



City National Bancshares Corporation

2007

Annual Report



April 13, 2008

Dear Stockholders:

Although we were unable to continue our increasing earnings trend over the previous eight years, stockholders' equity, assets, deposits and loans all reached record levels. Our earnings for 2007 were \$1,867,000 compared to \$2,468,000 in 2006 due largely to a higher provision for loan losses along with the expected high cost of operating a new branch office in Philadelphia. This resulted in lower earnings per share as well.

Noteworthy was our 15.3% deposit growth, when industry deposit growth has been generally flat. Moreover, most of those deposits were directed into the loan portfolio, which grew 16.8%. Much of the growth in both areas was due to our acquisition in March 2007 of a branch office in Philadelphia, providing us with a new market.

As you are probably aware, the banking industry has been beset by problems due to the subprime loan crisis and investment writedowns. You can be assured that although our nonperforming loans have risen, we have not sustained losses due to either.

While there continues to be fallout from the aforementioned problems, we are cautiously optimistic about 2008. We received a Bank Enterprise Award from the U.S. Treasury primarily for our lending efforts in qualifying low-income communities. We have positioned our interest rate risk profile to benefit from the drop in interest rates. Finally, we paid off \$5 million in high-rate debt, which will generate substantial cost savings.

As I say every year, if you don't already have an account relationship with us, I encourage you to establish one. This benefits us, and by doing so, benefits you, the ultimate owners of City National Bank. It's not uncommon to hear about the latest "community development fund," which collects money and invests it in low-income communities and projects. In essence, our entire bank is such a "fund": all our deposit dollars are invested right back into the local communities from which they come.

On behalf of the Board of Directors and staff of City National Bank, I thank you for your continued support.

Sincerely,

Louis E. Prezeau
President and CEO

Mission Statement

City National Bank of New Jersey, a minority-owned and managed commercial bank, is dedicated to building wealth and improving the quality of life within the communities it serves by:

- Providing 100% customer satisfaction through personalized, flexible, and professional services.
- Maintaining stable earnings and strong asset quality, while enhancing shareholder value.
- Providing a stimulating and challenging work environment that encourages, develops, and rewards excellence.

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Five-Year Summary

Dollars in thousands, except per share data

	2007	2006	2005	2004	2003
Year-end Balance Sheet data					
Total assets	\$449,748	\$395,217	\$363,541	\$325,412	\$236,440
Gross loans	232,824	199,284	179,093	159,359	131,771
Allowance for loan losses	3,000	2,400	2,165	2,076	2,145
Investment securities	157,556	169,598	149,1165	142,470	77,193
Total deposits	394,856	342,416	312,429	280,863	198,371
Long-term debt	19,800	19,606	20,700	22,750	19,318
Stockholders' equity	28,872	27,762	25,142	16,279	14,311
Income Statement data					
Interest income	25,978	21,649	18,173	14,411	12,084
Interest expense	14,233	10,848	7,280	4,767	3,266
Net interest income	11,745	10,801	10,893	9,644	8,818
Provision for loan losses	772	279	115	144	129
Net interest income after provision for loan losses	10,973	10,522	10,778	9,500	8,689
Other operating income	2,694	2,724	2,136	2,573	2,605
Other operating expenses	11,428	10,035	9,717	9,085	8,847
Income before income tax expense	2,239	3,211	3,197	2,988	2,447
Income tax expense	372	743	862	862	726
Net income	\$ 1,867	\$ 2,468	\$ 2,335	\$ 2,126	\$ 1,721

Per common share data

Net income per basic share	\$ 8.28	\$ 13.04	\$ 16.20	\$ 15.52	\$ 12.94
Net income per diluted share	8.09	12.54	15.52	15.52	12.55
Book value	141.04	129.88	118.23	113.79	100.89
Dividends declared	3.50	3.25	3.00	2.75	2.50
Basic average number of common shares outstanding	132,306	133,246	133,654	132,646	127,854
Diluted average number of common shares outstanding	148,623	143,924	139,511	132,646	132,129
Number of common shares outstanding at year-end	131,987	132,926	133,650	133,866	131,469

Financial ratios

Return on average assets	.44%	.65%	.66%	.71%	.75%
Return on average common equity	6.35	10.90	13.83	14.90	13.21
Stockholders' equity as a percentage of total assets	6.42	6.96	6.92	5.00	6.05
Common dividend payout ratio	42.22	25.92	19.33	17.72	19.32

CITY NATIONAL BANCSHARES CORPORATION AND SUBSIDIARY

Consolidated Balance Sheets

Dollars in thousands, except per share data	December 31,	
	2007	2006
Assets		
Cash and due from banks (Note 2)	\$ 22,819	\$ 7,231
Federal funds sold (Note 3)	22,000	5,000
Interest-bearing deposits with banks	278	653
Investment securities available for sale (Note 4)	103,618	116,118
Investment securities held to maturity (Market value of \$54,005) at December 31, 2007 and \$53,332 at December 31, 2006) (Note 5)	53,938	53,480
Loans held for sale	226	609
Loans (Note 6)	232,824	199,284
Less: Allowance for loan losses (Note 7)	3,000	2,400
Net loans	229,824	196,884
Premises and equipment (Note 8)	3,601	3,729
Accrued interest receivable	2,672	2,505
Cash surrender value of life insurance	4,928	4,743
Other assets (Notes 13 and 14)	5,844	4,265
Total assets	\$ 449,748	\$ 395,217
Liabilities and Stockholders' Equity		
Deposits: (Notes 4, 5, and 9)		
Demand	\$ 34,543	\$ 36,807
Savings	200,996	140,787
Time	159,317	164,822
Total deposits	394,856	342,416
Accrued expenses and other liabilities	5,070	5,033
Short-term borrowings (Note 10)	1,150	400
Long-term debt (Note 11)	19,800	19,606
Total liabilities	420,876	367,455
Commitments and contingencies (Note 20)		
Stockholders' equity (Notes 15, 16 and 23):		
Preferred stock, no par value: Authorized 100,000 shares (Note 15);		
Series A , issued and outstanding 8 shares in 2007 and 2006	200	200
Series C , issued and outstanding 108 shares in 2007 and 2006	27	27
Series D , issued and outstanding 3,280 shares in 2007 and 2006	820	820
Preferred stock, no par value, perpetual noncumulative: Authorized 200 shares;		
Series E, issued and outstanding 49 shares in 2007 and 2006	2,450	2,450
Preferred stock, no par value, perpetual noncumulative: Authorized 7,000 shares;		
Series F, issued and outstanding 7,000 shares in 2007 and 2006	6,790	6,790
Common stock, par value \$10: Authorized 400,000 shares;		
134,530 shares issued in 2007 and 2006		
131,987 shares outstanding in 2007 and 132,786 shares outstanding in 2006	1,345	1,345
Surplus	1,115	1,115
Retained earnings	16,922	16,102
Accumulated other comprehensive loss	(623)	(978)
Treasury stock, at cost - 2,543 and 1,744 common shares in 2007 and 2006, respectively	(174)	(109)
Total stockholders' equity	28,872	27,762
Total liabilities and stockholders' equity	\$ 449,748	\$ 395,217

See accompanying notes to consolidated financial statements.

CITY NATIONAL BANCSHARES CORPORATION AND SUBSIDIARY

Consolidated Statements of Income

Dollars in thousands, except per share data	Year Ended December 31,		
	2007	2006	2005
Interest income			
Interest and fees on loans	\$ 16,510	\$ 13,602	\$ 10,980
Interest on Federal funds sold and securities purchased under agreements to resell	1,392	940	759
Interest on deposits with banks	90	67	35
Interest and dividends on investment securities:			
Taxable	6,613	5,851	5,707
Tax-exempt	1,373	1,189	692
Total interest income	25,978	21,649	18,173
Interest expense			
Interest on deposits (Note 9)	12,894	9,417	5,970
Interest on short-term borrowings	23	128	85
Interest on long-term debt	1,316	1,303	1,225
Total interest expense	14,233	10,848	7,280
Net interest income	11,745	10,801	10,893
Provision for loan losses (Note 7)	772	279	115
Net interest income after provision for loan losses	10,973	10,522	10,778
Other operating income			
Service charges on deposit accounts	1,332	1,157	1,152
Other income (Note 12)	1,352	1,586	1,080
Net gains (losses) on securities transactions (Notes 4 and 5)	10	(19)	(96)
Total other operating income	2,694	2,724	2,136
Other operating expenses			
Salaries and other employee benefits (Note 14)	5,992	5,503	5,312
Occupancy expense (Note 8)	1,201	920	846
Equipment expense (Note 8)	562	577	579
Other expenses (Note 12)	3,673	3,035	2,980
Total other operating expenses	11,428	10,035	9,717
Income before income tax expense	2,239	3,211	3,197
Income tax expense (Note 13)	372	743	862
Net income	\$ 1,867	\$ 2,468	\$ 2,335
Net income per common share (Note 17)			
Basic	\$ 8.28	\$ 13.04	\$ 16.20
Diluted	8.09	12.54	15.52
Basic average common shares outstanding	132,306	133,246	133,654
Diluted average common shares outstanding	148,623	143,924	139,511
Cash dividends declared per common share	\$ 3.50	\$ 3.25	\$ 3.00

See accompanying notes to consolidated financial statements.

CITY NATIONAL BANCSHARES CORPORATION AND SUBSIDIARY

Consolidated Statements of Changes
in Stockholders' Equity

Dollars in thousands	Common Stock	Surplus	Preferred Stock	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Treasury Stock	Total
Balance, December 31, 2004	\$ 1,345	\$ 1,113	\$ 1,047	\$ 12,701	\$ 106	\$ (33)	\$ 16,279
Comprehensive income:							
Net income	-	-	-	2,335	-	-	2,335
Unrealized holding losses on securities arising during the period (net of tax of \$671)	-	-	-	-	(1,010)	-	(1,010)
Reclassification adjustment for gains (losses) included in net income (net of tax of \$(27))	-	-	-	-	(69)	-	(69)
Total comprehensive income	-	-	-	-	-	-	1,256
Proceeds from issuance of preferred stock	-	-	8,190	-	-	-	8,190
Proceeds from issuance of common stock	-	2	-	-	-	23	25
Purchase of treasury stock	-	-	-	-	-	(36)	(36)
Dividends paid on common stock	-	-	-	(402)	-	-	(402)
Dividends paid on preferred stock	-	-	-	(170)	-	-	(170)
Balance, December 31, 2005	1,345	1,115	9,237	14,464	(973)	(46)	25,142
Cumulative adjustment to beginning retained earnings under SAB No. 108 (Note 25)	-	-	-	335	-	-	335
Adjusted Balance, January 1, 2006	1,345	1,115	9,237	14,799	(973)	(46)	25,477
Net income	-	-	-	2,468	-	-	2,468
Unrealized holding losses on securities arising during the period (net of tax of \$5)	-	-	-	-	7	-	7
Reclassification adjustment for gains (losses) included in net income (net of tax of \$(7))	-	-	-	-	(12)	-	(12)
Total comprehensive income	-	-	-	-	-	-	2,463
Conversion of long-term debt into preferred stock	-	-	800	-	-	-	800
Proceeds from issuance of preferred stock	-	-	250	-	-	-	250
Purchase of treasury stock	-	-	-	-	-	(63)	(63)
Dividends paid on common stock	-	-	-	(434)	-	-	(434)
Dividends paid on preferred stock	-	-	-	(731)	-	-	(731)
Balance, December 31, 2006	1,345	1,115	10,287	16,102	(978)	(109)	27,762
Cumulative adjustment to beginning retained earnings upon adoption of FIN #48	-	-	-	188	-	-	188
Adjusted Balance, January 1, 2007	1,345	1,115	10,287	16,290	(978)	(109)	27,950
Net income	-	-	-	1,867	-	-	1,867
Unrealized holding gains on securities arising during the period (net of tax of \$(179))	-	-	-	-	347	-	347
Reclassification adjustment for gains (losses) included in net income (net of tax of \$3)	-	-	-	-	8	-	8
Total comprehensive income	-	-	-	-	-	-	2,222
Conversion of long-term debt into preferred stock	-	-	-	-	-	-	-
Proceeds from issuance of preferred stock	-	-	-	-	-	-	-
Purchase of treasury stock	-	-	-	-	-	(65)	(65)
Dividends paid on common stock	-	-	-	(464)	-	-	(464)
Dividends paid on preferred stock	-	-	-	(771)	-	-	(771)
Balance, December 31, 2007	\$ 1,345	\$ 1,115	\$ 10,287	\$ 16,922	\$ (623)	\$ (174)	\$ 28,872

See accompanying notes to consolidated financial statements.

