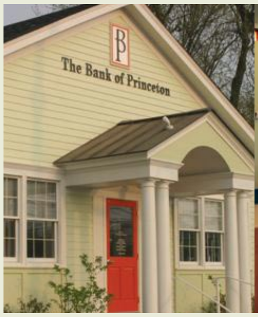
2007 Annual Report

The Bank of Princeton

Bank Wisely.



THE BANK OF

SUCCESS
AMBITION
seeing what is ahead

POSSIBILITIES
your potential
IDEAS

meeting challenges
BUSINESS Solutions
road ahead

ENTHUSIASM
we believe in YOU
Discovery
CLARITY

INNOVATION here's an idea
BOLD tapping into your
POTENTIAL

your ROI
VISION
Absolutely
IMAGINATION
of COURSE!

HOPE
COMMUNITY
PARTNERSHIP

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Letter to Our Shareholders

We are pleased to present the first annual report to shareholders from The Bank of Princeton (‘the Bank”). The attached financial statements reflect the financial activity for the year ended December 31, 2007.

The Bank of Princeton represents the return of community banking to Princeton and its surrounding neighborhoods. We did not just raise our initial capital of $30 million and set out to compete with all the national banks in the area; rather, we endeavored to bring a friendlier, more personalized style of banking to communities that still remember what that was like from not so long ago. Whether it’s our free coin counting machines in every branch, our courier service that enables our business customers to spend more time in their shops, or our willingness to meet all of our customers at most any place and any time, our interpretation of community banking is clearly resonating throughout the area.

Community minded consumers seem to appreciate that when they bank with us, their deposits are being reinvested in their communities, not recycled to Pittsburgh or North Carolina. And whether its our involvement with Princeton University Athletics, HiTops, Pop Warner football, or the New Jersey Symphony, we are doing our part to help many of the institutions that enliven and enhance the quality of our hometowns.

Given that this is our first annual report, permit us to summarize the highlights of those activities that brought us to where we are today:

- In the Fall of 2005, a small group of founders began planning to start a bank in Princeton.
- In April of 2006, Peter Crowley was hired to become our first President and was tasked with getting the bank started.
- Between October 2006 and March 2007, the founders conducted a private fund raising effort which gathered $30 million to initially capitalize the bank.
- The initial management team was assembled both before and after opening, and began to make loans, develop consumer friendly products, take deposits, and to spread the word that a new bank had arrived in town.
- On April 24, 2007, the branch at 21 Chambers St. was opened, with a more formal grand opening held on May 5th.

- In November 2007, we held our first meeting with our Advisory Board, a collection of prominent local residents that help to guide our product development and market outreach.
- The Pennington office was opened in December 2007 and held its grand opening on January 12, 2008.
- The Hamilton office opened on April 19, 2008 and had its grand opening on May 3, 2008.
- Main headquarters branch, on Bayard Lane in Princeton, is scheduled to open in late 2008.
- Assets grew slowly at first, then reached $48.4 million as of September 30, 2007, $66.5 million as of December 31, 2007, and more than $91 million as of March 31, 2008, more than tripling the size of the bank in its first year of operation.

As the audited financial statements indicate, the Bank finished its December 31, 2007 fiscal year with $66,463,000 in assets, reflecting deposits of $37,751,000, loans outstanding, net of reserves, of $29,117,000, and stockholders' equity of $28,340,000.

The Statement of Operations reflects a net loss of $1,613,000 for the year. This number includes $214,000 of net costs incurred between January 1, 2007 and the bank's official opening on April 24, 2007, $309,000 of non-cash expense pertaining to the issuance of options to management, and a net operating loss for the period from April 24, 2007 through December 31, 2007 of $1,090,000.

Broadly speaking, the Bank benefitted in 2007 from high short term interest rates which enabled us to invest our initial capital at very favorable levels. However, those same rates made deposit gathering more challenging as the high interest rates necessary to attract deposits narrowed the spreads that we were able to achieve on our loan products.

In the latter part of the year, the Federal Reserve started to cut rates aggressively. The return of a positively sloped yield curve is far more beneficial for the long-term growth and health of the Bank, and rates have continued to decline thus far in 2008.

