349,513,858			319,199,5
Shareholders' Equity	38,009,573			32,083,240			27,650,4
Total Liabilities and Shareholders' Equity	$ 422,502,029			$ 381,597,098			$ 346,850,0
Net Interest Margin (3)		$ 18,198,339	4.57%		$ 18,078,011	5.03%	

(1) Loan origination fees are considered an adjustment to interest income. For the purpose of calculating loan yields, average loan balances include nonaccrual loans with no related interest income.
(2) The interest rate spread is the difference between the average yield on interest earning assets and the average rate paid on interest bearing liabilities.
(3) The net interest margin is equal to net interest income divided by average interest earning assets.
(4) Tax equivalent basis.

Changes in net interest income and margin result from the interaction between the volume and composition of interest earning assets, interest bearing liabilities, related yields, and associated funding costs. The Rate/Volume Table demonstrates the impact on net interest income of changes in the volume of interest earning assets and interest bearing liabilities and changes in interest rates earned and paid.

The Company’s net interest income increased on a tax equivalent basis by $120,328, or 0.7%, to $18,198,339 for the year ended December 31, 2007, from the $18,078,011 reported for the year ended December 31, 2006. As indicated in the Rate/Volume Table, the principal factor contributing to the 2007 increase in net interest income was an increase in the interest income of $1,596,826, resulting from increased balances in the loan portfolio components. This was partially offset by an increase in interest expense resulting from increases in the rates paid on deposit components.

The Company’s net interest income on a tax-equivalent basis increased by $2,460,897, or 15.8%, to $18,078,011 for the year ended December 31, 2006, from the $15,617,114 reported for the year ended December 31, 2005. As indicated in the Rate/Volume Table, the principal factor contributing to the 2006 increase in net interest income was an increase in the interest income of $3,368,409, resulting from increased balances in the loan portfolio components. This was partially offset by an increase in interest expense resulting from increases in the rates paid on deposit components.

Rate/Volume Table	Amount of Increase (Decrease)				
	Year Ended December 31, 2007 versus 2006 Due to Change in:			Year Ended December 3 2006 versus 2005 Due to Change in:	
(Tax-equivalent basis)	Volume	Rate	Total	Volume	Rate
Interest Income:					
Loans:					
Construction	$ 382,349	$ (25,005)	$ 357,344	$ 2,516,095	$ 1,602,93
Residential Real Estate	55,873	84,909	140,782	(67,564)	11,86
Commercial and Commercial Real Estate	1,393,469	39,808	1,433,278	427,419	447,94
Installment	(39,657)	2,013	(37,643)	(31,770)	(1,11
All Other Loans	(195,209)	248,390	53,182	524,238	114,38
Total Loans	1,596,826	350,117	1,946,943	3,368,409	2,176,00
Investment Securities :					
Collat. Mortg. Obligations / Mortg. Backed Securities	551,519	277,989	829,508	(281,233)	712,12
States and political subdivisions	378,709	22,151	400,860	(155,035)	72,10
Total Investment Securities	930,227	300,141	347,968	(436,268)	784,23
Federal Funds Sold / Short-Term Investments	16	437	454	30,300	27,53
Total Interest Income	2,527,069	650,695	2,295,364	2,962,440	2,987,77
Interest Expense :					
Money Market and NOW Accounts	(67,296)	349,028	$ 281,732	(168,651)	412,50
Savings Accounts	510,021	568,235	1,078,256	186,786	343,14
Certificates of Deposit	439,006	(176,567)	262,439	(1,340,184)	1,864,67
Certificates of Deposit of $100,000 and Over	432,591	902,757	1,326,347	1,268,520	(192,56
Other Borrowed Funds	(151,819)	(21,023)	(172,842)	61,146	263,09
Trust Preferred Securities	349,788	(66,929)	282,859	757,845	33,00
Total Interest Expense	1,503,290	1,555,501	3,058,791	765,462	2,723,85
Net Interest Income	$ 1,023,779	$ (904,806)	120,328	$ 2,196,979	$ 263,91

Average interest earning assets increased by $38,424,369, or 10.7%, to $397,869,829 for the year ended December 31, 2007 from $359,445,460 for the year ended December 31, 2006, consisting primarily of increases for 2007 of $20,630,704 in loans and $17,597,337 in investment securities compared to 2006. Led by the construction loans component, the Bank's average total loan portfolio grew by 7.6% and loan yields averaged 8.59% for the year ended December 31, 2007, 6 basis points higher than for the year ended December 31, 2006. The Bank's average investment securities portfolio increased 20.4%, and the yield on that portfolio increased 33 basis points for the year ended December 31, 2007 compared to the year ended December 31, 2006. Overall, the yield on interest earning assets increased 5 basis points to 7.73% in the 2007 fiscal year from 7.68% in the 2006 fiscal year.

Average interest earning assets increased by $32,441,976, or 9.9%, to $359,445,460 for the year ended December 31, 2006 from $327,003,484 for the year ended December 31, 2005, consisting primarily of an increase for 2006 of $40,321,975 in loans partially offset by a decrease of $8,486,826 in investment securities compared to 2005. Led by the construction loans component, the Bank's average total loan portfolio grew by 17.4%, and loan yields averaged 8.53% for the year ended December 31 2006, 92 basis points higher than for the year ended December 31, 2005. This increase was primarily the result of 2006 loan growth at floating yields amid the increasing interest rate environment that continued during the first half of the year. The Bank's average investment securities portfolio decreased 9.0%, and the yield on that portfolio increased 82 basis points, for the year ended December 31, 2006 compared to the year ended December 31, 2005. Net premium amortization for the year ended December 31, 2006 was $41,405 compared to $139,507 for the year ended December 31, 2005. Overall, the yield on interest earning assets increased 106 basis points to 7.68% in the 2006 fiscal year from 6.62% in the 2005 fiscal year.