CITY NATIONAL BANCSHARES CORPORATION AND SUBSIDIARY

Consolidated Statements of Cash Flows

In thousands	Year Ended December 31,		
	2007	2006	2005
Operating activities			
Net income	\$ 1,867	\$ 2,468	\$2,335
Adjustments to reconcile net income to net cash from operating activities:			
Depreciation and amortization	430	458	465
Provision for loan losses	772	279	115
(Discount accretion) premium amortization of investment securities	(335)	122	118
Amortization of intangible assets	197	120	120
Net (gains) losses on sales and early redemptions of investment securities	(10)	19	96
Net gains on sales of loans held for sale	(72)	(39)	(18)
Net gain on sale of bank-owned properties	-	(583)	-
Loans originated for sale	(3,312)	(3,279)	(2,088)
Proceeds from sales and principal payments from loans held for sale	3,767	2,833	1,982
Increase in accrued interest receivable	(167)	(588)	(391)
Deferred taxes	236	(629)	(357)
Net increase in bank-owned life insurance	(185)	(159)	(133)
(Increase) decrease in other assets	(2,249)	742	609
Increase (decrease) in accrued expenses and other liabilities	226	638	(294)
Net cash provided by operating activities	1,165	2,402	2,559
Investing activities			
Purchase of loans	(18,734)	-	-
Increase in loans, net	(14,978)	(20,235)	(19,758)
Decrease (increase) in interest bearing deposits with banks	375	607	(399)
Proceeds from maturities of investment securities available for sale, including principal repayments and early redemptions	48,501	47,062	64,944
Proceeds from maturities of investment securities held to maturity, including principal repayments and early redemptions	4,792	918	8,536
Proceeds from sales of investment securities available for sale	3,195	3,725	16,100
Purchases of investment securities available for sale	(38,230)	(57,298)	(87,508)
Purchases of investment securities held to maturity	(5,280)	(15,009)	(10,737)
(Purchases of) proceeds from bank-owned life insurance, net	-	(714)	87
Proceeds from sale of bank-owned properties	-	1,013	-
Purchases of premises and equipment	(302)	(275)	(814)
Net cash used in investing activities	(20,661)	(40,206)	(29,549)
Financing activities			
Purchase of deposits	11,016	-	-
Increase in deposits	41,424	29,987	31,566
Increase (decrease) in short-term borrowings	750	(140)	(390)
Proceeds from issuance of long-term debt	5,000	-	-
Decrease in long-term debt	(4,806)	(294)	(2,050)
Proceeds from issuance of common stock	-	-	25
Proceeds from issuance of preferred stock	-	250	8,190
Purchases of treasury stock	(65)	(63)	(36)
Dividends paid on preferred stock	(771)	(731)	(170)
Dividends paid on common stock	(464)	(434)	(402)
Net cash provided by financing activities	52,084	28,575	36,733
Net increase (decrease) in cash and cash equivalents	32,588	(9,229)	9,743
Cash and cash equivalents at beginning of year	12,231	21,460	11,717
Cash and cash equivalents at end of year	\$ 44,819	\$ 12,231	\$ 21,460
Cash paid during the year:			
Interest	\$14,050	\$10,315	\$7,417
Income taxes	842	996	531
Non-cash investing activities:			
Conversion of long-term debt into preferred stock	-	800	-

See accompanying notes to consolidated financial statements.

Note 1 Summary of significant accounting policies

The accounting and reporting policies of City National Bancshares Corporation (the "Corporation" or "CNBC") and its subsidiaries, City National Bank of New Jersey (the "Bank" or "CNB") and City National Bank of New Jersey Capital Trust II conform with U.S. generally accepted accounting principles and to general practice within the banking industry. In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities as of the date of the balance sheet and revenues and expenses for the related periods. Actual results could differ significantly from those estimates. The following is a summary of the more significant policies and practices.

Business

City National Bancshares Corporation ("the Corporation"), primarily through its subsidiary City National Bank of New Jersey ("CNB"), offers a broad range of lending, leasing, depository and related financial services to individual consumers, businesses and governmental units through ten full-service offices located in New Jersey, Philadelphia, PA, New York City and Long Island, New York. CNB competes with other banking and financial institutions in its primary market communities, including financial institutions with resources substantially greater than its own. Commercial banks, savings banks, savings and loan associations, credit unions, and money market funds actively compete for deposits and loans. Such institutions, as well as consumer finance and insurance companies, may be considered competitors with respect to one or more services they render.

CNB offers equipment leasing services through its one-third ownership interest in an unconsolidated leasing company.

Principles of consolidation

The financial statements include the accounts of CNBC and its wholly-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

Cash and cash equivalents

For purposes of the presentation of the Statement of Cash Flows, Cash and cash equivalents includes Cash and due from banks and Federal funds sold.

Investment securities held to maturity and investment securities available for sale

Investment securities are designated as held to maturity or available for sale at the time of acquisition. Securities that the Corporation has the intent and ability at the time of purchase to hold until maturity are designated as held to maturity. Investment securities held to maturity are stated at cost and adjusted for amortization of premiums and accretion of discount to the earlier of maturity or call date using the level yield method.

Securities to be held for indefinite periods of time but not intended to be held until maturity or on a long-term basis are classified as investment securities available for sale. Securities held for indefinite periods of time include securities that the Corporation intends to use as part of its interest rate sensitivity management strategy and that may be sold in response to changes in interest rates, resultant risk and other factors. Investment securities available for sale are reported at fair market value, with unrealized gains and losses, net of deferred tax, reported as a component of accumulated other comprehensive income, which is included in stockholders' equity. Gains and losses realized from the sales of securities available for sale are determined using the specific identification method. Premiums are amortized and discounts are accreted using the "level yield" method.

The Corporation holds in its investment portfolios mortgage-backed securities. Such securities are subject to changes in the prepayment rates of the underlying mortgages, which may affect both the yield and maturity of the securities.

Loans held for sale

Loans held for sale include residential mortgage loans originated with the intent to sell. Loans held for sale are carried at the lower of aggregate cost or fair value.

Loans

Loans are stated at the principal amounts outstanding, net of unearned discount and deferred loan fees. Interest income is accrued as earned, based upon the principal amounts outstanding. Loan origination fees and certain direct loan origination costs, as well as unearned discount, are deferred and recognized over the life of the loan revised for loan prepayments, as an adjustment to the loan's yield.

Recognition of interest on the accrual method is generally discontinued when a loan contractually becomes 90 days or more past due or a reasonable doubt exists as to the collectibility of the loan, unless such loans are well-secured and in the process of collection. At the time a loan is placed on a nonaccrual status, previously accrued and uncollected interest is generally reversed against interest income in the current period. Interest on such loans, if appropriate, is recognized as income when payments are received. A loan is returned to an accrual status when it is current as to principal and interest and its future collectibility is expected.

The Corporation has defined the population of impaired loans to be all nonaccrual loans of \$100,000 or more considered by management to be inadequately secured and subject to risk of loss. Impaired loans of \$100,000 or more are individually assessed to determine that the loan's carrying value does not exceed the fair value of the underlying collateral or the present value of the loan's expected future cash flows. Smaller balance homogeneous loans that are collectively evaluated for impairment such as residential mortgage and installment loans, are specifically excluded from the impaired loan portfolio.

Allowance for loan losses

A substantial portion of the Bank's loans are secured by real estate in New Jersey, particularly within the Newark area. 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.

The allowance for loan losses is maintained at a level determined adequate to provide for losses inherent in the portfolio. The allowance is increased by provisions charged to operations and recoveries of loans previously charged off and reduced by loan charge-offs. Generally, losses on loans are charged against the allowance for loan losses when it is believed that the collection of all or a portion of the principal balance is unlikely and the collateral is not adequate. The allowance is based on management's evaluation of the loan portfolio considering current economic conditions, the volume and nature of the loan portfolio, historical loan loss experience and individual credit and collateral situations.

Management believes that the allowance for loan losses is adequate. While management uses available information to determine the adequacy of the allowance, future additions may be necessary based on changes in economic conditions or subsequent events unforeseen at the time of evaluation.

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 increase the allowance based on their judgment of information available to them at the time of their examination.

Bank premises and equipment

Premises and equipment are stated at cost less accumulated depreciation based upon estimated useful lives of three to 40 years, computed using the straight-line method. Leasehold improvements, carried at cost, net of accumulated depreciation, are generally amortized over the terms of the leases or the estimated useful lives of the assets, whichever are shorter, using

the straight-line method. Expenditures for maintenance and repairs are charged to operations as incurred, while major replacements and improvements are capitalized. The net asset values of assets retired or disposed of are removed from the asset accounts and any related gains or losses are included in operations.

Other assets

Other assets includes the Bank's one-third ownership interest in a leasing company. The investment in the unconsolidated investee is carried on the equity method of accounting whereby the carrying value of the investment reflects the Corporation's initial cost of the investment and the Corporation's share of the leasing company's annual net income or loss.

Other real estate owned

Other real estate owned ("OREO") acquired through foreclosure or deed in lieu of foreclosure is carried at the lower of cost or fair value less estimated cost to sell, net of a valuation allowance. When a property is acquired, the excess of the loan balance over the estimated fair value is charged to the allowance for loan losses. Operating results, including any future writedowns of OREO, rental income and operating expenses, are included in "Other expenses."

An allowance for OREO is established through charges to "Other expenses" to maintain properties at the lower of cost or fair value less estimated cost to sell.

Core deposit premiums

The premium paid for the acquisition of deposits in connection with the purchases of branch offices is amortized on a straight-line basis over a nine-year period, its estimated useful life, and is reviewed for impairment in accordance with SFAS No. 144, "Accounting for Impairment or Disposal of Long Lived Assets." Amortization totaled \$197,000 in 2007 and \$120,000 in 2006 and 2005, respectively.

Long-term debt

The Corporation has sold \$4 million of trust preferred securities through a wholly-owned statutory business trust. The trust has no independent assets or operations and exists for the sole purpose of issuing trust preferred securities and investing the proceeds thereof in an equivalent amount of junior subordinated debentures issued by the Corporation. The junior subordinate debentures, which are the sole assets of the trusts, are unsecured obligations of the Corporation and are subordinate and junior in right of payment to all present and future senior and subordinated indebtedness and certain other financial obligations of the Corporation.

On December 10, 2003, the FASB issued FASB Interpretation No. 46R ("FIN 46R"), which replaced FIN 46. FIN 46R clarifies the applications of Accounting Research Bulletin No. 51 "Consolidated Financial Statements" to certain entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support. FIN 46R required the Corporation to de-consolidate its investments in the trusts recorded as long-term debt.

Income taxes

Federal income taxes are based on currently reported income and expense after the elimination of income which is exempt from Federal income tax.

Deferred tax assets and liabilities are recognized for future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Such temporary differences include depreciation and the provision for possible loan losses.

Net income per common share

Basic income per common share is calculated by dividing net income less dividends on preferred stock by the weighted average number of common shares outstanding. On a diluted basis, both net income and common shares outstanding are adjusted to assume the conversion of the convertible subordinate debentures, if determined to be dilutive.

Comprehensive income

SFAS No. 130 "Reporting Comprehensive Income," establishes standards for reporting and display of comprehensive income and its components (revenues, expenses, gains, and losses) in a full set of general-purpose financial statements. SFAS 130 requires that all items that are required to be recognized under accounting standards as components of comprehensive income be reported in a financial statement that is displayed with the same prominence as other financial statements. The required disclosures are included in the Statement of Changes in Stockholders' Equity.

Recent accounting pronouncements

In February 2006, the FASB issued SFAS No. 155, "Accounting for Certain Hybrid Instruments – An Amendment of FASB Statements No. 133 and 140." The new standard provides for, amongst other things, bifurcation and separate fair value accounting for financial instruments with embedded derivatives, including prepayment options embedded in mortgage-backed securities held by the Corporation. On October 25, 2006, the FASB agreed to expose for comment a draft SFAS No. 133 Implementation Issue that would provide a scope exception for certain mortgage-backed securities from the application of the bifurcation rules under SFAS No. 155. Final guidance on the SFAS No. 133 Implementation Issue was issued in 2007. SFAS No. 155 is effective for all financial instruments acquired or issued after the beginning of an entity's first fiscal year that begins after September 15, 2006. The Corporation's adoption of SFAS No. 155 did not have a significant impact on its financial condition or results of operations.

In March 2006, the FASB issued No. 156, "Accounting for Servicing of Financial Assets-An Amendment of FASB Statement No. 140." This standard amends the guidance in SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." Among other requirements, SFAS No. 156 clarifies when a servicer should separately recognize servicing assets and servicing liabilities and permits an entity to choose either the "Amortization Method" or "Fair Value Measurement Method" for subsequent measurement of each class of such assets and liabilities. SFAS No. 156 is effective as of the beginning of any entity's fiscal year, provided the entity has not issued financial statements. The Corporation's adoption of SFAS No. 156 did not have a significant impact on its financial condition or results of operations.

On July 13, 2006, FASB Interpretation ("FIN") No. 48, "Accounting for Uncertainty in Income Taxes-An Interpretation of FASB Statement No. 109," was issued. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an entity's financial statements in accordance with SFAS No. 109, "Accounting for Income Taxes." FIN 48 also prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The new interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. The provisions of FIN 48 are effective for fiscal years beginning after December 15, 2006. Earlier application is permitted as long as the entity has not yet issued financial statements, including interim financial statements, in the period of adoption. The adoption of FASB Interpretation No. 48 resulted in a charge to retained earnings of \$188,000 at January 1, 2007.