Deposit activity has picked up handsomely as we develop and market products that are beneficial to our business customers, our municipal and non-profit customers, and to professionals such as lawyers, doctors, and accountants. On the loan side, as of this writing , we are offering a five-year fixed rate home equity loan of 5.24%, with absolutely no associated fees. This new product, just introduced, is being well received. For those that have found themselves trapped in high interest, re-adjusting mortgage products, we have put together a consumer helper mortgage product which in certain cases, enables them to replace sky high adjustable rate products with lower, fixed rate loans.

We are especially grateful for the commitment and dedication of all of our employees. Starting any new enterprise is an exhausting, time-intensive task; we are particularly fortunate to have assembled such a high quality team to get the Bank started and as we grow, we are constantly hiring to maintain the highest service levels for our customers. Your Board of Directors has performed admirably and the Advisory Board is learning how to enhance the Bank's strong reputation and leverage our good work. But it is our investors and our customers that are making this bank so successful. We thank you all for your continued support and request that you keep looking for opportunities to send more business our way.

The current year is off to a strong start and we look forward to reporting to you on our continued growth.

Sincerely,

Stephen Distler, Chairman

Peter M. Crowley, President

bmc

Independent Auditor's Report

To the Board of Directors
The Bank of Princeton
Princeton, New Jersey

We have audited the accompanying balance sheet of The Bank of Princeton as of December 31, 2007, and the related statements of operations, stockholders' equity and cash flows for the year then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Bank of Princeton as of December 31, 2007, and the results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Beard Miller Company LLP

Beard Miller Company LLP
Malvern, Pennsylvania
April 3, 2008

Balance Sheet

Balance Sheet
December 31, 2007

	2007
Assets	
Cash and due from banks	$ 1,274,611
Federal funds sold	11,697,000
Cash and Cash Equivalents	12,971,611
Securities available for sale	21,993,736
Securities held to maturity	503,489
Loans receivable, net of allowance for loan losses of $354,486	29,116,579
Restricted investment in bank stock	50,000
Bank premises and equipment, net	1,260,558
Accrued interest receivable	369,894
Other assets	197,459
Total Assets	$66,463,326
Liabilities and Stockholders' Equity	
Liabilities	
Deposits:	
Non-interest bearing	$ 1,268,080
Interest-bearing	36,482,595
Total Deposits	37,750,675
Accrued interest payable	74,214
Other liabilities	298,327
Total Liabilities	38,123,216
Stockholders' Equity	
Common stock, $5 par value; authorized 10,000,000 shares; issued and outstanding 3,000,000 shares	15,000,000
Surplus	15,252,820
Accumulated deficit	(2,152,232)
Accumulated other comprehensive gain	239,522
Total Stockholders' Equity	28,340,110
Total Liabilities and Stockholders' Equity	$66,463,326

See notes to financial statements.

Statement of Operations
Year Ended December 31, 2007

	2007
Interest Income	
Loans receivable, including fees	$ 625,212
Securities available for sale	389,671
Federal funds sold	1,160,724
Total Interest Income	2,175,607
Interest Expense, Deposits	539,764
Net Interest Income	1,635,843
Provision for Loan Losses	354,486
Net Interest Income after Provision for Loan Losses	1,281,357
Non-Interest Income	
Loan servicing fee income	32,666
Loss on sale of securities	(4,304)
Other income	4,075
Total Non-Interest Income	32,437
Non-Interest Expenses	
Salaries and employee benefits	1,627,935
Occupancy and equipment	309,216
Professional fees	216,172
Advertising and promotion	283,578
Loan expenses	92,567
Other	397,460
Total Non-Interest Expenses	2,926,928
Net Loss	$(1,613,134)

See notes to financial statements.

Statement of Stockholders' Equity
Year Ended December 31, 2007

	Common Stock	Surplus	Accumulated Deficit	Accumulated Other Comprehensive Gain	Total
Balance - January 1, 2007	$ -	$ -	$ (539,098)	$ -	$ (539,098)
Comprehensive loss:					
Net loss	-	-	(1,613,134)	-	(1,613,134)
Change in net unrealized gains on securities available for sale, net of reclassification adjustment and tax effect	-	-	-	239,522	239,522
Total Comprehensive Loss					(1,373,612)
Sale of 3,000,000 shares of common stock, net of offering costs of $56,522	15,000,000	14,943,478	-	-	29,943,478
Share-based compensation expense	-	309,342	-	-	309,342
Balance - December 31, 2007	$15,000,000	$15,252,820	$(2,152,232)	$239,522	$28,340,110

See notes to financial statements.

