

2008 Annual Report



The Bank of Princeton
Bank Wisely.

A return to community banking.



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.*

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Wise Growth.

Letter to Our Shareholders

We are pleased to present the second 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, 2008.

Despite problems at many financial institutions our operations are sound. While more than 500 banks have taken TARP (Troubled Asset Relief Program) funds, The Bank of Princeton (which was approved by the Department of the Treasury to participate in the program) declined to do so.

When The Bank of Princeton began operations in April 2007, we stated that it represented “the return of community banking to Princeton and its surrounding neighborhoods.” We believed that others shared our vision and desire for an institution that would bring local knowledge, expertise and a commitment to the area. Now that we are almost two years into our mission, it has become abundantly clear that the communities we serve agree with this philosophy.

Our model for success that was established with our Chambers Street office in Princeton has been expanded with the successful opening of three new branches in 2008: Pennington, Hamilton and our new corporate headquarters on Bayard Lane in Princeton Township. While the initial start-up costs to the Bank for this expansion were significant, we believe that they position us for continued growth and efficiencies into the future.

As the audited financial statements reflect, the Bank finished its December 31, 2008 fiscal year with \$194,371,000 in total assets. This represents a nearly 200% increase over the prior fiscal year. Fueling this growth was a significant increase in deposits which measured \$166,597,000 at December 31, 2008. In honor of the grand opening of our fourth branch, we ran a very successful ad campaign called “4 for 4.” This promotion, which allowed customers to deposit funds with us and earn 4% for 4 months, brought in roughly \$65 million in the last quarter of the year. We were able to reinvest much of this capital into our community as evidenced by the approximate 200% increase in our loan portfolio which measured \$90,401,000 at December 31, 2008. Our balance sheet continues to be strong as seen by stockholders’ equity of \$26,861,000.

continued over



Wise Growth.

Letter to Our Shareholders, *continued*

The Statement of Operations reflects a net loss of \$2,314,000 for the year, an increase from the \$1,613,000 loss incurred for fiscal year 2007. This loss reflects the higher cost of obtaining deposits in 2008 and the aforementioned investment in the infrastructure of our branch network. As we continue to deploy deposits into our growing loan portfolio and as the precipitous decline in short-term interest rates allows us to reduce our cost of funds, we should see the resulting improvement in operations in 2009. The Banks cost of funds decreased 167 basis points during 2008 to 2.73% in December. This figure continues to improve and measured 2.36% for March 2009.

In order to execute the task of loan growth in a safe and secure manner during these trying economic times, we recently hired three very experienced commercial lenders and a consumer lending manager. These key additions to staff enable us to benefit from the economic “credit crunch” that has affected our larger competitors. There is no lack of available credit at The Bank of Princeton. We will continue to gain market share through the acquisition of good, solid relationships that are not being attended to by other institutions. We have seen several mergers brought on by the failings of these larger banks and are well positioned to take advantage with our customized lending solutions and personalized style of banking.

We recognize that the success of our organization is dependent on our ability to attract and retain both customers and quality staff. To that end we want to be sure to recognize our employees for their efforts toward creating a first class organization, our customers who have placed their trust and confidence in us and our investors that have shown their commitment to our mission and faith in our ability to execute on it.



Andrew Chon
Chairman and CEO



Martin P. Melilli
President



Independent Auditor's Report

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

We have audited the accompanying balance sheets of The Bank of Princeton as of December 31, 2008 and 2007, and the related statements of operations, stockholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 valuating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Bank of Princeton as of December 31, 2008 and 2007, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Beard Miller Company LLP

