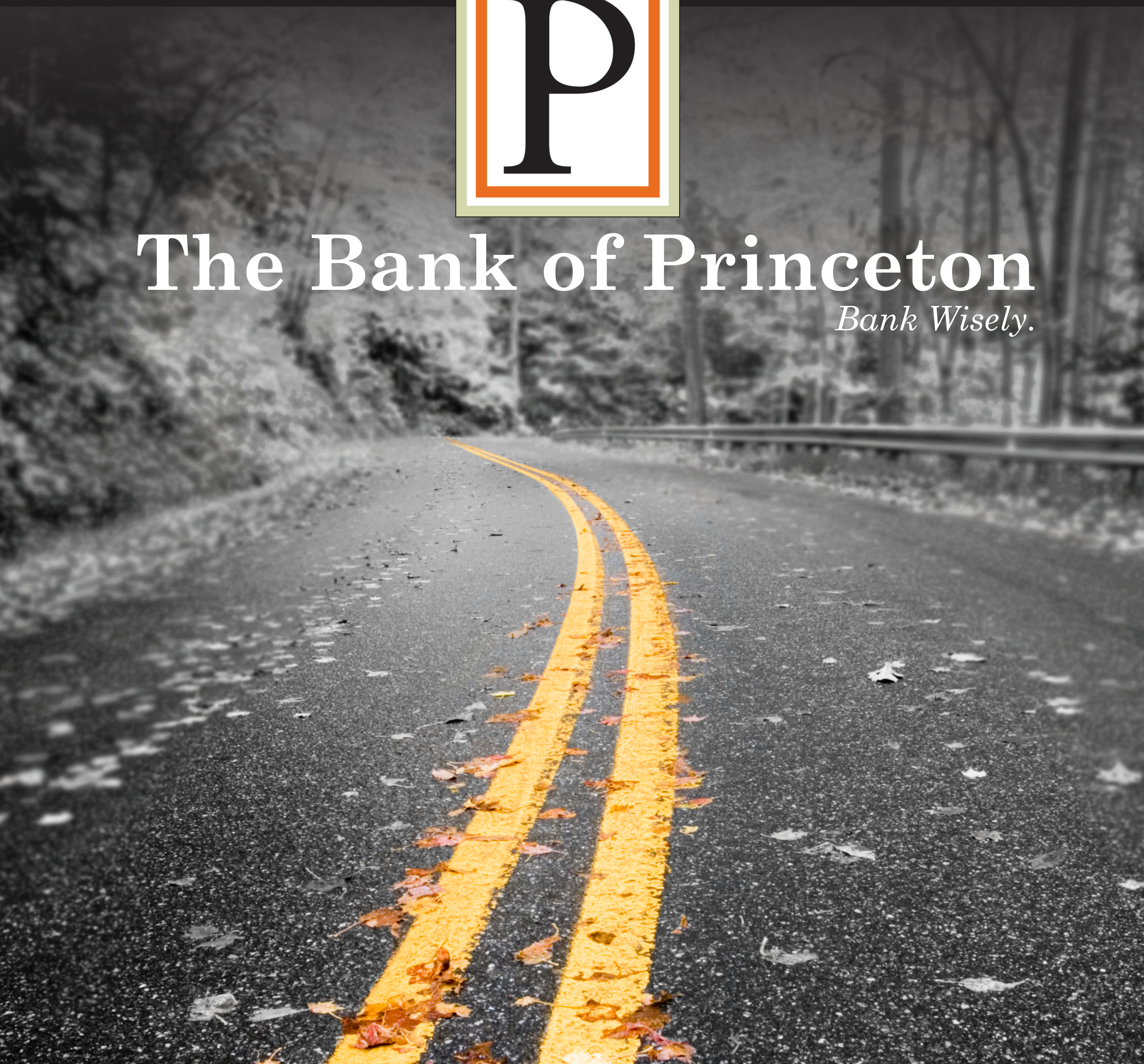
2009 Annual Report



The Bank of Princeton

Bank Wisely.

On the road to success.

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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Letter to the Shareholders

We are pleased to present the 2009 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, 2009.

For the year we surpassed virtually every financial goal. As the audited financial statements reveal, the Bank had total assets of $264,661,000, total deposits of $218,628,000, total gross loans outstanding of $174,657,000 and capital of $27,890,000. Our loan portfolio grew 91% ($83 million) while our deposits grew 31% ($52 million). This strategic balance sheet realignment resulted in a favorable loan to deposit ratio of 80% at December 31, 2009. While asset growth was significant, credit quality remains sound as we continually enhance our monitoring systems and operating procedures.

As illustrated in the Statement of Operations, the Bank realized a profit of $412,705 for fiscal year 2009. These results reflect interest income of $11,423,000, interest expense of $3,807,000, a $1,204,000 addition to the loan loss reserve, and $6,578,000 of non-interest expenses. Contributing to this profit were the aforementioned loan growth as well as a lower cost of funds. We were able to reduce our weighted average cost of funds to 1.83% for the year (1.51% for the month of December). These results represent a significant improvement over the prior year twelve month operations which showed a loss of $2,315,000.

During 2009 we implemented several programs and strategies that contributed to our growth and profitability and will serve us well into the future.

- In the second quarter we began offering a residential first mortgage product. This enabled us to diversify our loan portfolio and address another one of our customers' financial needs.
- In the third quarter we rolled out a new healthcare financing program. This was created to address the unique banking needs of medical practices and other healthcare providers.
- In July we placed our most experienced commercial lenders in each branch as Community Bank Executives (CBE's). The CBE's are veteran customer contact personnel that have both a retail and commercial background which allows for a full service presence in our branches at the management level.
- In December four new Business Development Managers (BDM's) joined The Bank of Princeton team. Consistent with our business model, which is designed to foster maximum customer contact, each of these Business Development Managers is located within a branch.
- We are also pleased to report that we continue to successfully attract new and expand existing municipal deposit relationships. This has become a niche market that the Bank looks forward to expanding.

