



ANNUAL REPORT 2007

LETTER TO SHAREHOLDERS



ROBERT E. DAVIS, JR. (L), PRESIDENT AND CHIEF EXECUTIVE OFFICER, AND WILLIAM J. BARRETT, CHAIRMAN OF THE BOARD.

We are pleased to report income before income taxes for 2007 amounting to \$559,000, which compares with 2006's results of \$533,000, an increase of 4.9%. The results for 2007 include the first full year of operating costs for the Shrewsbury Branch, estimated at \$200,000 on a pre-tax basis. This branch achieved profitability on a monthly basis during the fourth quarter of 2007 as deposits surpassed management's expectations.

Commencing in 2007, operating results became taxable for both federal and state taxes at a blended rate of 40 percent. On a net income basis, the Bank earned \$815,000, which compares with 2006's results of \$835,000. The results for both years were favorably impacted by the recognition of income tax credits amounting to \$487,000 and \$310,000, respectively, from the reduction of the valuation allowance on our deferred income tax assets, the most significant of which are the benefits associated with our federal and state tax loss carryforwards. Net income per basic share amounted to \$.39 and compares with \$.40 for 2006. Fully diluted earnings per share were \$.38 for both years. Prior period per share amounts were restated to reflect the effects of the 10% stock dividend declared and paid in 2007. Stockholders' Equity ended the year at \$13.5 Million equating to a book value of \$6.41 per share.

Robert E. Davis, Jr., President and CEO, attributed the operating earnings improvement to the Bank's ability to continue to expand the loan portfolio and increase deposits. Mr. Davis added that the Bank does not invest in subprime or similar loans and has consistently maintained conservative and excellent quality in the loan portfolio. At December 31, 2007, total assets amounted to \$130 Million with total loans at \$107 Million, an increase of \$11 Million over 2006, and deposits totaling \$106 Million, an increase of \$14 Million or 15%.

Mr. Davis also noted that the Bank's continuing success was due in large part to our ability to introduce new products to serve our customer base. The "Escrow Manager" account, introduced in 2006 has been received very favorably and this year we began offering a lock box product which is also proving very successful. In 2007 we offered, in concert with a third party, a remote deposit product which enables customers to make deposits with the Bank without leaving their office. Customers can also take advantage of several changes to our Internet banking product. Through this service customers can have their statements delivered to

them electronically while new account applications, for Home Equity Lines of Credit and deposit products, can be completed online or downloaded. For security purposes we do request that the customer come to the Bank to complete the application. We have worked with other third parties throughout our brief history, such as with Peapack-Gladstone Bank for Trust and Investment products and with First Interstate for residential mortgage originations. Working with these affiliations we are able to offer a wide array of products which a community bank would not be able to offer on its own. Whether introducing proprietary products, or working with others, our goal is to provide a high level of service and products to our customer base.

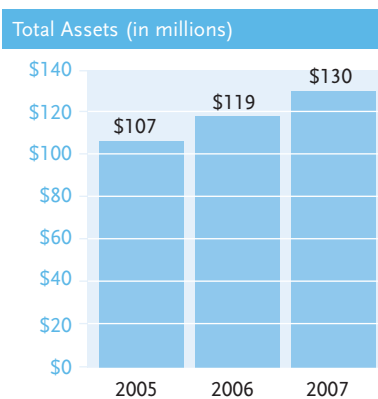
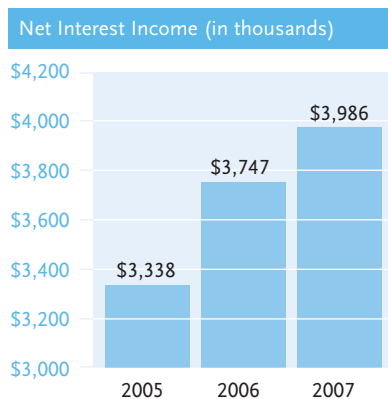
2007 was a difficult year for most financial institutions. Although the Bank was not affected by the subprime mortgage problems, the flat yield curve and start up costs of the Shrewsbury Branch did negatively impact results. As we look to 2008, many economists have forecasted a recession and, in response, the Federal Reserve Bank commenced easing interest rates in the latter part of 2007 and accelerated the reductions in early 2008. These moves should help increase our lending spreads and earnings.

Our major priorities for 2008 are to grow deposits and continue to expand our conservative loan portfolio. To achieve this we are upgrading our marketing process, fine tuning our deposit product offerings and looking to the opening of our new branch in Asbury Park in mid-year 2008 which will significantly expand our deposit and lending market. Our capital ratios remain strong and, coupled with a conservative lending policy, as evidenced by a lack of charge-offs as well as the low level of non-performing assets, we are well positioned to continue our growth.

As always, we appreciate the continued loyalty of our customers, employees and shareholders and look forward to meeting with you at our April 30, 2008 annual meeting at the Salt Creek Grille in Rumson, New Jersey.

William J. Barrett
Chairman of the Board

Robert E. Davis, Jr.
President and
Chief Executive Officer



SHREWSBURY OFFICE



RUMSON OFFICE



FAIR HAVEN OFFICE

2007 – THE YEAR IN REVIEW



SENIOR MANAGEMENT (L TO R) DENNIS J. FLANAGAN, EXECUTIVE VICE PRESIDENT AND CHIEF FINANCIAL OFFICER, ROBERT E. DAVIS, JR., PRESIDENT AND CHIEF EXECUTIVE OFFICER, THOMAS SANNELLI, SENIOR VICE PRESIDENT, RETAIL BANKING AND BUSINESS DEVELOPMENT.

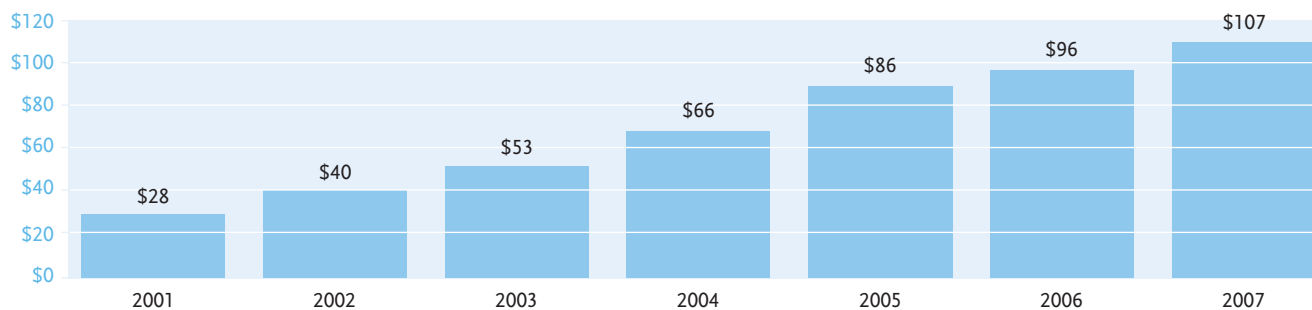
The underlying vision of the Bank, set forth with its inception in 2000, indicates that the Bank would “return to basic business values: prompt service, polite and responsive employees, competitive products, and problem solving based on clients’ needs.”