Interest expense increased by $3,073,142, or 32.3%, to $12,590,639 for the year ended December 31, 2007, from $9,517,497 for the year ended December 31, 2006. This increase in interest expense is principally attributable to higher levels of interest-bearing liabilities priced at a higher market interest rate level. Savings accounts increased on average by $19,541,058 in 2007, or 43.6%, as compared to 2006, contributing to the funding of loans and investments portfolio growth. The cost on these deposits increased 104 basis points in 2007 from 2006. Average interest bearing liabilities rose 13.2% in 2007 from 2006. The cost of total interest-bearing liabilities increased 57 basis points to 3.95% in 2007 from 3.38% in 2006.

Interest expense increased by $3,489,318, or 57.9%, to $9,517,497 for the year ended December 31, 2006, from $6,028,179 for the year ended December 31, 2005. This increase in interest expense is principally attributable to higher levels of interest-bearing liabilities priced at a higher market interest rate level. Savings accounts increased on average by $11,195,700 in 2006, or 33.2%, as compared to 2005, contributing to the funding of loan portfolio growth. The cost on these deposits increased 87 basis points in 2006 from 2005. Average interest bearing liabilities rose 9.1% in 2006 from 2005. The cost of total interest-bearing liabilities increased 104 basis points to 3.38% in 2006 from 2.34% in 2005.

Average non-interest bearing demand deposits decreased by $2,148,086, or 3.4%, to $60,892,433 for the year ended December 31, 2007 from $63,040,519 for the year ended December 31, 2006.

Non-Interest Income

Non-interest income decreased by $13,119, or 0.5%, to $2,558,329 for the year ended December 31, 2007 from $2,571,448 for the year ended December 31, 2006.

Service charges on deposit accounts represent a significant source of non-interest income. Service charge revenues remained level at $673,826 for the year ended December 31, 2007 compared to $668,071 for the year ended December 31, 2006. This component of non-interest income represented 26.3% and 25.8% of the total non-interest income for the years ended December 31, 2007 and 2006, respectively.

Gains on sales of loans held for sale decreased by $311,727, or 29.1%, to $761,004 for the year ended December 31, 2007, from $1,072,731 for the year ended December 31, 2006. The rising interest rate environment that existed throughout 2006 and continued into the first nine months of 2007 has impacted the volume of sales transactions in the SBA loan secondary market and the resultant gains from these sales transactions.

Non-interest income also includes income from bank-owned life insurance ("BOLI") which amounted to $265,601 for the year ended December 31, 2007 compared to $330,915 for the year ended December 31, 2006. The Bank purchased $6.0 million in tax-free BOLI assets in 2002 and $2.0 million in 2005, which partially offset the cost of employee benefit plans and reduced the overall effective tax rate. The Bank also generates non-interest income from a variety of fee-based services. These include safe deposit rentals, wire transfer service fees and Automated Teller Machine fees for non-customers. Deposit and service fee charges are reviewed and adjusted as needed from time to time by management to reflect current costs incurred by the Bank to offer the products or services and prices charged by competitor financial institutions amid the Bank's competitive market.

The Company recorded net losses on sales of securities available for sale of $99,714 for the year ended December 31, 2006. The Company recorded no gains or losses on sales of securities available for sale of in 2007. These portfolio transactions in 2006 were primarily the result of modest portfolio restructurings. Their purpose was to improve the Company's longer-term interest rate risk position.

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Non-Interest Expenses

Non-interest expenses increased by $86,421, or 0.7%, to $12,101,268 for the year ended December 31, 2007, from $12,014,847 for the year ended December 31, 2006. The largest increase in non-interest expenses for 2007 compared to 2006 was in salaries and employee benefits. To a lesser extent, occupancy expense also reflects an increase for the comparable periods. The following table presents the major components of non-interest expenses for the years 2007 and 2006.

Non-interest Expenses

		2007		2006 (Restated)
Salaries and employee benefits	$	7,196,552	$	6,741,050
Occupancy expense		1,658,820		1,448,227
Data processing services		829,037		733,954
Equipment expense		485,792		507,402
Marketing		106,862		258,012
Regulatory, professional and other fees		435,464		824,370
Office expense		572,293		470,211
All other expenses		816,448		1,031,621
Total	$	12,101,268	$	12,014,847

Salaries and employee benefits, which represent the largest portion of non-interest expenses, increased by $455,502, or 6.8%, to $7,196,552 for the year ended December 31, 2007 compared to $6,741,050 for the year ended December 31, 2006. The 2007 increase was a result of an increase in staffing levels plus normal salary increases partially offset by a lower level of expenses incurred in connection with the Company's health insurance and other employee benefit plans. Salaries and employee benefits as a percentage of average assets were 1.70% for 2007 and 1.77% for 2006.

For the year ended December 31, 2007, occupancy expense increased by $210,593, or 14.5%, to $1,658,820 from $1,448,227 for the year ended December 31, 2006. The February 27, 2007 acquisition of the Hightstown branch was primarily the cause for the current year increase in occupancy expense.

The occupancy expense component of total non-interest expense as a percentage of average assets was 0.39% for the year ended December 31, 2007 and 0.38% for the year ended December 31, 2006.

Data processing service expense increased by $95,083, or 12.96%, to $829,037 for the year ended December 31, 2007 compared to $733,954 for the year ended December 31, 2006 as the Company incurred operating costs to bring the new branch location online during 2007 as well as upgrading existing systems throughout the year.