Beard Miller Company LLP
Malvern, Pennsylvania
March 20, 2009



Balance Sheets

December 31, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Assets		
Cash and due from banks	\$ 13,759,890	\$ 1,274,611
Federal funds sold	<u>15,718,000</u>	<u>11,697,000</u>
Cash and Cash Equivalents	29,477,890	12,971,611
Securities available for sale	70,454,967	21,993,736
Securities held to maturity	502,077	503,489
Loans, net of allowance for loan losses of \$1,092,258 and \$354,486, respectively	90,401,161	29,116,579
Restricted investment in bank stock	89,000	50,000
Bank premises and equipment	2,289,553	1,260,558
Accrued interest receivable	808,379	369,894
Other assets	<u>348,537</u>	<u>197,459</u>
Total Assets	<u>\$194,371,564</u>	<u>\$66,463,326</u>
Liabilities & Stockholders' Equity		
Liabilities		
Deposits:		
Non-interest bearing	\$ 10,596,133	\$ 1,268,080
Interest-bearing	<u>156,001,248</u>	<u>36,482,595</u>
Total Deposits	166,597,381	37,750,675
Accrued interest payable	384,585	74,214
Other liabilities	<u>528,327</u>	<u>298,327</u>
Total Liabilities	<u>167,510,293</u>	<u>38,123,216</u>
Stockholders' Equity		
Common stock, \$5 par value; authorized 10,000,000 shares; issued and outstanding 3,020,000 shares and 3,000,000 shares at December 31, 2008 and 2007, respectively	15,100,000	15,000,000
Surplus	15,516,753	15,252,820
Accumulated deficit	(4,467,163)	(2,152,232)
Accumulated other comprehensive income	<u>711,681</u>	<u>239,522</u>
Total Stockholders' Equity	<u>26,861,271</u>	<u>28,340,110</u>
Total Liabilities and Stockholders' Equity	<u>\$194,371,564</u>	<u>\$66,463,326</u>



Statement of Operations

Years Ended December 31, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Interest Income		
Loans receivable, including fees	\$ 3,570,605	\$ 625,212
Securities:		
Taxable	2,088,732	379,432
Tax-exempt	18,589	10,239
Dividends	1,170	-
Federal funds sold	<u>290,217</u>	<u>1,160,724</u>
Total Interest Income	5,969,313	2,175,607
Interest Expense, Deposits	<u>2,621,324</u>	<u>539,764</u>
Net Interest Income	3,347,989	1,635,843
Provision for Loan Losses	<u>737,772</u>	<u>354,486</u>
Net Interest Income after Provision for Loan Losses	<u>2,610,217</u>	<u>1,281,357</u>
Non-Interest Income		
Gain (loss) on sale of securities available for sale	17,000	(4,304)
Other income	<u>83,791</u>	<u>4,075</u>
Total Non-Interest Income	<u>100,791</u>	<u>(229)</u>
Non-Interest Expenses		
Salaries and employee benefits	2,793,844	1,627,935
Occupancy and equipment	810,368	309,216
Professional fees	333,114	216,172
Data processing	211,738	73,720
Advertising and promotion	447,903	283,578
Loan expenses	114,496	59,901
Other	<u>314,476</u>	<u>323,740</u>
Total Non-Interest Expenses	<u>5,025,939</u>	<u>2,894,262</u>
Net Loss	<u><u>\$(2,314,931)</u></u>	<u><u>\$(1,613,134)</u></u>



Statements of Stockholders' Equity

Years Ended December 31, 2008 and 2007

	Common Stock	Surplus	Accumulated Deficit	Accumulated Other Comprehen- sive 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
Comprehensive loss:					
Net loss	-	-	(2,314,931)	-	(2,314,931)
Change in net unrealized gains on securities available for sale, net of reclassification adjustment and tax effect	-	-	-	472,159	472,159
Total Comprehensive Loss					(1,842,772)
Options exercised (20,000 shares at \$10 per share)	100,000	100,000	-	-	200,000
Share-based compensation expense	-	163,933	-	-	163,933
Balance - December 31, 2008	\$15,100,000	\$15,516,753	\$(4,467,163)	\$711,681	\$26,861,271