On September 15, 2006, the FASB issued, SFAS No. 157, "Fair Value Measurements." This new standard provides guidance for

using fair value to measure assets and liabilities, and clarifies the principle that fair value should be based on the assumptions market participants would use when pricing the asset or liability. SFAS No. 157 applies whenever other standards require, or permit assets or liabilities to be measured at fair value but does not expand the use of fair value in any new circumstances. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The Corporation's adoption of this standard did not have a significant impact on its financial condition or results of operations.

The Emerging Issues Task Force ("EITF") approved a Consensus, EITF 06-4, "Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements," in September 2006, which requires that the deferred compensation or postretirement benefit aspects of an endorsement-type split-dollar life insurance arrangement be recognized as a liability by the employer and that the obligation is not effectively settled by the purchase of a life insurance policy. The liability for future benefits would be recognized based on the substantive agreement with the employee, which may be either to provide a future death benefit or to pay for the future cost of the life insurance.

As ratified, EITF 06-4 will be effective for fiscal years beginning after December 15, 2007 with early adoption permitted as of the beginning of an entity's fiscal year. Entities adopting EITF 06-4 would choose between retroactive application to all prior periods or treating the application of the Consensus as a cumulative-effect adjustment to beginning retained earnings or to other components of equity or net assets in the statement of financial position. At the time the FASB provides final guidance on determining the substance of the benefit provided to employees, the Corporation will decide on whether to amend, discontinue or maintain the benefit in its current form.

In December 2007, the FASB issued SFAS No. 141(R) "Business Combinations." This standard replaces FASB SFAS No. 141 and provides principles and requirements for how an acquirer (1) recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in an acquiree; (2) recognizes and measures the goodwill acquired in a business combination or a gain from a bargain purchase; (3) determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. The provisions of SFAS No. 141(R) shall be applied prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. The Corporation does not expect the adoption of SFAS No. 141 (R) to have a significant impact on its financial condition or results of operations.

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements" (an amendment of ARB No. 51). This standard establishes accounting and reporting standards that require (1) the ownership interests in subsidiaries held by parties other than the parent be clearly identified in the consolidated statement of financial position within equity, but separate from the parent's equity; (2) the amount of consolidated net income attributable to the parent and to the noncontrolling interest be clearly identified on the face of the consolidated statement of income; (3) changes in a parent's ownership interest while the parent retains its controlling financial interest in its subsidiary be accounted for consistently; (4) when a subsidiary is deconsolidated, any retained noncontrolling equity investment in the former subsidiary be initially measured at fair value.

This Statement applies to all entities that prepare consolidated financial statements, except not-for-profit organizations, but will

affect only those entities that have an outstanding noncontrolling interest in one or more subsidiaries or that deconsolidate a subsidiary. This Statement is effective for fiscal years beginning on or after December 15, 2008. The Corporation does not expect the adoption of SFAS No. 160 to have a significant impact on its financial condition or results of operations.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities, Including an amendment of FASB Statement No. 155", which permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. At the effective date, an entity may elect the fair value option for eligible items that exist at that date and report the effect of the first remeasurement to fair value as a cumulative-effect adjustment to the opening balance of retained earnings. Subsequent to the effective date, unrealized gains and losses on items for which the fair value option has been elected are to be reported in earnings. If the fair value option is elected for any available for sale or held to maturity securities at the effective date, cumulative unrealized gains and losses at that date are included in the cumulative-effect adjustment and those securities are to be reported as trading securities under SFAS No. 115, but the accounting for a transfer to the trading category under SFAS No. 115 does not apply.

Electing the fair value option for an existing held to maturity security will not call into question the intent of an entity to hold other debt securities to maturity in the future. SFAS No. 159 also establishes presentation and disclosure requirements designed to facilitate comparisons between entities that chose different measurement attributes for similar types of assets and liabilities. SFAS No. 159 does not affect any existing accounting literature that requires certain assets and liabilities to be carried at fair value and does not eliminate disclosure requirements included in other accounting standards. SFAS No. 159 is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. Early adoption was permitted; however, the Corporation did not early adopt SFAS No. 159 and, therefore, adopted the standard as of January 1, 2008. Upon adoption, the Corporation did not elect the fair value option for eligible items that existed as of January 1, 2008.

Reclassifications

Certain reclassifications have been made to the 2006 and 2005 consolidated financial statements in order to conform with the 2007 presentation.

Note 2 Cash and due from banks

The Bank is required to maintain a reserve balance with the Federal Reserve Bank based primarily on deposit levels. These reserve balances averaged \$1,511,000 in 2007 and \$1,608,000 in 2006.

Note 3 Federal funds sold and securities purchased under agreements to resell

Federal funds sold averaged \$28.2 million during 2007 and \$19.6 million in 2006, while the maximum balance outstanding at any month-end during 2007, 2006 and 2005 was \$79.5 million, \$45 million and \$39.1 million, respectively. There were no securities purchased under repurchase agreements in 2007, 2006 or 2005.

Note 4 Investment securities available for sale

The amortized cost and market values at December 31 of investment securities available for sale were as follows:

2007 In thousands	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market Value
U.S. Treasury securities and obligations of U.S. government agencies	\$ 6,860	\$ 198	\$ 226	\$ 6,832
Obligations of U.S. government sponsored entities	10,844	62	11	10,895
Obligations of state and political subdivisions	551	6	-	557
Mortgage-backed securities	74,640	196	563	74,273
Other debt securities	9,618	15	665	8,968
Equity securities:				
Marketable securities	646	-	28	618
Nonmarketable securities	115	-	-	115
Federal Reserve Bank and Federal Home Loan Bank stock	1,360	-	-	1,360
Total	\$104,634	\$ 477	\$ 1,493	\$103,618

2006 In thousands	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market Value
U.S. Treasury securities and obligations of U.S. government agencies	\$ 2,080	\$ -	\$ -	\$ 2,080
Obligations of U.S. government sponsored entities	37,840	11	437	37,414
Obligations of state and political subdivisions	3,395	45	3	3,437
Mortgage-backed securities	64,519	66	1,243	63,342
Other debt securities	7,874	93	108	7,859
Equity securities:				
Marketable securities	618	-	32	586
Nonmarketable securities	115	-	-	115
Federal Reserve Bank and Federal Home Loan Bank stock	1,285	-	-	1,285
Total	\$117,726	\$ 215	\$ 1,823	\$116,118

The amortized cost and the market values of investments in debt

Investment securities available for sale which have had continuous unrealized losses as of December 31, are set forth below.

2007 In thousands	Less than 12 Months		12 Months or More		Total	
	Market Value	Gross Unrealized Losses	Market Value	Gross Unrealized Losses	Market Value	Gross Unrealized Losses
U.S. Treasury securities and obligations of U.S. government agencies	\$ 4,402	\$ 36	\$12,525	\$ 190	\$16,927	\$ 226
Obligations of U.S. government sponsored entities	721	11	-	-	721	11
Mortgaged-backed securities	5,272	14	31,353	549	36,625	563
Other debt securities	6,120	429	1,765	236	7,885	665
Equity securities	-	-	646	28	646	28
Total	\$16,515	\$ 490	\$46,289	\$ 1,003	\$62,804	\$ 1,493

2006 In thousands	Less than 12 Months		12 Months or More		Total	
	Market Value	Gross Unrealized Losses	Market Value	Gross Unrealized Losses	Market Value	Gross Unrealized Losses
Obligations of U.S. government sponsored entities	\$13,875	\$ 74	\$10,658	\$ 363	\$24,533	\$437
Mortgaged-backed securities	7,199	39	38,438	1,204	45,637	1,243
Obligations of state and political subdivisions	1,152	3	-	-	1,152	3
Other debt securities	3,426	18	911	90	4,337	108
Equity securities	-	-	586	32	586	32
Total	\$25,652	\$ 134	\$50,593	\$ 1,689	\$76,245	\$ 1,823

securities available for sale as of December 31, 2007 are distributed by contractual maturity, without regard to normal amortization including mortgage-backed securities, which will have shorter estimated lives as a result of prepayments of the underlying mortgages.

In thousands	Amortized Cost	Market Value
Due within one year:		
U.S. Treasury securities and obligations of U.S. government agencies	\$ 3,253	\$ 3,259
Obligations of U.S. government sponsored entities	4,957	4,962
Due after one year but within five years:		
Obligations of U.S. government sponsored entities	2,998	3,044
Mortgage-backed securities	3,568	3,526
Obligations of state and political subdivisions	551	557
Due after five years but within ten years:		
U.S. Treasury securities and obligations of U.S. government agencies	91	91
Mortgage-backed securities	5,965	5,878
Other debt securities	1,000	800
Due after ten years:		
U.S. Treasury securities and obligations of U.S. government agencies	3,517	3,483
Obligations of U.S. government sponsored entities	2,889	2,889
Mortgage-backed securities	65,106	64,868
Other debt securities	8,618	8,168
Total debt securities	102,513	101,525
Equity securities	2,121	2,093
Total	\$104,634	\$ 103,618

Sales of investment securities available for sale resulted in gross gains of \$24,000, \$- and \$32,000 and gross losses of \$14,000, \$19,000 and \$131,000 in 2007, 2006 and 2005 respectively.

Interest and dividends on investment securities available for sale was as follows:

In thousands	2007	2006	2005
Taxable	\$5,187	\$4,853	\$4,567
Tax-exempt	94	110	67
Total	\$5,281	\$4,963	\$4,634

Investment securities available for sale with a carrying value of \$86,809,000 were pledged to secure U.S. government and municipal deposits at December 31, 2007.

The gross unrealized losses set forth above as of December 31, 2007 were attributable primarily to corporate debt securities including seven corporate debt obligations ("CDO's") which are comprised of pools of corporate debt, with a carrying value of \$7 million and an unrealized loss of \$462,000. The market value of these securities has been negatively impacted by losses incurred in the overall CDO market, although the securities in the portfolio are performing and have not been downgraded by the rating agencies.

These securities are included in other debt securities, which also include an investment in the Student Loan Marketing Association ("SLMA") with a carrying value of \$1 million, which had an unrealized loss of \$200,000 at December 31, 2007. The value of SLMA securities has been negatively affected by the failure of a leveraged buyout of SLMA, lower earnings and a change in federal legislation that is expected to reduce future earnings. SLMA's debt has been downgraded but retains investment grade status.

The total unrealized losses attributable to these eight securities totalled \$662,000 at December 31, 2007, representing 44.3% of the total unrealized loss in the AFS portfolio.

Management does not believe that any individual unrealized loss as of December 31, 2007 or 2006 represents an other-than-temporary impairment. The Corporation has the intent and ability to hold these securities for the time necessary to recover the amortized cost, including holding the securities until maturity.

Note 5 Investment securities held to maturity

The book and market values as of December 31 of investment securities held to maturity were as follows:

2007 In thousands	Book Value	Gross Unrealized Gains	Gross Unrealized Losses	Market Value
Obligations of U.S. government sponsored entities	\$14,594	\$ 45	\$ 117	\$14,522
Mortgage-backed securities	5,175	25	68	5,132
Obligations of state and political subdivisions	31,665	406	203	31,868
Other debt securities	2,504	47	68	2,483
Total	\$53,938	\$ 523	\$ 456	\$54,005

2006 In thousands	Book Value	Gross Unrealized Gains	Gross Unrealized Losses	Market Value
Obligations of U.S. government sponsored entities	\$14,753	\$ 36	\$ 372	\$14,417
Obligations of state and political subdivisions	31,042	337	106	31,273
Mortgage-backed securities	5,177	1	151	5,027
Other debt securities	2,508	114	7	2,615
Total	\$53,480	\$ 488	\$ 636	\$53,332

Investment securities held to maturity which have had continuous unrealized losses are set forth below.

2007 In thousands	Less than 12 Months		12 Months or More		Total	
	Market Value	Gross Unrealized Losses	Market Value	Gross Unrealized Losses	Market Value	Gross Unrealized Losses
Obligations of U.S. government sponsored entities	\$1,784	\$ 4	\$ 6,402	\$113	\$ 8,186	\$117
Mortgaged-backed securities	-	-	1,935	68	1,935	68
Obligations of state and political subdivisions	3,248	158	4,294	45	7,542	203
Other debt securities	1,432	68	-	-	1,432	68
Total	\$6,464	\$230	\$12,631	\$226	\$19,095	\$ 456

During 2007, \$4 million of callable securities were redeemed by the issuers prior to maturity resulting in gross gains of \$1,600, while in 2006 \$15,000 of such securities were redeemed resulting in gross gains of \$- and \$6.7 million were redeemed in 2005 resulting in gross gains of \$3,000.

The book value and the market value of investment securities held to maturity as of December 31, 2007 are distributed by contractual maturity without regard to normal amortization, including mortgage-backed securities, which will have shorter estimated lives as a result of prepayments of the underlying mortgages.

In thousands	Book Value	Market Value
Due after one year but within five years:		
Obligations of state and political subdivisions	\$ 5,134	\$ 5,224
Other debt securities	2,004	2,035
Due after five years but within ten years:		
Obligations of U.S. government sponsored entities	1,500	1,502
Obligations of state and political subdivisions	14,829	15,026
Mortgage-backed securities	303	308
Due after ten years:		
Obligations of U.S. government sponsored entities	13,094	13,019
Obligations of state and political subdivisions	11,702	11,618
Mortgage-backed securities	4,872	4,825
Other debt securities	500	448
Total	\$53,938	\$54,005

Interest and dividends on investment securities held to maturity was as follows:

In thousands	2007	2006	2005
Taxable	\$ 1,426	\$ 998	\$ 1,140
Tax-exempt	1,279	1,079	625
Total	\$ 2,705	\$ 2,077	\$ 1,765

Investment securities held to maturity with a carrying value of \$24,464,000 were pledged to U.S. government and municipal deposit funds at December 31, 2007.