This theme continues to resonate throughout the Bank and influence our direction and our daily endeavors. We are truly committed to recreating the experience of good old fashioned hometown banking while simultaneously offering all the products and technology to keep competitive in today’s market. In the last year, we have made great strides to further establish ourselves in the community. We have also introduced new products while fine tuning existing products and services, all the while providing unparalleled customer service.

OUR TEAM

Rumson-Fair Haven Bank’s greatest asset, our people, consistently distinguish and separate us from the competition. Our team, consisting of dedicated and knowledgeable professionals from the local communities, is committed to delivering exceptional customer service, to fostering and nurturing customer relationships, and to contributing to the overall success of the Bank. The senior management team, comprised of Robert E. Davis, Jr., President and Chief Executive Officer, Dennis J. Flanagan, Executive Vice President and Chief Financial Officer and Thomas Sannelli, Senior Vice President, Retail Banking and Business Development, leads the effort to make customer service the Bank’s highest priority.

Total Loans (in millions)



OUR COMMITMENT

As a community bank, we remain steadfast in our commitment to provide value to our customers in every way we can. We create value by enhancing the customer experience, by providing the products and services that our customers want and need, by maintaining the highest standards of security and by contributing to the local community. Since our opening in 2000, our deposit rates have consistently ranked in the top tier as compared to our competitors. We introduced Majestic Checking in early 2008 in response to customer requests for a premier checking account. We offer a broad range of services to complement traditional accounts, including free Internet banking and bill pay. We redesigned our website in late 2007 and will continue to enhance the site to keep it up to date with the latest technology and features. Furthermore, we are not content to simply exist in the community as “just another bank.” We aim to be a fixture of the community, actively involved in making our great communities even better. This is well evidenced by the extensive involvement of our employees in various local community-based organizations such as: Eastern Monmouth Chamber of Commerce, the Rumson Business Association, Monmouth Ocean Development and Kiwanis, to name a few.

OUR PLACE

In addition to making great strides to establish our “place” in the community, the Bank works diligently to establish itself as a convenient place for our customers to do business.

Not only do we have three branches with competitive hours, 8:00am-6:00pm, Monday through Friday and 8:45am-12:00pm on Saturday, we also offer Automated Teller Machines (ATMs) at all locations and drive up service at Rumson and Shrewsbury. Moreover, our Internet banking and bill pay services can be accessed 24 hours a day, seven days a week enabling our customers to bank anytime from the comfort of their own homes. In addition, the senior management team is constantly exploring sites to establish additional branches. Currently, the Bank is continuing its due diligence process of evaluating a branch location in Asbury Park. Assuming successful completion of this process, a mid-year opening would be anticipated.



SHREWSBURY BRANCH (L TO R) CHARLES PICKLER, CUSTOMER SERVICE REPRESENTATIVE (“CSR”), SAMARIS TASSINARO, VICE PRESIDENT COMMERCIAL LENDING, LAUREN M. FLANAGAN, BRANCH MANAGER, ALEXIS MIRANTI, CSR, AND IAN RUGG, CSR.



RUMSON BRANCH (L TO R) MICHELLE M. TIBBETTS, ASSISTANT BRANCH MANAGER, NANCY SINGER, EXECUTIVE ASSISTANT, CARL ANDERSON, JR., CSR, ALEXANDRA SMITH, BRANCH MANAGER, AND HEATHER M. JOHNSON, CSR.



FAIR HAVEN BRANCH (L TO R) PETER LEYMAN, BRANCH MANAGER, LUCY NGAI, CSR, MATTHEW MULLIGAN, ASSISTANT BRANCH MANAGER, AND BARBARA MALAVE, CSR.

STATEMENTS OF CONDITION

(in thousands, except share amounts)

December 31,

	2007	2006
ASSETS		
Cash and due from banks	\$ 2,123	\$ 2,115
Federal funds sold	2,575	–
Certificate of deposit	100	100
Investment securities available for sale	16,344	19,590
Loans	107,036	95,678
Less: Allowance for loan losses	(1,250)	(1,100)
Loans, net	<u>105,786</u>	<u>94,578</u>
Premises and equipment, net	1,853	1,969
Other assets	1,447	1,118
Total assets	<u>\$ 130,228</u>	<u>\$ 119,470</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Non-interest bearing demand	\$ 11,582	\$ 10,658
Interest bearing demand	10,724	7,640
Savings and money market accounts	41,898	39,981
Time	<u>41,685</u>	<u>33,462</u>
Total deposits	105,889	91,741
Short-term borrowed funds	–	4,350
Long-term borrowed funds	10,000	10,000
Accrued expenses and other liabilities	<u>850</u>	<u>953</u>
Total liabilities	116,739	107,044
Stockholders' equity:		
Common stock, par value \$5.00 per share		
Authorized: 10,000,000 and 2,500,000 shares at		
December 31, 2007 and 2006, respectively.		
Issued and outstanding: 2,104,936 and 1,909,533 shares		
at December 31, 2007 and 2006, respectively.	10,525	9,547
Additional paid-in capital	4,249	5,155
Accumulated deficit	(1,342)	(2,157)
Accumulated other comprehensive income (loss)	57	(119)
Total stockholders' equity	<u>13,489</u>	<u>12,426</u>
Total liabilities and stockholders' equity	<u>\$ 130,228</u>	<u>\$ 119,470</u>

See accompanying notes to financial statements.

STATEMENTS OF INCOME

(in thousands, except per share amounts)

	Year Ended December 31,	
	2007	2006
INTEREST INCOME		
Interest and fees on loans	\$ 6,863	\$ 6,210
Interest on federal funds sold	395	41
Interest on investment securities available for sale	758	741
Total interest income	<u>8,016</u>	<u>6,992</u>
INTEREST EXPENSE		
Interest on deposits	3,566	3,099
Interest on borrowed funds	464	146
Total interest expense	<u>4,030</u>	<u>3,245</u>
NET INTEREST INCOME	3,986	3,747
Provision for loan losses	150	246
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	<u>3,836</u>	<u>3,501</u>
OTHER INCOME		
Service charges on deposit accounts	104	84
Other	156	66
Total other income	<u>260</u>	<u>150</u>
OTHER EXPENSES		
Salaries and employee benefits	1,809	1,570
Occupancy	503	422
Data processing	350	302
Professional fees	202	140
Furniture and equipment	194	149
Other	479	535
Total other expenses	<u>3,537</u>	<u>3,118</u>
Income before income tax (benefit)	559	533
Income tax (benefit)	(256)	(302)
NET INCOME	<u>\$ 815</u>	<u>\$ 835</u>
Net income per share - basic	<u>\$ 0.39</u>	<u>\$ 0.40</u>
Net income per share - diluted	<u>\$ 0.38</u>	<u>\$ 0.38</u>
Weighted average shares outstanding - basic	<u>2,104,607</u>	<u>2,094,991</u>
Weighted average shares outstanding - diluted	<u>2,171,389</u>	<u>2,209,021</u>

See accompanying notes to financial statements.