Marketing expense decreased by $151,150, or 58.6%, to $106,862 for the year ended December 31, 2007 compared to $258,012 for the year ended December 31, 2006, as the Company ran fewer broadcast media promotions during 2007.

The Bank's ratio of non-interest expense to average assets has remained consistently favorable at 2.86% for the year ended December 31, 2007 compared to 3.15% for the year ended December 31, 2006.

An important industry productivity measure is the efficiency ratio. The efficiency ratio is calculated by dividing total operating expenses by net interest income and other income. An increase in the efficiency ratio indicates that more resources are being utilized to generate the same or greater volume of income, while a decrease would indicate a more efficient allocation of resources. The Bank's efficiency ratio for the year ended December 31, 2007 was 59.5% compared to 59.0% for the year ended December 31, 2006.

Financial Condition

On February 27, 2007, the Company, through the Bank, completed its acquisition of the Hightstown, New Jersey branch of another financial institution for a purchase price of $747,330.

As a result of the acquisition, the Hightstown branch became a branch of the Bank. Included in the acquisition of the branch were deposit liabilities of $19.5 million, mostly in certificates of deposit, cash of approximately $18.8 million, net of assets acquired, cash on hand of approximately $137,000, fixed and other assets of approximately $91,000 and the assumption of the lease of the branch premises. The cash received in the transaction was utilized to repay short term borrowings used to purchase investment securities prior to, and in contemplation of, the completion of the acquisition.

In addition, the Bank recorded goodwill of $445,653 and a deposit intangible asset of $274,604.

Cash and Cash Equivalents

At December 31, 2007, cash and cash equivalents totaled $7,548,102 compared to $10,361,812 at December 31, 2006. Cash and cash equivalents at December 31, 2007 consisted of cash and due from banks of $7,517,158 and federal funds sold/short-term investments of $30,944. The corresponding balances at December 31, 2006 were $10,336,334 and $25,478, respectively.

Investment Securities

The Bank's investment securities portfolio amounted to $98,704,483, or 23.0% of total assets at December 31, 2007, compared to $89,675,804, or 22.8% of total assets at December 31, 2006. On an average balance basis, the investment securities portfolio represented 26.1% and 24.0% of average interest-earning assets for the years ended December 31, 2007 and 2006, respectively. The average yield earned on the portfolio was 5.37% for the year ended December 31, 2007, an increase of 33 basis points from 5.04% earned for the year ended December 31, 2006.

Securities available for sale are investments that may be sold in response to changing market and interest rate conditions or for other business purposes. Securities available for sale consist primarily of U.S. Government and Federal agency securities as well as mortgage-backed securities. Activity in this portfolio is undertaken primarily to manage liquidity and interest rate risk and to take advantage of market conditions that create economically more attractive returns. At December 31, 2007, available-for-sale securities amounted to $75,192,137, an increase of $4,770,809 from December 31, 2006. The Company recorded net losses on sales of securities available for sale of $99,714 for 2006.

Amortized cost, gross unrealized gains and losses, and the estimated fair value by security type are as follows:

2007	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale-				
U. S. Treasury securities and obligations of U.S. Government sponsored corporations and agencies	$ 29,561,717	$ 317,245	$ (421,604)	$ 29,457,359
Mortgage backed securities	37,769,517	457,725	(57,365)	38,169,877
Obligations of State and Political subdivisions	3,446,517	14,778	(7,713)	3,453,582
FHLB stock and other securities	4,383,823	0	(272,504)	4,111,319
	$ 75,161,574	$ 789,748	$ (759,185)	$ 75,192,137
Held to maturity-				
Mortgage backed securities	$ 4,502,574	$ 2,132	$ (121,197)	$ 4,383,509
Obligations of State and Political subdivisions	18,013,721	142,232	(4,718)	18,151,235
Other Securities	996,051	-	(119,526)	876,525
	$ 23,512,346	$ 144,364	$ (245,441)	$ 23,411,269

2006	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale-				
U. S. Treasury securities and obligations of U.S. Government sponsored corporations and agencies	$ 35,625,182	$ 124,144	$ (694,261)	$ 35,055,065
Mortgage backed securities	28,305,557	113,353	(216,111)	28,202,799
Obligations of State and Political subdivisions	3,655,197	15,902	(31,749)	3,639,350
FHLB stock and other securities	3,554,759	304	(30,949)	3,524,115
	$ 71,140,695	$ 253,703	$ (973,070)	$ 70,421,328
Held to maturity-				
Mortgage backed securities	$ 5,540,670	$ 2,015	$ (175,826)	$ 5,366,859
Obligations of State and Political subdivisions	13,713,806	131,955	(47,941)	13,797,820
	$ 19,254,476	$ 133,970	$ (223,767)	$ 19,164,679

2005	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale-				
U. S. Treasury securities and obligations of U.S. Government sponsored corporations and agencies	$ 34,032,814	$ 7,198	$ (977,560)	$ 33,062,452
Mortgage backed securities	29,250,341	90,286	(302,193)	29,038,434
Obligations of State and Political subdivisions	3,855,987	1,333	(65,063)	3,792,257
FHLB stock and other securities	3,371,673	-	(28,158)	3,343,515
	$ 70,510,815	$ 98,817	$ (1,372,974)	$ 69,236,658
Held to maturity-				
Mortgage backed securities	$ 5,807,730	$ 7,233	$ (206,275)	$ 5,608,688
Obligations of State and Political subdivisions	15,950,640	108,525	(146,827)	15,912,338
	$ 21,758,370	$ 115,758	$ (353,102)	$ 21,521,026

Proceeds from maturities and prepayments of securities available for sale amounted to $12,704,423 for the year ended December 31, 2007 and $13,736,214 for the year ended December 31, 2006. At December 31, 2007, the portfolio had net unrealized gains of $30,563, compared to net unrealized losses of $719,367 at December 31, 2006. These unrealized losses are reflected net of tax in shareholders' equity as a component of other comprehensive income (loss).

