



The Bank of Princeton

Another year
of growth.



2007



2008



2009



2010

2010 Annual Report

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.



2010 Annual Report

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Note: This statement has not been reviewed, or confirmed for accuracy or relevance, by the Federal Deposit Insurance Corporation.



Letter to the Shareholders

To our fellow Shareholders,

By most any measure, 2010 was an exceptional year for The Bank of Princeton. Growth in assets, profitability, our geographic scope and market presence were truly outstanding. For the year ended December 31, 2010 our assets increased to \$488,256,000, an increase of \$223,595,000 over the prior year. Loans increased by \$110,831,000 to \$285,806,000 and deposits grew by 95% to \$425,813,000.

Profitability for the year was \$2,387,000. Last year our net income was \$413,000, a year over year increase of \$1,974,000 or 478%. This increase in profitability was driven by our significant loan and deposit growth and low cost of funds.

During the year we concluded the acquisition of MoreBank. This acquisition was announced in May 2010 and closed on September 30, 2010. MoreBank added \$74,000,000 in assets, \$50,743,000 in loans and \$64,315,000 in deposits as well as three branches in Philadelphia, Delaware and Montgomery Counties in Pennsylvania. Further, this acquisition gave us both a new market in the greater Philadelphia area and access to the growing, attractive Asian market.

Following are the programs and strategies the Bank put in place, during 2010:

- In May, we concluded the purchase of the former Provident Bank office in Montgomery, NJ. This office has grown significantly and now is over \$30,000,000 in deposits, the most in its previous 18 year history.
- In December, we opened our Monroe office. This is a well-located office in Monroe Township, NJ and will bring our service-oriented community bank to this area. Early deposit development and strong demographics bode well for significant growth.
- We concluded the purchase of an additional branch location on Bridge Street in Lambertville, NJ. All regulatory approvals were obtained and renovations are currently in process for a second quarter 2011 opening.
- We are now actively operating nine branches and continue to look for new locations.
- We continue to enhance our professional staff with the addition of 26 people, including the employees of MoreBank led by Paul Hyon, President of the MoreBank Division of The Bank of Princeton.
- Investing in our technology infrastructure remains a primary focus, not only to improve our efficiency, but to enhance our customer interactions with us and their account information. From our investment this year, we will begin rolling out improved electronic services for our customers.
- Community service and involvement continue to be the lynch pin of our organization. We remain committed to deepening our relationships with our existing community partners and look forward to forming new partnerships as we expand our franchise into additional markets.

In 2010, our employees enthusiastically participated in many community events, non-profit and business organizations in their respective markets. Their passionate commitment continues to make a difference in the communities we serve bringing value and success to our organization.

We are exceptionally pleased with our accomplishments and financial results for 2010. These extraordinary accomplishments were made possible through the efforts of our dedicated team, the continued commitment of our extremely loyal customers, and the community partnerships that we formed. We extend a warm welcome to our new customers joining us in 2010. We truly appreciate your business and your decision to bank wisely. All of these relationships contributed to the incredible year and overall success of the Bank. The Directors, Management and Staff of The Bank of Princeton thank you for your generous and continued support.



Steven C. Ackmann, President



Andrew Chon, Chairman



Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
The Bank of Princeton

We have audited the accompanying balance sheet of The Bank of Princeton (the “Bank”) as of December 31, 2010, and the related statements of operations, stockholders’ equity, and cash flows for the year then ended. The Bank of Princeton’s management is responsible for these financial statements. Our responsibility is to express an opinion on these financial statements based on our audit.

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

We audited the financial statements of The Bank of Princeton as of December 31, 2009 and for the year then ended in accordance with auditing standards generally accepted in the United States of America. In our report dated March 8, 2010 we expressed an unqualified opinion on those statements.

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, 2010 and 2009, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.



Philadelphia, Pennsylvania
April 4, 2011

The Bank of Princeton

Balance Sheet

December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Assets		
Cash and due from banks	\$ 11,256,625	\$ 7,155,513
Federal funds sold	<u>14,363,000</u>	<u>148,000</u>
Cash and cash equivalents	25,619,625	7,303,513
Securities available for sale	159,600,616	70,423,247
Securities held to maturity (fair value 2010 - \$1,454,053; 2009 - \$8,696,634)	1,394,188	8,670,715
Loans, net of allowance for loan losses of \$3,693,369 and \$2,146,776 at December 31, 2010 and 2009, respectively	281,572,864	172,510,112
Bank-owned life insurance	6,032,322	-
Other real estate owned	1,140,000	227,283
Premises and equipment, net	4,153,278	2,007,505
Accrued interest receivable and other assets	<u>8,742,773</u>	<u>3,518,160</u>
Total Assets	<u><u>\$ 488,255,666</u></u>	<u><u>\$ 264,660,535</u></u>
Liabilities and Stockholders' Equity		
Liabilities		
Deposits:		
Non-interest-bearing	\$ 30,669,037	\$ 16,576,817
Interest-bearing	<u>395,143,988</u>	<u>202,051,536</u>
Total deposits	425,813,025	218,628,353
Federal funds purchased	1,044,000	-
Borrowings	18,014,131	17,137,823
Accrued interest payable and other liabilities	<u>2,427,057</u>	<u>1,004,547</u>
Total liabilities	<u>447,298,213</u>	<u>236,770,723</u>
Stockholders' equity		
Common stock, \$5 par value; authorized 10,000,000 shares; issued and outstanding 2010 - 3,952,185 shares; 2009 - 3,022,375 shares	19,760,925	15,111,875
Paid-in capital	22,514,824	15,765,295
Accumulated deficit	(1,667,411)	(4,054,458)
Accumulated other comprehensive income	<u>349,115</u>	<u>1,067,100</u>
Total stockholders' equity	<u>40,957,453</u>	<u>27,889,812</u>
Total liabilities and stockholders' equity	<u><u>\$ 488,255,666</u></u>	<u><u>\$ 264,660,535</u></u>

See notes to financial statements.