Statement of Cash Flows

Years Ended December 31, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Cash Flows from Operating Activities		
Net loss	\$ (2,314,931)	\$(1,613,134)
Adjustments to reconcile net loss to net cash used in operating activities:		
Provision for loan losses	737,772	354,486
Depreciation and amortization	270,309	74,859
Share-based compensation	163,933	309,342
Accretion of deferred loan fees	(51,975)	(12,445)
Net amortization of securities premiums	10,620	856
Net realized (gain) loss on sale of securities available for sale	(17,000)	4,304
(Increase) in accrued interest receivable	(438,485)	(369,894)
(Increase) in other assets	(151,078)	(197,459)
Increase in accrued interest payable	310,371	74,214
Decrease in other liabilities	<u>(13,234)</u>	<u>(364,161)</u>
Net Cash Used in Operating Activities	<u>(1,493,698)</u>	<u>(1,739,032)</u>
Cash Flows from Investing Activities		
Activity in available for sale securities:		
Purchases	(56,811,526)	(25,628,963)
Maturities, calls and principal repayments	8,056,480	-
Proceeds from sales	1,017,000	3,993,740
Activity in held to maturity securities, purchases	-	(504,250)
Net increase in loans	(61,970,379)	(29,458,620)
Purchases of restricted investment in bank stock	(39,000)	(50,000)
Purchases of premises and equipment	<u>(1,299,304)</u>	<u>(1,335,417)</u>
Net Cash Used in Investing Activities	<u>(111,046,729)</u>	<u>(52,983,510)</u>
Cash Flows from Financing Activities		
Net increase in deposits	128,846,706	37,750,675
Proceeds from issuance of common stock, net	-	29,943,478
Proceeds from exercise of stock options	<u>200,000</u>	<u>-</u>
Net Cash Provided by Financing Activities	<u>129,046,706</u>	<u>67,694,153</u>
Net Increase in Cash and Cash Equivalents	16,506,279	12,971,611
Cash and Cash Equivalents - Beginning	<u>12,971,611</u>	<u>-</u>
Cash and Cash Equivalents - Ending	<u>\$ 29,477,890</u>	<u>\$12,971,611</u>
Supplementary Cash Flows Information		
Interest paid	<u>\$ 2,310,953</u>	<u>\$ 465,550</u>



Notes to Financial Statements

December 31, 2008 and 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, through its four branches, is primarily Mercer County, New Jersey.

Prior to commencing operations, the Bank incurred \$1,080,046 of organization and pre opening 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. The amounts expensed and earned in 2007 are included in the statement of operations for the period ended December 31, 2007 in their 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, the potential impairment of restricted stock, the valuation of deferred tax assets, and the determination of other-than-temporary impairment of securities.

Significant Group Concentrations of Credit Risk

Most of the Bank's activities are with customers located within Mercer County, New Jersey. Note 2 discusses the type of securities that the Bank invests in. 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 is highly liquid. Generally, federal funds are purchased for one day periods.



Notes to Financial Statements

December 31, 2008 and 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 Stock

Restricted stock, which represents required investments in the common stock of correspondent banks, is carried at cost and as of December 31, 2008 consist of the common stock of Atlantic Central Bankers Bank (ACBB) and the Federal Home Loan Bank of New York (FHLB-NY). As of December 31, 2007, restricted stock consists of the common stock of the ACBB.

Management evaluates the restricted stock for impairment in accordance with Statement of Position (SOP) 01-6, Accounting by Certain Entities (Including Entities With Trade Receivables) That Lend to or Finance the Activities of Others. Management's determination of whether these investments are impaired is based on their assessment of the ultimate recoverability of their cost rather than by recognizing temporary declines in value. The determination of whether a decline affects the ultimate recoverability of their cost is influenced by criteria such as (1) the significance of the decline in net assets of the ACBB or FHLB-NY as compared to the capital stock amounts and the length of time this situation has persisted, (2) commitments by the ACBB or FHLB-NY to make payments required by law or regulation and the level of such payments in relation to the operating performance of the ACBB and FHLB-NY, and (3) the impact of legislative and regulatory changes on institutions and, accordingly, on the customer base of the ACBB and FHLB-NY.

Management believes no impairment charge is necessary related to restricted stock as of December 31, 2008.



Notes to Financial Statements

December 31, 2008 and 2007

Note 1 - Summary of Significant Accounting Policies (Continued)

Loans

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.

Allowance for Loan Losses

The allowance for loan losses is established through provisions for loan losses charged against earnings. 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 generally 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, 2008 and 2007, the entire allowance reflected a general reserve.



Notes to Financial Statements

December 31, 2008 and 2007

Note 1 - Summary of Significant Accounting Policies (Continued)

Allowance for Loan Losses (Continued)

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.

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 years ended December 31, 2008 and 2007 totaled approximately \$448,000 and \$284,000, respectively.

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.