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

(in thousands, except share amounts)

	Common stock	Additional paid-in capital	Accumulated deficit	Accumulated other comprehensive income (loss)	Total
Balance at December 31, 2005	\$ 8,593	\$ 5,926	\$ (2,992)	\$ (377)	\$ 11,150
Net income			835		835
Unrealized gain on securities available for sale, net of tax of \$80				258	258
Total comprehensive income					1,093
Common stock issued, 18,050 shares	90	68			158
10% Common stock distribution, 172,860 shares	864	(864)			–
Stock-based compensation		25			25
Balance at December 31, 2006	<u>9,547</u>	<u>5,155</u>	<u>(2,157)</u>	<u>(119)</u>	<u>12,426</u>
Net income			815		815
Unrealized gain on securities available for sale, net of tax of \$117				176	176
Total comprehensive income					991
Common stock issued, 4,145 shares	21	11			32
10% Common stock distribution, 191,258 shares	957	(957)			–
Stock-based compensation		40			40
Balance at December 31, 2007	<u>\$ 10,525</u>	<u>\$ 4,249</u>	<u>\$ (1,342)</u>	<u>\$ 57</u>	<u>\$ 13,489</u>

See accompanying notes to financial statements.

STATEMENTS OF CASH FLOWS

(in thousands)

	Year Ended December 31,	
	2007	2006
OPERATING ACTIVITIES		
Net income	\$ 815	\$ 835
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	150	246
Depreciation, amortization and accretion, net	187	171
Amortization of deferred loan fees/costs	(52)	(89)
Stock-based compensation	40	25
Deferred income tax benefit	(282)	(302)
(Increase) decrease in other assets	(165)	27
(Decrease) increase in accrued expenses and other liabilities	(103)	394
Net cash provided by operating activities	<u>590</u>	<u>1,307</u>
INVESTING ACTIVITIES		
Purchase of certificate of deposit	–	(100)
Purchase of investment securities available for sale	(2,418)	(3,583)
Proceeds from maturities, paydowns and calls of investment securities available for sale	5,953	3,544
Net increase in loans	(11,306)	(9,475)
Purchases of premises and equipment	(66)	(1,405)
Net cash used in investing activities	<u>(7,837)</u>	<u>(11,019)</u>
FINANCING ACTIVITIES		
Net increase (decrease) in deposits	14,148	(2,349)
Net (decrease) increase in short-term borrowings	(4,350)	2,674
Proceeds of long-term borrowings	–	10,000
Net proceeds from issuance of common stock	32	158
Net cash provided by financing activities	<u>9,830</u>	<u>10,483</u>
INCREASE IN CASH AND CASH EQUIVALENTS	2,583	771
Cash and cash equivalents at beginning of year	<u>2,115</u>	<u>1,344</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 4,698</u>	<u>\$ 2,115</u>
Supplemental disclosures of cash flow information:		
Cash paid during the year for:		
Interest	\$ <u>3,979</u>	\$ <u>3,072</u>
Income taxes	\$ <u>10</u>	\$ <u>46</u>

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2007

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business

Rumson-Fair Haven Bank & Trust Company (the “Bank”) is a New Jersey state-chartered bank with three branches located in the Boroughs of Rumson, Fair Haven and Shrewsbury, New Jersey. Since we commenced business on July 17, 2000, we have served these communities and surrounding cities and towns, including Red Bank, Middletown and Little Silver, New Jersey.

The primary business of the Bank is to provide deposit and lending services for individuals, small to medium-sized businesses and professional practices in our market area.

As a community bank, the Bank’s emphasis involves providing a broad range of financial products and services. The Bank offers the traditional range of retail and commercial banking services to its customers, including checking accounts, savings accounts, certificates of deposit, installment loans, commercial loans, traveler’s checks, safe deposit boxes, night depository and automated teller services, as well as Internet banking, including electronic bill payment. Through our affiliation with a local mortgage company, a broad array of residential mortgage alternatives is available to our customers. The retail banking services offered by the Bank are designed to provide deposit and loan products that meet our customers’ needs. The Bank also offers trust and investment services through an affiliation with a New Jersey based financial institution.

The Bank is subject to federal and New Jersey statutes applicable to banks chartered under the New Jersey banking laws. The Bank’s deposits are insured by the Federal Deposit Insurance Corporation (the “FDIC”). Accordingly, the Bank is subject to regulation, supervision and examination by the FDIC and the New Jersey State Department of Banking and Insurance.

Basis of Financial Statement Presentation

In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the statement of condition and results of operations for the period indicated. Actual results could differ significantly from those estimates.

Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses and the assessment as to whether deferred income tax assets are more likely than not to be realized. While management uses available information to recognize estimated losses on loans, future additions 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 losses on loans. Such agencies may require the Bank to recognize additions to the allowance based on their judgements of information available to them at the time of their examination. In assessing whether deferred income tax assets are more likely than not to be realized, management considers both current operations and projections of future operations and considers the nature of the elements comprising deferred income tax assets.

Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents includes cash on hand, amounts due from banks and federal funds sold. Federal funds sold are generally sold for one-day periods.

Investment Securities

Securities to be held for indefinite periods of time and not intended to be held to maturity, including all equity securities, are classified as available for sale. Securities available for sale include securities that management intends to use as part of its asset/liability management strategy and that may be sold in response to changes in interest rates, asset mix and other factors related to interest rate and resultant prepayment risk changes. Securities available for sale are carried at estimated fair value adjusted for amortization of premiums and accretion of discount using a method that approximates a level yield. Unrealized holding gains and losses on such securities are excluded from earnings and reported as a separate component of stockholders’ equity, net of tax. Gains and losses on sales of individual securities are calculated using the specific identification method.

Federal law requires a member institution of the Federal Home Loan Bank (“FHLB”) system to hold stock of its district FHLB according to a predetermined formula. The stock is classified as available for sale and is carried at cost.

Loans

Loans are stated at unpaid principal balances outstanding adjusted for deferred loan fees and costs and reduced by the allowance for loan losses. Interest on loans is credited to operations based upon the principal amount outstanding. Loan fees and certain direct loan origination costs are deferred and the net fees and costs recognized in interest income over the lives of the respective loans as an adjustment to yield.

A loan is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect all amounts due according to the contractual terms of the loan agreement. Impaired loans are measured based on the present value of expected future cash flows, or, as a practical expedient, at the loan’s observable market price, or the fair value of the underlying collateral, if the loan is collateral dependent. Conforming residential mortgage loans, home equity and second mortgages, and consumer loans are excluded from the definition of impaired loans as they are characterized as smaller balance, homogeneous loans and are collectively evaluated.

The accrual of income on loans, including impaired loans, is generally discontinued when a loan becomes 90 days past due as to principal or interest or when other circumstances indicate that collection is questionable, unless the loan is well secured and in the process of collection. Income on non-accrual loans, including impaired loans, is recognized only in the period in which it is collected, and only if management determines that the loan principal is fully collectible. Loans are returned to an accrual status when a loan is brought current as to principal and interest and reasons indicating doubtful collection no longer exist.