Securities held to maturity, which are carried at amortized historical cost, are investments for which there is the positive intent and ability to hold to maturity. The held-to-maturity portfolio consists primarily of obligations of states and political subdivisions. At December 31, 2007, securities held to maturity were $23,512,346, an increase of $4,257,870 from $19,254,476 at December 31, 2006. The fair value of the held-to-maturity portfolio at December 31, 2007 was $23,411,269, resulting in a net unrealized loss of $101,077.

The amortized cost, estimated fair value and weighted average yield of investment securities at December 31, 2007, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. Federal Home Loan Bank stock is included in “Held to maturity - Due in one year or less.”

	Amortized Cost	Fair Value	Weighted Average Yield*
Available for sale-			
Due in one year or less	$ 5,748,287	$ 5,734,053	4.88%
Due after one year through five years	13,613,468	13,845,942	5.09%
Due after five years through ten years	10,654,348	10,736,895	5.12%
Due after ten years	45,145,471	44,875,247	5.39%
Total	$ 75,161,574	$ 75,192,137	5.25%
Held to maturity-			
Due in one year or less	$ 7,519,727	$ 7,521,621	4.49%
Due after one year through five years	1,904,665	1,917,828	5.56%
Due after five years through ten years	5,371,683	5,421,885	5.54%
Due after ten years	8,716,271	8,549,935	5.70%
Total	$ 23,512,346	$ 23,411,269	5.27%

* computed on a tax equivalent basis.

Loans

The loan portfolio, which represents the Bank’s largest asset, is a significant source of both interest and fee income. Elements of the loan portfolio are subject to differing levels of credit and interest rate risk. The Bank’s primary lending focus continues to be construction loans (wholesale and retail), commercial loans, owner-occupied commercial mortgage loans and tenanted commercial real estate loans. Total loans averaged $292,371,351 for the year ended December 31, 2007, an increase of $20,630,704, or 7.6%, compared to an average of $271,740,647 for the year ended December 31, 2006. Growth in the average loan portfolio balance was generated primarily by an increase of $17,942,448, or 18.0%, in commercial and commercial real estate loans. At December 31, 2007, total loans amounted to $294,760,718 compared to $265,142,313 at December 31, 2006, an increase of $29,618,405, or 11.2%. The average yield earned on the loan portfolio was 8.59% for the year ended December 31, 2007 compared to 8.53% for the year ended December 31, 2006, an increase of 6 basis points. This increase is primarily due to the rising interest rate environment that evolved during the last half of 2004 and continued throughout the first half of 2006.

The following table represents the components of the loan portfolio for the dates indicated.

	December 31,								
	2007		2006		2005		2004		2003
	Amount	%	Amount	%	Amount	%	Amount	%	Amount
Construction loans	$ 132,735,920	45%	$ 125,268,871	47%	$ 109,862,614	46%	$ 88,027,024	42%	$ 56,971,265
Residential real estate loans	10,088,515	3%	7,670,370	3%	8,602,975	4%	9,815,366	5%	8,059,032
Commercial and	135,128,642	46%	114,897,040	44%	104,448,196	43%	96,021,077	46%	83,840,831

commercial real estate loans									
Loans to individuals	16,324,817	6%	16,728,025	6%	16,441,994	7%	16,002,619	7%	13,236,895
Lease financing	0	0%	0	0%	21,073	0%	74,543	0%	1,054,198
Deferred loan fees	302,818	0%	404,074	0%	466,678	0%	512,416	0%	442,212
All other loans	180,006	0%	173,933	0%	170,819	0%	200,118	0%	345,873
Total	$ 294,760,718	100%	$ 265,142,313	100%	$ 240,014,349	100%	$ 210,653,163	100%	$ 163,950,306

Commercial and commercial real estate loans averaged $117,463,693 for the year ended December 31, 2007, an increase of $17,942,448, or 18.0%, compared to $99,521,245 for the year ended December 31, 2006. Commercial loans consist primarily of loans to small and middle market businesses and are typically working capital loans used to finance inventory, receivables or equipment needs. These loans are generally secured by business assets of the commercial borrower. The average yield on the commercial and commercial real estate loan portfolio increased 4 basis points to 7.78% for 2007 from 7.74% for 2006.

Construction loans averaged $129,285,776 for the year ended December 31, 2007, an increase of $4,263,007, or 3.4%, compared to $125,022,769 for the year ended December 31, 2006. Generally, these loans represent owner-occupied or investment properties and usually complement a broader commercial relationship between the bank and the borrower. Construction loans are structured to provide for advances only after work is completed and inspected by qualified professionals. The average yield on the construction loan portfolio decreased 2 basis points to 8.88% for 2007 from 8.90% for 2006.

Residential loans averaged $8,878,427 for the year ended December 31, 2007, an increase of $806,318, or 10.0%, compared to $8,072,109 for the year ended December 31, 2006. These loans consist primarily of residential mortgage loans secured by residential real estate. The average yield on this portfolio increased 100 basis points to 7.41% for 2007 from 6.41% for 2006.

The following table provides information concerning the interest rate sensitivity of the Bank's commercial and commercial real estate loans and construction loans at December 31, 2007.