Notes to Financial Statements

December 31, 2008 and 2007

Note 1 - Summary of Significant Accounting Policies (Continued)

Income Taxes (Continued)

In December 2008, the Financial Accounting Standards Board issued FASB Staff Position (FSP) FIN 48 3, Effective Date of FASB Interpretation No. 48 for Certain Nonpublic Enterprises. The FSP defers the effective date of FASB Interpretation No. 48 (FIN 48), Accounting for Uncertainty in Income Taxes, to be effective for fiscal years beginning after December 15, 2008 for certain nonpublic enterprises. The FSP requires a nonpublic enterprise that elects to defer the application of FIN 48 to explicitly disclose that fact and also requires the disclosure of the enterprise's accounting policy for evaluating uncertain tax positions for each set of financial statements where the deferral applies.

The Bank has elected to defer the application of FIN 48. For the years ended December 31, 2008 and 2007, the Bank has accounted for uncertain tax positions in accordance with Statement of Financial Accounting Standards No. 5, Accounting for Contingencies.

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 years ended December 31 are as follows:

	<u>2008</u>	<u>2007</u>
Unrealized holding gains on securities available for sale	\$732,393	\$358,608
Reclassification adjustment for (gains) losses included in net loss	<u>(17,000)</u>	<u>4,304</u>
	715,393	362,912
Tax effect	<u>(243,234)</u>	<u>(123,390)</u>
	<u>\$472,159</u>	<u>\$239,522</u>

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, 2008 and 2007, no matching contributions were made.



Notes to Financial Statements

December 31, 2008 and 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.

Reclassifications

Certain reclassifications have been made to the previous year's financial statements to conform to the current year's presentation. These reclassifications had no effect on net loss.

Note 2 - Securities

The amortized cost and approximate fair value of securities are summarized as follows:

	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
December 31, 2008				
Securities Available for Sale				
U.S. Government agency securities	\$17,994,474	\$ 506,880	\$ -	\$18,501,354
Mortgage-backed securities	49,927,782	853,396	(253,260)	50,527,918
Corporate securities	<u>1,454,406</u>	<u>-</u>	<u>(28,711)</u>	<u>1,425,695</u>
	<u>\$69,376,662</u>	<u>\$1,360,276</u>	<u>\$(281,971)</u>	<u>\$70,454,967</u>
Securities Held to Maturity				
Obligations of state and political subdivisions	<u>\$ 502,077</u>	<u>\$ 8,115</u>	<u>\$ -</u>	<u>\$ 510,192</u>
December 31, 2007				
Securities Available for Sale				
U.S. Government agency securities	\$16,795,870	\$376,140	\$ -	\$17,172,010
Mortgage-backed securities	<u>4,834,954</u>	<u>7,196</u>	<u>(20,424)</u>	<u>4,821,726</u>
	<u>\$21,630,824</u>	<u>\$383,336</u>	<u>\$(20,424)</u>	<u>\$21,993,736</u>
Securities Held to Maturity				
Obligations of state and political subdivisions	<u>\$ 503,489</u>	<u>\$ 5,257</u>	<u>\$ -</u>	<u>\$ 508,746</u>



Notes to Financial Statements

December 31, 2008 and 2007

Note 2 - Securities (Continued)

At December 31, 2008, the Bank has 16 securities in an unrealized loss position due to interest rate fluctuations. These securities were in an unrealized loss position for less than 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.

There were three securities in an unrealized loss position at December 31, 2007. These securities were in an unrealized loss position for less than 12 months.

The amortized cost and fair value of securities as of December 31, 2008, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because the securities may be called without any penalties.

	<u>Available for Sale</u>		<u>Held to Maturity</u>	
	<u>Amortized Cost</u>	<u>Fair Value</u>	<u>Amortized Cost</u>	<u>Fair Value</u>
Due in one year or less	\$ -	\$ -	\$ -	\$ -
Due after one year through five years	5,800,684	5,774,875	502,077	510,192
Due after five years through ten years	15,811,884	16,420,269	-	-
Due after ten years	47,764,094	48,259,823	-	-
	<u>\$69,376,662</u>	<u>\$70,454,967</u>	<u>\$502,077</u>	<u>\$510,192</u>

During 2008, the Bank sold a security available for sale for total proceeds of approximately \$1,017,000, resulting in a gross realized gain of \$17,000.