2006 In thousands	Less than 12 Months		12 Months or More		Total	
	Gross Unrealized		Gross Unrealized		Gross Unrealized	
	Market Value	Losses	Market Value	Losses	Market Value	Losses
Obligations of U.S. government sponsored entities	\$ 4,946	\$ 48	\$ 8,674	\$324	\$13,620	\$372
Obligations of state and political subdivisions	6,969	71	4,547	35	11,516	106
Mortgage-backed securities	1,778	22	3,211	129	4,989	151
Other debt securities	-	-	2,615	7	2,615	7
Total	\$13,693	\$141	\$19,047	\$495	\$32,740	\$636

Management does not believe that any individual unrealized loss as of December 31, 2007 or 2006 represents an other-than-temporary impairment. The Corporation has the intent and ability to hold these securities for the time necessary to recover the amortized cost including holding the securities until maturity.

Note 6 Loans

Loans, net of unearned discount and net deferred origination fees and costs at December 31 were as follows:

In thousands	2007	2006
Commercial	\$ 44,504	\$ 32,572
Real estate	187,447	165,828
Installment	1,061	1,176
Total loans	233,012	199,576
Less: Unearned income	188	292
Loans	\$232,824	\$ 199,284

Nonperforming loans include loans which are contractually past due 90 days or more for which interest income is still being accrued and nonaccrual loans.

At December 31, nonperforming loans were as follows:

In thousands	2007	2006
Nonaccrual loans	\$7,527	\$4,734
Loans with interest or principal 90 days or more past due and still accruing	438	1,259
Total nonperforming loans	\$7,965	\$5,993

The effect of nonaccrual loans on income before taxes is presented below.

In thousands	2007	2006	2005
Interest income foregone	\$ (465)	\$ (174)	\$ (56)
Interest income received	429	296	162
	\$ (36)	\$ 122	\$ 106

Nonperforming assets are generally well secured by residential and small commercial real estate properties. It is the Bank's intent to dispose of all other real estate owned ("OREO") properties at the earliest possible date at or near current market value.

At December 31, 2007 there were no commitments to lend additional funds to borrowers for loans that were on nonaccrual or contractually past due in excess of 90 days and still accruing interest, or to borrowers whose loans have been restructured. A majority of the Bank's loan portfolio is concentrated in first mortgage loans to borrowers in northern New Jersey, particularly within the Newark area, which are secured by commercial properties. The borrowers' abilities to repay their obligations are dependent upon various factors including the borrowers' income, net worth, cash flows generated by the underlying collateral, the value of the underlying collateral and priority of the Bank's lien on the related property. Such factors are dependent upon various economic conditions and individual circumstances beyond the Bank's control. Accordingly, the Bank may be subject to risk of credit losses.

Impaired loans totaled \$1 million at December 31, 2007 while there were no impaired loans at December 31, 2006. The related allocation of the allowance for loan losses amounted to \$232,000. The average balance of impaired loans during 2007 and 2006 was \$3,000 and \$-, respectively. There was no interest income recognized on impaired loans during either 2007 or 2006.

Note 7 Allowance for loan losses

Transactions in the allowance for loan losses are summarized as follows:

In thousands	2007	2006	2005
Balance, January 1	\$ 2,400	\$ 2,165	\$ 2,076
Provision for loan losses	772	279	115
Recoveries of loans previously charged off	34	105	58
	3,206	2,549	2,249
Less: Charge-offs	206	149	84
Balance, December 31	\$ 3,000	\$ 2,400	\$ 2,165

Note 8 Premises and equipment

A summary of premises and equipment at December 31 follows:

In thousands	2007	2006
Land	\$ 329	\$ 329
Premises	1,530	1,530
Furniture and equipment	4,092	3,855
Leasehold improvements	3,315	3,272
Total cost	9,266	8,986
Less: Accumulated depreciation and amortization	5,665	5,257
Total premises and equipment	\$3,601	\$3,729

Depreciation and amortization expense charged to operations amounted to \$430,000, \$458,000 and \$465,000 in 2007, 2006, and 2005 respectively.

Note 9 Deposits

Deposits at December 31 are presented below.

In thousands	2007	2006
Noninterest bearing demand	\$ 34,543	\$36,807
Interest bearing:		
Demand	66,276	28,895
Savings	28,149	30,352
Money market	106,571	81,540
Time	159,317	164,822
Total interest bearing deposits	360,313	305,609
Total deposits	\$394,856	\$ 342,416

Time deposits issued in amounts of \$100,000 or more have the following maturities at December 31:

In thousands	2007	2006
Three months or less	\$ 37,759	\$ 34,850
Over three months but within six months	15,685	26,680
Over six months but within twelve months	8,871	21,680
Over twelve months	19,791	14,311
Total deposits	\$ 82,106	\$ 97,521

Interest expense on certificates of deposits of \$100,000 or more was \$1,728,000, \$1,425,000 and \$918,000 in 2007, 2006 and 2006, respectively.

Note 10 Short-term borrowings

Information regarding short-term borrowings at December 31, is presented below.

Dollars in thousands	December 31 Balance	Average Interest Rate on December 31 Balance	Average Balance During the Year	Average Interest Rate During the Year	Maximum Balance at any Month-End
2007					
Federal funds purchased	\$ -	-%	\$ 11	5.53%	\$ -
Securities sold under repurchase agreements	1,150	.50%	63	.54	2,000
Demand note issued to the U.S. Treasury	-	-	463	4.76	5,216
Total	\$1,150	.50%	\$ 537	4.28%	\$7,216

2006

Federal funds purchased	\$ -	-%	\$ 836	5.48%	\$10,480
Securities sold under repurchase agreements	400	4.41%	917	5.33	5,854
Demand note issued to the U.S. Treasury	-	-	707	4.70	5,191
Total	\$ 400	4.41%	\$ 2,460	5.20%	\$21,525

The demand note, which has no stated maturity, issued by the Bank to the U.S. Treasury Department is payable with interest at 25 basis points less than the weekly average of the daily effective Federal Funds rate and is collateralized by various investment securities held at the Federal Reserve Bank of New York with a book value of \$6,393,000. There was no balance outstanding under the note at December 31, 2007 and 2006.

The Corporation had short-term borrowing lines totalling \$8 million at December 31, 2007 and 2006 with various correspondent banks which were unused at December 31, 2007 and 2006.

Note 11 Long-term debt

Long-term debt at December 31 is summarized as follows:

In thousands	2007	2006
FHLB convertible advances due from April 7, 2008 through October 4, 2010	\$10,200	\$11,700
5.00% capital note, due July 1, 2008	100	200
6.00% capital note, due December 28, 2010	300	400
7.00% note, due January 1, 2014	-	106
8.00% capital note, due May 6, 2017	200	200
5.00% senior note, due February 21, 2022	5,000	-
Subordinated debt	4,000	7,000
Total	\$19,800	\$19,606

Interest is payable quarterly on the FHLB advances. The advances bear fixed interest rates ranging from 3.37% to 6.15% and are secured by residential mortgages and certain obligations of U.S. Government agencies under a blanket collateral agreement.

The Corporation had borrowing lines with the Federal Home Loan Bank totaling \$57.7 million at December 31, 2007 and \$63 million at December 31, 2006, of which \$47.5 million and \$49 million was used and outstanding at December 31, 2007 and 2006, respectively. These lines may also be utilized for short-term borrowing purposes.

Interest is payable semiannually on the 5.00% capital note with principal payments continuing annually until July 2008.

Interest is payable quarterly on the 6.00% capital note with principal payments commencing annually in December, 2006 and continuing until December, 2010.

Interest is payable on the 8.00% capital note semiannually through May 6, 2017, at which time the entire principal balance is due. The

note is then renewable at the option of the Corporation for an additional fifteen years at the prevailing rate of interest.

Interest is payable on the 5.00% senior note quarterly for the first ten years. Interest thereafter is payable quarterly at a fixed rate based on the yield of the ten-year U.S. Treasury note plus 150 basis points in effect on the tenth anniversary of the note agreement. Quarterly principal payments of \$250,000 commence in the eleventh year of the loan.

As an additional condition for receiving the loan, the Bank is required to contribute \$100,000 annually for the first five years the loan is outstanding to a nonprofit lending institution formed jointly by CNB and the lender to provide financing to small businesses that would not qualify for bank loans.

In March 2004, City National Bancshares Corporation issued \$4 million of subordinated debentures to an unconsolidated subsidiary trust, based on the current three-month LIBOR rate, plus 2.79%. The rate in effect at December 31, 2007 was 8.37%. The debentures are eligible for inclusion in Tier 1 capital for regulatory purposes.

Scheduled repayments on long-term debt are as follows:

In thousands	Amount
2008	\$ 7,700
2009	1,600
2010	1,300
Thereafter	9,200
Total	\$19,800

Note 12 Other operating income and expenses

The following table presents the major components of other operating income and expenses.

In thousands	2007	2006	2005
Other income			
Income from off-site ATM's	\$ 420	\$ 384	\$ 316
Agency fees on commercial loans	328	323	377
Earnings on cash surrender value of life insurance	225	198	179
Gain on sale of bank-owned properties	-	583	-
Undistributed loss from unconsolidated investee	(9)	(335)	(208)
Miscellaneous other income	388	433	416
Total other income	\$1,352	\$1,586	\$1,080
Other expenses			
Marketing expense	\$ 447	\$ 359	\$ 397
Data processing	396	378	375
Merchant card charges	334	273	228
Professional fees	264	231	351
Management consulting fees	256	170	127
Credit card loss recovery	-	-	(217)
Miscellaneous other expenses	1,976	1,624	1,719
Total other expenses	\$3,673	\$3,035	\$2,980

Note 13 Income taxes

The components of income tax expense are as follows:

In thousands	2007	2006	2005
Current expense			
Federal	\$ 613	\$1,103	\$ 922
State	212	269	297
	825	1,372	1,219
Deferred expense (benefit)			
Federal	(368)	(552)	(265)
State	(85)	(77)	(92)
	(453)	(629)	(357)
Total income tax expense	\$ 372	\$ 743	\$ 862

A reconciliation between income tax expense and the total expected federal income tax computed by multiplying pre-tax accounting income by the statutory federal income tax rate is as follows:

In thousands	2007	2006	2005
Federal income tax at statutory rate	\$756	\$1,092	\$1,087
Increase (decrease) in income tax expense resulting from:			
State income tax expense, net of federal benefit	83	127	135
Tax-exempt income	(485)	(465)	(351)
Life insurance	(63)	(54)	(45)
Other, net	81	43	36
Total income tax expense	\$ 372	\$ 743	\$ 862

The tax effects of temporary differences that give rise to deferred tax assets and liabilities at December 31 are as follows:

In thousands	2007	2006
Deferred tax assets		
Unrealized losses on investment securities available for sale	\$ 393	\$ 629
Allowance for loan losses	964	724
Premises and equipment	153	107
Deposit intangible	145	113
Deferred compensation	1,020	887
Deferred income	225	186
Other assets	98	117
Total deferred tax asset	2,998	2,763
Deferred tax liabilities		
Investment in partnership	245	348
Other	123	3
Total deferred tax liabilities	368	351
Net deferred tax asset	\$2,630	\$2,412

The net deferred asset represents the anticipated federal and state tax assets to be realized in future years upon the utilization of the underlying tax attributes comprising this balance. Management believes, based upon estimates of future taxable earnings, that more likely than not there will be sufficient taxable income in future years to realize the deferred tax assets, net of deferred valuation allowance, although there can be no assurance about the level of future earnings.

The Corporation adopted FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109" on January 1, 2007. This interpretation clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement No. 109, "Accounting for Income Taxes." The interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken, or expected to be taken, in a tax return. As of January 1, 2007 (the date of adoption), the Corporation had unrecognized tax benefits of \$385,000 as a result of tax positions taken during prior periods, all of which would affect the Corporation's effective tax rate if recognized. Accrued estimated penalties and interest on these tax positions were \$42,000 at December 31, 2007. Estimated penalties and interest are included in income tax expense. The Corporation's tax returns are subject to examination by federal tax authorities for the years 2004 through 2006 and by state authorities also for the years 2004 through 2006. The adoption of FASB Interpretation No. 48 resulted in a charge to retained earnings of \$188,000 at January 1, 2007.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

In thousands	
Balance at January 1, 2007	\$ 385
Additions based on tax positions related to the current year	-
Additions for tax positions of prior years	-
Reductions for tax positions of prior years	-
Balance at December 31, 2007	\$ 385

Note 14 Benefit plans

Savings plan

The Bank maintains an employee savings plan under section 401(k) of the Internal Revenue Code covering all employees with at least six months of service. Participants are allowed to make contributions to the plan by salary reduction, up to 15% of total compensation. The Bank provides matching contributions of 50% of the first 6% of participant salaries subject to a vesting schedule. Contribution expense amounted to \$24,000 in 2007, \$94,000 in 2006 and \$72,000 in 2005. Unused discretionary contribution accruals were used to fund part of the 2007 savings plan contributions.