The allowance for loan losses is based on management’s evaluation of the adequacy of the allowance based on known and inherent risks in the portfolio, adverse situations that may affect the borrower’s ability to repay, estimated value of any underlying collateral, and current economic conditions. Additions to the allowance arise from charges to operations through the provision for loan losses or from the recovery of amounts previously charged off. The allowance is reduced by charge-offs. Management believes that the allowance for loan losses is adequate.

Premises and Equipment

Premises and equipment are stated at cost less accumulated depreciation and amortization. Depreciation is charged to operations on a straight-line basis over the estimated useful lives of the assets or, in the case of leasehold improvements, the lease period, if shorter. Gains or losses on dispositions are reflected in current operations. Maintenance and repairs are charged to expense as incurred.

Income Taxes

Income taxes are accounted for under the asset and liability method. Current income taxes are calculated based upon amounts estimated to be currently payable, for both federal and state income taxes. Deferred federal and state tax assets and liabilities are recognized for the expected future tax consequences of existing differences between financial statement and tax basis of existing assets and liabilities. Deferred tax assets are recognized for future deductible temporary differences and tax loss carryforwards if their realization is “more likely than not.” A valuation allowance is maintained for the portion of deferred income tax assets which are not more likely than not to be realized. The effect of a change in the tax rate on deferred taxes is recognized in the period of the enactment date.

Stockholders’ Equity

On June 15, 2007, June 15, 2006, May 31, 2005 and July 23, 2004, the Bank issued stock distributions, each in the form of ten percent stock dividends. If the Bank had accumulated profits (retained earnings), the Bank would have transferred the fair market value of the shares issued from retained earnings to common stock and additional paid-in capital. Since the Bank currently has an accumulated deficit, it transferred the par value of the shares issued from additional paid-in capital to common stock. All share and per share data for prior periods have been retroactively adjusted to reflect each of the ten percent stock distributions.

On October 31, 2003, the Bank issued 386,363 units at a price of \$11.00 per unit with each unit consisting of one share of the Bank’s common stock, \$5 par value per share, and one warrant to purchase one-half share of the Bank’s common stock. As a result of the aforementioned ten percent stock distributions, each warrant now allows the holder to purchase .732 shares of common stock for \$6.00, the equivalent of \$8.20 per share. Initially the warrants were issued with a five-year term, however, the Board of Directors of the Bank extended the expiration

date of the warrants for one year. Accordingly, the warrants expire on October 31, 2009. There were no warrants exercised in either 2007 or 2006.

Stock-Based Compensation

The Bank adopted, effective January 1, 2006, Statement of Financial Accounting Standards (“Statement”) No. 123R, “Share-Based Payment,” using the modified-prospective-transition method. This statement is a revision of Statement No. 123, “Accounting for Stock-Based Compensation,” and supersedes Accounting Principles Board (“APB”) Opinion No. 25, “Accounting for Stock Issued to Employees,” and its related guidance. Under Statement No. 123R, the Bank records compensation expense for all new options or other awards granted and any options modified after December 31, 2005. In addition, the transition rules under Statement No. 123R require that, for all options outstanding at December 31, 2005, for which the requisite service had not yet been rendered, compensation cost be recorded as such service is rendered after December 31, 2005. Prior to adopting Statement No. 123R, stock-based compensation was accounted for under the intrinsic value based method as prescribed by APB Opinion No. 25.

Advertising Costs

The Bank follows the policy of charging the costs of advertising to expense as incurred.

Off-Balance-Sheet Financial Instruments

In the ordinary course of business, the Bank has entered into off-balance-sheet financial instruments consisting of commitments to extend credit. Such financial instruments are recorded in the statement of condition when they are funded.

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Bank, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Bank does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturities.

Comprehensive Income

Comprehensive income consists solely of net income and net unrealized gains (losses) on securities available for sale and is presented in the statements of changes in stockholders’ equity.

Net Income Per Share

Basic income per share is computed by dividing net income available to common shareholders by the weighted average number of shares of common stock outstanding during the year. Diluted income per share is calculated by dividing net income by the weighted average number of shares of common stock and common stock equivalents outstanding decreased by the number of common shares that are assumed to be repurchased with the proceeds from the exercise of the common stock equivalents (treasury stock method) along with the assumed tax benefit from the exercise of non-qualified options. These purchases were assumed to have been made at the average market price of the common stock. The following table shows the calculation of both basic and diluted earnings per share. All share and per share data have been retroactively adjusted to reflect the aforementioned ten percent stock distribution in 2007.

	Year Ended December 31,	
	2007	2006
Net income	\$ 815,000	\$ 835,000
Basic weighted average shares outstanding	2,104,607	2,094,991
Plus: Common stock equivalents	66,782	114,030
Diluted weighted average number of shares outstanding	2,171,389	2,209,021
Earnings per share:		
Basic	\$ 0.39	\$ 0.40
Diluted	\$ 0.38	\$ 0.38

Recent Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board (“FASB”) issued Statement No. 157, “Fair Value Measurements,” which defines fair value, establishes a framework for measuring fair value under GAAP, and expands disclosures about fair value measurements. Statement No. 157 applies to other accounting pronouncements that require or permit fair value measurements. The new guidance is effective for financial statements issued for fiscal years beginning after November 15, 2007, and for interim periods within those fiscal years. We do not expect that adoption of Statement No. 157 will have a material impact, if any, on our financial position, results of operations and cash flows.

In December 2007, the FASB issued proposed FASB Staff Position (“FSP”) 157-b, “Effective Date of FASB Statement No. 157,” that would permit a one-year deferral in applying the measurement provisions of Statement No. 157 to non-financial assets and non-financial liabilities (non-financial items) that are not recognized or disclosed

at fair value in an entity's financial statements on a recurring basis (at least annually). Therefore, if the change in fair value of a non-financial item is not required to be recognized or disclosed in the financial statements on an annual basis or more frequently, the effective date of application of Statement No. 157 to that item is deferred until fiscal years beginning after November 15, 2008 and interim periods within those fiscal years. This deferral does not apply, however, to an entity that applies Statement No. 157 in interim or annual financial statements before proposed FSP No. 157-b is finalized. We do not expect that adoption of FSP No. 157-b will have a material impact, if any, on our financial position, results of operations and cash flows.

In February 2007, the FASB issued Statement No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities-Including an amendment of FASB Statement No. 115." Statement No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value. Unrealized gains and losses on items for which the fair value option has been elected will be recognized in earnings at each subsequent reporting date. Statement No. 159 is effective for our Bank January 1, 2008 and we do not expect the adoption of Statement No. 159 will have a material impact on our financial statements.