We are acquiring the Montgomery office of Provident Bank, pending regulatory approval. This purchase, which includes approximately $11,000,000 in deposits, is anticipated to close in the second quarter of 2010.

As we grow our franchise, we will continue to invest in the communities we proudly serve. The majority of deposits we gather are reinvested into personal and business loans within the surrounding neighborhoods. This practice is an integral part of the mission that we adopted when The Bank of Princeton was formed and it is the community bank model that will continue to guide us.

At The Bank of Princeton we not only share a sense of economic responsibility, but a social responsibility as well. During 2009 our employees actively participated in many non-profit and local business organizations. As an example, in December each branch collected food and clothing for a charity that was near and dear to their hearts in their respective markets. By supporting charitable organizations we all help make our communities a better place to live and work. This is a responsibility we embrace and take very seriously at The Bank of Princeton.

Overall, we are extremely pleased with our results for 2009. Achieving profitability is an exciting accomplishment made possible through the dedicated team at The Bank of Princeton and our loyal customers. We are positioned well to build upon these positive results and look forward to meeting and even exceeding our goals for 2010. The Directors, Management and Staff of The Bank of Princeton thank you for your continued support.

Sincerely,

Andrew M. Chon
Chairman of the Board

Martin P. Melilli
President

ParenteBeard

Independent Auditors' 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, 2009 and 2008, 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 evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Bank of Princeton as of December 31, 2009 and 2008, 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.

ParenteBeard LLC

Malvern, Pennsylvania
March 8, 2010

Balance Sheets
December 31, 2009 and 2008

	2009	2008
Assets		
Cash and due from banks	**$ 7,155,513**	$ 13,759,890
Federal funds sold	**148,000**	15,718,000
Cash and Cash Equivalents	**7,303,513**	29,477,890
Securities available for sale	**70,423,247**	70,454,967
Securities held to maturity (fair value 2009 - $8,696,634; 2008 - $510,192)	**8,670,715**	502,077
Loans, net of allowance for loan losses of $2,146,776 and $1,092,258 at December 31, 2009 and 2008, respectively	**172,510,112**	90,401,161
Other real estate owned	**227,283**	-
Restricted investments in bank stocks, at cost	**948,000**	89,000
Premises and equipment, net	**2,007,505**	2,289,553
Accrued interest receivable	**1,037,209**	808,379
Other assets	**1,532,951**	348,537
Total Assets	**$264,660,535**	$194,371,564
Liabilities and Stockholders' Equity		
Liabilities		
Deposits:		
Non-interest bearing	**$ 16,576,817**	$ 10,596,133
Interest-bearing	**202,051,536**	156,001,248
Total Deposits	**218,628,353**	166,597,381
Borrowings	**17,137,823**	-
Accrued interest payable	**627,264**	384,585
Other liabilities	**377,283**	528,327
Total Liabilities	**236,770,723**	167,510,293
Stockholders' Equity		
Common stock, $5 par value; authorized 10,000,000 shares; issued and outstanding 2009 - 3,022,375 shares; 2008 - 3,020,000 shares	**15,111,875**	15,100,000
Paid-in capital	**15,765,295**	15,516,753
Accumulated deficit	**(4,054,458)**	(4,467,163)
Accumulated other comprehensive income	**1,067,100**	711,681
Total Stockholders' Equity	**27,889,812**	26,861,271
Total Liabilities and Stockholders' Equity	**$264,660,535**	$194,371,564

See notes to financial statements.

Statements of Operations
Years Ended December 31, 2009 and 2008

	2009	2008
Interest and Dividend Income		
Loans receivable, including fees	**$ 7,465,677**	$ 3,570,605
Debt securities:		
Taxable	**3,548,300**	2,088,732
Tax-exempt	**384,494**	18,589
Dividends	**10,752**	1,170
Federal funds sold	**14,170**	290,217
Total Interest and Dividend Income	**11,423,393**	5,969,313
Interest Expense		
Deposits	**3,678,094**	2,621,324
Borrowings	**128,797**	-
Total Interest Expense	**3,806,891**	2,621,324
Net Interest Income	**7,616,502**	3,347,989
Provision for Loan Losses	**1,203,583**	737,772
Net Interest Income after Provision for Loan Losses	**6,412,919**	2,610,217
Non-Interest Income		
Gain on sale of securities available for sale	**413,259**	17,000
Other income	**164,634**	129,795
Total Non-Interest Income	**577,893**	146,795
Non-Interest Expenses		
Salaries and employee benefits	**3,505,107**	2,793,844
Occupancy and equipment	**1,269,479**	810,368
Professional fees	**421,739**	333,114
Data processing	**291,284**	211,738
Advertising and promotion	**153,830**	447,903
Loan expenses	**110,725**	114,496
Federal deposit insurance premiums	**409,957**	31,481
Office supplies, printing and postage	**143,158**	159,961
Communications	**146,610**	123,972
Other	**126,218**	45,066
Total Non-Interest Expenses	**6,578,107**	5,071,943
Net Income (Loss)	**$ 412,705**	$(2,314,931)

See notes to financial statements.