Bonus plan

The Bank awards profit sharing bonuses to its officers and employees based on the achievement of certain performance objectives. Bonuses charged to operating expense in 2007, 2006 and 2005 amounted to \$269,000, \$189,000, and \$333,000, respectively.

Nonqualified benefit plans

The Bank maintains a supplemental executive retirement plan ("SERP"), which provides a post-employment supplemental retirement benefit to certain key executive officers. SERP expense was \$329,000 in 2007, \$317,000 in 2006 and \$231,000 in 2005. The Bank also has a director retirement plan ("DRIP"). DRIP expense was \$44,000 in 2007, \$44,000 in 2006 and \$56,000 in 2005.

Benefits under both plans are funded through bank-owned life insurance policies. In addition, expenses for both plans along with the expense related to carrying the policy itself are offset by increases in the cash surrender value of the policies. Such increases are included in "Other income" and totaled \$225,000 in 2007, \$198,000 in 2006 and \$179,000 in 2005, while the related life insurance expense was \$36,000 in 2007, \$38,000 in 2006 and \$46,000 in 2005.

Stock options

No stock options have been issued since 1997 and there were no stock options outstanding at December 31, 2007, 2006 and 2005.

Note 15 Preferred stock

The Corporation is authorized to issue noncumulative perpetual preferred stock in one or more series, with no par value. Shares of preferred stock have preference over the Corporation's common stock with respect to the payment of dividends and liquidation rights. Different series of preferred stock may have different stated or liquidation values as well as different rates. Dividends are paid annually.

Set forth below is a summary of the Corporation's preferred stock issued and outstanding.

	Year Issued	Dividend Rate	Stated Value	Number of Shares	December 31,	
					2007	2006
Series A	1996	6.00%	\$ 25,000	8	\$ 200,000	\$ 200,000
Series C	1996	8.00	250	108	27,000	27,000
Series D	1997	6.50	250	3,280	820,000	820,000
Series E	2005	6.00	50,000	28	1,400,000	1,400,000
Series F	2005	8.53	7,000,000	7,000	6,790,000	6,790,000
Series E	2006	6.00	50,000	21	1,050,000	1,050,000
					\$10,287,000	\$10,287,000

Series C & D shares are redeemable at any time at par value, while Series A shares are redeemable at par value plus a premium payable in the event of a change of control.

Each Series E share is convertible at any time into 333 shares of common stock of the Corporation, and are redeemable any time by the Corporation after 2008 at liquidation value. The Series F shares are redeemable after 2010 by the Corporation at a declining premium until 2020, at which time the shares are redeemable at par.

Note 16 Restrictions on subsidiary bank dividends

Subject to applicable law, the Board of Directors of the Bank and of the Corporation may provide for the payment of dividends when it is determined that dividend payments are appropriate, taking into account factors including net income, capital requirements, financial condition, alternative investment options, tax implications, prevailing economic conditions, industry practices, and other factors deemed to be relevant at the time.

Because CNB is a national banking association, it is subject to regulatory limitation on the amount of dividends it may pay to its parent corporation, CNBC. Prior approval of the Office of the Comptroller of the Currency ("OCC") is required if the total dividends declared by the Bank in any calendar year exceeds net profit, as defined, for that year combined with the retained net profits from the preceding two calendar years. Under this limitation, \$3,912,000 was available for the payment of dividends to the parent corporation at December 31, 2007.

Note 17 Net income per common share

The following table presents the computation of net income per common share.

In thousands, except per share data	2007	2006	2005
Net income	\$1,867	\$ 2,468	\$ 2,335
Dividends on preferred stock	(771)	(731)	(170)
Net income applicable to basic common shares	1,096	1,737	2,165
Dividends applicable to convertible preferred stock	106	67	52
Net income applicable to diluted common shares	\$1,202	\$1,804	\$2,217
Number of average common shares			
Basic	132,306	133,246	133,654
Diluted:			
Average common shares outstanding	132,306	133,246	133,654
Average potential dilutive common shares	16,317	10,678	5,857
	148,623	143,924	139,511
Net income per common share			
Basic	\$8.28	\$13.04	\$16.20
Diluted	8.09	12.54	15.52

Note 18 Related party transactions

Certain directors, including organizations in which they are officers or have significant ownership, were customers of, and had other transactions with the Bank in the ordinary course of business during 2007 and 2006. Such transactions were on substantially the same terms, including interest rates and collateral with respect to loans, as those prevailing at the time of comparable transactions with others. Further, such transactions did not involve more than the normal risk of collectibility and did not include any unfavorable features.

Total loans to the aforementioned individuals and organizations amounted to \$3,484,000 and \$3,566,000 at December 31, 2007 and 2006, respectively. The highest amount of such indebtedness during 2007 and 2006 was \$3,659,000 and \$3,566,000, respectively. During 2007, new loans totalled \$350,000 and paydowns totalled \$432,000. All related party loans were performing as of December 31, 2007.

Note 19 Fair value of financial instruments

The fair value of financial instruments is the amount at which an asset or obligation could be exchanged in a current transaction between willing parties, other than in a forced liquidation. Fair value estimates are made at a specific point in time based on the type of financial instrument and relevant market information.

Because no quoted market price exists for a significant portion of the Corporation's financial instruments, the fair values of such financial instruments are derived based on the amount and timing of future cash flows, estimated discount rates, as well as management's best judgment with respect to current economic

conditions. Many of these estimates involve uncertainties and matters of significant judgment and cannot be determined with precision.

The fair value information provided is indicative of the estimated fair values of those financial instruments and should not be interpreted as an estimate of the fair market value of the Corporation taken as a whole. The disclosures do not address the value of recognized and unrecognized nonfinancial assets and liabilities or the value of future anticipated business. In addition, tax implications related to the realization of the unrealized gains and losses could have a substantial impact on these fair value estimates and have not been incorporated into any of the estimates.

The following methods and assumptions were used to estimate the fair values of significant financial instruments at December 31, 2007 and 2006.

Cash, short-term investments and interest-bearing deposits with banks

These financial instruments have relatively short maturities or no defined maturities but are payable on demand, with little or no credit risk. For these instruments, the carrying amounts represent a reasonable estimate of fair value.

Investment securities

Investment securities are reported at their fair values based on prices obtained from a nationally recognized pricing service.

Loans

Fair values were estimated for performing loans by discounting the future cash flows using market discount rates that reflect the credit and interest-rate risk inherent in the loans. Fair value for significant nonperforming loans was based on recent external appraisals of collateral securing such loans. If such appraisals were not available, estimated cash flows were discounted employing a rate incorporating the risk associated with such cash flows.

Loans held for sale

The fair value for loans held for sale is based on estimated secondary market prices.

Deposit liabilities

The fair values of demand deposits, savings deposits and money market accounts were the amounts payable on demand at December 31, 2007 and 2006. The fair value of time deposits was based on the discounted value of contractual cash flows. The discount rate was estimated utilizing the rates currently offered for deposits of similar remaining maturities.

Short-term borrowings

For such short-term borrowings, the carrying amount was considered to be a reasonable estimate of fair value.

Long-term debt

The fair value of long-term debt was estimated based on rates currently available to the Corporation for debt with similar terms and remaining maturities.

Commitments to extend credit and letters of credit

The estimated fair value of financial instruments with off-balance sheet risk is not significant at December 31, 2007 and 2006.

The following table presents the carrying amounts and fair values of financial instruments at December 31.

In thousands	2007		2006	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets				
Cash and other short-term				
Investments	\$44,819	\$44,819	\$12,231	\$12,231
Interest-bearing deposits				
with banks	278	278	653	653
Investment securities AFS	103,618	103,618	116,118	116,118
Investment securities HTM	53,938	54,005	53,480	53,332
Loans	232,824	233,918	199,284	192,646
Loans held for sale	226	226	609	609
Financial liabilities				
Deposits	394,856	376,054	342,416	322,822
Short-term borrowings	1,150	1,150	400	400
Long-term debt	19,800	19,440	19,606	19,458

Note 20 Commitments and contingencies

In the normal course of business, the Corporation or its subsidiary may, from time to time, be party to various legal proceedings relating to the conduct of its business. In the opinion of management, the consolidated financial statements will not be materially affected by the outcome of any pending legal proceedings.

At December 31, 2007 the Bank was obligated under a number of noncancelable leases for premises and equipment, many of which provide for increased rentals based upon increases in real estate taxes and cost of living. These leases, most of which have renewal provisions, are considered operating leases. Minimum rentals under the terms of these leases for the years 2008 through 2012 are \$553,000, \$540,000, \$264,000, \$250,000, and \$226,000 respectively. Payments due thereafter total \$553,000.

Rental expense under the leases amount to \$486,000, \$255,000 and \$202,000 during 2007, 2006 and 2005 respectively.

Note 21 Financial instruments with off-balance sheet risk

The Bank is party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include lines of credit, commitments to extend, standby letters of credit, and could involve, to varying degrees, elements of credit risk in the amounts recognized in the consolidated financial statements.

The Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual amounts of those instruments. The Bank uses the same credit policies in making commitments and conditional obligations as it does for on balance sheet instruments with credit risk.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require the payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates each customer's creditworthiness on a case-by-case basis, and the amount of collateral or other security obtained is based on management's credit evaluation of the customer.

Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. These guarantees are primarily issued to support borrowing arrangements and extend for up to one year. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. Accordingly, collateral is generally required to support the commitment.

At December 31, 2007 and 2006 the Bank had mortgage commitments of \$39,451,000 and \$41,193,000, unused commercial lines of credit of \$39,703,000 and \$46,003,000, and \$2,004,000 and \$832,000 of other loan commitments, respectively. There were \$139,000 of financial standby letters of credit outstanding at December 31, 2007 and \$122,000 outstanding at December 31, 2006.

The aforementioned commitments and credit lines are made at both fixed and floating rates of interest based on the Bank's prime lending rate.

Note 22 Parent company information

Condensed financial statements of the parent company only are presented below.

Condensed Balance Sheet

In thousands	December 31,	
	2007	2006
Assets		
Cash and cash equivalents	\$ 4	\$ 250
Investment in subsidiary	29,173	25,782
Due from subsidiary	9,150	9,890
Other assets	350	122
Total assets	\$38,677	\$36,044
Liabilities and stockholders' equity		
Other liabilities	\$ 81	\$ 159
Notes payable	5,600	906
Subordinated debt	4,124	7,217
Total liabilities	9,805	8,282
Stockholders' equity	28,872	27,762
Total liabilities and stockholders' equity	\$38,677	\$36,044

Condensed Statement of Income

In thousands	Year Ended December 31,		
	2007	2006	2005
Income			
Interest income	\$ 13	\$ 7	\$ 3
Dividends from subsidiaries	750	900	850
Interest from subsidiaries	835	1,110	551
Total income	1,598	2,017	1,404
Expenses			
Interest expense	756	730	626
Other operating income	-	4	-
Other operating expenses	3	2	3
Net losses on securities transactions	-	-	(32)
Income tax expense (benefit)	36	155	(15)
Total expenses	795	883	582
Income before equity in undistributed income of subsidiaries	803	1,134	822
Equity in undistributed income of subsidiaries	1,064	1,334	1,513
Net income	\$ 1,867	\$2,468	\$ 2,335

Condensed Statement of Cash Flows

In thousands	Year Ended December 31,		
	2007	2006	2005
Operating activities			
Net income	\$1,867	\$2,468	\$2,335
Adjustments to reconcile net income to cash used in operating activities:			
Net gains on sales of investment securities	-	-	(32)
Equity in undistributed income of subsidiaries	(1,064)	(1,335)	(1,513)
(Increase) decrease in other assets	(228)	49	(113)
(Decrease) increase in other liabilities	(78)	(21)	91
Net cash provided by operating activities	497	1,161	768
Investing activities			
Proceeds from sales and maturities of investment securities available for sale including principal payments	-	-	652
Purchases of investment securities available for sale	-	-	(293)
(Increase) decrease in investment in subsidiaries	(1,784)	(2,999)	15
Decrease (increase) in loans to subsidiaries	740	3,300	(8,227)
Net cash (used in) provided by investing activities	(1,044)	301	(7,853)
Financing activities			
Decrease in subordinated debt	(3,093)	-	-
Increase in notes payable	4,694	(1,094)	(550)
Proceeds from issuance of preferred stock	-	1,050	8,190
Proceeds from issuance of common stock	-	-	25
Purchases of treasury stock	(65)	(63)	(36)
Dividends paid	(1,235)	(1,165)	(572)
Net cash provided by (used in) financing activities	301	(1,272)	7,057
(Decrease) increase in cash and cash equivalents	(246)	190	(28)
Cash and cash equivalents at beginning of year	250	60	88
Cash and cash equivalents at end of year	\$ 4	\$ 250	\$ 60

Note 23 Regulatory capital requirements

FDIC regulations require banks to maintain minimum levels of regulatory capital. Under the regulations in effect at December 31, 2007, the Bank was required to maintain (i) a minimum leverage ratio of Tier 1 capital to total average assets of 4.0%, and (ii) minimum ratios of Tier I and total capital to risk-adjusted assets of 4.0% and 8.0%, respectively.