Statement of Cash Flows

Statement of Cash Flows
Year Ended December 31, 2007

	2007
Cash Flows from Operating Activities	
Net loss	$(1,613,134)
Adjustments to reconcile net loss to net cash used in operating activities:	
Provision for loan losses	354,486
Depreciation	74,859
Share-based compensation	309,342
Net amortization of investment securities	856
Net realized loss on sale of securities	4,304
Increase in accrued interest receivable	(369,894)
Increase in other assets	(197,459)
Increase in accrued interest payable	74,214
Decrease in other liabilities	(364,161)
Net Cash Used in Operating Activities	(1,726,587)
Cash Flows from Investing Activities	
Activity in available for sale securities:	
Purchases	(25,628,963)
Proceeds from sales	3,993,740
Activity in held to maturity securities, purchases	(504,250)
Net increase in loans	(29,471,065)
Purchases of restricted investment in bank stock	(50,000)
Purchases of premises and equipment	(1,335,417)
Net Cash Used in Investing Activities	(52,995,955)
Cash Flows from Financing Activities	
Net increase in deposits	37,750,675
Proceeds from issuance of common stock, net	29,943,478
Net Cash Provided by Financing Activities	67,694,153
Net Increase in Cash and Cash Equivalents	12,971,611
Cash and Cash Equivalents - Beginning	-
Cash and Cash Equivalents - Ending	$12,971,611
Supplementary Cash Flows Information	
Interest paid	$ 465,550

See notes to financial statements.

Notes to Financial Statements
December 31, 2007

Note 1 - Summary of Significant Accounting Policies

Organization and Nature of Operations

The Bank of Princeton (the "Bank") was incorporated on July 17, 2006 under the laws of the State of New Jersey and is a New Jersey state chartered banking institution. The Bank was granted its bank charter on April 17, 2007. The Bank commenced operations on April 23, 2007 and is a full service bank providing personal and business lending and deposit services. As a state chartered bank, the Bank is subject to regulation of the New Jersey Department of Banking and Insurance and the Federal Deposit Insurance Corporation. The area served by the Bank is primarily Mercer County, New Jersey.

Prior to commencing operations, the Bank incurred $1,080,046 of organization and preopening costs, $539,098 of which was expensed in 2006, and $540,948 of which was expensed in 2007. Interest income of $360,539 was earned on escrow funds during 2007. These amounts expensed and earned in 2007 are included in the statement of operations for the period ended December 31, 2007 in the respective income and expense categories. Stock offering costs of $56,522 were netted against the proceeds from the sale of common stock.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses and the valuation of deferred tax assets.

Significant Group Concentrations of Credit Risk

Most of the Bank's activities are with customers located within Mercer County, New Jersey. Note 3 discusses the types of lending that the Bank engages in. Although the Bank has a diversified loan portfolio, its debtors' ability to honor their contracts is influenced by the region's economy. The Bank does not have any significant concentrations to any one industry or customer.

Presentation of Cash Flows

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks and federal funds sold, all of which mature within ninety days. Generally, federal funds are purchased for one day periods.

Notes to Financial Statements
December 31, 2007

Note 1 - Summary of Significant Accounting Policies (Continued)

Securities

Management determines the appropriate classification of debt securities at the time of purchase and re-evaluates such designation as of each balance sheet date.

Securities classified as available for sale are those securities that the Bank intends to hold for an indefinite period of time but not necessarily to maturity. Securities available for sale are carried at fair value. Any decision to sell a security classified as available for sale would be based on various factors, including significant movement in interest rates, changes in maturity mix of the Bank's assets and liabilities, liquidity needs, regulatory capital considerations and other similar factors. Unrealized gains and losses are reported as increases or decreases in other comprehensive income. Realized gains or losses, determined on the basis of the cost of the specific securities sold, are included in earnings. Premiums and discounts are recognized in interest income using the interest method over the terms of the securities.

Securities classified as held to maturity are those debt securities the Bank has both the intent and ability to hold to maturity regardless of changes in market conditions, liquidity needs or changes in general economic conditions. These securities are carried at cost adjusted for the amortization of premium and accretion of discount, computed by a method which approximates the interest method over the terms of the securities.

Declines in the fair value of securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses. In estimating other-than-temporary impairment losses, management considers (1) the length of time and the extent to which the fair value has been less than cost (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Bank to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

Restricted investment in bank stock is comprised of stock in the Atlantic Central Banker's Bank. All restricted stock is recorded at cost.