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, 2008 and 2007, the Bank had pledged to the Commissioner of Banking, State of New Jersey, \$1,237,000 and \$100,000, respectively, in municipal and mortgage-backed securities, for the purpose of securing public deposits under the Governmental Unit Deposit Protection Act. At December 31, 2008, the Bank has \$3,000,000 in U.S. Government agency securities pledged to the ACBB as collateral for the Bank's two business sweep accounts held at the ACBB. In addition, the Bank has \$15,706,268 in mortgage-backed securities available to be pledged to the FHLB as collateral for advances outstanding from the FHLB. As of December 31, 2008, there were no advances outstanding from the FHLB.



Notes to Financial Statements

December 31, 2008 and 2007

Note 3 - Loans

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

	<u>2008</u>	<u>2007</u>
Commercial term	\$ 8,878,365	\$ 3,059,135
Commercial real estate	56,218,516	16,132,127
Construction	11,326,390	5,653,778
Home equity	12,301,915	2,098,160
Consumer	3,012,366	2,637,550
Total Loans	91,737,552	29,580,750
Deferred fees	(244,133)	(109,685)
Allowance for loan losses	<u>(1,092,258)</u>	<u>(354,486)</u>
Net Loans	<u>\$90,401,161</u>	<u>\$29,116,579</u>

The changes in the allowance for loan losses for the periods ended December 31 are as follows:

	<u>2008</u>	<u>2007</u>
Balance, beginning	\$ 354,486	\$ -
Provision for loan losses	<u>737,772</u>	<u>354,486</u>
Balance, ending	<u>\$1,092,258</u>	<u>\$354,486</u>

At December 31, 2008, included in loans is an impaired loan (nonaccrual) in the amount of \$155,000. There was no specific reserve required on this impaired loan in accordance with Financial Accounting Standards Board No. 114, "Accounting by Creditors for Impairment of a Loan." Interest income that would have been recognized on this loan had it been current in accordance with its original term totaled approximately \$3,300. Subsequent to December 31, 2008 all amounts outstanding on this impaired loan were paid in full. There were no nonaccrual loans as of December 31, 2007. There were no loans past due 90 days or more still accruing interest at December 31, 2008 and 2007.

As of December 31, 2007, the Bank had no impaired loans.



Notes to Financial Statements

December 31, 2008 and 2007

Note 4 - Bank Premises and Equipment

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

	<u>Estimated Useful Lives</u>	<u>2008</u>	<u>2007</u>
Leasehold improvements	10	\$1,412,707	\$ 679,602
Furniture, fixtures and equipment	3 - 7	1,222,015	565,367
Construction in progress		<u>-</u>	<u>90,448</u>
		2,634,722	1,335,417
Accumulated depreciation		<u>(345,169)</u>	<u>(74,859)</u>
		<u>\$2,289,553</u>	<u>\$1,260,558</u>

Depreciation and amortization expense charged to operations amounted to \$270,309 and \$74,859 for the periods ended December 31, 2008 and 2007, respectively.

Note 5 - Deposits

The components of deposits at December 31 are as follows:

	<u>2008</u>	<u>2007</u>
Demand, non-interest bearing	\$ 10,596,133	\$ 1,268,080
Demand, interest bearing and savings accounts	22,349,991	2,229,469
Money market accounts	73,268,491	9,002,083
Time, \$100,000 and over	22,160,465	12,576,216
Time, other	<u>38,222,301</u>	<u>12,674,827</u>
	<u>\$166,597,381</u>	<u>\$37,750,675</u>

At December 31, 2008, the scheduled maturities of time deposits are as follows:

2009	\$ 58,980,869
2010	944,405
2011	290,581
2012	81,911
2013	<u>85,000</u>
	<u>\$ 60,382,766</u>



Notes to Financial Statements

December 31, 2008 and 2007

Note 6 - Borrowings

The Bank had no borrowings outstanding as of December 31, 2008 and 2007. At December 31, 2008, the Bank has federal funds available with the ACBB of \$4,000,000. In addition, the Bank has a \$15,000,000 borrowing facility with the FHLB-NY.

Note 7 - Lease Commitments and Total Rental Expense

The Bank has operating leases for four 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:

2009	\$ 508,378
2010	513,701
2011	496,881
2012	484,416
2013	442,070
Thereafter	<u>2,010,714</u>
	<u>\$4,456,160</u>

Rental expense for the years ended December 31, 2008 and 2007 was \$369,625 and \$190,440, respectively.