Under its prompt corrective action regulations, the FDIC is required to take certain supervisory actions (and may take additional discretionary actions) with respect to an undercapitalized bank. Such actions could have a direct material effect on such bank's financial statements. The regulations establish a framework for the classification of banks into five categories: well-capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized. Generally, a bank is considered well-capitalized if it has a leverage capital ratio of at least 5.0%, a Tier 1 risk-based capital ratio of at least 6.0% and a total risk-based capital ratio of at least 10.0%.

The foregoing capital ratios are based in part on specific quantitative measures of assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by the FDIC about capital components, risk adjustments and other factors.

Management believes that, as of December 31, 2007 both City National Bancshares and City National Bank meet all capital adequacy requirements to which it is subject. Further, the most recent FDIC notification categorized City National Bank as a well-capitalized institution under the prompt corrective action

regulations. There have been no conditions or events since that notification that management believes have changed City National Bank's capital classification.

The following is a summary of City National 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 Bank:

	FDIC Requirements					
	In thousands		Minimum Capital For Classification		as Well-Capitalized	
	Bank Actual	Adequacy	Amount	Ratio	Amount	Ratio
December 31, 2007						
Leverage (Tier 1) capital	\$28,507	6.41%	\$11,233	4.00%	\$14,041	5.00%
Risk-based capital:						
Tier 1	28,507	10.15	11,233	4.00	16,849	6.00
Total	36,672	13.06	22,466	8.00	28,082	10.00
December 31, 2006						
Leverage (Tier 1) capital	\$25,460	6.38%	\$9,753	4.00%	\$12,191	5.00%
Risk-based capital:						
Tier 1	25,460	10.49	9,753	4.00	14,692	6.00
Total	27,925	11.51	19,505	8.00	24,381	10.00

The Corporation was required to deconsolidate its investment in the subsidiary trust formed in connection with the issuance of trust preferred securities in 2004. In July 2003, the Board of Governors of the Federal Reserve System instructed bank holding companies to continue to include the trust preferred securities in their Tier 1 capital for regulatory capital purposes until notice is given to the contrary. There can be no assurance that the Federal Reserve will continue to allow institutions to include trust preferred securities in Tier 1 capital for regulatory capital purposes. As of December 31, 2007, assuming the Corporation was not allowed to include the trust preferred securities issued by the subsidiary trusts in Tier 1 capital, the Corporation would remain "well capitalized."

The deconsolidation of the subsidiary trust results in the Corporation reporting on its balance sheet the subordinated debentures that have been issued from City National Bancshares to the subsidiary trust.

Note 24 Summary of quarterly financial information

(unaudited)	2007			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Dollars in thousands, except per share data				
Interest income	\$6,051	\$6,340	\$6,646	\$6,883
Interest expense	3,332	3,569	3,730	3,602
Net interest income	2,719	2,771	2,916	3,281
Provision for loan losses	225	71	10	466
Net gains on sales of investment securities	-	-	10	-
Other operating income	605	671	672	794
Other operating expenses	2,616	2,810	2,949	3,053
Income before income tax expense	483	561	639	556
Income tax expense	111	77	95	89
Net income	\$ 372	\$ 484	\$ 544	\$ 467
Net income per share- basic	\$.37	\$ 2.53	\$ 2.99	\$ 2.41
Net income per share- diluted	\$.37	\$ 2.25	\$ 2.66	\$ 2.14

Basic net income per common share is calculated by dividing net income less dividends on preferred stock by the weighted average number of common shares outstanding. On a diluted basis, both net income and common shares outstanding are adjusted to assume the conversion of the preferred stock if conversion is deemed dilutive.

(unaudited)	2006			
Dollars in thousands, except per share data	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Interest income	\$5,202	\$5,248	\$5,482	\$5,717
Interest expense	2,446	2,553	2,696	3,153
Net interest income	2,756	2,695	2,786	2,564
Provision for loan losses	-	49	65	165
Net gains (losses) on sales of investment securities	(16)	-	(3)	-
Other operating income	543	621	570	1,009
Other operating expenses	2,509	2,475	2,518	2,533
Income before income tax expense	774	792	770	875
Income tax expense	186	180	173	204
Net income	\$ 588	\$ 612	\$ 597	\$ 671
Net income per share- basic	\$ 2.28	\$ 3.47	\$ 3.36	\$ 3.78
Net income per share- diluted	\$ 2.28	\$ 3.20	\$ 3.11	\$ 3.30

Note 25. Cumulative adjustment to retained earnings under SEC Staff Accounting Bulletin No. 108

In September 2006, the SEC issued SAB No. 108, which was issued in order to eliminate the diversity of practice surrounding how public companies quantify financial statement misstatements.

As a result of the adoption of SAB No. 108, the Corporation recognized a reduction in other liabilities and an increase in retained earnings of \$335,000 as an adjustment of the beginning of the year opening balances for these accounts. The adjustment represented an overaccrual of income tax expense which occurred over several years prior to 2005. Management has concluded that these adjustments are immaterial to prior years' consolidated financial statements and therefore has elected, as permitted under the transition provisions of SAB No. 108, to reflect the effect of this adjustment as a cumulative effect adjustment to opening retained earnings as of January 1, 2006.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
City National Bancshares Corporation:

We have audited the accompanying consolidated balance sheets of City National Bancshares Corporation and subsidiary (the Company) as of December 31, 2007 and 2006, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2007. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of City National Bancshares Corporation and subsidiary as of December 31, 2007 and 2006, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2007, in conformity with U.S. generally accepted accounting principles.

/s/ KPMG LLP
Short Hills, New Jersey
March 28, 2008

Management's Discussion and Analysis of Financial Condition and Results of Operations

The purpose of this analysis is to provide information relevant to understanding and assessing the results of operations for each of the past three years and financial condition for each of the past two years for City National Bancshares and its subsidiaries (the "Corporation" or the "Bank").

Cautionary statement concerning forward-looking statements

This management's discussion and analysis contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements are not historical facts and include expressions about management's expectations about new and existing programs and products, relationships, opportunities, and market conditions. Such forward-looking statements involve certain risks and uncertainties. These include, but are not limited to, unanticipated changes in the direction of interest rates, effective income tax rates, loan prepayment assumptions, deposit growth, the direction of the economy in New Jersey and New York, continued levels of loan quality, continued relationships with major customers as well as the effects of general economic conditions and legal and regulatory issues and changes in tax regulations. Actual results may differ materially from such forward-looking statements. The Corporation assumes no obligation for updating any such forward-looking statement at any time.

Executive summary

2007 was a very challenging year for the Corporation and most of the banking industry, which was negatively affected by significant losses incurred on subprime loan holdings. While the Corporation has no direct exposure to these types of loans, interest spreads continued to be restricted by the flat yield curve that existed most of the year. In addition, higher costs resulting from a branch acquisition reduced earnings.

2007 also included some positives. As a result of losses in the subprime market, the Federal Reserve Bank dropped the Federal funds target rate 100 basis points, from 5.25% to 3.50% during the fourth quarter of 2007, resulting in a steepening of the yield curve. This allowed the Corporation to improve its net interest margin, which was 2.97% for the first nine months of 2007 to 3.04% for the entire year.

In March 2007, CNB acquired a branch office in Philadelphia, PA, including \$11 million in deposits and \$18.7 million in loans, providing the Bank entry into a new market.

Finally, the Corporation received a \$500,000 award from the U.S. Treasury's Community Development Financial Institution ("CDFI") Fund. The award was based on the Bank's lending efforts in qualifying lower income communities and is being recorded as yield enhancement on the related loans.

The primary source of the Corporation's income comes from net interest income, which represents the excess of interest earned on earning assets over the interest paid on interest-bearing liabilities. This income is subject to interest rate risk resulting from changes in interest rates. The most significant component of the Corporation's interest earning assets is the loan portfolio. In addition to the aforementioned interest rate risk, the portfolio is subject to credit risk.

Cash and due from banks

Cash and due from banks rose to \$22.8 million at the end of 2007 from \$7.2 million a year earlier due to a large municipal deposit recorded on the last day of 2007. Average cash and due from banks in 2007 totalled \$7.6 million, compared to \$7 million a year earlier.

Federal funds sold

Federal funds sold rose to \$22 million at the end of 2007 from \$5 million at December 31, 2006, while the related average balance increased to \$28.2 million from \$19 million in 2006. Both

increases occurred due to higher municipal account balances not yet reinvested into investment securities.

Interest-bearing deposits with banks

Interest-bearing deposits with banks decreased to \$278,000 at December 31, 2007 from \$653,000 a year earlier, while the related average balances were \$1.4 million in 2007 and \$950,000 in 2006. The deposits represent the Bank's participation in the U.S. Treasury Department's Community Development Financial Institution ("CDFI") deposit program. Under this program, the Bank is eligible for awards based on deposits made in other CDFI's. \$39,000 and \$42,000 were recorded as interest income from interest-bearing deposits with banks in 2007 and 2006, respectively, representing a yield enhancement on the CDFI deposits. The decline in the year-end balance resulted from maturities of the deposits made under the program.

Investments

The fair market value of the portfolio benefited by the drop in interest rates during the fourth quarter of 2007. Unrealized portfolio losses declined significantly, although certain segments sustained increased losses due to uncertainties in the markets for those securities.

The weighted average life of the overall portfolio at December 31, 2007 was 6.29 years, increasing from 5.63 years at the end of 2006. Average duration in the portfolio also rose to 4.53 years from 4.27 years. Management strategically lengthened the life of the portfolio during 2007 in expectation of the reduction in interest rates while limiting the purchase of callable agency securities to reduce the interest rate risk exposure to embedded options inherent in callable securities.

The investment securities available for sale ("AFS") portfolio declined to \$103.6 million at December 31, 2007 from \$116.1 million a year earlier, while the related net unrealized net loss decreased to \$623,000 from \$978,000 from a year earlier.

The most significant change in the portfolio occurred in the non-mortgage-backed securities ("MBS") government sponsored entities ("GSE's") portfolio, which declined \$26 million and ("MBS"), which rose \$10.1 million. Both types of securities are used for municipal deposit collateral purposes and are subject to large fluctuations based on collateral requirements.

The investment securities held to maturity ("HTM") portfolio totaled \$53.9 million at December 31, 2007, relatively unchanged from a year earlier.

The average yield on the AFS portfolio rose to 5.31% at December 31, 2007 from 5.10% at December 31, 2006, while the yield on the HTM portfolio rose eleven basis points to 6.01% at December 31, 2007 from 5.90% at December 31, 2006. The higher yields in both portfolios were due to the higher yields earned on newly acquired investments placed in the portfolio during 2007. The average life of the AFS portfolio was 6.04 years at the end of 2007 compared to 4.37 years a year earlier. The average life of the HTM portfolio declined to 6.74 years at the end of 2007 from 8.36 years at the end of 2006.

Loans

Loans rose 16.8% to \$232.8 million at December 31, 2007 from \$199.3 million a year earlier with the increase occurring primarily in the commercial real estate portfolio. Included in this increase was the purchase of \$11.8 million of loans in conjunction with a branch acquisition.

Loans held for sale totalled \$226,000 at December 31, 2007 compared to \$609,000 at December 31, 2006, while loans originated for sale totalled \$3.3 million in both 2007 and 2006. Sales of these loans, along with the related gains both increased. These loans represent long-term fixed rate residential mortgages

which the Corporation does not retain in the portfolio to mitigate its interest rate risk to rising interest rates.

Residential mortgage loans, including home equity loans, represent an insignificant part of the Bank's lending business. Such loans that have long-term fixed rates are generally sold into the secondary market, although some loans may be retained in the portfolio to balance the Bank's loan mix and provide collateral for Federal Home Loan Bank borrowings. Consumer loans, including automobile loans, also comprise a relatively small part of the loan portfolio. Most of the Bank's lending efforts are in northern New Jersey, New York City and Nassau County.

At December 31, 2007, loans to churches totalled \$62.4 million, representing 26.8% of total loans outstanding, all of which are secured by real estate, compared to \$58.6 million and 29.4% at December 31, 2006. \$4.3 million of such loans are on nonaccrual status, of which one is in excess of \$600,000.

The Bank generally secures its loans by obtaining primarily first liens on real estate, both residential and commercial, and does virtually no asset-based financing. Without additional side collateral, the Bank generally requires maximum loan-to-value ratios of 70% for loan transactions secured by commercial real estate. The Bank expects to maintain the aforementioned types of lending.

The allowance for loan losses is a critical accounting policy and is maintained at a level determined by management to be adequate to provide for inherent losses in the loan portfolio. The allowance is increased by provisions charged to operations and recoveries of loan charge-offs. The allowance is based on management's evaluation of the loan portfolio and several other factors, including past loan loss experience, general business and economic conditions, concentration of credit and the possibility that there may be inherent losses in the portfolio which cannot currently be identified. Although management uses the best information available, the level of the allowance for loan losses remains an estimate which is subject to significant judgment and short-term change.