Loans Receivable

Loans receivable that management has the intent and the Bank the ability to hold for the foreseeable future or until maturity or payoff are stated at their outstanding unpaid principal balances, net of an allowance for loan losses and any deferred fees or costs. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized as an adjustment of the yield (interest income) of the related loans. The Bank is generally amortizing these amounts over the contractual life of the loan.

The accrual of interest is discontinued when the contractual payment of principal or interest has become 90 days past due or management has serious doubts about further collectibility of principal or interest, even though the loan is currently performing. A loan may remain on accrual status if it is in the process of collection and is either guaranteed or well secured. When a loan is placed on nonaccrual status, unpaid interest credited to income in the current year is reversed and unpaid interest accrued in prior years is charged against the allowance for loan losses. Interest received on nonaccrual loans generally is either applied against principal or reported as interest income, according to management's judgment as to the collectibility of principal. Generally, loans are restored to accrual status when the obligation is brought current, has performed in accordance with the contractual terms for a reasonable period of time and the ultimate collectibility of the total contractual principal and interest is no longer in doubt.

Notes to Financial Statements
December 31, 2007

Note 1 - Summary of Significant Accounting Policies (Continued)

Allowance for Loan Losses

The allowance for loan losses is established through provisions for loan losses charged against income. Loans deemed to be uncollectible are charged against the allowance for loan losses, and subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is maintained at a level considered adequate to provide for losses that can be reasonably anticipated. Management's periodic evaluation of the adequacy of the allowance is based on known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral, composition of the loan portfolio, current economic conditions and other relevant factors. This evaluation is inherently subjective as it requires material estimates that may be susceptible to significant revisions as more information becomes available.

The allowance consists of specific, general and unallocated components. The specific component relates to loans that are classified as either doubtful, substandard, or special mention. For such loans that are also classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers non-classified loans and is based on historical loss experience adjusted for qualitative factors. An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio. At December 31, 2007, the entire allowance reflected a general reserve.

A loan is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan by loan basis for commercial and construction loans by either the present value of expected future cash flows discounted at the loan's effective interest rate or the fair value of the collateral if the loan is collateral dependent.

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Bank does not separately identify individual consumer loans for impairment disclosures, unless such loans are the subject of a restructuring agreement.

Transfers of Financial Assets

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

Notes to Financial Statements
December 31, 2007

Note 1 - Summary of Significant Accounting Policies (Continued)

Bank Premises and Equipment

Bank premises and equipment are stated at cost less accumulated depreciation. Depreciation is computed on the straight-line method over the estimated useful lives of the related assets.

Advertising Costs

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

Advertising expense incurred for the period ended December 31, 2007 totaled approximately $284,000.

Income Taxes

Deferred income taxes are provided on the liability method whereby deferred tax assets are recognized for deductible temporary differences and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and net operating loss carryforwards and their tax basis. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

Comprehensive Income (Loss)

Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Although certain changes in assets and liabilities, such as unrealized gains and losses on available for sale securities, are reported as a separate component of the equity section of the balance sheet, such items, along with net income, are components of comprehensive income (loss). The components of other comprehensive income for the year ended December 31, 2007 are as follows:

	2007
Unrealized holding gains on securities available for sale	$358,608
Reclassification adjustment for losses included in net loss	4,304
	362,912
Tax effect	(123,390)
	$239,522

Off-Balance Sheet Financial Instruments

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

Employee Benefit Plan

During 2007, the Bank established a 401(k) plan ("the Plan"). Under the Plan, all employees are eligible to contribute the maximum allowed by the Internal Revenue Code of 1986, as amended. The Bank may make discretionary matching contributions. During the period ended December 31, 2007, no matching contributions were made.

Notes to Financial Statements
December 31, 2007

Note 1 - Summary of Significant Accounting Policies (Continued)

Share-Based Compensation

The Bank adopted the provisions of Statement of Financial Standards No. 123(R), "Share-Based Payment." This statement requires the Bank to recognize the cost of employee and organizer services received in share-based payment transactions and measure the cost based on the grant-date fair value of the award. The cost will be recognized over the period during which the employee or organizer is required to provide service in exchange for the award.