In June 2006, the FASB issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes." The interpretation clarifies the accounting for uncertainty in income taxes recognized in a company's financial statements in accordance with Statement No. 109, "Accounting for Income Taxes." Specifically, the pronouncement prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return, requiring that companies recognize in their financial statements the impact of a tax position, if that position is more likely than not of being sustained on audit, based on the technical merits of the position. The interpretation also provides guidance on the related de-recognition, classification, interest and penalties,

accounting for interim periods, disclosure and transition of uncertain tax positions. In February 2008, the FASB issued FASB Staff Position ("FSP") FIN 48-2, "Effective Date of FASB Interpretation No. 48 for Certain Nonpublic Enterprises," which delayed the effective date of FIN 48 to our annual financial statements for the fiscal year beginning after December 15, 2007. We do not expect this new pronouncement will have a material impact on our financial statements.

In May 2007, the FASB issued FASB Staff Position ("FSP") FIN 48-1, "Definition of Settlement in FASB Interpretation No. 48" ("FSP FIN 48-1"). FSP FIN 48-1 provides guidance on how to determine whether a tax position is effectively settled for the purpose of recognizing previously unrecognized tax benefits. The implementation of this standard will not have a material impact on our financial position or results of operations.

In June 2007, the Emerging Issues Task Force ("EITF") reached a consensus on Issue No. 06-11, "Accounting for Income Tax Benefits of Dividends on Share-Based Payment Awards" ("EITF 06-11"). EITF 06-11 states that an entity should recognize a realized tax benefit associated with dividends on nonvested equity shares, nonvested equity share units and outstanding equity share options charged to retained earnings as an increase in additional paid in capital. The amount recognized in additional paid in capital should be included in the pool of excess tax benefits available to absorb potential future tax deficiencies on share-based payment awards. EITF 06-11 should be applied prospectively to income tax benefits of dividends on equity-classified share-based payment awards that are declared in fiscal years beginning after December 15, 2007. The Bank expects that EITF 06-11 will not have a material impact on its financial statements.

NOTE 2 – INVESTMENT SECURITIES AVAILABLE FOR SALE

The amortized cost, gross unrealized gains and losses, and estimated fair value of investment securities available for sale at December 31, 2007 and 2006 are as follows (in thousands):

2007	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. Government sponsored agencies	\$ 14,200	\$ 118	\$ (6)	\$ 14,312
Mortgage-backed securities	1,389	–	(17)	1,372
Equity securities	660	–	–	660
Total	\$ 16,249	\$ 118	\$ (23)	\$ 16,344

2006	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. Government sponsored agencies	\$ 17,205	\$ 5	\$ (151)	\$ 17,059
Mortgage-backed securities	1,745	–	(53)	1,692
Equity securities	839	–	–	839
Total	\$ 19,789	\$ 5	\$ (204)	\$ 19,590

The amortized cost and estimated fair value of debt securities available for sale at December 31, 2007, by contractual maturity, are shown at right (in thousands). 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.

	Amortized Cost	Estimated Fair Value
Due in less than one year	\$ 2,061	\$ 2,057
Due after one through five years	7,339	7,434
Due after five through ten years	6,150	6,154
After ten years	39	39
Total	\$ 15,589	\$ 15,684

At December 31, 2007 securities having an approximate carrying value of \$13,405,000 and \$255,000, respectively, were pledged to secure borrowed funds and public funds.

The following tables identify those investment securities available for sale which had an unrealized loss at December 31, 2007 and 2006 by length of time in a continuous loss position (in thousands):

2007	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
U.S. Government sponsored agencies	\$ –	\$ –	\$ 2,055	\$ (6)	\$ 2,055	\$ (6)
Mortgage-backed securities	–	–	1,372	(17)	1,372	(17)
Total temporarily impaired securities	\$ –	\$ –	\$ 3,427	\$ (23)	\$ 3,427	\$ (23)

2006	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
U.S. Government sponsored agencies	\$ –	\$ –	\$ 11,062	\$ (151)	\$ 11,062	\$ (151)
Mortgage-backed securities	–	–	1,692	(53)	1,692	(53)
Total temporarily impaired securities	\$ –	\$ –	\$ 12,754	\$ (204)	\$ 12,754	\$ (204)

Management has determined that these unrealized losses, which related to two U.S. Government sponsored agencies and four mortgage-backed securities at December 31, 2007 are temporary and due to interest rate fluctuations and volatility rather than the credit ratings of the securities. The Bank has the intent and ability to hold these securities for the time necessary to recover the amortized cost.

NOTE 3 – LOANS

Total loans at December 31, 2007 and 2006, including net unearned income of \$113,000 and \$92,000, respectively, are summarized as follows (in thousands):

December 31,		
	2007	2006
Commercial loans	\$ 73,839	\$ 60,209
Real estate loans - residential	14,730	17,477
Home equity and second mortgages	18,426	17,939
Consumer loans	41	53
Total loans	<u>107,036</u>	<u>95,678</u>
Less allowance for loan losses	(1,250)	(1,100)
Net loans	<u>\$ 105,786</u>	<u>\$ 94,578</u>

A majority of the Bank's loan portfolio is secured by real estate located in New Jersey, primarily in Monmouth County. Accordingly, as with most financial institutions in the market area, the ultimate collectibility of a substantial portion of the Bank's loan portfolio is susceptible to changes in market conditions in these areas.

At December 31, 2007 and 2006, there were no loans outstanding to directors, executive officers, principal stockholders and affiliates of such persons (commonly referred to as related parties).

At December 31, 2007 and 2006, the Bank had loans classified as non-accrual totaling \$887,000 and \$579,000, respectively. The effect of non-accrual loans in 2007 and 2006 was to decrease interest income by \$61,000 and \$31,000, respectively. At and during the years ended December 31, 2007 and 2006, no loans were classified as impaired.

Activity in the allowance for loan losses is summarized as follows (in thousands):

December 31,		
	2007	2006
Balance, beginning of year	\$ 1,100	\$ 860
Provision for loan losses	150	246
Loans charged-off	-	(6)
Balance, end of year	<u>\$ 1,250</u>	<u>\$ 1,100</u>

The Bank is party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financial needs of its customers. These financial instruments include unused lines of credit and involve, to varying degrees, elements of credit risk in excess of the amount recognized in the financial statements. The contract or notional amounts of these instruments express the extent of involvement the Bank has in each category of financial instruments.

The Bank's exposure to credit loss from nonperformance by the other party to the above-mentioned financial instruments is represented by the contractual amount of those instruments. The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

The contract or notional amount of financial instruments whose contract amounts represent credit risk at December 31, 2007 is as follows (in thousands):

December 31,	
	2007
Commitments to originate loans	\$ 1,570
Outstanding loan and credit line commitments	29,733
Standby letters of credit	1,002

Commitments to extend credit are agreements to lend to individuals and companies as long as there is no violation of any condition established in the contract. Commitments generally have a fixed expiration date of one year or less, except for home equity loan commitments which generally have an expiration date of up to 20 years. Since many of the commitments are expected to expire without being drawn upon, total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained if deemed necessary by the Bank upon extension of credit is based upon management's credit evaluation of the customer. Various types of collateral may be held, including property and marketable securities. The credit risk involved in these financial instruments is essentially the same as that involved in extending loan facilities to customers.