A standardized method is used to assess the adequacy of the allowance and to identify the risks inherent in the loan portfolio. This process includes the ongoing assessment of individual borrowers' financial condition and payment records and gives consideration to areas of exposure such as conditions within the borrowers' industry, the value of underlying collateral, and the composition of the performing and non-performing loan portfolios.

Specific allocations are identified by loan category and allocated according to prior charge-off history as well as future performance projections. All loans are graded and incorporated in the process of assessing the adequacy of the reserve. The allowance is maintained at a level considered sufficient to absorb probable losses inherent in the loan portfolio, and allowances not allocated to specific loan categories are considered unallocated and evaluated based on management's assessment of the portfolio's risk profile as well as current business and economic conditions in the Bank's market area.

The allowance represented 1.29% of total loans at December 31, 2007 and 1.20% at December 31, 2006, while the allowance represented 37.67% of total nonperforming loans compared to 40.95% for those years. The decline resulted from the rise in nonperforming loans during 2007. The allowance at the end of 2007 rose to \$3 million from \$2.4 million a year earlier due to an increase in the provision for loan losses resulting primarily from an increase in nonaccrual loans, along with the growth during 2007 in the loan portfolio.

Allowance allocations are subject to change based on the levels of classified loans in each segment of the portfolio. The minimum levels of reserves by internal loan classification are .25% for pass loans, 1% for special mention loans, 5% for substandard loans,

50% for doubtful loans, and 100% for loss loans. These minimum reserve levels have been consistently applied for all reported periods. The unallocated allocation is based upon management's evaluation of the underlying inherent risk in the loan portfolio that has not been measured on an individual basis. Such evaluation includes economic and business conditions within the Bank's market area, portfolio concentrations, credit quality and delinquency trends. An additional factor is the demographics in the Bank's market area. Because CNB serves primarily low to moderate income communities, in general, the inherent credit risk profile of the loans it makes has a greater degree of risk than if a more economically diverse demographic area were served.

Nonperforming assets

Nonperforming assets rose 34.2% to \$7,964,000 at the end of 2007 due primarily to higher levels of commercial real estate loans. Nonaccrual commercial loans includes \$781,000 of loans guaranteed in part by the Small Business Administration, generally to the extent of 75% of the loan balance. An additional \$1,032,000 represents loans to one borrower that are in the process of collection.

Nonaccrual mortgage loans includes \$4.3 million of loans to religious organizations, which management believes have been impacted by reductions in tithes and collections from congregation members due to the deterioration in the economy. In the opinion of management, all of those loans appear to be well-secured by real estate collateral.

Deposits

The Bank's deposit levels may change significantly on a daily basis because deposit accounts maintained by municipalities represent a significant part of the Bank's deposits and are more volatile than commercial or retail deposits.

These municipal and U.S. Government accounts represent a substantial part of the Bank's business, tend to have high balance relationships and comprised most of the Bank's accounts with balances of \$100,000 or more at December 31, 2007 and 2006.

While the collateral maintenance requirements associated with the Bank's municipal and U.S. Government account relationships might limit the ability to readily dispose of investment securities used as such collateral, management does not foresee any need for such disposal, and in the event of the withdrawal of any of these deposits, these securities are readily marketable. The Bank expects to continue seeking municipal account relationships.

Total deposits rose to \$394.9 million at December 31, 2007 from \$342.4 million a year earlier, while average deposits increased 6.8% to \$372.6 million in 2007 from \$323.4 million in 2006. The increases in deposits occurred due to higher municipal account balances along with the branch acquisition.

Passbook and statement savings deposits totalled \$28.1 million at December 31, 2007 compared to \$30.4 million a year earlier, while such savings accounts averaged \$29.9 million in 2007 compared to \$32.1 million in 2006. The declines, which have been consistent in recent years, resulted from a shift into higher earning deposit products.

Money market deposit accounts rose 30.8% to \$106.6 million at December 31, 2007 from \$81.5 million a year earlier, while average money market deposits increased 22.1% to \$108.5 million in 2007 from \$88.9 million in 2006. The increases occurred primarily due to higher levels of municipal deposit account balances.

Interest-bearing demand deposit account balances rose 129.4% at the end of 2007 compared to year-end 2006, while the related average balance was 10% higher in 2007 than in 2006. Higher municipal account balances was the primary factor in these increases as well.

Time deposits declined to \$159.3 million at December 31, 2007 from \$164.5 million at the end of 2006, while average time deposits were \$159.1 million in 2007, 22.1% greater than in 2006. Both changes arose from municipal account balance fluctuations.

Short-term borrowings

Short-term borrowings totalled \$1.2 million at December 31, 2007 compared to \$400,000 at December 31, 2006, while average short-term borrowings of \$537,000 in 2007, were significantly lower than in 2006 due to the lack of short-term borrowing requirements during the summer months of 2007 when certain municipal account balances are normally drawn down.

Most of these balances are comprised of U.S. Treasury, tax and loan note option account balances, which are subject to daily redemption and can fluctuate significantly.

Long-term debt

During 2007, the Corporation repaid \$1.5 million in Federal Home Loan Bank advances. Additionally, the Corporation issued \$5 million in long-term debt. Long-term debt rose to \$19.8 million at December 31, 2007 from \$19.6 million a year earlier, while the related average balance was \$21.6 million in 2007 compared to \$20.6 million in 2006.

Results of operations – 2007 compared with 2006

Net income declined to \$1,867,000 in 2007 from \$2,468,000 in 2006 due primarily to a \$583,000 gain from the sale of a Bank-owned property on which a branch office was located recorded in 2006 that did not recur in 2007 and sharply higher occupancy expenses resulting from the branch acquisition.

Included in both years' earnings were awards received from the U.S. Treasury's Community Development Financial Institution ("CDFI") Fund. The awards were based in part on the Bank's lending efforts in qualifying lower income communities. Award income attributable to its lending efforts totalled \$336,000 in 2007, \$64,000 in 2006 and \$54,000 in 2005.

The Bank also recorded award income related to time deposits made in other CDFI's of \$39,000 in 2007, \$42,000 in 2006 and \$20,000 in 2005, respectively. Additionally, additional award income of \$- was also recorded in 2007 compared to \$22,000 in 2006 and \$63,000 in 2005, representing awards received for opening a branch office in a low-income area.

Finally, the Bank recorded award income of \$19,000 in 2007 as an offset for approved technology costs. No such income was recorded in 2006 or 2005.

In total, \$394,000 of award income was recorded in 2007, while \$128,000 was recorded in 2006 and \$137,000 was recorded in 2005.

These awards are dependent on the availability of funds in the CDFI Fund as well as the Bank meeting various qualifying standards. Accordingly, there is no assurance that the Bank will continue to receive these awards in the future.

On a fully taxable equivalent ("FTE") basis, net interest income rose 9.1% to \$12.5 million in 2007, while the related net interest margin declined 14 basis points, from 3.18% to 3.04%. Continued compression from the flat yield curve that existed for most of 2007 was the cause of the lower margin while growth of 13.6% in earning assets contributed to the higher net interest income.

A significantly higher cost of funds was the reason for the decline in net interest margin. The yield on interest earning assets rose 33 basis points, from 6.19% to 6.52%, while the cost to fund those assets increased 47 basis points, from 3.01% to 3.48%. Average interest earning assets increased 50.7%, with the loan portfolio providing the greatest increase.

Service charges on deposit accounts rose 15.1% from 2006 due to the implementation of an overdraft protection program.

Other income declined 14.8% in 2007 due primarily to a \$583,000 gain recorded in 2006 on the sale of a bank-owned property that did not recur in 2007 and a reduction in the loss from the Bank's incurred by an unconsolidated leasing subsidiary from \$335,000 to \$9,000 in 2007, in which the Bank owns a minority interest.

Other operating expenses, which include expenses other than interest, income taxes and the provision for loan losses, totalled \$11.4 million in 2007, a 15% increase compared to \$10 million in 2006. The acquisition of the branch was the primary cause for the higher expense levels.

Salaries and other employee benefits expense rose 8.9% due to the branch acquisition, along with normal recurring merit increases, higher health insurance costs and an increase in supplemental executive retirement plan expense. The increases were partially offset by the reversal of accrued discretionary 401K plan expense that was never used.

Occupancy expense rose 30.5% due primarily to the branch acquisition.

Equipment expense declined due to lower equipment maintenance costs as the Bank migrated to a check imaging cash letter platform, negating the need for certain equipment.

Other expenses rose 21% in 2007 due primarily to higher consulting fees due to the review of Sarbanes-Oxley financial reporting control procedures, along with increased merchant card charges, which represent credit card fees incurred by customers but absorbed by the Bank and offset by compensating deposit account balances. Marketing expense and amortization of premiums paid for branch acquisitions were also higher.

Income tax expense as a percentage of pre-tax income was 16.6% in 2007 compared to 23.1% in 2006, due to higher levels of tax-exempt income.

Liquidity

The liquidity position of the Corporation is dependent on the successful management of its assets and liabilities so as to meet the needs of both deposit and credit customers. Liquidity needs arise primarily to accommodate possible deposit outflows and to meet borrowers' requests for loans. Such needs can be satisfied by investment and loan maturities and payments, along with the ability to raise short-term funds from external sources.

The Bank depends primarily on deposits as a source of funds and also provides for a portion of its funding needs through short-term borrowings, such as the Federal Home Loan Bank, Federal Funds purchased, securities sold under repurchase agreements and borrowings under the U.S. Treasury tax and loan note option program. The Bank also utilizes the Federal Home Loan Bank for longer-term funding purposes. During 2007, the Bank pledged most of its commercial real estate portfolio to the Federal Home Loan Bank to be used as collateral for advances or letters of credit. Finally, the Corporation has ready access to the capital markets, having issued \$4 million in subordinated debentures in 2004 and \$9.3 million in preferred stock during 2005 and 2006.

A significant part of the Bank's deposit growth is from municipal deposits. These relationships arise due to the Bank's urban market, leading to municipal deposit relationships. Municipal deposit levels may fluctuate significantly depending on the cash requirements of the municipalities. The Bank has ready sources of available short-term borrowings in the event that the municipalities have unanticipated cash requirements. Such sources include Federal funds lines, FHLB advances and access to the repurchase agreement market, utilizing the collateral for the withdrawn deposits. The Bank expects to continue emphasizing these relationships.

The major contributions during 2007 from operating activities to the Corporation's liquidity came from the sale of loans held for sale, along with net income.

Net cash used in investing activities during 2007 was primarily used for purchases of investment securities available for sale, which totalled \$38.2 million, while sources of cash provided by investing activities were derived primarily from proceeds from maturities, principal payments and early redemptions of investment securities available for sale, amounting to \$48.5

The primary source of funds from financing activities resulted from the increase in deposits.

Contractual obligations

The Corporation has various financial obligations, including contractual obligations that may require future cash payments. These obligations are included in Notes 4,5,9,10 and 11 of the Notes to Consolidated Financial Statements.

The Corporation also will have future obligations under supplemental executive and directors' retirement plans described in Note 14 of the Notes to Consolidated Financial Statements.

Interest rate sensitivity

The management of interest rate risk is also important to the profitability of the Corporation. Interest rate risk arises when an earning asset matures or when its interest rate changes in a time period different from that of a supporting interest bearing liability, or when an interest bearing liability matures or when its interest rate changes in a time period different from that of an earning asset that it supports. While the Corporation does not match specific assets and liabilities, total earning assets and interest bearing liabilities are grouped to determine the overall interest rate risk within a number of specific time frames.

It is the responsibility of the Asset/Liability Management Committee ("ALCO") to monitor and oversee the activities of interest rate sensitivity management and the protection of net interest income from fluctuations in interest rates.

Interest sensitivity analysis attempts to measure the responsiveness of net interest income to changes in interest rate levels. The difference between interest sensitive assets and interest sensitive liabilities is referred to as interest sensitive gap. At any given point in time, the Corporation may be in an asset-sensitive position, whereby its interest-sensitive assets exceed its interest-sensitive liabilities or in a liability-sensitive position, whereby its interest-sensitive liabilities exceed its interest-sensitive assets, depending on management's judgment as to projected interest rate trends.

One measure of interest rate risk is the interest-sensitivity analysis, which details the repricing differences for assets and liabilities for given periods. The primary limitation of this analysis is that it is a static (i.e., as of a specific point in time) measurement which does not capture risk that varies nonproportionally with changes in interest rates. Because of this limitation, the Corporation uses a simulation model as its primary method of measuring interest rate risk. This model, because of its dynamic nature, forecasts the effects of different patterns of rate movements on the Corporation's mix of interest sensitive assets and liabilities.

The following table presents the Corporation's sensitivity to changes in interest rates, categorized by repricing period. Various assumptions are used to estimate expected maturities. The actual maturities of these instruments could vary substantially if future prepayments differ from estimated experience.