Note 2 - Securities Available for Sale

The amortized cost and approximate fair value of securities as of December 31, 2007 is summarized as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities Available for Sale				
U.S. Government agency securities	$16,795,870	$376,140	$ -	$17,172,010
Mortgage-backed securities	4,834,954	7,196	(20,424)	4,821,726
	$21,630,824	$383,336	$(20,424)	$21,993,736
Securities Held to Maturity				
Obligations of state and political subdivisions	$ 503,489	$ 5,257	$ -	$ 508,746

At December 31, 2007, the Bank has three securities in an unrealized loss position due to interest rate fluctuations. There were no unrealized losses in the portfolio at December 31, 2007 that exceeded 12 months. The Bank has the intent and ability to hold this investment until maturity or market price recovery, therefore, they are not deemed to be other-than-temporarily impaired.

The amortized cost and fair value of securities as of December 31, 2007, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because the securities may be called without any penalties.

	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$ 700,000	$ 700,658	$ -	$ -
Due after one year through five years	2,100,103	2,104,592	503,489	508,746
Due after five years through ten years	5,997,866	6,227,200	-	-
Due after ten years	12,832,855	12,961,286	-	-
	$21,630,824	$21,993,736	$503,489	$508,746

Notes to Financial Statements
December 31, 2007

Note 2 - Securities Available for Sale (Continued)

During 2007, the Bank sold securities available for sale for total proceeds of approximately $3,993,740, resulting in gross realized losses of $4,304.

At December 31, 2007, the Bank had pledged to the Commissioner of Banking, State of New Jersey, $100,000 in U.S. Government agency securities, for the purpose of securing public deposits under the Governmental Unit Deposit Protection Act.

Note 3 - Loans Receivable

The composition of loans receivable at December 31, 2007 is as follows:

	2007
Commercial term	$ 3,059,135
Commercial real estate	16,132,127
Construction	5,653,778
Home equity	2,098,160
Consumer	2,637,550
Total Loans	29,580,750
Deferred fees	(109,685)
Allowance for loan losses	(354,486)
Net Loans	$29,116,579

The changes in the allowance for loan losses for the period ended December 31, 2007 are as follows:

	2007
Balance, beginning	$ -
Provision for loan losses	354,486
Balance, ending	$354,486

As of and for the period ended December 31, 2007, the Bank had no impaired loans, no nonaccrual loans, and no loans past due 90 days or more.

Notes to Financial Statements
December 31, 2007

Note 4 - Bank Premises and Equipment

The components of premises and equipment at December 31, 2007 are as follows:

	Estimated Useful Lives	2007
Leasehold improvements	10	$ 679,602
Furniture, fixtures and equipment	3 - 7	565,367
Construction in progress		90,448
		1,335,417
Accumulated depreciation		(74,859)
		$1,260,558

Depreciation expense charged to operations amounted to $74,859 for the period ended December 31, 2007.

During 2007, the Bank began construction of a branch building which is expected to be completed in May 2008. Total cost of the branch building is expected to be approximately $400,000, including the land, furniture and equipment, of which $90,448 was recorded in construction in progress at December 31, 2006.

Note 5 - Deposits

The components of deposits at December 31, 2007 are as follows:

	2007
Demand, non-interest bearing	$ 1,268,080
Demand interest bearing and savings accounts	2,229,469
Money market accounts	9,002,083
Time, $100,000 and over	12,576,216
Time, other	12,674,827
	$37,750,675

At December 31, 2007, the scheduled maturities of time deposits are as follows:

2008	$25,041,059
2009	-
2010	-
2011	131,984
2012	78,000
	$25,251,043

Notes to Financial Statements
December 31, 2007

Note 6 - Lease Commitments and Total Rental Expense

The Bank has operating leases for three of its branch locations, as well as its loan operations center. Future minimum lease payments by year under the non-cancellable lease agreements for the Bank's facilities are as follows:

2008	$ 205,426
2009	206,841
2010	202,009
2011	168,467
2012	138,665
Thereafter	441,467
	$1,362,875

Rent expense for the four leases for the year ended December 31, 2007 was $190,440.

Note 7 - Employment Agreement

The Bank entered into employment agreements with certain employees. The terms of the agreements range from one to three years. The agreements include minimum annual salary commitments and for certain employees change of control provisions. Upon resignation after a change in the control of the Bank, as defined in the agreement, the individual will receive monetary compensation in the amount set forth in the agreements.