Since November 2008, the Bank has had an operating lease agreement with a related party for its corporate headquarters and branch. The lease terms were comparable to similarly outfitted office space in the Bank's market. The Bank is also required to pay a monthly fee for certain operating expenses, including real estate taxes, insurance, utilities, maintenance and repairs, in addition to the base rent. Rental expense to this related party was approximately \$47,000 for the period ended December 31, 2008.

Note 8 - 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 9 - 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, 2008 and 2007. No warrants were exercised, granted, or forfeited during the year ended December 31, 2008.



Notes to Financial Statements

December 31, 2008 and 2007

Note 9 - Stockholders' Equity (Continued)

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.

Note 10 - Income Taxes

There is no provision for income taxes for the years ended December 31, 2008 and 2007 due to the net operating losses incurred.

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

	<u>2008</u>	<u>2007</u>
Deferred tax assets:		
Allowance for loan losses	\$ 396,776	\$ 123,128
Organization and start-up costs	379,341	410,418
Net operating loss carryforwards	1,387,597	397,583
Organizer warrants	109,656	109,656
Other	2,668	1,176
	<u>2,276,038</u>	<u>1,041,961</u>
Valuation allowance	<u>(1,688,369)</u>	<u>(846,795)</u>
Total Deferred Tax Assets, Net of Valuation Allowance	<u>587,669</u>	<u>195,166</u>
Deferred tax liabilities:		
Property and equipment	(237,330)	(41,112)
Cash basis conversions	(320,503)	(134,941)
Unrealized gain on securities	(366,624)	(123,390)
Deferred loan costs	(29,836)	(19,113)
	<u>(954,293)</u>	<u>(318,556)</u>
Net Deferred Tax Liability	<u>\$ (366,624)</u>	<u>\$ (123,390)</u>



Notes to Financial Statements

December 31, 2008 and 2007

Note 10 - Income Taxes (Continued)

At December 31, 2008, the Bank has available unused net operating loss carryforwards available for federal and state income tax purposes of approximately \$3,469,000, which expire through 2028 for federal purposes and through 2015 for state purposes.

Note 11 - 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 loans receivable from related parties in the amount of \$3,373,818 and \$-0- at December 31, 2008 and 2007, respectively. Deposits of related parties totaled \$3,284,590 and \$7,691,595 as of December 31, 2008 and 2007, respectively.

During 2008, loans originated to related parties totaled \$3,498,818 and principal paydowns were \$125,000.

Note 12 - 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.



Notes to Financial Statements

December 31, 2008 and 2007

Note 12 - Share-Based Compensation (Continued)

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

	<u>2008</u>	<u>2007</u>
Dividend yield	-	-
Expected life	8 Yrs	7 Yrs
Expected volatility	23.19 %	20.89 %
Risk-free interest rate	3.75 %	4.34 %

The following is a summary of the Bank's share-based compensation activity and related information for the year ended December 31, 2008 and 2007:

	<u>Warrants and Options</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Remaining Contractual Term</u>	<u>Aggregate Intrinsic Value</u>
December 31, 2008				
Outstanding - beginning of year	\$223,250	\$10.00		
Options granted	85,200	10.25		
Exercised	(20,000)	10.00		
Forfeited	<u>(70,250)</u>	<u>10.00</u>		
Outstanding - end of year	<u>\$218,200</u>	<u>10.10</u>	<u>8.8 years</u>	<u>\$ -</u>
Exercisable - end of year	<u>\$133,000</u>	<u>10.00</u>	<u>8.2 years</u>	<u>\$ -</u>
Weighted-average fair value of options granted during the year		<u>\$3.87</u>		
	<u>Warrants and Options</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Remaining Contractual Term</u>	<u>Aggregate Intrinsic Value</u>
December 31, 2007				
Outstanding - beginning of year	\$ -	\$ -		
Warrants granted	97,500	10.25		
Options granted	<u>125,750</u>	<u>10.00</u>		
Outstanding - end of year	<u>\$223,250</u>	<u>10.00</u>	<u>9.5 years</u>	<u>\$ -</u>
Exercisable - end of year	<u>\$ 97,500</u>	<u>10.00</u>	<u>9.3 years</u>	<u>\$ -</u>
Weighted-average fair value of options granted during the year		<u>\$3.46</u>		
Weighted-average fair value of warrants granted during the year		<u>\$2.81</u>		



Notes to Financial Statements

December 31, 2008 and 2007

Note 12 - Share-Based Compensation (Continued)

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 is no tax benefits recognized in 2007 related to the share-based compensation expense due to the net operating loss incurred. Total share-based compensation cost for the year ended December 31, 2008 was \$163,933 which related to stock options only. There is no tax benefits recognized in 2008 related to the share-based compensation expense due to the net operation loss incurred.