Statements of Stockholders' Equity
Years Ended December 31, 2009 and 2008

	Common Stock	Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Total
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
Comprehensive income:					
Net income	-	-	**412,705**	-	**412,705**
Change in net unrealized gains on securities available for sale, net of reclassification adjustment and tax effect				**355,419**	**355,419**
Total Comprehensive Income					**768,124**
Warrants exercised (2,375 shares at $12 per share)	**11,875**	**16,625**	-	-	**28,500**
Share-based compensation expense	-	**231,917**	-	-	**231,917**
Balance - December 31, 2009	**$15,111,875**	**$15,765,295**	**$(4,054,458)**	**$1,067,100**	**$27,889,812**

See notes to financial statements.

Statements of Cash Flows
Years Ended December 31, 2009 and 2008

	2009	2008
Cash Flows from Operating Activities		
Net income (loss)	**$ 412,705**	$ (2,314,931)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Provision for loan losses	**1,203,583**	737,772
Depreciation and amortization	**371,025**	270,309
Share-based compensation	**231,917**	163,933
Accretion of deferred loan fees	**(106,666)**	(51,975)
Net amortization of securities premiums	**246,843**	10,620
Net realized gain on sale of securities available for sale	**(413,259)**	(17,000)
Increase in accrued interest receivable	**(228,830)**	(438,485)
Increase in other assets	**(1,184,414)**	(151,078)
Increase in accrued interest payable	**242,679**	310,371
Decrease in other liabilities	**(334,138)**	(13,234)
Net Cash Provided by (Used in) Operating Activities	**441,445**	(1,493,698)
Cash Flows from Investing Activities		
Activity in available for sale securities:		
Purchases	**(37,915,840)**	(56,811,526)
Maturities, calls and principal repayments	**29,751,750**	8,056,480
Proceeds from sales	**8,934,654**	1,017,000
Activity in held to maturity securities:		
Purchases	**(13,588,623)**	-
Maturities, calls, and principal repayments	**5,386,070**	-
Net increase in loans	**(83,433,151)**	(61,970,379)
Purchases of restricted investments in bank stocks	**(859,000)**	(39,000)
Purchases of premises and equipment	**(88,977)**	(1,299,304)
Net Cash Used in Investing Activities	**(91,813,117)**	(111,046,729)
Cash Flows from Financing Activities		
Net increase in deposits	**52,030,972**	128,846,706
Proceeds from exercise of warrants	**28,500**	200,000
Proceeds from long-term borrowings	**18,000,000**	-
Repayments of long-term borrowings	**(862,177)**	-
Net Cash Provided by Financing Activities	**69,197,295**	129,046,706
Net Increase (Decrease) in Cash and Cash Equivalents	**(22,174,377)**	16,506,279
Cash and Cash Equivalents - Beginning	**29,477,890**	12,971,611
Cash and Cash Equivalents - Ending	**$ 7,303,513**	$ 29,477,890
Supplementary Cash Flows Information		
Interest paid	**$ 3,564,212**	$ 2,310,953
Supplementary Schedule of Noncash Investing and Financing Activities		
Other real estate acquired in settlement of loans	**$ 227,283**	$ -

See notes to financial statements.

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.

Effective April 1, 2009, the Bank adopted Financial Accounting Standards Board (FASB) guidance now codified as FASB ASC Topic 855, *Subsequent Events*. This guidance establishes general standards for accounting and for disclosure of events that occur after the balance sheet date but before financial statements are issued. The subsequent event guidance sets forth the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition in the financial statements, identifies the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in the financial statements, and the disclosures that should be made about events or transactions that occur after the balance sheet date. In preparing these financial statements, the Bank evaluated the events and transactions that occurred between December 31, 2009 through March 8, 2010, the date these financial statements were issued.

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.

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.

Investments in debt securities that the Bank has the positive intent and ability to hold to maturity are classified as held to maturity securities and reported at amortized cost. Debt and equity securities that are bought and held principally for the purpose of selling them in the near term are classified as trading securities and reported at fair value, with unrealized holding gains and losses included in earnings. Debt and equity securities not classified as trading securities, nor as held to maturity securities are classified as available for sale securities and reported at fair value, with unrealized holding gains or losses, net of deferred income taxes, reported in the accumulated other comprehensive income component of stockholders' equity. The Bank held no trading securities at December 31, 2009 and 2008. Discounts and premiums are accreted/amortized to income by use of the level-yield method. Gain or loss on sales of securities available for sale is based on the specific identification method.

FASB recently issued accounting guidance related to the recognition and presentation of other-than-temporary impairment, which the Bank adopted effective June 30, 2009 ("Pending Content" of FASB ASC 320-1). This recent accounting guidance amends the recognition guidance for other-than-temporary impairments of debt securities and expands the financial statement disclosures for other-than-temporary impairment losses on debt and equity securities. The recent guidance replaced the "intent and ability" indication in current guidance by specifying that (a) if a company does not have the intent to sell a debt security prior to recovery and, (b) it is more likely than not that it will not have to sell the debt security prior to recovery, the security would not be considered other-than-temporarily impaired unless there is a credit loss.

When an entity does not intend to sell the security, and it is more likely than not, the entity will not have to sell the security before recovery of its cost basis, it will recognize the credit component of an other-than-temporary impairment of a debt security in earnings and the remaining portion in other comprehensive income. For held-to-maturity debt securities, the amount of an other-than-temporary impairment recorded in other comprehensive income for the noncredit portion of a previous other-than-temporary impairment should be amortized prospectively over the remaining life of the security on the basis of the timing of future estimated cash flows of the security.

Prior to the adoption of the recent accounting guidance on June 30, 2009, management considered, in determining whether other-than-temporary impairment exists (1) the length of time and the extent to which the fair value has been less than amortized cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Bank to retain the investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

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.