The Bank of Princeton

Statement of Operations

Years Ended December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Interest and dividend income		
Loans receivable, including fees	\$ 13,007,001	\$ 7,465,677
Debt securities:		
Taxable	2,880,841	3,914,270
Tax-exempt	216,313	18,524
Other	96,676	24,922
	<u>16,200,831</u>	<u>11,423,393</u>
Interest expense		
Deposits	4,787,576	3,678,094
Borrowings	342,513	128,797
	<u>5,130,089</u>	<u>3,806,891</u>
Net interest income	11,070,742	7,616,502
Provision for loan losses	<u>3,301,108</u>	<u>1,203,583</u>
Net interest income after provision for loan losses	<u>7,769,634</u>	<u>6,412,919</u>
Non-interest income		
Gain on sale of securities available for sale	1,229,088	413,259
Gain on acquisition of MoreBank	1,014,476	-
Other income	311,435	164,634
	<u>2,554,999</u>	<u>577,893</u>
Non-interest expense		
Salaries and employee benefits	4,729,804	3,706,199
Occupancy and equipment	1,609,996	1,269,479
Professional fees	903,309	421,739
Data processing and communications	663,441	437,894
Federal deposit insurance	453,512	409,957
Advertising and promotion	199,430	153,830
Office expense	158,719	143,158
Loss on other real estate owned	80,000	-
Other	627,619	35,851
	<u>9,425,830</u>	<u>6,578,107</u>
Income before income tax	898,803	412,705
Income tax benefit	<u>(1,488,244)</u>	<u>-</u>
Net Income	<u>\$ 2,387,047</u>	<u>\$ 412,705</u>

See notes to financial statements.

The Bank of Princeton

Statement of Operations (Continued) Years Ended December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Net income per common share - basic	<u>\$ 0.69</u>	<u>\$ 0.14</u>
Net income per common share - diluted	<u>\$ 0.68</u>	<u>\$ 0.14</u>

See notes to financial statements.

The Bank of Princeton

Statement of Stockholders' Equity Years Ended December 31, 2010 and 2009

	Common stock	Paid-in capital	Accumulated deficit	Accumulated other comprehen- sive income	Total
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
Comprehensive loss:					
Net income	-	-	2,387,047	-	2,387,047
Change in net unrealized gains on securities available for sale, net of reclassification adjustment and tax effect	-	-	-	(717,985)	(717,985)
Total comprehensive income					1,669,062
Acquisition of MoreBank (465,195 shares at \$12 per share)	2,325,975	3,256,365	-	-	5,582,340
Acquisition of MoreBank (47,200 options at \$0.43 per option)	-	20,066	-	-	20,066
Warrants exercised (464,565 shares at \$12 per share)	2,322,825	3,251,955	-	-	5,574,780
Options exercised (50 shares at \$10 per share)	250	250	-	-	500
Share-based compensation expense	-	220,893	-	-	220,893
Balance - December 31, 2010	<u>\$ 19,760,925</u>	<u>\$ 22,514,824</u>	<u>\$ (1,667,411)</u>	<u>\$ 349,115</u>	<u>\$ 40,957,453</u>

See notes to financial statements.

The Bank of Princeton

Statement of Cash Flows

Years Ended December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Cash Flows from Operating Activities		
Net income	\$ 2,387,047	\$ 412,705
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	3,301,108	1,203,583
Depreciation and amortization	479,761	371,025
Income from bank-owned life insurance	(32,322)	-
Share-based compensation	220,893	231,917
Deferred income taxes	(1,555,782)	-
Accretion of deferred loan fees	(130,016)	(106,666)
Net amortization of securities premiums	647,502	246,843
Net realized gain on sale of securities available for sale	(1,229,088)	(413,259)
Gain on acquisition of MoreBank	(1,014,476)	-
Loss on other real estate owned	80,000	-
Increase in accrued interest receivable and other assets	(349,460)	(1,413,244)
Increase (decrease) in accrued interest payable and other liabilities	1,809,348	(91,459)
Net Cash Provided by Operating Activities	<u>4,614,515</u>	<u>441,445</u>
Cash Flows from Investing Activities		
Purchases of available for sale securities	(144,276,426)	(37,915,840)
Maturities, calls and repayments of available for sale securities	33,360,184	29,751,750
Proceeds from sales of available for sale securities	32,430,563	8,934,654
Purchases of held to maturity securities	-	(13,588,623)
Maturities, calls, and repayments of held to maturity securities	7,247,547	5,386,070
Net increase in loans	(64,074,733)	(83,433,151)
Purchases of bank-owned life insurance	(6,000,000)	-
Purchases of premises and equipment	(1,845,857)	(88,977)
Purchases of restricted bank stock	(40,200)	(859,000)
Net cash received from MoreBank acquisition	11,028,316	-
Net Cash Used in Investing Activities	<u>(132,170,606)</u>	<u>(91,813,117)</u>
Cash Flows from Financing Activities		
Net increase in deposits	143,659,729	52,030,972
Net increase in federal funds purchased	1,044,000	-
Proceeds from borrowings	-	18,000,000
Repayments of borrowings	(4,406,806)	(862,177)
Proceeds from exercise of stock warrants and options	5,575,280	28,500
Net Cash Provided by Financing Activities	<u>145,872,203</u>	<u>69,197,295</u>
Net Increase (Decrease) in Cash and Cash Equivalents	18,316,112	(22,174,377)
Cash and Cash Equivalents - Beginning	<u>7,303,513</u>	<u>29,477,890</u>
Cash and Cash Equivalents - Ending	<u>\$ 25,619,625</u>	<u>\$ 7,303,513</u>

See notes to financial statements.

The Bank of Princeton

Statement of Cash Flows (Continued)

Years Ended December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Supplementary Cash Flows Information		
Interest paid	<u>\$ 4,693,427</u>	<u>\$ 3,564,212</u>
Supplementary Schedule of Noncash Investing and Financing Activities		
Transfers from loans, net to other real estate owned	<u>\$ 992,717</u>	<u>\$ 227,283</u>
Assets from acquisition of MoreBank	<u>\$ 75,587,819</u>	<u>\$ -</u>
Liabilities from acquisition of MoreBank	<u>\$ 68,970,937</u>	<u>\$ -</u>

See notes to financial statements.

The Bank of Princeton

Notes to Financial Statements

December 31, 2010 and 2009

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 by the New Jersey Department of Banking and Insurance and the Federal Deposit Insurance Corporation. The area served by the Bank, through its nine branches, is primarily the Mercer County, New Jersey and certain Philadelphia, Pennsylvania metropolitan areas.

The Bank acquired MoreBank on September 30, 2010, which is more fully described in Note 2 – Business Combinations. In accordance with the terms of the plan of merger, the Bank issued shares of its common stock in exchange for all of the outstanding shares of MoreBank common stock. Upon issuance of these shares, the total number of shareholders of the Bank’s common stock exceeded 500 shareholders. Pursuant to requirements of Section 12(b) of the Securities Exchange Act of 1934, the Bank plans to file a registration statement with regulatory authorities within 120 days of December 31, 2010.

Subsequent events

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. Management evaluated subsequent events until the date of issuance of the report and concluded that no events occurred that were of a material nature.

Basis of financial statement presentation

The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (“GAAP”). In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the financial statements and revenues and expenses for the periods then ended. Actual results could differ significantly from those estimates.