As of December 31, 2008, there was \$289,000 of unrecognized compensation cost related to nonvested stock options granted in 2007 and 2008. The cost is expected to be recognized on a graded vesting method over a weighted average period of 8 years.

Note 13 - 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:

	<u>2008</u>	<u>2007</u>
Commitments to grant loans	\$ 36,548,533	\$ 13,205,000
Unfunded commitments under lines of credit	11,214,664	9,165,359
	47,763,197	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, 2008 and 2007

Note 14 - 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, 2008, 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, 2008.

The Bank's actual capital amounts and ratios at December 31, 2008 and 2007 are presented below:

	<u>Actual</u>		<u>For Capital Adequacy Purposes</u>		<u>To be Well Capitalized under Prompt Corrective Action Provisions</u>	
	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>
	(Dollars in Thousands)					
2008						
Total capital (to risk-weighted assets)	\$27,241	24.72 %	\$ ≥ 8,817	≥ 8.0 %	\$ ≥ 11,021	≥ 10.0 %
Tier 1 capital (to risk-weighted assets)	26,149	23.73	≥ 4,408	≥ 4.0	≥ 6,612	≥ 6.0
Tier 1 capital (to average assets)	26,149	15.86	≥ 13,190	≥ 8.0	≥ 3,190	≥ 8.0
2007						
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.



Notes to Financial Statements

December 31, 2008 and 2007

Note 15 - Fair Value Measurements and Fair Values of Financial Instruments

Management uses its best judgment in estimating the fair value of the Bank's financial instruments; however, there are inherent weaknesses in any estimation technique. Therefore, for substantially all financial instruments, the fair value estimates herein are not necessarily indicative of the amounts the Bank could have realized in a sales transaction on the dates indicated. The estimated fair value amounts have been measured as of their respective year-ends and have not been re-evaluated or updated for purposes of these financial statements subsequent to those respective dates. As such, the estimated fair values of these financial instruments subsequent to the respective reporting dates may be different than the amounts reported at each year-end.

In September 2006, the Financial Accounting Standards Board ("FASB") issued Statement No. 157, Fair Value Measurements ("SFAS 157"), which defines fair value, establishes a framework for measuring fair value under GAAP, and expands disclosures about fair value measurements. SFAS 157 applies to other accounting pronouncements that require or permit fair value measurements. The Bank adopted SFAS 157 effective for its fiscal year beginning January 1, 2008.

In December 2007, the FASB issued FASB Staff Position 157-2, Effective Date of FASB Statement No. 157 ("FSP 157-2"). FSP 157-2 delays the effective date of SFAS 157 for all non-financial assets and liabilities, except those that are recognized or disclosed at fair value on a recurring basis (at least annually) to fiscal years beginning after November 15, 2008 and interim periods within those fiscal years. As such, the Bank only partially adopted the provisions of SFAS 157, and will begin to account and report for non-financial assets and liabilities in 2009. In October 2008, the FASB issued FASB Staff Position 157-3, Determining the Fair Value of a Financial Asset When the Market for that Asset is Not Active ("FSP 157-3"), to clarify the application of the provisions of SFAS 157 in an inactive market and how an entity would determine fair value in an inactive market. FSP 157-3 is effective immediately and applies to the Bank's December 31, 2008 consolidated financial statements. The adoption of SFAS 157 and FSP 157-3 had no impact on the amounts reported in the financial statements.

SFAS 157 establishes a fair value hierarchy that prioritizes the inputs to valuation methods used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under SFAS 157 are as follows:

- Level 1: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.
- Level 2: Quoted prices in markets that are not active, or inputs that are observable either directly or indirectly, for substantially the full term of the asset or liability.
- Level 3: Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e., supported with little or no market activity).