Note 1 - Summary of Significant Accounting Policies (Continued)

Loans (Continued)

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 quantitative and 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.

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.

Note 1 - Summary of Significant Accounting Policies (Continued)

Allowance for Loan Losses (Continued)

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.

Other Real Estate Owned ("OREO")

Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value less cost to sell at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell. Revenue and expenses from operations and changes in the valuation allowance are included in non-interest expense.

Restricted Stock

Restricted stock, which represents required investments in the common stock of correspondent banks, is carried at cost and as of December 31, 2009 and 2008 consist of the common stock of Atlantic Central Bankers Bank (ACBB) and the Federal Home Loan Bank of New York (FHLB-NY).

Management evaluates the restricted stock for impairment. 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 decline 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 has concluded that these investments are not other-than-temporarily impaired at December 31, 2009.

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 shorter of the lease term or estimated useful lives of the related assets.

Advertising Costs

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

Note 1 - Summary of Significant Accounting Policies (Continued)

Income Taxes

The Bank accounts for income taxes in accordance with the income tax accounting guidance set forth in FASB ASC Topic 740, *Income Taxes*. On January 1, 2009, the Bank adopted the recent accounting guidance related to accounting for uncertainty in income taxes, which sets out a consistent framework to determine the appropriate level of tax reserves to maintain for uncertain tax positions.

The income tax accounting guidance results in two components of income tax expense: current and deferred. Current income tax expense reflects taxes to be paid or refunded for the current period by applying the provisions of the enacted tax law to the taxable income or excess of expenses over revenues. The Bank determines deferred income taxes using the liability method. Under this method, the net deferred tax asset or liability is based on the tax effects of the differences between the book and tax bases of assets and liabilities, and enacted changes in tax rates and laws are recognized in the period in which they occur.

Deferred income tax expense (benefit) results from changes in deferred tax assets and liabilities between periods. Deferred tax assets are recognized if it is more likely than not, based on the technical merits, that the tax position will be realized or sustained upon examination. The term more likely than not means a likelihood of more than 50 percent; the terms examined and upon examination also include resolution of the related appeals or litigation processes, if any. A tax position that meets the more-likely-than-not recognition threshold is initially and subsequently measured as the largest amount of tax benefit that has a greater than 50 percent likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. The determination of whether or not a tax position has met the more-likely-than-not recognition threshold considers the facts, circumstances, and information available at the reporting date and is subject to management's judgment. Deferred tax assets are reduced by a valuation allowance if, based on the weight of evidence available, it is more likely than not that some portion or all of a deferred tax asset will not be realized.

The Bank recognized interest and penalties on income taxes as a component of income tax expense.

Comprehensive Income

Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income (loss). 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 (loss), are components of comprehensive income. The components of other comprehensive income for the years ended December 31 are as follows:

	2009	**2008**
Unrealized holding gains on securities available for sale	**$ 951,772**	$732,393
Reclassification adjustment for gains included in net loss	**(413,259)**	(17,000)
	538,513	715,393
Tax effect	**(183,094)**	(243,234)
	$ 355,419	$472,159

Note 1 - Summary of Significant Accounting Policies (Continued)

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 years ended December 31, 2009 and 2008, no matching contributions were made.

Stock Compensation Plan

Stock compensation accounting guidance (FASB ASC Topic 718, *Compensation - Stock Compensation*) requires that the compensation cost relating to share-based payment transactions be recognized in financial statements. That cost will be measured based on the grant date fair value of the equity or liability instruments issued. The stock compensation accounting guidance covers a wide range of share-based compensation arrangements including stock options, restricted share plans, performance-based awards, share appreciation rights, and employee share purchase plans.

The stock compensation accounting guidance requires that compensation cost for all stock awards be calculated and recognized over the employees' service period, generally defined as the vesting period. For awards with graded-vesting, compensation cost is recognized on a straight-line basis over the requisite service period for the entire award. A Black-Scholes model is used to estimate the fair value of stock options.

Reclassifications

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

Note 2 - Securities

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2009				
Securities available for sale:				
U.S. Government agency securities	**$ 2,500,972**	**$ 11,193**	**$ (14,060)**	**$ 2,498,105**
Mortgage-backed securities	**64,368,484**	**1,600,364**	**(86,999)**	**65,881,849**
Corporate securities	**1,936,973**	**106,320**	**-**	**2,043,293**
	$68,806,429	**$1,717,877**	**$(101,059)**	**$70,423,247**
Securities held to maturity:				
U.S. Government agency securities	**$ 6,007,923**	**$ 22,077**	**$ (40,310)**	**$ 5,989,690**
Mortgage-backed securities	**2,162,190**	**38,163**	**-**	**2,200,353**
Obligations of state and political subdivisions	**500,602**	**5,989**	**-**	**506,591**
	$ 8,670,715	**$ 66,229**	**$ (40,310)**	**$ 8,696,634**
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	1,454,406	-	(28,711)	1,425,695
	$69,376,662	$1,360,276	$(281,971)	$70,454,967
Securities held to maturity:				
Obligations of state and political subdivisions	$ 502,077	$ 8,115	$ -	$ 510,192

The Bank has 12 securities in an unrealized loss position as of December 31, 2009, consisting of one U.S. Government agency security (available for sale) with a fair value of $985,940, eight mortgage-backed securities with an aggregate fair value of $8,251,648, and three U.S. Government agency securities (held to maturity) with an aggregate fair value of $2,959,690. All have been in an unrealized loss position for less than 12 months.