NOTE 4 – PREMISES AND EQUIPMENT

Premises and equipment are summarized as follows (in thousands):

	Useful lives	December 31,	
		2007	2006
Leasehold improvements	8-40 years	\$ 2,104	\$ 2,064
Furniture, fixtures and equipment	3-15 years	783	756
		2,887	2,820
Accumulated depreciation and amortization		(1,034)	(851)
Premises and equipment, net		<u>\$ 1,853</u>	<u>\$ 1,969</u>

Depreciation and amortization expense amounted to \$182,000 and \$162,000 in 2007 and 2006, respectively.

NOTE 5 – DEPOSITS

The aggregate amount of time deposits in denominations of \$100,000 or more as of December 31, 2007 and 2006 was \$22,752,000 and \$18,393,000, respectively. Interest expense on time deposits of \$100,000 or more amounted to \$1,129,000 and \$913,000 for the years ended December 31, 2007 and 2006, respectively.

The scheduled maturities of all time deposits at December 31, 2007, are as follows (in thousands):

Year	Amount
2008	\$ 31,819
2009	7,085
2010	2,171
2011	23
2012	587
Total time deposits	<u>\$ 41,685</u>

NOTE 6 – SHORT-TERM BORROWED FUNDS

The Bank is a member in the Federal Home Loan Bank of New York (“FHLBNY”). The Bank has an approved borrowing capacity of \$25,698,000 based on collateral provided by the Bank. Advances are collateralized by securities and qualifying mortgage loans held by the FHLBNY. In addition, the Bank has an unsecured federal funds credit line of \$3,000,000 with its correspondent bank.

At December 31, 2006 the Bank had advances outstanding from the FHLBNY amounting to \$4,350,000 at a rate of 5.39%. There were no advances outstanding at December 31, 2007.

NOTE 7 – LONG-TERM BORROWED FUNDS

A summary of long-term borrowings from the FHLBNY at December 31, 2007, unchanged from December 31, 2006, is as follows (in thousands):

Balance	Int Rate	Maturity Date	Call Date	Call Feature
\$ 7,500,000	4.53%	12/14/16	12/14/11	One time only Quarterly
2,500,000	4.01%	12/14/16	12/14/07	
<u>\$ 10,000,000</u>				

Advances are collateralized by securities and qualifying mortgage loans held by the FHLBNY.

NOTE 8 – INCOME TAXES

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

	Year Ended December 31,	
	2007	2006
Current tax expense:		
Federal	\$ 26	\$ –
State	–	–
Total current	26	–
Deferred tax benefit:		
Federal	(188)	(250)
State	(94)	(52)
Total deferred	(282)	(302)
Total tax (benefit)	<u>\$ (256)</u>	<u>\$ (302)</u>

A reconciliation between the effective income tax (benefit) expense for the years ending December 31, 2007 and 2006 and the amount computed using the applicable statutory federal tax rate of 34% is as follows (in thousands):

	Year Ended December 31,	
	2007	2006
Federal income tax expense	\$ 190	\$ 181
Increase (decrease) in taxes resulting from:		
–State income taxes net of federal tax effect	(62)	5
–Valuation allowance	(354)	(490)
–Other	(30)	2
Total income tax (benefit)	\$ (256)	\$ (302)

At December 31, 2007, the Bank had income tax loss carry forwards of approximately \$222,000 which expire in 2011 for state purposes. State losses may be carried forward seven years. In addition, the Bank sold securities in 2005 and prior years which resulted in capital losses of \$429,000. There were no securities sales in either 2007 or 2006. These capital losses may be carried forward, for federal purposes, and used to offset capital gains through 2010.

The tax effects of temporary differences that give rise to significant portions of the net deferred tax asset at December 31, 2007 and 2006 are as follows (in thousands):

	December 31,	
	2007	2006
Deferred tax assets:		
Allowance for loan losses	\$ 495	\$ 422
Net operating loss carryforwards	13	324
Capital loss carryover	171	171
Unrealized losses on available for sale securities	–	80
Depreciation	133	111
Stock option expense	29	15
Accrued income and expense	21	–
Other	11	14
Gross deferred tax assets	873	1,137
Less - valuation allowance	224	658
Deferred tax assets, net	649	479
Deferred tax liabilities:		
Deferred loan costs	58	47
Accrued income and expense	–	48
Unrealized gains on available for sale securities	38	–
Other	7	2
Deferred tax liabilities, net	103	97
Net deferred tax asset	\$ 546	\$ 382

NOTE 9 – STOCK OPTION PLANS

The Bank has four stock option plans which are administered by the Bank's Personnel and Compensation Committee, comprised of members of the Bank's Board of Directors ("The Committee"). As previously noted, the Bank adopted Statement No. 123R, beginning January 1, 2006 and, therefore, began to expense the fair value of all options over their remaining vesting periods. For the years ended December 31, 2007 and 2006, the Bank recognized \$40,000 and \$25,000, respectively in compensation expense for stock options.

To date, the exercise price for all of the grants under the various stock option plans has been based on the fair market value on the grant date. The Bank's Non-Qualified Stock Option Plan permits grants with an exercise price of at least 85% of the fair market value of the Bank's stock on the grant date. Stock options for all plans have a ten-year term. Vesting periods vary, however, the majority vest over a three-year period. Prior to 2006, awards to Directors vested immediately. All share amounts within this note reflect the ten percent stock distributions paid in prior years as well as the 2007 and 2006 distributions.

The Bank's 2000 Incentive Stock Option Plan grants options intended to qualify as "incentive stock options" under the Internal Revenue Code of 1986, as amended. The Bank's 2000 Non-Qualified Stock Option Plan grants options that are not intended to qualify as "incentive stock options" under the Internal Revenue Code. Under these two plans, officers and key employees of the Bank may receive grants of options with vesting periods as determined at the discretion of The Committee. The Bank's 2000 and 2005 Stock Option Plans for Non-Employee Directors grant options to directors who are not employees of the Bank. In the aggregate, there are 3,086 shares available for future grants.

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

	December 31,	
	2007	2006
Weighted average risk-free interest rate	4.59%	4.60%
Expected dividend yield	0.00%	0.00%
Weighted average volatility of the expected market price of the Bank's common stock	10.00%	10.00%
Weighted average expected life of the options	5.0 YRS	5.4 YRS

The expected volatility was based on historical volatility. The risk-free interest rates for periods within the contractual life of the awards were based on the U.S. Treasury yield curve in effect at the time of the grant. The expected life was based on historical exercise experience. The dividend yield assumption was based on the Bank's history and expectation of dividend payouts.

Changes in options outstanding for all plans are as follows:

	Shares	Option Price Per Share	Weighted Average Exercise Price
Balance, December 31, 2005	287,429	\$ 6.55 – 17.16	\$ 9.48
Granted during 2006	41,800	9.55 – 9.55	9.55
Exercised during 2006	(21,035)	6.55 – 8.88	7.55
Forfeitures during 2006	(17,751)	7.65 – 17.16	12.99
Balance, December 31, 2006	290,443	6.55 – 14.62	9.42
Granted during 2007	8,000	10.50 – 10.50	10.50
Exercised during 2007	(4,560)	6.92 – 6.92	6.92
Balance, December 31, 2007	293,883	\$ 6.55 – \$14.62	\$ 9.49

The weighted average grant date fair value of options granted during the years ended December 31, 2007 and 2006 was \$2.30 and \$2.24, respectively. The total intrinsic value of options exercised during the years ended December 31, 2007 and 2006 was \$12,000 and \$82,000, respectively.