24 An asset's or liability's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.



Notes to Financial Statements

December 31, 2008 and 2007

Note 15 - Fair Value Measurements and Fair Values of Financial Instruments (Continued)

For financial assets measured at fair value on a recurring basis, the fair value measurements by level within the fair value hierarchy used at December 31, 2008 are as follows:

Description	December 31, 2008	(Level 1) Quoted Prices in Active Markets for Identical Assets	(Level 2) Significant Other Observable Inputs	(Level 3) Significant Unobserv- able Inputs
Securities available for sale	\$70,454,967	\$1,425,695	\$69,029,272	\$ -

Certain financial assets and financial liabilities are measured at fair value on a nonrecurring basis; that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment). There were no financial assets and financial liabilities measured at fair value on a non-recurring basis at December 31, 2008.

The following information should not be interpreted as an estimate of the fair value of the entire Bank since a fair value calculation is only provided for a limited portion of the Bank's assets and liabilities. Due to a wide range of valuation techniques and the degree of subjectivity used in making the estimates, comparisons between the Bank's disclosures and those of other companies may not be meaningful. The following methods and assumptions were used to estimate the fair values of the Bank's financial instruments at December 31, 2008 and 2007:

Cash and Cash Equivalents (Carried at Cost)

The carrying amounts reported in the balance sheets for cash and short-term instruments approximate those assets' fair values.

Securities

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

Loans (Carried at Cost)

The fair values of loans are estimated using discounted cash flow analyses, using market rates at the balance sheet date that reflect the credit and interest rate-risk inherent in the loans. Projected future cash flows are calculated based upon contractual maturity or call dates, projected repayments and prepayments of principal. Generally, for variable rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values.



Notes to Financial Statements

December 31, 2008 and 2007

Note 15 - Fair Value Measurements and Fair Values of Financial Instruments (Continued)

Restricted Investment in Bank Stock (Carried at Cost)

The carrying amount of restricted investments in bank stock approximates fair value, and considers the limited marketability of such securities.

Accrued Interest Receivable and Payable (Carried at Cost)

The carrying amount of accrued interest receivable and accrued interest payable approximates its fair value.

Deposit Liabilities (Carried at Cost)

The fair values disclosed for demand deposits (e.g., interest and noninterest checking, passbook savings and money market accounts) are, by definition, equal to the amount payable on demand at the reporting date (i.e., their carrying amounts). Fair values for fixed-rate certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered in the market on certificates to a schedule of aggregated expected monthly maturities on time deposits.

Off-Balance Sheet Financial Instruments (Disclosed at Cost)

Fair values for the Bank's off-balance sheet financial instruments (lending commitments and lines of credit) are based on fees currently charged in the market to enter into similar agreements, taking into account, the remaining terms of the agreements and the counterparties' credit standing.

The estimated fair values of the Bank's financial instruments were as follows at December 31, 2008.

	2008	
	Carrying Amount	Fair Value
Financial Assets:		
Cash and cash equivalents	\$29,477,890	\$29,477,890
Investment securities available for sale	70,454,967	70,454,967
Investment securities held to maturity	502,077	510,192
Restricted investment in bank stock	89,000	89,000
Loans receivable, net	90,401,161	90,236,742
Accrued interest receivable	808,379	808,379
Financial Liabilities:		
Deposits	166,597,381	173,985,000
Accrued interest payable	384,585	384,585
Off-Balance Sheet:		
Commitments to extend credit	-	-
Standby letters of credit	-	-



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Martin P. Melilli
President

Kelly Tarity

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Chief Financial Officer

Rebecca Dittrich
Edward Hassenkamp
Brian Maslowski
Amela Muslic
Karen Pfeifer

Lending

C. Herbert Schneider
Chief Lending Officer

Stephanie Adkins
Scott Beresford
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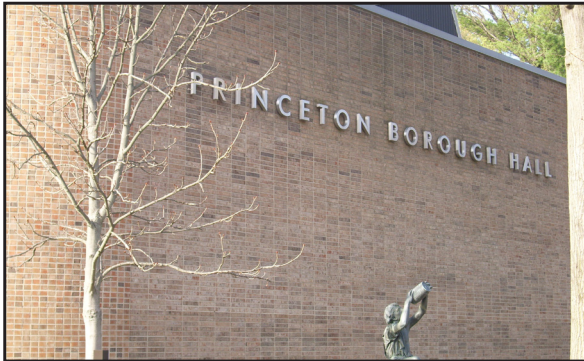
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