The Bank of Princeton

Notes to Financial Statements

December 31, 2010 and 2009

Note 1 - Summary of Significant Accounting Policies (continued)

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. Because of uncertainties associated with estimating the amounts, timing and likelihood of possible outcomes, 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.

A material estimate that is particularly susceptible to significant change relates to the determination of the allowance for loan losses. Management believes that the allowance for loan losses is adequate. While management uses the most current information available to recognize losses on loans, future additions to the allowance for loan losses may be necessary based on changes in economic conditions in the market area.

In addition, various regulatory agencies, as an integral part of their examination process, periodically review the Bank's allowance for loan losses. Such agencies may require the Bank to recognize additions to the allowance based on their judgments about information available to them at the time of their examinations.

Significant group concentrations of credit risk

Most of the Bank's activities are with customers located within the Mercer County, New Jersey and certain Philadelphia, Pennsylvania metropolitan areas. Note 3 describes the type of securities in which the Bank invests. Note 4 describes the types of lending in which the Bank engages. The Bank does not have any portion of its business dependent on a single or limited number of customers or industries, the loss of which would have a material adverse effect on its business. No substantial portion of loans is concentrated within a single industry or group of related industries, except that a significant majority of loans are secured by real estate. There are numerous risks associated with commercial and consumer lending that could impact the borrowers' ability to repay on a timely basis. They include, but are not limited to: the owner's business expertise, changes in local, national, and in some cases international economies, competition, governmental regulation, and the general financial stability of the borrowing entity.

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.

The Bank of Princeton

Notes to Financial Statements

December 31, 2010 and 2009

Note 1 - Summary of Significant Accounting Policies (continued)

Business combinations

The Bank accounts for business combinations in accordance with FASB ASC Topic 805, *Business Combinations*, and, accordingly, records the net assets of companies acquired at estimated fair value at the acquisition date and includes the results of operations of the companies acquired in the statements of operations as of the acquisition date. The Bank recognizes the excess of net assets acquired over consideration transferred as a gain on acquisition and the excess of consideration transferred over net assets acquired as goodwill.

Cash and cash equivalents

Cash and cash equivalents include cash on hand and federal funds sold with original maturities of 90 days or less. Generally, federal funds are purchased for one-day periods.

Securities

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, 2010 and 2009. Discounts and premiums are accreted and amortized, respectively, 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.

Management considers, 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.

Accounting guidance specifies 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.

The credit component of an other-than-temporary impairment of a debt security is recognized 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 will be amortized prospectively over the remaining life of the security on the basis of the timing of future estimated cash flows of the security.

The Bank of Princeton

Notes to Financial Statements

December 31, 2010 and 2009

Note 1 - Summary of Significant Accounting Policies (continued)

For equity securities, when the Bank decides to sell an impaired available-for-sale security and the entity does not expect the fair value of the security to fully recover before the expected time of sale, the security is deemed other-than-temporarily impaired in the period in which the decision to sell is made. The Bank recognizes an impairment loss when the impairment is deemed other than temporary even if a decision to sell has not been made.

Loans

Loans receivable that the Bank has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at their outstanding unpaid principal balances, net of an allowance for loan losses, deferred fees and costs, and fair value adjustments under the acquisition method of accounting. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, and fair value adjustments under the acquisition method of accounting are deferred and recognized as an adjustment of the yield (interest income) on the related loans. The Bank is generally amortizing these amounts over the contractual life of the loan. Premiums and discounts on purchased loans are amortized as adjustments to interest income using the level yield method.

The loan receivable portfolio is segmented into commercial real estate, commercial and industrial, construction, residential first-lien mortgage, residential second-lien mortgage, and consumer loan classes.

For all classes of loans receivable, 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, including impaired 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 (generally six months) and the ultimate collectibility of the total contractual principal and interest is no longer in doubt. The past due status of all classes of loans receivable is determined on contractual due dates for loan payments.

Allowance for loan losses

The allowance for credit losses consists of the allowance for loan losses and the reserve for unfunded lending commitments. The allowance for loan losses represents management's estimate of losses inherent in the loan portfolio as of the balance sheet date and is recorded as a reduction to loans. The reserve for unfunded lending commitments represents management's estimate of losses inherent in its unfunded loan commitments and is recorded in other liabilities on the balance sheet. The allowance for credit losses is increased by the provision for loan losses, and decreased by charge-offs, net of recoveries. Loans deemed to be uncollectible are charged against the allowance for loan losses, and subsequent recoveries, if any, are credited to the allowance. All, or part, of the principal balance of loans receivable are charged off to the allowance as soon as it is determined that the repayment of all, or part, of the principal balance is highly unlikely.

The Bank of Princeton

Notes to Financial Statements

December 31, 2010 and 2009

Note 1 - Summary of Significant Accounting Policies (continued)

The allowance for loan losses is maintained at a level considered adequate to provide for losses that can be reasonably anticipated. The Bank performs a quarterly evaluation of the adequacy of the allowance. The allowance is based on the Bank's past loan loss experience, 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 revision as more information becomes available.

The allowance consists of specific and general components. The specific component relates to loans that are classified as impaired. For loans that are 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 pools of loans by loan class including commercial loans not considered impaired, as well as smaller balance homogeneous loans, such as residential real estate and other consumer loans. These pools of loans are evaluated for loss exposure based upon historical loss rates for each of these categories of loans, adjusted for qualitative factors. These qualitative risk factors include:

1. Lending policies and procedures, including underwriting standards and collection, charge-off, and recovery practices.
2. National, regional, and local economic and business conditions, as well as the condition of various market segments, including the value of underlying collateral for collateral-dependent loans.
3. Nature and volume of the portfolio and terms of loans.
4. Experience, ability, and depth of lending management and staff.
5. Volume and severity of past due, classified and nonaccrual loans, as well as other loan modifications.
6. Quality of the Bank's loan review system, and the degree of oversight by the Bank's Board of Directors.
7. Existence and effect of any concentrations of credit and changes in the level of such concentrations.
8. Effect of external factors, such as competition and legal and regulatory requirements.

Each factor is assigned a value to reflect improving, stable or declining conditions based on management's best judgment using relevant information available at the time of the evaluation. Adjustments to the factors are supported through documentation of changes in conditions in a narrative accompanying the allowance for loan loss calculation.

The Bank of Princeton

Notes to Financial Statements

December 31, 2010 and 2009

Note 1 - Summary of Significant Accounting Policies (continued)

The Bank determines the allowance for credit losses by portfolio segment, which consists of commercial real estate loans, commercial and industrial loans, construction loans, residential first-lien mortgage loans, residential second-lien mortgage loans and consumer loans. The Bank estimates the inherent risk of loss on all loans by portfolio segment, based primarily on the risk factors identified above and by applying a weight factor to each element for each portfolio segment.