		Maturity Range		
Type	Within One Year	After One But Within Five Years	After Five Years	Total
Commercial & commercial real estate	$ 29,159,140	$ 26,249,032	$ 79,720,470	$ 135,128,642
Construction	109,364,698	22,179,845	1,191,377	132,735,920
Total	$ 138,523,838	$ 48,428,876	$ 80,911,847	$ 267,864,562
Fixed rate loans	$ 5,762,628	$ 16,622,329	$ 9,990,236	$ 32,375,193
Floating rate loans	132,761,210	31,806,547	70,921,612	235,489,368
Total	$ 138,523,838	$ 48,428,876	$ 80,911,848	$ 267,864,562

Non-Performing Assets

Non-performing assets consist of non-performing loans and other real estate owned. Non-performing loans are composed of (1) loans on a non-accrual basis, (2) loans which are contractually past due 90 days or more as to interest and principal payments but have not been classified as non-accrual, and (3) loans whose terms have been restructured to provide a reduction or deferral of interest on principal because of a deterioration in the financial position of the borrower.

The Bank's policy with regard to non-accrual loans is that generally, loans are placed on a non-accrual status when they are 90 days past due unless these loans are well secured and in the process of collection or, regardless of the past due status of the loan, when management determines that the complete recovery of principal or interest is in doubt. Consumer loans are generally charged off after they become 120 days past due. Subsequent payments on loans in non-accrual status are credited to income only if collection of principal is not in doubt.

Non-performing loans decreased by $2,156,351 to $2,036,858 at December 31, 2007 from $4,193,209 at December 31, 2006. This decrease is primarily due to a transfer to other real estate owned of $2,960,727 for real estate acquired in full satisfaction of a loan in foreclosure. Approximately half of the non-performing loans is an unfinished residential construction project with the majority of the remaining half being comprised of commercial loans. The table below sets forth non-performing assets and risk elements in the Bank's portfolio for the years indicated. As the table demonstrates, non-performing loans to total loans decreased to 0.67% at December 31, 2007 from 1.50% at

December 31, 2006 for the reason previously stated. Loan quality is considered to be sound, and this was accomplished through quality loan underwriting, a proactive approach to loan monitoring and aggressive workout strategies.

Non-performing assets increased by $804,376 to $4,997,585 at December 31, 2007 from $4,193,209 at December 31, 2006. Non-performing assets represented 1.16% of total assets at December 31, 2007 and 1.07% at December 31, 2006. Non-performing loans as a percentage of total loans were 0.67% at December 31, 2007, compared to 1.50% at December 31, 2006.

The Bank had no loans classified as restructured loans at December 31, 2007 or 2006.

At December 31, 2007 and December 31, 2006, the Bank had no loans that were 90 days or more past due but still accruing interest income.

Non-Performing Assets and Loans

	2007	2006	2005	2004	2003
Non-Performing loans:					
Loans 90 days or more past due and still accruing	$ 0	$ 0	$ 209	$ 63,130	$ 0
Non-accrual loans	2,036,858	4,193,209	833,150	1,049,411	330,783
Total non-performing loans	2,036,858	4,193,209	833,359	1,112,541	330,783
Other real estate owned	2,960,727	0	0	0	8,971
Total non-performing assets	$ 4,997,585	$ 4,193,209	$ 833,359	$ 1,112,541	$ 339,754
Non-performing loans to total loans	0.67%	1.50%	0.32%	0.50%	0.20%
Non-performing assets to total assets	1.16%	1.07%	0.22%	0.33%	0.12%

Management takes a proactive approach in addressing delinquent loans. The Company's President meets weekly with all loan officers to review the status of credits past-due ten days or more. An action plan is discussed for each of the loans to determine the steps necessary to induce the borrower to cure the delinquency and restore the loan to a current status. Also, delinquency notices are system generated when loans are five days past-due and again at 15 days past-due.

In most cases, the Company's collateral is real estate and when the collateral is foreclosed upon, the real estate is carried at the lower of fair market value less estimated selling costs, or at cost. The amount, if any, by which the recorded amount of the loan exceeds the fair market value of the asset is a loss which is charged to the allowance for loan losses at the time of foreclosure or repossession. Resolution of a past-due loan can be delayed if the borrower files a bankruptcy petition because collection action cannot be continued unless the Company first obtains relief from the automatic stay provided by the bankruptcy code.

Allowance for Loan Losses and Related Provision

The allowance for loan losses is maintained at a level sufficient to absorb estimated credit losses in the loan portfolio as of the date of the financial statements. The allowance for loan losses is a valuation reserve available for losses incurred or inherent in the loan portfolio and other extensions of credit. The determination of the adequacy of the allowance for loan losses is a critical accounting policy of the Company.

The Company's primary lending emphasis is the origination of commercial and commercial real estate loans including construction loans. Based on the composition of the loan portfolio, the primary risks inherent in it are deteriorating credit quality, increases in interest rates, a decline in the economy, and a decline in New Jersey real estate market values. Any one or a combination of these events may adversely affect the loan portfolio and may result in increased delinquencies, loan losses and increased future provision levels.

All or part of the principal balance of commercial and commercial real estate loans, and construction loans are charged off to the allowance as soon as it is determined that the repayment of all, or part, of the principal balance is highly unlikely. Consumer loans are generally charged off no later than 120 days past due on a contractual basis, earlier in the event of bankruptcy, or if there is an amount deemed uncollectible. Because all identified losses are immediately charged off, no portion of the allowance for loan and lease losses is restricted to any individual loan or groups of loans, and the entire allowance is available to absorb any and all loan and lease losses.

Management reviews the adequacy of the allowance on at least a quarterly basis to ensure that the provision for loan and lease losses has been charged against earnings in an amount necessary to maintain the allowance at a level that is adequate based on management's assessment of probable estimated losses. The Company's methodology for assessing the adequacy of the allowance for loan and lease losses consists of several key elements. These elements may include a specific reserve for substandard or high risk loans, plus an allocated reserve, and possibly an unallocated portion. The Company consistently applies the following comprehensive methodology.