The aggregate intrinsic value of both options outstanding and options exercisable at December 31, 2007 was \$137,000.

Expected future compensation expense relating to the 40,563 nonvested options outstanding as of December 31, 2007 is \$77,000 over a weighted average period of 1.8 years. The total fair value of options vested during the year ended December 31, 2007 was \$50,000.

Cash received from option exercises for the years ended December 31, 2007 and 2006 was \$32,000 and \$158,000, respectively. The Bank has a policy of issuing new stock from the shares authorized to satisfy share option exercises.

The following table summarizes information about stock options outstanding at December 31, 2007:

Options Outstanding					Options Exercisable		
Year	Number Outstanding	Range of Exercise Price	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life in Years	Number Exercisable	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life in Years
2000	56,203	\$ 6.92 – \$ 6.92	\$ 6.92	2.7	56,203	\$ 6.92	2.7
2001	25,620	7.17 – 7.62	7.56	3.8	25,620	7.56	3.8
2002	10,248	8.88 – 8.88	8.88	4.9	10,248	8.88	4.9
2003	62,956	6.55 – 7.65	7.42	5.6	62,956	7.42	5.6
2004	33,275	12.10 – 12.10	12.10	6.8	33,275	12.10	6.8
2005	55,781	13.22 – 14.62	13.64	7.6	52,917	13.60	7.6
2006	41,800	9.55 – 9.55	9.55	8.8	12,101	9.55	8.8
2007	8,000	10.50 – 10.50	10.50	9.4	–	–	–
	<u>293,883</u>	<u>\$ 6.55 – \$14.62</u>	<u>\$ 9.49</u>	<u>5.7</u>	<u>253,320</u>	<u>\$ 9.39</u>	<u>5.5</u>

NOTE 10 – BENEFITS

The Bank maintains a 401K employee savings plan to provide for defined contributions. All full-time employees, and part-time employees working at least 20 hours per week, are eligible to participate. The Bank's contribution to the plan is to match 100 percent of the employee's first three percent of the employee's salary and 50 percent of the next two percent of the employee's salary. The Bank's maximum contribution is four percent of an employee's salary. For 2007 and 2006, employer contributions amounted to \$50,000 and \$38,000, respectively.

NOTE 11 – COMMITMENTS AND CONTINGENCIES

At December 31, 2007 the Bank was obligated under non-cancelable leases for premises, with future minimum rental payments as follows (in thousands):

Year	Amount
2008	\$ 293
2009	300
2010	307
2011	275
2012	91
Thereafter	1,766
Total	<u>\$ 3,032</u>

Total rent expense, net of rental income, included in occupancy expense was \$252,000 and \$219,000 for the years ended December 31, 2007 and 2006, respectively.

NOTE 12 – RELATED PARTY TRANSACTIONS

The Bank has entered into a lease agreement for the Rumson branch with a company of which a former director of the Bank is an owner. The negotiations with respect to this lease were conducted at arm's length and the Board of Directors of the Bank believes, based on an opinion of an independent appraiser, that the terms and conditions of the lease are comparable to terms that would have been available to the Bank by an unaffiliated third party. Rental payments for 2007 and 2006 amounted to \$145,000 and \$139,000, respectively.

A company, of which two directors are principal shareholders, leases space in the Bank's Fair Haven branch. The Chairman of the Board of the Bank is one of the two aforementioned directors. The rent payable for the space is based on the fair rental value for comparable rental space in the community, less a credit for the portion of time the Chairman devotes to Bank business. The rental payments are not considered material.

NOTE 13 – FAIR VALUE OF FINANCIAL INSTRUMENTS

The following disclosure of the estimated fair value of financial instruments is made in accordance with the requirements of Statement No. 107, “Disclosures about Fair Value of Financial Instruments”. The estimated fair value amounts have been determined by the Bank using available market information and appropriate valuation methodologies. However, considerable judgement is necessarily required to interpret market data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Bank could realize in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts. Furthermore, certain tax implications related to the realization of the unrealized gains and losses could have a significant impact on these fair value estimates and have not been incorporated into many of the estimates.

The following methods and assumption were used to estimate the fair value of the Bank’s financial instruments:

- For cash and cash equivalents, federal funds sold, certificate of deposit, interest receivable and interest payable, the carrying amount approximates fair value.
- For securities, fair values are based on quoted market prices.

- For loans, fair values are estimated using discounted cash flow analyses, at interest rates currently offered for loans with similar terms to borrowers of similar credit quality.
- Fair values for demand deposits, savings accounts and certain money market deposits are, by definition, equal to the amount payable on demand at the repricing date (that is, their carrying amounts). Fair values of certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturity of deposits.
- For short-term borrowings the fair value is estimated to be the amount payable at the reporting date.
- For long-term borrowings the fair value is estimated by discounting future cash flows, using rates currently available for borrowings with similar remaining maturities.
- The fair value of commitments is estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counterparties. The fair value of these commitments was deemed immaterial and is not presented in the accompanying table.

The estimated fair values of the Bank’s financial instruments as of December 31, 2007 and 2006 are as follows (in thousands):

	2007		2006	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Cash and cash equivalents	\$ 2,123	\$ 2,123	\$ 2,115	\$ 2,115
Federal funds sold	2,575	2,575	–	–
Certificate of deposit	100	100	100	100
Investment securities available for sale	16,344	16,344	19,590	19,590
Loans, net	105,786	105,520	94,578	93,623
Interest receivable	651	651	660	660
Financial liabilities:				
Deposits	105,889	106,099	91,741	91,589
Short-term borrowings	–	–	4,350	4,350
Long-term borrowings	10,000	10,125	10,000	9,969
Interest payable	413	413	363	363

NOTE 14 – REGULATORY MATTERS

Subject to applicable law, the Board of Directors of the Bank may provide for the payment of dividends. New Jersey law provides that no dividend may be paid unless, after the payment of such dividend, the capital stock of the Bank will not be impaired and either the Bank will have a statutory surplus of not less than 50 percent of its capital stock or the payment of such dividend will not reduce the statutory surplus of the Bank.

The Bank is subject to various regulatory capital requirements administered by the federal and state banking agencies. Failure to meet minimum requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classification are also subject to qualitative judgements by the regulators about components, risk weighting and other factors.

The prompt corrective action regulations define specific capital categories based on an institution's capital ratios. The capital categories, in declining order, are well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized. To be considered well capitalized, an institution must generally have a leverage ratio (Tier 1 capital to total quarterly average assets), as defined, of at least five percent, a Tier 1 risk-based capital ratio, as defined, of at least six percent, and a total risk-based capital ratio, as defined, of at least ten percent. Management believes that, as of December 31, 2007, the Bank meets all capital adequacy requirements of the FDIC.