Each factor is assigned a value to reflect improving, stable or declining conditions based on management's best judgment using relevant information available at the time of the evaluation. Adjustments to the factors are supported through documentation of changes in conditions in a narrative accompanying the allowance for loan loss calculation.

Single family real estate loans involve certain risks such as interest rate risk and risk of non repayment. Adjustable-rate single family real estate loans decreases the interest rate risk to the Bank that is associated with changes in interest rates but involve other risks, primarily because as interest rates rise, the payment by the borrower rises to the extent permitted by the terms of the loan, thereby increasing the potential for default. At the same time, the marketability of the underlying property may be adversely affected by higher interest rates. Repayment risk can be affected by job loss, divorce, illness and personal bankruptcy or the borrower.

Construction lending is generally considered to involve a high risk due to the concentration of principal in a limited number of loans and borrowers and the effects of general economic conditions on developers and builders. Moreover, a construction loan can involve additional risks because of the inherent difficulty in estimating both a property's value at completion of the project and the estimated cost (including interest) of the project. The nature of these loans is such that they are generally difficult to evaluate and monitor. In addition, speculative construction loans to a builder are not necessarily pre-sold and thus pose a greater potential risk to the Bank than construction loans to individuals on their personal residences.

Commercial real estate lending entails significant additional risks as compared with single-family residential property lending. Such loans typically involve large loan balances to single borrowers or groups of related borrowers. The payment experience on such loans is typically dependent on the successful operation of the real estate project. The success of such projects is sensitive to changes in supply and demand conditions in the market for commercial real estate as well as economic conditions generally.

Commercial business lending is generally considered higher risk due to the concentration of principal in a limited number of loans and borrowers and the effects of general economic conditions on the business. Commercial business loans are primarily secured by inventories and other business. In most cases, any repossessed collateral for a defaulted commercial business loans will not provide an adequate source of repayment of the outstanding loan balance.

Consumer loans generally have shorter terms and higher interest rates than other lending but generally involve more credit risk because of the type and nature of the collateral and, in certain cases, the absence of collateral. In addition, consumer lending collections are dependent on the borrower's continuing financial stability, and thus are more likely to be adversely effected by job loss, divorce, illness and personal bankruptcy. In most cases, any repossessed collateral for a defaulted consumer loan will not provide an adequate source of repayment of the outstanding loan.

The Bank of Princeton

Notes to Financial Statements

December 31, 2010 and 2009

Note 1 - Summary of Significant Accounting Policies (continued)

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.

The Bank further segregates the portfolio into original legacy loans and those loans acquired in the MoreBank merger. The loans acquired in the MoreBank merger were recorded at fair value with no carryover of the related allowance for loan losses.

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 loans. 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 real estate loans, commercial and industrial loans 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.

An allowance for loan losses is established for an impaired loan if its carrying value exceeds its estimated fair value. The estimated fair values of substantially all of the Bank's impaired loans are measured based on the estimated fair value of the loan's collateral, less the cost to sell.

For commercial real estate loans, estimated fair values of the real estate collateral are determined primarily through third-party appraisals. When a real estate-secured loan becomes impaired, a decision is made regarding whether an updated certified appraisal of the real estate is necessary. This decision is based on various considerations, including the age of the most recent appraisal, the loan-to-value ratio based on the original appraisal and the condition of the property. Appraised values are discounted to arrive at the estimated selling price of the collateral, which is considered to be the estimated fair value. The discounts also include estimated costs to sell the property.

For commercial and industrial loans secured by non-real estate collateral, such as accounts receivable and inventory and equipment, estimated fair values are determined based on the borrower's financial statements, inventory reports, accounts receivable aging or equipment appraisals or invoices. Indications of value from these sources are generally discounted based on the age of the financial information or the quality of the assets.

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Bank does not separately identify individual residential first-lien mortgage loans, residential second-lien mortgage loans and consumer loans for impairment disclosures, unless such loans are the subject of a troubled debt restructuring agreement.

The Bank of Princeton

Notes to Financial Statements

December 31, 2010 and 2009

Note 1 - Summary of Significant Accounting Policies (continued)

Loans whose terms are modified are classified as troubled debt restructurings if the Bank grants borrower concessions and it is deemed that those borrowers are experiencing financial difficulty. Concessions granted under a troubled debt restructuring generally involve a temporary reduction in interest rate or an extension of a loan's stated maturity date. Nonaccrual troubled debt restructurings are restored to accrual status if principal and interest payments, under the modified terms, are current for six consecutive months after modification. Loans classified as troubled debt restructurings are designated as impaired.

The allowance calculation methodology includes further segregation of loan classes into risk-rating categories. The borrower's overall financial condition, repayment sources, guarantors and value of collateral, if appropriate, are evaluated annually for commercial loans or when credit deficiencies arise, such as delinquent loan payments, for commercial and consumer loans.

Credit quality risk ratings include regulatory classifications of special mention, substandard, doubtful and loss. Loans classified special mention have potential weaknesses that deserve management's close attention. If uncorrected, the potential weaknesses may result in deterioration of the repayment prospects. Loans classified substandard have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They include loans that are inadequately protected by the current sound net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans classified doubtful have all the weaknesses inherent in loans classified substandard with the added characteristic that collection or liquidation in full, on the basis of current conditions and facts, is highly improbable. Loans classified loss are considered uncollectible and are charged to the allowance for loan losses. Loan not classified are rated pass.

In addition, federal regulatory agencies, as an integral part of their examination process, periodically review the Bank's allowance for loan losses and may require the Bank to recognize additions to the allowance based on their judgments about information available to them at the time of their examination, which may not be currently available to management. Based on management's comprehensive analysis of the loan portfolio, management believes the current level of the allowance for loan losses is adequate.

Bank-owned life insurance

The Bank is the beneficiary of insurance policies on the lives of certain officers, employees and directors of the Bank. This life insurance investment is accounted for using the cash surrender value method and is recorded at its net realizable value. Increase in cash surrender values are recorded as non-interest income.

Other real estate owned

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 then recorded 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.

The Bank of Princeton

Notes to Financial Statements

December 31, 2010 and 2009

Note 1 - Summary of Significant Accounting Policies (continued)

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.

Accrued interest receivable and other assets

Accrued interest receivable and other assets are recorded at net realizable value and include accrued interest receivable, deferred tax assets, net, restricted investments in bank stocks, prepaid assets and other assets.

Federal law requires a member institution of the Federal Home Loan Bank ("FHLB") system to hold restricted stock of its district Federal Home Loan Bank according to a predetermined formula. Restricted stock in the amount of \$1,322,000 and \$898,000 is carried at cost at December 31, 2010 and 2009, respectively.