During the quarterly review of the allowance for loan and lease losses, the Company considers a variety of factors that include:

- General economic conditions.
- Trends in charge-offs.
- Trends and levels of delinquent loans.
- Trends and levels of non-performing loans, including loans over 90 days delinquent.
- Trends in volume and terms of loans.
- Levels of allowance for specific classified loans.
- Credit concentrations.

The specific reserve for high risk loans is established for specific commercial loans, commercial real estate loans, and construction loans which have been identified by management as being high risk assets. High risk loans are assigned an adverse grade since the loans are generally characterized with having weaknesses that may result in deterioration of repayment or worse. The specific portion of the allowance is the total amount of potential unconfirmed losses for these individual high risk loans. To assist in determining the fair value of loan collateral, the Company often utilizes independent third party qualified appraisal firms which, in turn, employ their own criteria and assumptions that may include occupancy rates, rental rates, and property expenses, among others.

The second category of reserves consists of the allocated portion of the allowance. The allocated portion of the allowance is determined by taking pools of loans outstanding that have similar characteristics and applying historical loss experience for each pool. This estimate represents the potential unconfirmed losses within the portfolio. Individual loan pools are created for commercial and commercial real estate loans, construction loans, and for the various types of loans to individuals. The historical estimation for each loan pool is then adjusted to account for current conditions, current loan portfolio performance, loan policy or management changes, or any other factor which may cause future losses to deviate from historical levels.

During the quarterly reviews, the Company may determine that an unallocated allowance is appropriate. An unallocated allowance is used to cover any factors or conditions which may cause a potential loan loss but are not specifically identifiable. It may be prudent to maintain an unallocated portion of the allowance because no matter how detailed an analysis of potential loan losses is performed, these estimates by definition lack precision. Management must make estimates using assumptions and information which is often subjective and changing rapidly. At December 31, 2007, management believed that the allowance for loan losses and non-performing loans was adequate.

While management uses the best information available to make such evaluations, future additions to the allowance may be necessary based on changes in economic conditions. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the Bank's allowance for loan losses. Such agencies may require the Bank to recognize additions to the allowance based on their judgments of information available to them at the time of their examination.

The table below presents, for the years indicated, an analysis of the allowance for loan losses and other related data.

Allowance for Loan Losses

	2007	2006	2005	2004
Balance, beginning of year	$ 3,228,360	$ 2,361,375	$ 2,005,169	$ 1,786,6
Provision charged to operating expenses	130,000	893,500	405,000	240,0
Loans charged off:				
Construction loans		-	-	
Residential real estate loans		-	-	
Commercial and commercial real estate loans	(88,891)	(11,154)	(39,150)	(17,0
Loans to individuals	(1,614)	(18,314)	(13,653)	(5,2
Lease financing	(478)	-	-	
All other loans	-	-	-	
	(90,983)	(29,468)	(52,803)	(22,2
Recoveries:				
Construction loans	75,000	-	-	
Residential real estate loans	-	-	-	
Commercial and commercial real estate loans	0	153	1,498	7
Loans to individuals	5,703	2,800	2,511	
Lease financing	-	-	-	
All other loans	-	-	-	
	80,703	2,953	4,009	8
Net (charge offs) / recoveries	(10,280)	(26,515)	(48,794)	(21,4
Balance, end of year	$ 3,348,080	$ 3,228,360	$ 2,361,375	$ 2,005,1
Loans:				
At year end	$ 305,082,723	$ 278,751,255	$ 256,772,083	$ 220,580,9
Average during the year	292,371,351	271,740,647	231,418,672	198,452,4
Net (charge offs) recoveries to average loans outstanding	0.00%	(0.01%)	(0.02%)	(0.
Allowance for loan losses to:				
Total loans at year end	1.10%	1.16%	0.92%	0.
Non-performing loans	164.37%	76.99%	283.36%	180.

At December 31, 2007, the allowance for loan losses was $3,348,080 compared to $3,228,360 at December 31, 2006, an increase of $119,720, or 3.7%. The ratio of the allowance for loan losses to total loans at December 31, 2007 and 2006 was 1.10% and 1.16%, respectively. The allowance for loan losses as a percentage of non-performing loans was 164.37% at December 31, 2007, compared to 76.99% at December 31, 2006. Management believes the quality of the loan portfolio remains sound and that the allowance for loan losses is adequate in relation to credit risk exposure levels.

The provision for loan losses was $130,000 and $893,500, respectively, for the years ended December 31, 2007 and 2006. Management considers a complete review of the following specific factors in determining the provision for loan losses: historical losses by loan category, non-accrual loans, problem loans as identified through internal classifications, collateral values, and the growth and size of the portfolio. In addition to these factors, management takes into consideration current economic conditions and local real estate market conditions. The decrease in the

provision for the year ended December 31, 2007 was primarily due to inherent risk related to loan growth. Management believes the quality of the loan portfolio remains sound, and the determination of the provision for loan losses amount was primarily due to the manageable balances in non-accrual loans and management's assessment of economic conditions in the Bank's marketplace.

The following table describes the allocation of the allowance for loan losses among the various categories of loans and certain other information as of the dates indicated. The allocation is made for analytical purposes and is not necessarily indicative of the categories in which future losses may occur. The total allowance is available to absorb losses from any segment of loans.