Note 8 - Stockholders' Equity

During 2007, the bank sold 3,000,000 shares of common stock at $10.00 per share, which resulted in net proceeds of $29,943,478 (after offering costs of $56,522) under an initial stock offering of 1,200,000 to 2,500,000 shares. The Bank reserved the right to in their sole and absolute discretion to increase the number of shares offered by 20% over the maximum. For every four (4) shares of common stock purchased in the offering, one (1) warrant to purchase one (1) additional share of the Bank's common stock at $12.00 was issued. Warrants are exercisable any time and expire three years from the date of issuance, which is April 1, 2010. There were 750,000 warrants outstanding at December 31, 2007. No warrants were exercised during the year ended December 31, 2007.

The New Jersey Department of Banking, in issuing its charter to the Bank required an allocation of its initial capital to a reserve for organization expenses of $325,000 and a reserve for contingencies of $1,625,000 to defray anticipated initial losses. Accordingly, $1,950,000 of the Bank's surplus is reserved for this purpose until the Bank becomes profitable.

Notes to Financial Statements
December 31, 2007

Note 9 - Federal Income Taxes

There is no provision for income taxes for the year ended December 31, 2007 due to the net operating losses incurred.

The components of the net deferred tax liability at December 31, 2007 are as follows:

	2007
Deferred tax assets:	
Allowance for loan losses	$ 123,128
Organization and start-up costs	410,418
Net operating loss carryforwards	397,583
Organizer warrants	109,656
Other	1,176
	1,041,961
Valuation allowance	(846,795)
Total Deferred Tax Assets, Net of Valuation Allowance	195,166
Deferred tax liabilities:	
Property and equipment	(41,112)
Cash basis conversions	(134,941)
Unrealized gain on securities	(123,390)
Deferred loan costs	(19,113)
	(318,556)
Net Deferred Tax Liability	$ (123,390)

At December 31, 2007, the Bank has available unused net operating loss carryforwards available for federal and state income tax purposes of approximately $994,000 which expire in 2027 for federal purposes and 2014 for state purposes.

Note 10 - Transactions with Executive Officers, Directors and Principal Stockholders

The Bank has had, and may be expected to have in the future, banking transactions in the ordinary course of business with its executive officers, directors, principal stockholders, their immediate families and affiliated companies (commonly referred to as related parties), on the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with others. There were no loans receivable from related parties at December 31, 2007. Deposits of related parties totaled $7,691,595 as of December 31, 2007.

Notes to Financial Statements
December 31, 2007

Note 11 - Share-Based Compensation

Organizers of the Bank were issued a total of 97,500 "organizer warrants" for their efforts during the organization and start-up of the Bank. These warrants are immediately exercisable, expire in 10 years and will enable the warrant holder to purchase one (1) share of common stock at $10.00 per share for each warrant exercised.

In 2007, the Board of Directors adopted the 2007 Stock Option Plan, which was approved by the Board of Directors in August 2007, and was approved by the shareholders in October 2007.

The 2007 Plan enables the Board of Directors to grant stock options to employees, directors, consultants, and other individuals who provide services to the Bank. The shares subject to or related to options under the Plan are authorized and unissued shares of the Bank. The maximum number of shares that may be subject to options under the Plan is 300,000, all of which may be issued as Incentive Stock Options and not more than 100,000 of which may be issued as Non-Qualified Stock Options. Incentive Stock Options are subject to limitations under Section 422 of the Internal Revenue Code. The Bank has reserved, for the purposes of the Plan, out of its authorized and unissued shares, such number of shares. The 2007 Plan will terminate ten years from stockholder approval. Options may not be granted with an exercise price that is less than 100% of the fair market value of the Bank's common stock on the date of grant. Options may not be granted with a term longer than 10 years. However, any Incentive Stock Option granted to any employee who, at the time such Option is granted, owns more than 10% of the voting power of all classes of shares of the Bank, its parent or of a subsidiary may not have a term of more than five years. Options will vest and be exercisable at such time or times and subject to such terms and conditions as determined by the Board of Directors. Generally, options will vest over a vesting period of approximately equal percentages each year over an initial term no shorter than three (3) years. In October 2007, 125,750 Incentive Stock Options were issued under the Plan. At December 31, 2007, there are 174,250 shares available for grant under the 2007 Plan.