Management's determination of whether these investments are impaired is based on an 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 cost is influenced by criteria such as (1) the significance of the decline in net assets of the FHLB as compared to the capital stock amount for the FHLB and the length of time this situation has persisted, (2) commitments by the FHLB to make payments required by law or regulation and the level of such payments in relation to the operating performance of the FHLB and (3) the impact of legislative and regulatory changes on institutions and, accordingly, on the customer base of the FHLB.

The Bank also held \$100,000 and \$50,000 of stock in Atlantic Central Bankers Bank at December 31, 2010 and 2009, respectively. Management believes no impairment charge is necessary related to the FHLB restricted stock or the ACBB restricted stock as of December 31, 2010.

Intangible assets

The acquisition of MoreBank on September 30, 2010 resulted in the Bank recording a core deposit intangible of \$551,409. The core deposit intangible asset is amortized to expense on a straight-line basis over the expected period of benefit, which was established initially to be 5 years.

The recoverability of the carrying value of intangible assets will be evaluated whenever changes in circumstances indicate recoverability may be in doubt and there may be impairment. Permanent declines in value, if any, will be charged to expense. There were no impairment charges in 2010.

The Bank of Princeton

Notes to Financial Statements

December 31, 2010 and 2009

Note 1 - Summary of Significant Accounting Policies (continued)

Income taxes

The Bank accounts for income taxes in accordance with income tax accounting guidance contained in FASB ASC Topic 740, Income Taxes. This includes 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 Bank had no material unrecognized tax benefits or accrued interest and penalties as of December 31, 2010 and 2009. The Bank's policy is to account for interest and penalties as a component of other non-interest expense. The Bank is subject to income taxes in the U. S. and various state and local jurisdictions. As of December 31, 2010, tax years 2007 through 2010 are subject to examination by various taxing authorities. Tax regulations are subject to interpretation of the related tax laws and regulations and require significant judgment to apply.

Federal and state income taxes have been provided on the basis of reported income or loss. The amounts reflected on the tax returns differ from these provisions due principally to temporary differences in the reporting of certain items for financial reporting and income tax reporting purposes. The tax effect of these temporary differences is accounted for as deferred taxes applicable to future periods.

Deferred income tax expense or benefit is determined by recognizing deferred tax assets and liabilities for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred assets and liabilities of a change in tax rates is recognized in earnings in the period that includes the enactment date. The realization of deferred tax assets is assessed and a valuation allowance provided for the full amount which is not more likely than not to be realized.

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

The Bank has a 401(k) plan into which 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, 2010 and 2009, no matching contributions were made.

The Bank of Princeton

Notes to Financial Statements

December 31, 2010 and 2009

Note 1 - Summary of Significant Accounting Policies (continued)

Stock compensation plan

The stock compensation accounting guidance set forth in FASB ASC Topic 718, *Compensation - Stock Compensation* requires that compensation costs 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 costs 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.

Earnings per share

Basic earnings per share amounts are calculated by dividing income available to common stockholders by the weighted average common shares outstanding during the period, and exclude any dilutive effects of vested and exercisable options and warrants. Diluted earnings per share amounts include the dilutive effects of vested and exercisable options and warrants whose exercise price is less than the market price of the Bank's shares. Diluted earnings per share amounts are calculated by dividing income available to common stockholders by the weighted average common shares outstanding during the period if options and warrants were exercised and converted into common stock, using the treasury stock method.

The Bank of Princeton

Notes to Financial Statements

December 31, 2010 and 2009

Note 1 - Summary of Significant Accounting Policies (continued)

The following table sets forth the computation of basic and diluted earnings per share for the years ended December 31, 2010 and 2009:

	Income (numerator)	Shares (denominator)	Per share amount
Year ended December 31, 2010:			
Basic earnings per share:			
Net income	\$ 2,387,047	3,481,571	\$ 0.69
Effect of dilutive securities:			
Stock options and warrants		29,367	
Dilutive earnings per share	<u>\$ 2,387,047</u>	<u>3,510,938</u>	<u>\$ 0.68</u>
Year ended December 31, 2009:			
Basic earnings per share:			
Net income	\$ 412,705	3,020,031	\$ 0.14
Effect of dilutive securities:			
Stock options and warrants		3,446	
Dilutive earnings per share	<u>\$ 412,705</u>	<u>3,023,476</u>	<u>\$ 0.14</u>

Advertising costs

The Bank charges the costs of advertising to expense as incurred.

Comprehensive income

Accounting principles generally require that recognized revenues, 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.

The components of other comprehensive income for the years ended December 31 were as follows:

	2010	2009
Unrealized holding gains on securities available for sale	\$ 141,232	\$ 951,772
Reclassification of gains included in net income	<u>(1,229,088)</u>	<u>(413,259)</u>
	(1,087,856)	538,513
Tax effect	<u>369,871</u>	<u>(183,094)</u>
Change in net unrealized gains on available for sale securities, net of reclassification adjustment and tax effect	<u>\$ (717,985)</u>	<u>\$ 355,419</u>

The Bank of Princeton

Notes to Financial Statements

December 31, 2010 and 2009

Note 1 - Summary of Significant Accounting Policies (continued)

Interest Rate Risk

The Bank is principally engaged in the business of attracting deposits from the general public and using these deposits, together with borrowings and other funds, to purchase securities and to make loans. The potential for interest rate risk exists as a result of the generally shorter duration of interest-sensitive liabilities compared to the generally longer duration of interest-sensitive assets. In a rising rate environment, liabilities re-price faster than assets, thereby reducing net interest income. For this reason, management regularly monitors the maturity structure of assets and liabilities in order to measure the level of interest rate risk and to plan for future volatility.

Reclassifications

Certain amounts as of and for the year ended December 31, 2009 have been reclassified to conform to the current year's presentation. These reclassifications did not have any impact on stockholders' equity or net income.

Recent accounting pronouncements

The FASB has issued the following updates to the FASB Accounting Standards Codification (ASC).

Accounting Standard Update (ASU) 2011-01

The amendments in this Update temporarily delay the effective date of the disclosures about troubled debt restructurings in Update 2010-20 for public entities. Under the existing effective date in Update 2010-20, public-entity creditors would have provided disclosures about troubled debt restructurings for periods beginning on or after December 15, 2010. The delay is intended to allow the FASB time to complete its deliberations on what constitutes a troubled debt restructuring. The effective date of the new disclosures about troubled debt restructurings for public entities and the guidance for determining what constitutes a troubled debt restructuring will then be coordinated. Currently, that guidance is anticipated to be effective for interim and annual periods ending after June 15, 2011. The Bank does not expect the adoption of these amendments to have a material effect on their financial position or results of operation. The deferral in this amendment is effective upon issuance.