Allocation of the Allowance for Loan Losses

	December 31, 2007		December 31, 2006		December 31, 2005		December 31
	Amount	% of loans in each category to total loans	Amount	% of loans in each category to total loans	Amount	% of loans in each category to total loans	Amount
Balance at end of period applicable to:							
Domestic:							
Commercial and commercial real estate loans	$ 1,671,059	46%	$ 1,131,266	44%	$ 1,393,210	43%	$ 1,183,050
Construction loans	1,308,651	45%	1,696,175	47%	578,537	46%	491,266
Residential real estate loans	104,326	3%	61,634	3%	141,683	4%	120,310
Loans to individuals	154,437	6%	139,055	6%	236,138	7%	200,517
Lease financing	-	0%	-	0%	4,723	0%	4,010
Unallocated	109,607		200,230	N/A	7,084	N/A	6,016
	$ 3,348,080	100%	$ 3,228,360	100%	$ 2,361,375	100%	$ 2,005,169

Deposits

Deposits, which include demand deposits (interest bearing and non-interest bearing), savings and time deposits, are a fundamental and cost-effective source of funding. The Bank offers a variety of products designed to attract and retain customers, with the Bank's primary focus being on building and expanding long-term relationships. Deposits in the year ended December 31, 2007 averaged $330,387,715, an increase of $33,290,383, or 11.2%, compared to $297,097,332 in the year ended December 31, 2006. At December 31, 2007, total deposits were $329,332,368, an increase of $16,607,946, or 5.3%, from $312,724,422 at December 31, 2006. The average rate paid on the Bank's interest-bearing deposit balances for 2007 was 3.58%, increasing from the 2.86% average rate for 2006. Total interest bearing deposits increased by $21,857,588, or 8.8%, to $270,276,565 at December 31, 2007 from $248,418,977 at December 31, 2006.

The significant contributors to the increased level of deposit growth in the year ended December 31, 2007 were an increase in average savings deposit, followed by increases in certificates of deposit of $100,000 or more, and other time deposits, offset by declines in interest-bearing demand deposits and non-interest bearing demand deposits.

Time deposits consists primarily of retail certificates of deposit and certificates of deposit of $100,000 and over. Time deposits at December 31, 2007 were $122,013,689, an increase of $9,338,603, or 8.29%, from $112,675,086 at December 31, 2006. The retail certificates of deposit component of time deposits increased by $9,053,156, or 15.6%, to an average of $67,236,813 for 2007 from an average of $58,183,657 for 2006. The average cost of these deposits decreased by 28 basis points to 4.72% for 2007 from 5.00% for 2006. Certificates of deposit of $100,000 and over increased by $10,381,440 to an average of $54,252,087 for 2007 from an average of $43,870,647 for 2006. Certificates of deposit of $100,000 and over are a less stable funding source and are used primarily as an alternative to other sources of borrowed funds.

Average non-interest bearing demand deposits decreased by $2,148,086, or 3.4%, to $60,892,433 for the year ended December 31, 2007 from $63,040,519 for the year ended December 31, 2006. At December 31, 2007, non-interest bearing demand deposits totaled $59,055,803, a decrease of 8.2% compared to $64,305,445 at December 31, 2006. Non-interest bearing demand deposits represent a stable, interest-free source of funds.

Savings accounts increased by $8,463,706, or 15.8%, to $62,094,432 at December 31, 2007 from $53,630,726 at December 31, 2006. The average balance of savings accounts for 2007 increased by $19,541,058 to $64,408,442 compared to an average balance of $44,867,384 for 2006.

Interest bearing demand deposits, which include interest-bearing checking, money market and the Bank's premier money market product, 1st Choice accounts, decreased by $2,148,086, or 3.4%, to an average of $60,892,433 for 2007 from an average of $63,040,519 in 2006. The average cost of interest bearing demand deposits increased 41 basis points to 2.08% for 2007 compared to 1.67% for 2006.

The following table illustrates the components of average total deposits for the dates indicated.

Average Deposit Balances

	2007		2006		2005	
	Average Balance	Percentage of Total	Average Balance	Percentage of Total	Average Balance	Percentage of Total
Non-interest bearing demand deposits	$ 60,892,433	18.43%	$ 63,040,519	21.22%	$ 57,792,902	20.67%
Interest bearing demand deposits	83,597,940	25.30%	87,135,125	29.33%	101,189,352	36.19%
Savings deposits	64,408,442	19.49%	44,867,384	15.10%	33,671,684	12.04%
Certificates of deposit of $100,000 or more	54,252,087	16.42%	43,870,647	14.77%	9,771,290	3.49%
Other time deposits	67,236,813	20.35%	58,183,657	19.58%	77,183,169	27.60%
Total	$ 330,387,715	100.00%	$ 297,097,332	100.00%	$ 279,608,397	100.00%

Borrowings

Borrowings are mainly comprised of Federal Home Loan Bank ("FHLB") borrowings and overnight funds purchased. These borrowings are primarily used to fund asset growth not supported by deposit generation. The average balance of other borrowed funds decreased by $2,959,014, or 9.1%, to $29,580,685 for the year ended December 31, 2007 from the average balance of $32,539,699 for the year ended December 31, 2006. This decrease is primarily due to the fact that deposit growth exceeded loan portfolio growth. The average cost of other borrowed funds decreased 7 basis points to 5.12% for 2007 compared to 5.19% for 2006.

The balance of other borrowings was $35,600,000 at December 31, 2007, consisting of long-term FHLB borrowings of $30,500,000 and overnight funds purchased of $5,100,000. The balance of other borrowings at December 31, 2006 consisted of FHLB borrowings of $15,500,000 and overnight funds purchased of $1,700,000. The average cost of other borrowed funds increased 7 basis points to 5.12% for 2007 compared with 5.19% for 2006.