The following is a summary of the Bank's share-based compensation activity and related information for the year ended December 31, 2007:

	Warrants and Options	**Weighted Average Exercise Price**	**Weighted Average Remaining Contractual Term**	**Aggregate Intrinsic Value**
Outstanding at December 31, 2006	-	$ -		
Stock warrants granted in 2007	97,500	10.00		
Stock options granted in 2007	125,750	10.00		
Outstanding at December 31, 2007	**223,250**	**$10.00**	**9.5 years**	**$ -**
Exercisable at December 31, 2007	**97,500**	**$10.00**	**9.3 years**	**$ -**

The fair value of each organizer warrant is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions for grant in 2007: dividend yield of 0%; risk-free interest rate of 4.65%; expected life of 5 years and expected volatility of 19.95%. The volatility percentage was based on the average expected volatility of similar public financial institutions in the Bank's market area. The fair value of the warrants granted in 2007 was $2.81.

Notes to Financial Statements
December 31, 2007

Note 11 - Share-Based Compensation (Continued)

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions for grants in 2007: dividend yield of 0%, risk-free interest rate of 4.34%, expected life of 7 years, and expected volatility of 20.89%. The volatility percentage was based on the average expected volatility of similar public financial institutions in the Bank's market area. The weighted average fair value of options granted in 2007 was $3.46 per share.

Total share-based compensation cost for the year ended December 31, 2007 was $309,342 of which $35,203 related to stock options and $274,139 related to stock warrants granted to organizers. There were no tax benefits recognized related to the share-based compensation expense due to the net operating loss incurred.

As of December 31, 2007, there was $399,000 of unrecognized compensation cost related to nonvested stock options granted in 2007. That cost is expected to be recognized on a graded vesting method over a weighted average period of 9.6 years.

Note 12 - Financial Instruments with Off-Balance Sheet Risk

The Bank is a 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 commitments to extend credit. Such commitments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheet.

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 is represented by the contractual amount of those instruments. The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments.

The Bank had the following off-balance sheet financial instruments whose contract amounts represent credit risk at December 31, 2007:

	2007
Commitments to grant loans	$13,205,000
Unfunded commitments under lines of credit	9,165,359
	$22,370,359

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. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. The Bank evaluates each customer’s credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank upon extension of credit, is based on management’s credit evaluation. Collateral held varies but may include personal or commercial real estate, accounts receivable, inventory and equipment.

Notes to Financial Statements
December 31, 2007

Note 13 - Regulatory Matters

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

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth below) of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets, and of Tier 1 capital to average assets. Management believes, as of December 31, 2007, that the Bank meets all capital adequacy requirements to which it is subject.

The Federal Deposit Insurance Corporation requires that the Bank maintain a ratio of Tier 1 leverage capital to total assets of at least 8% during the first three years of operation. Under these guidelines, the Bank is considered well capitalized as of December 31, 2007.

The Bank's actual capital amounts and ratios at December 31, 2007 are presented below:

	Actual		For Capital Adequacy Purposes		To be Well Capitalized under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(Dollars in Thousands)			
Total capital (to risk-weighted assets)	$28,455	76.88 %	$≥2,960	≥8.0 %	$≥3,701	≥10.0 %
Tier 1 capital (to risk-weighted assets)	28,101	75.92	≥1,480	≥4.0	≥2,220	≥ 6.0
Tier 1 capital (to average assets)	28,101	46.84	≥4,799	≥8.0	≥4,799	≥ 8.0

The Bank is subject to certain restrictions on the amount of dividends that it may declare due to regulatory considerations.

Board of Directors

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ROSS WISHNICK, Vice Chairman

ANDREW CHON

PETER M. CROWLEY

JUDITH GIACIN

RICHARD GILLESPIE

JANET LASLEY

ROBERT N. RIDOLFI, ESQ.

Advisory Board

SCOTT SIPPRELLE, Chairman

Kristen Appleget

David Bonanni

Barbara Cuneo

Peter Dawes

Jessica Drurie

John Horvath

Yongkeun Joh

Lance Liverman

Scott Needham

Khursheed Palkhiwala

Joseph Ridolfi

Peter Yi

Incorporators

Andrew Chon

Gregg Chaplin

Peter M. Crowley

Stephen Distler

Richard Gillespie

Bumsung Han

John Horvath

Kevin Kenyon

W. Andrew Krusen

Janet Lasley

Emmet Lescroart

Dennis Machulsky

Casey K. Min

Scott Needham

Henry Opatut

Robert N. Ridolfi, Esq.