ASU 2010-29

The objective of this Update is to address diversity in practice about the interpretation of the pro forma revenue and earnings disclosure requirements for business combinations. Paragraph 805-10-50-2(h) requires a public entity to disclose pro forma information for business combinations that occurred in the current reporting period. The disclosures include pro forma revenue and earnings of the combined entity for the current reporting period as though the acquisition date for all business combinations that occurred during the year had been as of the beginning of the annual reporting period. If comparative financial statements are presented, the pro forma revenue and earnings of the combined entity for the comparable prior reporting period should be reported as though the acquisition date for all business combinations that occurred during the current year had been as of the beginning of the comparable prior annual reporting period.

The Bank of Princeton

Notes to Financial Statements

December 31, 2010 and 2009

Note 1 - Summary of Significant Accounting Policies (continued)

ASU - 2010-20

In January 2011, the FASB issued ASU 2011-01, Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings in Update No. 2010-20. The amendments in this ASU temporarily delay the effective date of the disclosures about troubled debt restructurings in ASU 2010-20 for public entities. The delay is intended to allow the FASB time to complete its deliberations on what constitutes a troubled debt restructuring. The effective date of the new disclosures about troubled debt restructurings for public entities and the guidance for determining what constitutes a troubled debt restructuring will then be coordinated. Currently, that guidance is anticipated to be effective for interim and annual periods ending after June 15, 2011.

In practice, some preparers have presented the pro forma information in their comparative financial statements as if the business combination that occurred in the current reporting period had occurred as of the beginning of each of the current and prior annual reporting periods. Other preparers have disclosed the pro forma information as if the business combination occurred at the beginning of the prior annual reporting period only, and carried forward the related adjustments, if applicable, through the current reporting period.

The amendments in this Update specify that if a public entity presents comparative financial statements, the entity should disclose revenue and earnings of the combined entity as though the business combination(s) that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period only.

The amendments in this Update also expand the supplemental pro forma disclosures under Topic 805 to include a description of the nature and amount of material, nonrecurring pro forma adjustments directly attributable to the business combination included in the reported pro forma revenue and earnings.

The amendments in this Update are effective prospectively for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2010. Early adoption was permitted. The adoption of this standard did not have a material impact on our balance sheet or statement of operations.

The Bank of Princeton

Notes to Financial Statements

December 31, 2010 and 2009

Note 2 - Business Combinations

Consistent with its plans for strategic growth, the Bank acquired all of the outstanding common stock of MoreBank, a Pennsylvania commercial bank, in a stock-for-stock transaction on September 30, 2010. MoreBank was merged into the Bank on this date. The Bank exchanged 465,195 of its common shares, valued at \$12 per share by a third-party valuation firm, for all outstanding MoreBank shares and also replaced outstanding and unexercised MoreBank options with 47,200 fully-vested options to purchase common stock of the Bank. Total consideration transferred by the Bank amounted to \$5,602,428 for net assets of \$6,616,904. The transaction included no contingent consideration arrangements.

The excess of net assets acquired over the consideration transferred of \$1,014,476 was recognized as a gain on acquisition. This gain resulted primarily from MoreBank deferred tax assets that were deemed unrealizable by MoreBank prior to the business combination. The Bank applied a “more likely than not” criterion on the date of acquisition in evaluating the need for a valuation allowance against these acquired deferred tax assets. It was determined that no valuation allowance was required, and, accordingly, these deferred tax assets will more likely than not be realized by the Bank.

Fair value for most loans acquired was estimated by using a methodology wherein loans with comparable characteristics were aggregated by type of collateral, remaining maturity and re-pricing terms. Cash flows for each pool were determined by estimating future credit losses and rates of prepayment. Projected monthly cash flows were then discounted to acquisition date value using a risk-adjusted market rate for similar loans. To estimate the fair value of the remaining loans, the underlying collateral for the loans was analyzed assuming the fair values of the loans were derived from the eventual sale of the collateral. The value of the collateral was based upon recent appraisals. Those values were discounted using market-derived rates of return, with consideration given to the period of time and costs associated with the foreclosure and disposition of the collateral. The MoreBank allowance for loan losses was not included in the Bank’s accounting for this transaction as the loans were recorded at their fair values.

The Bank acquired loans with evidence of deterioration of credit quality since origination for which it was probable, at the time of the acquisition, that the Bank would be unable to collect all contractually required payments due. In accordance with the “*Loans and Debt Securities Acquired with Deteriorating Credit Quality*” section of FASB ASC 310 “*Receivables*,” the Bank recorded a non-accretable, credit-related discount, which is defined as the loans’ contractually required payments receivable in excess of the amount of their cash flows expected to be collected. The Bank considered factors such as payment history, collateral values, and accrual status when determining whether there was evidence of deterioration of a loan’s credit quality at the acquisition date.

The Bank assumed transaction account deposits, time deposits and borrowings as part of the MoreBank acquisition. The fair value of these items was calculated by discounting the contractual rates and maturities using market rates for instruments with similar terms and maturities at the acquisition date.

Acquisition-related costs amounted to approximately \$155,000 and are presented in professional fees within the statements of operations. Valuation of MoreBank options and their replacement Bank options were shown to be equal, and, accordingly, no amounts were recorded to post-combination earnings.

The Bank’s statement of operations includes MoreBank’s results beginning as of the acquisition date.

The Bank of Princeton

Notes to Financial Statements

December 31, 2010 and 2009

Note 2 - Business Combinations (continued)

The following table summarizes the estimated fair value of the assets acquired and liabilities assumed as of the date of the acquisition:

Assets:	
Cash and cash equivalents	\$ 11,028,338
Securities available for sale	11,168,980
Loans, net	49,151,828
Premises and equipment, net	779,677
Core deposit intangible	551,409
Other assets	<u>2,907,609</u>
Total assets acquired	<u>75,587,841</u>
Liabilities:	
Deposits	63,524,943
Borrowings	5,283,114
Other liabilities	<u>162,880</u>
Total liabilities assumed	<u>68,970,937</u>
Net assets acquired	<u>\$ 6,616,904</u>

The following summarizes the unaudited pro forma results of operations for the year ended December 31, 2010, as if the Bank acquired MoreBank on January 1, 2010. The pro forma results for 2010 include merger costs, net of tax, of approximately \$80,000, or \$0.02 per diluted share.