The unrealized losses on the four investments in U.S. Government obligations and direct obligations of the U.S. government agencies were caused by interest rate increases. The contractual terms of these investments do not permit the issuer to settle the securities at a price less than the amortized cost bases of the investments. The Bank does not intend to sell these investments and it is not more likely than not that it will be required to sell these investments before recovery of their amortized costs bases; therefore, they are not deemed to be other-than-temporarily impaired.

Note 2 - Securities (Continued)

The unrealized losses on Bank's investment in eight mortgage-backed securities were caused by interest rate increases. The Bank purchased these investments at a discount relative to their face amount, and the contractual cash flows of these investments are guaranteed by an agency of the U.S. Government. Accordingly, it is expected that the securities would not be settled at a price less than the amortized cost bases of the Bank's investments. Because the decline in market value is attributable to changes in interest rates and not credit quality, and because the Bank does not intend to sell the investments and it is not more likely than not that the Bank will be required to sell the investments before recovery of their amortized cost bases, the Bank does not consider those investments to be other-than- temporarily impaired.

There were 16 securities in an unrealized loss position as of December 31, 2008. Such consisted of 13 mortgage-backed securities with an aggregate fair value of $13,916,835, and three corporate securities with an aggregate fair value of $1,425,695. 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, 2009, 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	$ 585,794	$ 591,536	$ 500,602	$ 506,591
Due after one year through five years	3,713,557	3,876,347	-	-
Due after five years through ten years	13,152,629	13,543,491	2,000,000	1,989,380
Due after ten years	51,354,449	52,411,873	6,170,113	6,200,663
	$68,806,429	$ 70,423,247	$8,670,715	$8,696,634

During 2009, the Bank sold securities available for sale for total proceeds of approximately $8,935,000, resulting in gross realized gains of $413,259.

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.

At December 31, 2009 and 2008, the Bank had pledged to the Commissioner of Banking, State of New Jersey, $23,928,295 and $1,237,000, respectively, in U.S. Government agency and mortgage-backed securities, for the purpose of securing public deposits under the Governmental Unit Deposit Protection Act. At December 31, 2009 and 2008, the Bank had $1,000,000 and $3,000,000, respectively, in U.S. Government agency securities pledged as collateral for the Bank's business sweep accounts, held at the FHLB. In addition, at December 31, 2009 and 2008, the Bank had $22,747,139 and $15,706,268, respectively, in U.S. Government, mortgage-backed and municipal securities pledged to the FHLB as collateral for long-term and short-term borrowings.

Note 3 - Loans

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

	2009	2008
Commercial term	**$ 11,615,388**	$ 8,878,365
Commercial real estate	**110,014,951**	56,218,516
Construction	**23,272,903**	11,326,390
Residential	**15,342,860**	-
Home equity	**13,681,219**	12,301,915
Consumer	**1,047,871**	3,012,366
Total Loans	**174,975,192**	91,737,552
Deferred fees	**(318,304)**	(244,133)
Allowance for loan losses	**(2,146,776)**	(1,092,258)
Net Loans	**$172,510,112**	$90,401,161

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

	2009	2008
Balance, beginning	**$1,092,258**	$ 354,486
Provision for loan losses	**1,203,583**	737,772
Charge-offs	**(149,065)**	-
Recoveries	**-**	-
Balance, ending	**$2,146,776**	$1,092,258

A loan is considered impaired when based on current information and events, it is probable that the Bank will be unable to collect all amounts due from the borrower in accordance with the contractual terms of the loan. Impaired loans include nonperforming commercial loans but also include loans modified in troubled debt restructurings where concessions have been granted to borrowers experiencing financial difficulties. These concessions could include a reduction in the interest rate on the loan, payment extensions, forgiveness of principal, forbearance or other actions intended to maximize collection.

The total recorded investment in impaired loans consisted of nonaccrual loans totaling $2,313,239 and $154,882 as of December 31, 2009 and 2008, respectively. The recorded investment in impaired loans, not requiring an allowance for loan losses, was $2,083,622 and $154,882, at December 31, 2009 and 2008, respectively. The recorded investment in impaired loans requiring an allowance for loan losses at December 31, 2009 was $229,617 and the related allowance for loan losses was $141,417. There was no recorded investment in impaired loans requiring an allowance for loan losses at December 31, 2008. At December 31, 2009, included in impaired loans is an $885,481 loan classified as a troubled debt restructuring. In addition to this amount, the Bank had troubled debt restructurings that were performing in accordance with their modified terms of $3,991,827 at December 31, 2009. The Bank had no troubled debt restructurings at December 31, 2008.

Note 3 - Loans (Continued)

The Bank recognizes income on impaired loans under the cash basis when the collateral on the loan is sufficient to cover the outstanding obligation to the Bank. Interest income that would have been recognized on these loans had they been current in accordance with their original terms totaled approximately $312,000. The amount of interest income that was actually recorded during 2009 with respect to such loans amounted to approximately $154,000. At December 31, 2008, included in loans was a nonaccrual loan in the amount of $154,882. Interest income that would have been recognized on this loan had it been current in accordance with its original term was approximately $5,900. The amount of interest income that was actually recorded during 2008 with respect to such loan was approximately $2,600.

There were no loans past due 90 days or more still accruing interest at December 31, 2009 and 2008.

Note 4 - Bank Premises and Equipment

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

	Estimated Useful Lives	2009	2008
Leasehold improvements	10	**$1,451,557**	$1,412,707
Furniture, fixtures and equipment	3 - 7	**1,269,246**	1,222,015
Construction in progress		**2,896**	-
		2,723,699	2,634,722
Accumulated depreciation and amortization		**(716,194)**	(345,169)
		$2,007,505	$2,289,553

Depreciation and amortization expense charged to operations amounted to $371,025 and $270,309 for the years ended December 31, 2009 and 2008, respectively.