As of December 31, 2007, the most recent notification from the FDIC categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the Bank's category.

The following is a summary of the Bank's actual capital amounts and ratios as of December 31, 2007 and 2006 compared to the FDIC minimum capital adequacy requirements and the FDIC requirements for classification as a well capitalized institution (dollars in thousands):

2007	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Tier 1 capital to average total assets	\$ 13,434	10.24%	\$ 5,248	4.00%	\$ 6,560	5.00%
Tier 1 capital to risk weighted assets	13,434	12.10%	4,440	4.00%	6,661	6.00%
Total risk-based capital to risk weighted assets	14,709	13.25%	8,881	8.00%	11,101	10.00%

2006	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Tier 1 capital to average total assets	\$ 12,543	10.88%	\$ 4,612	4.00%	\$ 5,765	5.00%
Tier 1 capital to risk weighted assets	12,543	13.10%	3,830	4.00%	5,744	6.00%
Total risk-based capital to risk weighted assets	13,723	14.33%	7,659	8.00%	9,574	10.00%

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Stockholders
Rumson-Fair Haven Bank & Trust Company
Rumson, New Jersey

We have audited the accompanying statements of condition of Rumson-Fair Haven Bank & Trust Company (the "Company") as of December 31, 2007 and 2006, and the related statements of income, changes in stockholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Rumson-Fair Haven Bank & Trust Company as of December 31, 2007 and 2006, and the results of its operations and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Beard Miller Company LLP

Beard Miller Company LLP
Pine Brook, New Jersey
March 7, 2008

PERSONAL BANKING PRODUCTS

MAJESTIC CHECKING - NEW PRODUCT

- Requires a monthly average balance of \$5,000*
- Free ATM/Debit MasterCard
- Free Online Banking and Bill Pay
- Free RFH Bank Logo Checks
- Free RFH Bank ATM Transactions
- Foreign ATM fees waived (\$10 maximum/month. Rebate request must be made within sixty days of occurrence)**
- No fees on Travelers Cheques or Cashiers Checks
- No Fee on Domestic Incoming Wire Transfers
- Premium CD Rates – higher than published based rates exclusive of promotional offers

INTEREST CHECKING

- No minimum balance requirement
- Earn interest with unlimited check writing
- Open your account with \$50 or more
- Free ATM/Debit MasterCard**
- Free Online Banking and Bill Pay
- Statement delivery via e-mail (optional)
- Overdraft protection service

STATEMENT SAVINGS

- Earn a competitive interest rate with no minimum balance requirement

MONEY MARKET ACCOUNT

- Write up to three checks per month
- Minimum daily balance requirement of \$1,000 to earn interest and avoid a \$10 monthly service charge

CERTIFICATES OF DEPOSIT (CDs) AND IRA CDs

- Choose from a variety of short or long-term FDIC insured investments
- Earn competitive interest rates, with guaranteed, fixed rates of return

ATM SERVICES

- Deposit, withdraw, transfer funds or obtain balance information from checking, savings or money market accounts
- Free from transaction fees at Rumson-Fair Haven Bank ATM locations

DEBIT CARD

- Ability to make purchases at Point of Sale locations with convenience of automatically deducting payment from primary checking account
- “MasterCard” logo

HOME EQUITY LOANS

- Unlock your home equity with a low-cost fixed or floating rate loan
- Choose from a variety of terms and pay principal and interest in equal monthly payments, or
- Enjoy the flexibility of a Home Equity Credit Line (“HECL”). Pay down your principal balance at any time without a penalty
- Apply for free, no closing costs

OVERDRAFT CREDIT LINE

- Credit line used to guarantee payment of checks up to approved limit
- Quick application and approval process

DIRECT DEPOSIT

- Offers the convenience of immediate availability of funds into your account for items including payroll and Social Security benefits

SAFE DEPOSIT BOXES

- Available for yearly rental at the Rumson and Shrewsbury Branches
- Rental fee automatically deducted from checking account
- Accessible during branch hours

* Subject to a \$25 monthly service fee if monthly average balance falls below \$5,000

** Surcharges may be imposed by other financial institutions when using their ATMs

All accounts shown are for personal use only.

See your deposit account disclosure for additional details.

BUSINESS BANKING PRODUCTS

BUSINESS CHECKING ACCOUNTS

- Unlimited checking with no per-check fees
- Minimum daily balance requirement of \$1,000 will avoid a \$20 monthly service charge
- \$100 minimum deposit to open account

ESCROW MANAGER

- One account, multiple benefits
- Accurate record keeping and tracking
- Monthly master and sub-account statements
- Automatic tax reporting

LOCK BOX SERVICES

- Reduce administrative costs
- Expedite the funds availability of high-volume consumer payments
- Minimize collection float by having your payments mailed directly to a post office box maintained by Rumson-Fair Haven Bank on behalf of your business
- Maximize the processing accuracy of deposits

INSURED BUSINESS MONEY MARKET

- Attractive rates with the ability to write three (3) checks per month
- Tiered interest rates depending on daily balance maintained
- Minimum daily balance requirement of \$1,000 to earn interest and avoid a \$10 monthly service charge

BUSINESS TERM LOANS

- Purchase or improvement of equipment or fixed assets, provide long term working capital
- Enable acquisitions, partner or shareholder buyouts
- Secured or unsecured loans depending on circumstances and credit strength
- Flexible and customized terms provided
- U.S. Government agency assistance may be available

LINES OF CREDIT

- Provide short-term working capital for inventory, purchases and receivable collection
- Solution for seasonal cash flow
- Provide financing for business opportunity
- Variable interest rate with monthly interest only payments

SMALL BUSINESS LINE OF CREDIT

- Up to \$50,000
- Convenient two page application with quick decision
- Readily accessible by check, \$1,000 minimum
- Up to three (3) year term available
- Low monthly principal payment requirement
- Variable interest rate

COMMERCIAL MORTGAGE

- Purchase for expansion, site acquisition, renovation or improvements
- Used by retail, professional, manufacturing or warehouse
- Competitive fixed rates available
- Flexible and customized terms provided
- U.S. Government agency assistance may be available

CONSTRUCTION

- Acquisition and improvement
- For projects up to two (2) years
- Permanent mortgage financing options available
- Flexible and customized terms provided

ADDITIONAL SERVICES

- Business ATM/Debit MasterCard
- Internet Banking with download capability
- Bill Payment Services
- Letters of Credit
- Merchant Services
- Deposit Sweep Accounts
- Night Depository
- Remote Deposit

Business and Personal clients banking with Rumson-Fair Haven Bank & Trust benefit from an experienced and knowledgeable staff. With both our deposit and loan products, the Bank has the right product for you.

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Peluso, Castelluci & Weintraub

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ANNUAL SHAREHOLDERS' MEETING

Wednesday, April 30, 2008
6:00pm
Salt Creek Grille
4 Bingham Avenue
Rumson, New Jersey 07760



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