Net interest income before provision for loan losses	\$ 13,042,000
Net income	\$ 1,936,000
Earnings-per-share – basic	\$ 0.58
Earnings-per-share – diluted	\$ 0.57

The Bank of Princeton

Notes to Financial Statements

December 31, 2010 and 2009

Note 3 - 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, 2010:				
Securities available for sale:				
U.S. Treasury securities	\$ 3,745,854	\$ 17,321	\$ (9,275)	\$ 3,753,900
U.S. government agency securities	15,052,195	35,358	(45,493)	15,042,060
Residential mortgage-backed securities:				
U.S. government-sponsored	108,935,548	1,734,697	(550,308)	110,119,937
Obligations of state and political subdivisions	28,383,218	24,674	(665,653)	27,742,239
Corporate securities	2,954,839	7,721	(20,080)	2,942,480
	<u>\$ 159,071,654</u>	<u>\$ 1,819,771</u>	<u>\$ (1,290,809)</u>	<u>\$ 159,600,616</u>
Securities held to maturity:				
Mortgage-backed securities:				
U.S. government-sponsored	<u>\$ 1,394,188</u>	<u>\$ 59,865</u>	<u>\$ -</u>	<u>\$ 1,454,053</u>
December 31, 2009:				
Securities available for sale:				
U.S. government agency securities	\$ 2,500,972	\$ 11,193	\$ (14,060)	\$ 2,498,105
Residential mortgage-backed securities:				
U.S. government-sponsored	64,368,484	1,600,364	(86,999)	65,881,849
Corporate securities	1,936,973	106,320	-	2,043,293
	<u>\$ 68,806,429</u>	<u>\$ 1,717,877</u>	<u>\$ (101,059)</u>	<u>\$ 70,423,247</u>
Securities held to maturity:				
U.S. government agency securities	\$ 6,007,923	\$ 22,077	\$ (40,310)	\$ 5,989,690
Residential mortgage-backed securities:				
U.S. government-sponsored	2,162,190	38,163	-	2,200,353
Obligations of state and political subdivisions	500,602	5,989	-	506,591
	<u>\$ 8,670,715</u>	<u>\$ 66,229</u>	<u>\$ (40,310)</u>	<u>\$ 8,696,634</u>

The Bank of Princeton

Notes to Financial Statements

December 31, 2010 and 2009

Note 3 - Securities (continued)

The Bank had 88 securities available for sale in an unrealized loss position as of December 31, 2010, consisting of one U.S Treasury security with a fair value of \$1,881,720; four U.S. government agency securities with an aggregate fair value of \$4,920,597; 37 U.S. government-sponsored mortgage-backed securities and with an aggregate fair value of \$46,576,542; 44 obligations of state and political subdivisions with an aggregate fair value of \$23,265,972; and two corporate securities with an aggregate fair value of \$1,979,920. All had been in an unrealized loss position for less than 12 months at December 31, 2010.

The unrealized losses on the investments in U.S. government obligations and U.S. government agency securities 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.

The unrealized losses on the U.S government-sponsored 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 these investments to be other-than-temporarily impaired.

The unrealized losses on the obligations of state and political subdivisions 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, which are primarily general obligation bonds of the issuers, are buoyed by the broad taxing authority of those issuers. 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 these investments to be other-than-temporarily impaired.

The unrealized losses on the corporate securities were caused by interest rate increases. The Bank purchased these investments at a discount relative to their face amount. 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 these investments to be other-than-temporarily impaired.

The Bank of Princeton

Notes to Financial Statements

December 31, 2010 and 2009

Note 3 – Securities (continued)

There were 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 U.S. government-sponsored mortgage-backed securities available for sale 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 were in an unrealized loss position for less than 12 months at December 31, 2009.

The amortized cost and fair value of securities as of December 31, 2010, 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	\$ 535,550	\$ 535,550	\$ -	\$ -
Due after one year through five years	17,816,335	17,806,104	-	-
Due after five years through ten years	13,161,814	12,930,350	-	-
Due after ten years	18,622,407	18,208,675	-	-
Mortgage-backed securities	108,935,548	110,119,937	1,394,188	1,454,053
	<u>\$ 159,071,654</u>	<u>\$ 159,600,616</u>	<u>\$ 1,394,188</u>	<u>\$ 1,454,053</u>

During 2010, the Bank sold 34 securities available for sale for total proceeds of \$32,430,563, resulting in gross realized gains of \$1,229,088. During 2009, the Bank sold securities available for sale for total proceeds of \$8,934,654, resulting in gross realized gains of \$413,259.

At December 31, 2010 and 2009, U.S. government agency, U.S. government-sponsored mortgage-backed securities of \$88,792,988 were pledged by the Bank to the Commissioner of Banking, State of New Jersey, for the purpose of securing public deposits under the Governmental Unit Deposit Protection Act. At December 31, 2010 and 2009, residential first-lien mortgage loans, residential second-lien mortgage loans, U.S. government-sponsored mortgage-backed securities of \$44,495,548 were pledged by the Bank to the FHLB-NY as collateral for long-term and short-term borrowings. At December 31, 2010, U.S. government-sponsored mortgage-backed securities of \$5,780,317 were pledged by the Bank to the FHLB-Pittsburgh as collateral for long-term and short-term borrowings. In addition, at December 31, 2010 and 2009, U.S. government-sponsored mortgage-backed securities of \$1,956,778 were pledged by the Bank to the FHLB-NY as collateral for the Bank's business sweep accounts held at the FHLB-NY.

The Bank of Princeton

Notes to Financial Statements

December 31, 2010 and 2009

Note 4 - Loans

The components of loans receivable at December 31 were as follows:

	<u>2010</u>	<u>2009</u>
Commercial real estate	\$ 166,472,102	\$ 89,959,353
Commercial and industrial	60,768,227	31,670,986
Construction	25,970,065	23,272,903
Residential first-lien mortgage	11,869,889	15,342,860
Residential second-lien mortgage	19,284,480	13,681,219
Consumer	<u>1,441,365</u>	<u>1,047,871</u>
Total loans	285,806,128	174,975,192
Deferred fees	(539,895)	(318,304)
Allowance for loan losses	<u>(3,693,369)</u>	<u>(2,146,776)</u>
Loans, net	<u>\$ 281,572,864</u>	<u>\$ 172,510,112</u>

Allowance for Possible Loan Losses

The allowance for loan losses is a reserve established through a provision for loan losses that is charged against earnings and represents the Bank's best estimate of probable losses in the loan portfolio at the balance sheet date. The allowance is necessary to reserve for estimated loan losses and risks inherent in the loan portfolio. The methodology is based on historical loss experience by type of credit and internal risk grade, specific homogeneous risk pools and specific loss allocations, with adjustments for current events and conditions.