The construction in progress represents amounts incurred through December 31, 2009 for a branch to be acquired in 2010. The total remaining commitment for the renovation of the new branch is approximately $39,000.

Note 5 - Deposits

The components of deposits at December 31 are as follows:

	2009	2008
Demand, non-interest bearing	**$ 16,576,817**	$ 10,596,133
Demand, interest bearing and savings accounts	**65,285,222**	22,349,991
Money market accounts	**77,004,979**	73,268,491
Time, $100,000 and over	**23,336,364**	22,160,465
Time, other	**36,424,971**	38,222,301
	$218,628,353	$166,597,381

At December 31, 2009, the scheduled maturities of time deposits are as follows:

2010	**$42,121,831**
2011	**8,631,760**
2012	**1,648,655**
2013	**1,175,284**
2014	**6,183,805**
	$59,761,335

Note 6 - Borrowings

The following table is a schedule of the Bank's long-term debt consisting of FHLB amortizing fixed rate long-term advances by maturities as of December 31, 2009:

	Amount	Weighted Average Rate
Year ended December 31:		
2010	**$ 4,385,394**	**2.18 %**
2011	**4,480,840**	**2.18**
2012	**4,263,969**	**2.18**
2013	**2,706,537**	**2.18**
2014	**1,301,083**	**2.18**
	$17,137,823	**2.18 %**

The Bank had no borrowings outstanding as of December 31, 2008.

The Bank's fixed rate long-term borrowings of $17,137,823 at December 31, 2009 mature through 2014. At December 31, 2009, the interest rates on the fixed rate long-term borrowings ranged from 1.66% to 2.70%

Note 6 - Borrowings (Continued)

At December 31, 2009 and 2008, the Bank has federal funds available with the ACBB of $4,000,000 at interest rates that adjusts daily.

At December 31, 2009, the Bank also had $20,845,000 available under an overnight line of credit with the FHLB-NY that expires in 2010. As of December 31, 2009 and 2008, there were no amounts outstanding on the line of credit.

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:

2010	**$ 513,701**
2011	**496,881**
2012	**484,416**
2013	**442,069**
2014	**450,649**
Thereafter	**1,560,065**
	$3,947,781

Rental expense for the years ended December 31, 2009 and 2008 was $618,945 and $369,625, respectively.

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 for the years ended December 31, 2009 and 2008 was approximately $284,000 and $47,000, respectively.

On September 30, 2009 the Bank entered into a Branch Purchase and Assumption Agreement ("purchase agreement") to purchase certain assets and liabilities associated with a branch office located in New Jersey. The purchase price is to be determined on the closing date and is based on terms set forth in the purchase agreement. The purchase agreement closing date is effective upon regulatory approval. As of December 31, 2009 the regulatory approval remains pending.

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 17, 2010. There were 747,625 and 750,000 warrants outstanding at December 31, 2009 and 2008, respectively. There were 2,375 warrants exercised during the year ended December 31, 2009. 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. Organizer warrants outstanding at December 31, 2009 and 2008 were $97,500. No warrants were granted or forfeited during the year ended December 31, 2009. No warrants were exercised, granted, or forfeited during the year ended December 31, 2008.

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.

Note 10 - Income Taxes

There is no provision for income taxes for the years ended December 31, 2009 and 2008 due to the net operating losses incurred.

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

	2009	2008
Deferred tax assets:		
Allowance for loan losses	**$ 803,158**	$ 396,776
Organization and start-up costs	**354,864**	379,341
Organizer warrants	**109,656**	109,656
Net operating loss carryforwards	**729,659**	1,387,597
Other	**61,469**	2,668
	2,058,806	2,276,038
Valuation allowance	**(1,436,646)**	(1,688,369)
Total Deferred Tax Assets, Net of Valuation Allowance	**622,160**	587,669

Note 10 - Income Taxes (Continued)

	2009	2008
Deferred tax liabilities:		
Property and equipment	**$ (97,626)**	$ (237,330)
Cash basis conversions	**(375,767)**	(320,503)
Unrealized gain on securities	**(594,718)**	(366,624)
Deferred loan costs	**(98,836)**	(29,836)
Discount accretion	**(49,931)**	-
	(1,216,878)	(954,293)
Net Deferred Tax Liability	**$ (594,718)**	$ (366,624)

At December 31, 2009, the Bank has available unused net operating loss carryforwards available for federal and state income tax purposes of approximately $1,860,950, which expire through 2028 for federal purposes and $1,615,593 which expire 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 $3,452,020 and $3,373,818 at December 31, 2009 and 2008, respectively. Deposits of related parties totaled $2,695,694 and $3,284,590 as of December 31, 2009 and 2008, respectively.

During 2009, loans originated to related parties totaled $125,000 and principal paydowns were $46,798.

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.

Note 12 - Share-Based Compensation (Continued)

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.