The Bank purchased five ten-year fixed rate convertible advances from the FHLB that total $25,500,000 in the aggregate. These advances, in the amounts of $3,000,000, $2,500,000, $5,000,000, $5,000,000 and $10,000,000 bear interest at the rates of 5.82%, 5.50%, 5.34%, 5.06% and 4.08%, respectively. The Bank purchased one two-year advance in the amount of $5,000,000 that bears interest at a 3.833% rate. These advances may be called by the FHLB

quarterly at the option of the FHLB if rates rise and the rate earned by the FHLB is no longer a "market" rate. These advances are fully secured by marketable securities.

Shareholders' Equity and Dividends

Shareholders' equity increased by $6,026,272, or 17.2%, to $40,972,777 at December 31, 2007, from $34,946,505 at December 31, 2006. Book value per common share increased by $1.45, or 16.5%, to $10.26 at December 31, 2007 from $8.81 at December 31, 2006. The increase in shareholders' equity and book value per share resulted primarily from net income of $5,442,782, less the effect of stock buybacks. The ratio of shareholders' equity to total assets was 9.55% and 8.89% at December 31, 2007 and 2006, respectively.

In lieu of cash dividends, the Company (and its predecessor the Bank) has declared a stock dividend every year since 1992 and has paid such dividends every year since 1993. A 6% stock dividend was declared in 2007 and 2006 and paid in 2008 and 2007, respectively. A 5% stock dividend was declared in 2005 and paid in 2006.

The Company's common stock is quoted on the Nasdaq Global Market under the symbol "FCCY".

The Company and the Bank are subject to various regulatory capital requirements administered by the Federal Reserve Board and the Federal Deposit Insurance Corporation. For information on regulatory capital, see Note 20 of the Notes to Consolidated Financial Statements on page F-31.

Off-Balance Sheet Arrangements

The following table shows the amounts and expected maturities of significant commitments as of December 31, 2007. Further discussion of these commitments is included in Note 13 to the Consolidated Financial Statements.

	One Year or Less	One to Three Years	Three to Five Years	Over Five Years	Total
Standby letters of credit	$ 5,546,723	$ 0	$ 0	$ 0	$ 5,546,723
Commitments to extend credit	$ 114,175,000	$ 0	$ 0	$ 0	$ 114,175,000
Commitments to sell residential loans	$ 10,322,005	$ 0	$ 0	$ 0	$ 10,322,005

Liquidity

Liquidity measures the ability to satisfy current and future cash flow needs as they become due.

Liquidity management refers to the Company's ability to support asset growth while satisfying the borrowing needs and deposit withdrawal requirements of customers. In addition to maintaining liquid assets, factors such as capital position, profitability, asset quality and availability of funding affect a bank's ability to meet its liquidity needs. On the asset side, liquid funds are maintained in the form of cash and cash equivalents, federal funds sold, investment securities held to maturity maturing within one year, securities available for sale and loans held for sale. Additional asset-based liquidity is derived from scheduled loan repayments as well as investment repayments of principal and interest from mortgage-backed securities. On the liability side, the primary source of liquidity is the ability to generate core deposits. Short-term borrowings are used as supplemental funding sources when growth in the core deposit base does not keep pace with that of earnings assets.

The Bank has established a borrowing relationship with the FHLB and a correspondent bank which further supports and enhances liquidity. At December 31, 2007, the Bank maintained an Overnight Line of Credit at the FHLB in the amount of $28,883,000 plus a One-Month Overnight Repricing Line of Credit of $28,883,000. Advances issued under these programs are subject to FHLB stock level and collateral requirements. Pricing of these advances may fluctuate based on existing market conditions. The Bank also maintains an unsecured Federal funds line of $13,500,000 with a correspondent bank.

The Consolidated Statements of Cash Flows present the changes in cash from operating, investing and financing activities. At December 31, 2007, the balance of cash and cash equivalents was $7,548,102.

Net cash provided by operating activities totaled $9,389,262 for the year ended December 31, 2007 compared to net cash provided by operations of $8,395,283 for the year ended December 31, 2006. The primary source of funds is net income from operations adjusted for provision for loan losses, depreciation expenses, and net amortization of premiums on securities.

Net cash used in investing activities decreased by $1,924,047 to $22,562,137 for the year ended December 31, 2007 from $24,486,184 for the year ended December 31, 2006. The decrease in cash usage for 2007 compared to 2006 resulted from the added inflow of cash and cash equivalents from the February 2007 Hightstown branch acquisition.

Net cash provided by financing activities decreased by $3,955,797 to $10,359,165 for the year ended December 31, 2007 from $14,314,962 for the year ended December 31, 2006. The cash provided in 2007 resulted primarily from an increase in borrowed funds.

The securities portfolios are also a source of liquidity, providing cash flows from maturities and periodic repayments of principal. For the year ended December 31, 2007, prepayments and maturities of investment securities totaled $16,092,008. Another source of liquidity is the loan portfolio, which provides a flow of payments and maturities.

Interest Rate Sensitivity Analysis

The largest component of the Bank's total income is net interest income, and the majority of the Bank's financial instruments are composed of interest rate-sensitive assets and liabilities with various terms and maturities. The primary objective of management is to maximize net interest income while minimizing interest rate risk. Interest rate risk is derived from timing differences in the repricing of assets and liabilities, loan prepayments, deposit withdrawals, and differences in lending and funding rates. Management actively seeks to monitor and control the mix of interest rate-sensitive assets and interest rate-sensitive liabilities.

The following tables set forth certain information relating to the Bank's financial instruments that are sensitive to changes in interest rates, categorized by expected maturity or repricing and the fair value of such instruments at December 31, 2007.

Interest Rate Sensitivity Analysis At December 31, 2007
($ in thousands)

Interest Sensitivity Period	Total Within One Year	One Year To Two Years	Non-interest Sensitive and Over Two Years	Total
30 Day				