Interest Sensitivity Gap Analysis

In thousands	December 31, 2007							
	One Year Or Less	One Year to Two Years	Two Years to Three Years	Three Years to Four Years	Four Years to Five Years	Five Years to Ten Years	More than Ten Years	Total
Interest earning assets:								
Federal funds sold and securities purchased under agreements to resell	\$ 22,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 22,000
Interest-bearing deposits with banks	278	-	-	-	-	-	-	278
Investment securities	51,018	14,980	5,940	12,520	9,950	30,291	33,873	158,572
Loans	125,639	36,005	21,947	11,377	14,070	16,493	7,293	232,824
	198,935	50,985	27,887	23,897	24,020	46,784	41,166	413,674
Interest bearing liabilities:								
Deposits:								
Savings	200,996	-	-	-	-	-	-	200,996
Time	107,193	19,051	15,126	7,078	4,012	5,446	1,411	159,317
Short-term borrowings	1,150	-	-	-	-	-	-	1,150
Long-term debt	11,600	1,500	1,500	-	-	200	5,000	19,800
	320,939	20,551	16,626	7,078	4,012	5,646	6,411	381,263
Asset (liability) sensitivity gap:								
Period gap	\$(122,004)	\$30,434	\$11,261	\$16,819	\$20,008	\$ 41,138	\$34,755	\$ 32,411
Cumulative gap	(122,004)	(91,570)	(80,309)	(63,490)	(43,482)	(2,344)	32,411	-

The cumulative gap between the Corporation's interest rate sensitive assets and its interest sensitive liabilities was \$32.4 million at December 31, 2007. This means that the Corporation has a "positive gap" position, which theoretically will cause its assets to reprice faster than its liabilities. In a rising interest rate environment, interest income may be expected to rise faster than the interest received on earning assets, thus improving the net interest spread.

If interest rates decreased, the net interest received on earning assets will decline faster than the interest paid on the Corporation's liabilities, decreasing the net interest spread. Certain shortcomings are inherent in the method of gap analysis presented below. Although certain assets and liabilities may have similar maturities or periods of repricing, they may react in different

degrees to changes in market interest rates. The rates on certain types of assets and liabilities may fluctuate in advance of changes in market rates, while rates on other types of assets and liabilities may lag behind changes in market rates. In the event of a change in interest rates, prepayment and early withdrawal levels could deviate significantly from those assumed in calculating the table. The ability of borrowers to service debt may decrease in the event of an interest rate increase. Management considers these factors when reviewing its sensitivity gap position and establishing its ongoing asset/liability strategy.

Because individual interest earning assets and interest bearing liabilities respond differently to changes in prime, more refined results are obtained when a simulation model is used. The Corporation uses a simulation model to analyze earnings

sensitivity to movements in interest rates. The simulation model projects earnings based on parallel shifts in interest rates over a twelve-month period. The model is based on the actual maturity and re-pricing characteristics of rate sensitive assets and liabilities, and incorporates various assumptions which management believes to be reasonable.

At December 31, 2007, the most recently prepared model indicates that net interest income would decline 8.1% from base case scenario if interest rates rise 200 basis points and decline .4%% if rates decrease 200 basis points. Additionally, the economic value of equity would decrease 17.6% if rates rose 200 basis points and decline 2.3% if rates declined 200 basis points.

These results are consistent with the Corporation's interest rate risk strategy to overweight against the risk of a decrease in interest rates.

Capital

The following table presents the consolidated and bank-only capital components and related ratios as calculated under regulatory accounting practice.

Dollars in thousands	Consolidated		Bank Only	
	December 31, 2007	December 31, 2006	December 31, 2007	December 31, 2006
Total stockholders' equity	\$28,872	\$27,427	\$29,155	\$25,228
Net unrealized loss on investment securities available for sale	623	978	623	978
Net unrealized loss on equity securities available for sale	(17)	(19)	(17)	(19)
Disallowed intangibles	(1,254)	(727)	(1,254)	(727)
Qualifying trust preferred securities	4,000	7,000	-	-
Tier 1 capital	32,226	34,659	28,507	25,460
Qualifying long-term debt	5,260	340	5,000	-
Allowance for loan losses	3,000	2,300	3,000	2,465
Other	165	165	165	-
Tier 2 capital	8,425	2,805	8,165	2,465
Total capital	\$40,651	\$37,464	\$36,672	\$27,925
Risk-adjusted assets	\$280,964	\$243,813	\$280,815	\$242,674
Average total assets	445,077	383,552	444,890	383,593
Risk-based capital ratios:				
Tier 1 capital to risk-adjusted assets	11.47%	14.22%	10.15%	10.49%
Regulatory minimum	5.00	5.00	5.00	5.00
Total capital to risk-adjusted assets	14.47	15.37	13.06	11.51
Regulatory minimum	8.00	8.00	8.00	8.00
Leverage ratio	6.41	9.04	6.41	6.64
Total stockholders' equity to total assets	6.43	6.94	6.49	6.38

On March 17, 2004, City National Bancshares Corporation issued \$4 million of preferred capital securities through City National Bank of New Jersey Capital Trust II ("the Trust II"), a special-purpose statutory trust created expressly for the issuance of these securities. Distribution of interest on the securities is payable at the 3-month LIBOR rate plus 2.79%, adjustable quarterly. The quarterly distributions may, at the option of the Trust, be deferred for up to 20 consecutive quarterly periods. The proceeds have been invested in junior subordinated debentures of CNBC, at terms identical to the preferred capital securities. Cash distributions on the securities are made to the extent interest on the debentures is received by the Trust. In the event of certain changes or amendments to regulatory requirements or federal tax rules, the securities are redeemable. The securities are generally redeemable in whole or in part on or after March 17, 2009, at any interest payment date, at a price equal to 100% of the principal amount plus accrued interest to the date of redemption. The securities must be redeemed by March 17, 2034.

The subsidiary trust is not included with the consolidated financial statements of the Corporation because of the deconsolidation required by Financial Accounting Standards Board Interpretation No. 46, "Consolidation of Variable Interest Entities".

Results of operations – 2006 compared with 2005

Net income rose to \$2,468,000 in 2006 from to \$2,335,000 in 2005 due primarily to a \$583,000 gain from the sale of a Bank-owned property on which a branch office was located. The branch was relocated to a major strategic site in the same city. Related net income per share was unchanged from \$15.52 declined to \$12.54 due to a higher preferred stock dividend.

On a fully taxable equivalent ("FTE") basis, net interest income rose only 1.5% to \$11.4 million in 2006, while the related net interest margin declined 19 basis points, from 3.36% to 3.17%. Compression from the continued flat yield curve was the cause of the minimal growth in net interest income as well as to the lower margin.

A significantly higher cost of funds was the reason for this nominal increase in Interest income on a FTE basis. Because of the higher interest rate environment, the yield on interest earning assets rose 65 basis points, from 5.54% to 6.19%, while the cost to fund those assets increased 83 basis points, from 2.18% to 3.01%. Average interest earning assets increased \$25 million, or 7.5%, with the loan portfolio providing the greatest increase.

Interest income from Federal funds sold rose by 23.8%, due to an increase in the related yield from 3.18% to 4.80%, as the average balance declined.

Interest income on taxable investment securities increased \$1.3 million in 2006 also due to a higher yield on portfolio investments, as well as increased volume.

Tax-exempt investment income rose 71.7% due to purchases of tax-exempt securities in 2006. The average rate declined due to lower rates on the newly acquired investments.

Interest income on loans rose \$2.6 million, or 23.9% due to both higher volume and higher yields. Average commercial loans increased 16.8%, while related interest income was higher due to a higher yield on the portfolio, which rose 94 basis points, from 6.30% to 7.24% and the higher volume. The real estate portfolio, comprised mainly of commercial real estate loans, increased \$18.5 million, or 13% in 2006, while the related yield rose to 7.2% in 2006 from 6.62% in 2005, due to increases in the Bank's prime lending rate.

Interest expense totalled \$10.8 million in 2006, an increase of 47.9% from 2005. This increase resulted primarily from the continued higher short-term interest rate environment, which impacted most of the Corporation's interest bearing liabilities.

The average rate paid on deposits rose by 107 basis points, from 2.23% to 3.30%, mostly due to the higher rates paid on money market deposits and certificates of deposit.

Interest expense on money market deposits increased 62% due to both higher volume and higher rates paid. The average rate paid rose to 4.00% from 2.76% in 2005.

Interest expense on time deposits rose due to both higher volume and higher rates paid. The average rate paid was 113 basis points higher in 2006, averaging 3.98% compared to 2.85% in 2005.

Interest expense on short-term borrowings rose due to a higher average rate paid.

Interest expense on long-term debt rose due to the higher rates paid on long-term subordinated debentures. The related interest rate increased 82 basis points to 6.33% in 2006 compared to 5.52% in 2005.

Service charges on deposit accounts was unchanged from 2005 due to continued competitive business pressures limiting the Bank's ability to raise fees to customers to reflect higher costs.

Other income rose 46.9% in 2006 due primarily to the aforementioned gain on the sale of Bank-owned property. Income from non-Bank ATM card activity rose, along with gains from the sale of loans held for sale and earnings from bank-owned life insurance policies. Additionally, the loss from the Bank's investment in an unconsolidated leasing investee increased to \$335,000 from \$208,000 in 2005.

Net losses incurred on securities transactions totalled \$19,000 in 2006 compared to net losses of \$96,000 in 2005 due to investment swap transactions consummated during 2005 to mitigate interest rate risk by selling securities and purchasing other securities with different interest rate characteristics.

Other operating expenses, which include expenses other than interest, income taxes and the provision for loan losses, totalled \$10 million in 2006, a 3.3% increase compared to \$9.7 million in 2005.

Salaries and other employee benefits expense rose 3.6% due to normal recurring merit increases, higher health insurance costs and an increase in supplemental executive retirement plan expense.

Occupancy expense rose 8.9% due primarily to higher premises rental costs resulting from the relocation of a branch to a more strategic location.

Equipment expense declined due to lower depreciation expense and a decrease in maintenance and repair expense.

Other expenses rose 1.8% in 2006 due primarily to higher consulting fees, along with increased merchant card charges, which represent credit card fees incurred by customers but absorbed by the Bank and offset by compensating deposit account balances, while professional fees and stationery and supplies expense both declined.

Income tax expense as a percentage of pre-tax income was 23.1% in 2006 compared to 27% in 2005, due to higher levels of tax-exempt investment income.

Critical accounting policies and use of estimates

Allowance for loan losses

The calculation of the allowance for loan losses is a critical accounting policy of the Corporation. Provisions for loan losses will continue to be based upon our assessment of the overall loan portfolio and the underlying collateral, trends in non-performing loans, current economic conditions and other relevant factors including the risk factors inherent in the Bank's low and moderate income market area, in order to maintain the allowance for loan losses at adequate levels to provide for estimated losses.

Management believes that the primary risks inherent in the loan portfolio are possible increases in interest rates, a deterioration in the economy, and a decline in real estate market values in the Bank's market area. Any one or a combination of these events

may adversely affect the Bank's loan portfolio, resulting in increased delinquencies, loan losses and future high levels of provisions. Accordingly, the Bank has provided for loan losses at the current level to address the current risks in our loan portfolio. Management considers it important to maintain the ratio of the allowance for loan losses to total loans at an acceptable level given current economic conditions, interest rates and the composition of the portfolio.

Although management believes that the allowance for loan losses has been maintained at adequate levels to reserve for probable losses inherent in its loan portfolio, additions may be necessary if future economic and other conditions differ substantially from the current operating environment. Although management uses the best information available, the level of the allowance for loan losses remains an estimate that is subject to significant judgment and short-term change.

Asset impairment judgments

Certain assets are carried in the consolidated statements of financial condition at fair value or at the lower of cost or fair value. Valuation allowances are established when necessary to recognize the impairment of such assets that is other than temporary. Analyses are periodically performed to test for impairment. In addition to impairment analyses related to loans, another significant impairment analysis relates to the value of other than temporary declines in the value of the investment portfolio.

The available for sale portfolio is carried at estimated fair value, with any unrealized gains and losses, net of taxes, reported as accumulated other comprehensive income or loss in stockholders' equity. Securities that the Corporation has the positive intent and ability to hold to maturity are classified as held to maturity and are carried at amortized cost. A periodic review and evaluation of the securities portfolio is performed to determine if the value of any security has declined below its carrying value and whether such decline is other than temporary. If such decline is considered other than temporary, the carrying amount of the security would be reduced to fair market value through a charge to current period operations.

The market values of the investment portfolio are significantly affected by changes in interest rates. In general, as interest rates rise, the market value of fixed-rate securities will decrease, while as interest rates fall, the market value of fixed-rate securities will increase.

The unrealized losses in the available for sale and held to maturity portfolios at December 31, 2007 were caused by increases in market yields subsequent to purchase and were not attributable to credit quality concerns. There were no debt securities past due or securities for which the Corporation currently believes it is not probable that it will collect all amounts due according to the contractual terms of the security. Because the Corporation has the intent and the ability to hold securities with unrealized losses until a market price recovery (which, for debt securities may be until maturity), the Corporation did not consider these securities to be other-than-temporarily impaired at December 31, 2007.

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Corby R. Ellis-Mare
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Officer

Angelo Incorvaia
Assistant Cashier
Branch Manager

Tasha Lohman
Assistant Cashier
Branch Manager

Stuart Nisbett
Assistant Cashier
Branch Manager

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Assistant Auditor

Leonardo Tavares
Compliance Officer

FORM 10-K

The annual report filed with the Securities and Exchange Commission on Form 10-K is available without charge upon written request to:
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