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:

	2009	2008
Expected life	**7 Yrs**	8 Yrs
Expected volatility	**25.95 %**	23.19 %
Risk-free interest rate	**2.74 %**	3.75 %

The following is a summary of the Bank's share-based compensation activity and related information for the year ended December 31, 2009 and 2008:

	Warrants and Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
December 31, 2009				
Outstanding - beginning of year	**218,200**	**$10.10**		
Options granted	**51,916**	**10.28**		
Exercised	**-**	**-**		
Forfeited	**(12,000)**	**10.00**		
Outstanding - end of year	**258,116**	**$10.14**	**8.4 years**	**$ -**
Options exercisable - end of year	**67,535**	**$10.00**	**8.8 years**	**$ -**
Weighted-average fair value of options granted during the year		**$ 3.38**		

Note 12 - Share-Based Compensation (Continued)

	Warrants and Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
December 31, 2008				
Outstanding - beginning of year	223,250	$10.00		
Options granted	85,200	10.25		
Exercised	(20,000)	10.00		
Forfeited	(70,250)	10.00		
Outstanding - end of year	218,200	$10.10	8.8 years	$ -
Options exercisable - end of year	133,000	$10.00	8.2 years	$ -
Weighted-average fair value of options granted during the year		$ 3.87		

Total share-based compensation cost for the year ended December 31, 2009 was $231,917 which related to stock options only. There is no tax benefits recognized in 2009 related to the share-based compensation expense due to the net operation loss carryforward. Total share-based compensation cost for the year ended December 31, 2008 was $163,933 which related to stock options only. There were no tax benefits recognized in 2008 related to the share-based compensation expense due to the net operation loss incurred.

As of December 31, 2009, there was $392,198 of unrecognized compensation cost related to nonvested stock options granted in 2007, 2008 and 2009. The cost is expected to be recognized on a graded vesting method over a weighted average period of 2.3 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.

Note 13 - Financial Instruments with Off-Balance Sheet Risk (Continued)

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

	2009	2008
Commitments to grant loans	**$ 3,596,294**	$36,548,533
Unfunded commitments under lines of credit	**34,660,520**	11,214,664
	$38,256,814	$47,763,197

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.

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, 2009, 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, 2009.

Note 14 - Regulatory Matters (Continued)

The Bank's actual capital amounts and ratios at December 31, 2009 and 2008 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)			
2009						
Total capital (to risk-weighted assets)	**$29,073**	**15.65 %**	**$≥14,864**	**≥8.0 %**	**$≥18,580**	**≥10.0 %**
Tier 1 capital (to risk-weighted assets)	**26,926**	**14.49**	**≥ 7,432**	**≥4.0**	**≥11,148**	**≥ 6.0**
Tier 1 capital (to average assets)	**26,926**	**9.96**	**≥ 21,635**	**≥8.0**	**≥21,635**	**≥ 8.0**
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	≥13,190	≥ 8.0

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

Note 15 - Fair Values of Financial Instruments

The Bank uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. In accordance with FASB ASC Topic 820, *Fair Value Measurements and Disclosures*, the fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Bank's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument.

The recent fair value guidance provides a consistent definition of fair value, which focuses on exit price in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. If there has been a significant decrease in the volume and level of activity for the asset or liability, a change in valuation technique or the use of multiple valuation techniques may be appropriate. In such instances, determining the price at which willing market participants would transact at the measurement date under current market conditions depends on the facts and circumstances and requires the use of significant judgment. The fair value a reasonable point within the range that is most representative of fair value under current market conditions.

Note 15 - Fair Values of Financial Instruments (Continued)

In accordance with this guidance, the Bank groups its financial assets and financial liabilities generally measured at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value.

Level 1: Valuation is based on quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 1 assets and liabilities generally include debt and equity securities that are traded in an active exchange market. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2: Valuation is based on inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly. The valuation may be based on quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the asset or liability.

Level 3: Valuation is based on unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which determination of fair value requires significant management judgment or estimation.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The following methods and assumptions were used by the Bank in estimating fair value disclosures for financial instruments:

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.

Note 15 - Fair Values of Financial Instruments (Continued)

Impaired Loans (Generally Carried at Fair Value)

Impaired loans are those in which the Bank has measured impairment generally based on the fair value of the loan's collateral. Fair value is generally determined based upon independent third-party appraisals of the properties, or discounted cash flows based upon the expected proceeds. These assets are included as Level 3 fair values, based upon the lowest level of input that is significant to the fair value measurements.

Other Real Estate Owned ("OREO")

Real estate owned assets are adjusted to fair value less estimated selling costs upon transfer of the loans to real estate owned. Subsequently, real estate owned assets are carried at the lower of carrying value or fair value. Fair value is based upon independent market prices, appraised values of the collateral or management's estimation of the value of the collateral. These assets are included as Level 3 fair values.

Restricted Investments in Bank Stocks (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.

Deposits (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.

Borrowings (Carried at Cost)

Fair values of FHLB-NY advances are estimated using discounted cash flow analysis, based on quoted prices for new FHLB-NY advances with similar credit risk characteristics, terms and remaining maturity. These prices obtained from this active market represent a market value that is deemed to represent the transfer price if the liability were assumed by a third party.

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.

Note 15 - Fair Values of Financial Instruments (Continued)

For assets measured at fair value on a recurring basis, the fair value measurements by level within the fair value hierarchy used at December 31, 2009 and 2008 are as follows:

Description	Total	(Level 1) Quoted Prices in Active Markets for Identical Assets	(Level 2) Significant Other Observable Inputs	(Level 3) Significant Unobservable Inputs
December 31, 2009				
Securities available for sale	**$70,423,247**	**$1,974,550**	**$68,448,697**	**$ -**
December 31, 2008				
Securities available for sale	$70,454,967	$1,425,695	$69,029,272	$ -

Certain assets and 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).

For assets measured at fair value on a nonrecurring basis, the fair value measurements by level within the fair value hierarchy used at December 31, 2009 are as follows:

Description	December 31, 2009	(Level 1) Quoted Prices in Active Markets for Identical Assets	(Level 2) Significant Other Observable Inputs	(Level 3) Significant Unobservable Inputs
Impaired loans	**$ 88,200**	**$ -**	**$ -**	**$ 88,200**
Other real estate owned	**227,283**	**-**	**-**	**227,283**
	$315,483	**$ -**	**$ -**	**$315,483**

There were no assets and liabilities measured at fair value on a nonrecurring basis at December 31, 2008.