James Riley

Jeffrey Sands

Eric Steinfeldt

Ross Wishnick

Who we Are

EXECUTIVE

Stephen Distler
Chairman

Peter Crowley
President

Lewis Foulke
Chief Financial Officer

Lauren Dezzi

Kelly Tarity

Amela Muslic

LENDING

Gerard Murray
Chief Lending Officer

Herb Schneider

Nina Melker

Kris Muse

Praful Bhagat

Joel Goldman

Daniel Jackson

Tamekia Jones

OPERATIONS

Rebecca Dittrich

Brian Maslowski

Karen Pfeifer

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Princeton, New Jersey

INDEPENDENT AUDITOR
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Malvern, Pennsylvania

PRINCETON BRANCH

Suzanne Lang

Karen Dwyer

Greg Talkington

PENNINGTON BRANCH

Barbara Cromwell

Joseph Ciampa

Charlene Jones

April Sullivan

HAMILTON BRANCH

Maureen Brown

Linda Brown

Suzanne Lippincott

David Oquendo

Cathy Proctor

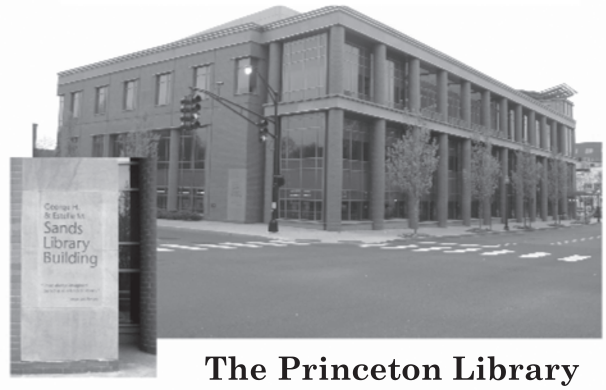
Karen Spair

Erin Winder

Partners in the Community

Other local banks have their homes out of state. The Bank of Princeton's home is here in Mercer County. We support the organizations that serve our communities. We appreciate the work they do. Every day.

Princeton Arts Council



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Princeton University Bookstore

HiTops

Princeton Little League

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through CONVENIENCE

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through SERVICES

DOOR 2 DOOR COURIER

through TECHNOLOGY

REMOTE CAPTURE

Temporary Headquarters
Princeton Branch
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Pennington Branch
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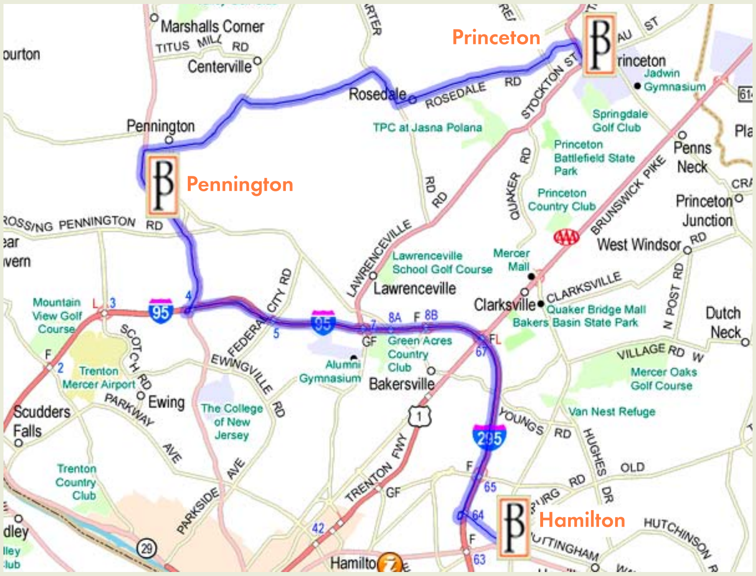
Suite 1
Pennington, NJ 08534
609-730-8500

Hamilton Branch
339 Route 33
Hamilton, NJ 08619-4401
609-854-0011



Future Headquarters
Princeton
183 Bayard Lane
Princeton, NJ 08540-3044

At The Bank of Princeton,
***we listen to you**, we appreciate your business, and we're committed to being a true resource for our community.*

***We understand** and we show it by providing you with the highest level of friendly, helpful, and personalized banking services.*

***We get it** — we know you want to be treated with respect, and we thank you, genuinely, for entrusting us with your banking.*

***Most importantly,** we believe that our own success is achieved only when yours is, when we deliver our unique banking experience to you… and everyone we meet. For you, in that way, **we make a difference**.*