Note 15 - Fair Values of Financial Instruments (Continued)

The estimated fair values, and related carrying amounts, of the Bank's financial instruments were as follows at December 31, 2009 and 2008.

	2009		2008	
	Carrying Amount	**Fair Value**	**Carrying Amount**	**Fair Value**
Financial Assets:				
Cash and cash equivalents	**$ 7,303,513**	**$ 7,303,513**	$29,477,890	$29,477,890
Securities available for sale	**70,423,247**	**70,423,247**	70,454,967	70,454,967
Securities held to maturity	**8,670,715**	**8,696,634**	502,077	510,192
Restricted investment in bank stock	**948,000**	**948,000**	89,000	89,000
Loans receivable, net	**172,510,112**	**174,729,529**	90,401,161	90,236,742
Accrued interest receivable	**1,037,209**	**1,037,209**	808,379	808,379
Financial Liabilities:				
Deposits	**218,628,353**	**217,972,468**	166,597,381	173,985,000
Borrowings	**17,137,823**	**17,341,491**	-	-
Accrued interest payable	**627,264**	**627,264**	384,585	384,585

Where We Are

Bayard Lane Branch
183 Bayard Lane
Princeton, NJ 08540
609.921.1700
(main office)

Chambers Street Branch
21 Chambers Street
Princeton, NJ 08542
609.921.6800

Hamilton Branch
339 Route 33
Hamilton, NJ 08619
609.584.0011

Pennington Branch
2 Route 31 South
Pennington, NJ 08534
609.730.8500

Montgomery Branch
1185 Route 206 North
Princeton, NJ 08540
(coming soon)

Loan Operations Center
403 Wall Street
Princeton, NJ 08540
609.454.0116

Visit us on the web at

www.thebankofprinceton.com

Who We Are

Relationship Management Team

Community Bank Executives

Stephanie M. Adkins, Chambers Street
Nina D. Melker, Hamilton
Michelle C. Jones, Pennington

Lenders

Mary Beth Gorecki, Consumer Credit
Kris Muse, Healthcare

Personal Banking Representatives

Cathy Proctor, Bayard Lane
Charlene Jones, Pennington

Customer Service Managers

Karen Dwyer, Bayard Lane
Suzanne Lang, Chambers Street
Suzanne Lippincott, Hamilton
Joseph Ciampa, Pennington

Business Development Managers

Jelani W. Polite, Bayard Lane
Carly Meyer, Chambers Street
Paul M. Bencivengo, Hamilton
Daniel A. Jackson, Pennington

Customer Service Representatives

Dwayne Armstrong, Bayard Lane
Connie Inverso, Bayard Lane
Rose Russo, Bayard Lane
Oliver Guzman, Chambers Street
Justin Naidoo, Chambers Street
David Oquendo, Chambers Street
Valerie Sievers, Chambers Street
Madhu Vysyaraju, Chambers Street
Linda Brown, Hamilton
Earl Hawley, Hamilton
Trinace Johnson, Hamilton
Angela Arduini, Pennington
April Sullivan, Pennington

Loan Administration Team

Carol Safechinsky
Praful Bhagat
David Geyer
Michelle Goldstein
Deborah Josephson
Amela Muslic
Lois Newman
Edna Stout
Lana Trembley
Melissa Trout

Management and Support Team

Senior Management

Andrew M. Chon
Martin P. Melilli
Douglas V. Conover
William A. Siegenthaler
Edward J. Dietzler

Administration

Kelly Tarity

Marketing

Barbara A. Cromwell
Gregory R. Talkington

Operations & Compliance

Karen D. Pfeifer
Brian K. Maslowski
Nancy C. German
Anne Paglia

Finance

Edward Hassenkamp

Who We Are

Board of Directors

Andrew M. Chon, *Chairman*
Ross E. Wishnick, *Vice Chairman*
Martin P. Melilli, *President*
Stephen Distler
Judith Giacin
Richard J. Gillespie
Janet M. Lasley
Robert N. Ridolfi, Esq.
Stephen K. Shueh

Advisory Board

Scott Sipprelle, *Chairman*
Kristen Appleget
David Bonanni
Barbara Cuneo
Peter J. Dawson
Michael Goodman, Esq.
Yongkeun Joh
Lance Liverman
Jerry Maclean
J. Scott Needham
Khursheed Palkhiwala
Joseph Ridolfi

Incorporators

Gregg E. Chaplin
Andrew M. Chon
Peter M. Crowley
Stephen Distler
Richard J. Gillespie
Bumsung K. Han
John A. Horvath
Kevin R. Kenyon
W. Andrew Krusen, Jr.
Janet M. Lasley
Emmett J. Lescroart
Dennis M. Machulsky
Casey K. Min
J. Scott Needham
Henry S. Opatut
Robert N. Ridolfi, Esq.
James M. Riley
Jeffrey H. Sands
Eric L. Steinfeldt
Ross E. Wishnick

Serving the Community

Lending Team

Nina D. Melker
Community Bank Executive,
Hamilton

Kris Muse
Healthcare Lender

Mary Beth Gorecki
Consumer Credit Officer

Douglas V. Conover
Chief Lending Officer

Stephanie M. Adkins
Community Bank Executive,
Princeton

Michelle C. Jones
Community Bank Executive,
Pennington

Business Development Managers

Dan A. Jackson
Pennington Market

Carly Meyer
Princeton Market,
(Chambers Street)

Jelani W. Polite
Princeton Market,
(Bayard Lane)

Paul M. Bencivengo
Hamilton Market