The Bank's process for determining the appropriate level of the allowance for loan losses is designed to account for credit deterioration as it occurs. The provision for loan losses reflects loan quality trends, including the levels of and trends related to nonaccrual loans, past-due loans, potential problem loans, criticized loans and net charge-offs or recoveries, among other factors.

The amount of the provision reflects not only the necessary increases in the allowance for loan losses related to newly identified credit deterioration in the loan portfolio, but also reflects any necessary increases or decreases in required allowances for specific loans or loan pools. The level of the allowance reflects the Bank's continuing evaluation of industry concentrations, specific credit risks, loan loss experience, current loan portfolio quality, present economic, political and regulatory conditions and unidentified losses inherent in the current loan portfolio. Portions of the allowance may be allocated for specific credits; however, the entire allowance is available for any credit that, in the Bank's judgment, should be charged off.

While the Bank utilizes its best judgment based on currently available information, the ultimate adequacy of the allowance for loan losses is dependent upon a variety of factors beyond the Bank's control, including, among other things, the performance of the loan portfolio, the economy, changes in interest rates and the view of the regulatory authorities toward loan classifications.

The Bank of Princeton

Notes to Financial Statements

December 31, 2010 and 2009

Note 4 - Loans (continued)

The Bank's allowance for loan losses consists of three elements:

- (i) specific valuation allowances based on probable losses on specific loans;
- (ii) historical valuation allowances based on historical loan loss experience for similar loans with similar characteristics and trends, adjusted, as necessary, to reflect the impact of current conditions; and
- (iii) general valuation allowances based on general economic conditions and other qualitative risk factors, both internal and external.

The allowances established for probable losses on specific loans are based on a regular analysis and evaluation of problem loans. Loans are classified based on an internal credit risk grading process that evaluates, among other things: (i) a borrower's ability to repay a loan; (ii) the underlying collateral on a loan, if any; and (iii) the economic environment and industry in which the borrower operates. This analysis is performed for all commercial loans. When a loan has a calculated grade of 7 or higher, the Bank analyzes the loan to determine whether the loan is impaired and, if impaired, the need to specifically allocate a portion of the allowance for loan losses to the loan. Specific valuation allowances are determined by analyzing a borrower's ability to repay amounts owed, collateral deficiencies, the relative risk grade of the loan and economic conditions affecting a borrower's industry, among other things.

The following table details activity in the allowance for loan losses by portfolio segment for the year ended December 31, 2010. Allocation of a portion of the allowance to one category of loans does not preclude its availability to absorb losses in other categories.

The Bank of Princeton

Notes to Financial Statements

December 31, 2010 and 2009

Note 4 - Loans (continued)

	Commercial real estate	Commercial and industrial	Construction	Residential first-lien mortgage	Residential second-lien mortgage	Consumer	Unallocated	Total
Allowance for loan losses:								
Beginning balance	\$ 899,592	\$ 562,364	\$ 349,094	\$ 154,434	\$ 171,015	\$ 10,277	\$ -	\$ 2,146,776
Provisions	1,833,529	601,400	562,121	(76,185)	59,723	(1,673)	322,193	3,301,108
Charge-offs	(1,250,000)	(445,853)	(7,387)	-	(52,055)	-	-	(1,755,295)
Recoveries	780	-	-	-	-	-	-	780
Ending balance	<u>\$ 1,483,901</u>	<u>\$ 717,911</u>	<u>\$ 903,828</u>	<u>\$ 78,249</u>	<u>\$ 178,683</u>	<u>\$ 8,604</u>	<u>\$ 322,193</u>	<u>\$ 3,693,369</u>
Ending balance:								
Individually evaluated for impairment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Collectively evaluated for impairment	1,483,901	717,911	903,828	78,249	178,683	8,604	322,193	3,693,369
Loans acquired with deteriorated credit quality*	86,405	35,116	-	-	13,466	-	-	134,987
Total	<u>\$ 1,570,306</u>	<u>\$ 753,027</u>	<u>\$ 903,828</u>	<u>\$ 78,249</u>	<u>\$ 192,149</u>	<u>\$ 8,604</u>	<u>\$ 322,193</u>	<u>\$ 3,828,356</u>
Loans:								
Ending balance:								
Individually evaluated for impairment	\$ 4,913,794	\$ 1,395,182	\$ 1,991,048	\$ -	\$ 508,264	\$ -	\$ -	\$ 8,808,288
Collectively evaluated for impairment	160,604,975	58,985,599	23,979,017	11,869,889	18,627,645	1,441,365	-	275,508,490
Loans acquired with deteriorated credit quality	953,333	387,446	-	-	148,571	-	-	1,489,350
Ending balance	<u>\$ 166,472,102</u>	<u>\$ 60,768,227</u>	<u>\$ 25,970,065</u>	<u>\$ 11,869,889</u>	<u>\$ 19,284,480</u>	<u>\$ 1,441,365</u>	<u>\$ -</u>	<u>\$ 285,806,128</u>

*These amounts represent credit marks established on loans acquired in the MoreBank acquisition which are netted against loans and not included in the allowance for loan losses.

The following is an analysis of the allowance for loan losses for the year ended December 31, 2009:

Beginning balance	\$ 1,092,258
Provision for loan losses	1,203,583
Charge-offs	(149,065)
Recoveries	-
Ending balance	<u>\$ 2,146,776</u>

The Bank of Princeton

Notes to Financial Statements

December 31, 2010 and 2009

Note 4 - Loans (continued)

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 following table summarizes information on impaired loans by loan portfolio class as of December 31, 2010. There were no impaired loans for which a related allowance was necessary at December 31, 2010.

	Unpaid principal balance	Recorded investment	Related allowance	Average recorded investment	Interest income recognized
Commercial real estate	\$ 7,941,347	\$ 5,867,127	\$ -	\$ 6,796,824	\$ -
Commercial and industrial	2,961,280	1,782,628	-	3,003,329	-
Construction	1,998,435	1,991,048	-	1,991,048	-
Residential first-lien mortgage	-	-	-	-	-
Residential second-lien mortgage	720,235	656,835	-	715,393	-
Consumer	-	-	-	-	-
	<u>\$ 13,621,297</u>	<u>\$ 10,297,638</u>	<u>\$ -</u>	<u>\$ 12,506,594</u>	<u>\$ -</u>

Impaired loans include \$1,489,350 of loans, net of credit marks of \$134,987, which were acquired in the MoreBank acquisition.

The total recorded investment in impaired loans consisted of nonaccrual loans totaling \$2,313,239 as of December 31, 2009. The recorded investment in impaired loans not requiring an allowance for loan losses was \$2,083,622 at December 31, 2009. 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. 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.

At December 31, 2010, the Bank had nine loans totaling \$6,012,239 that were considered troubled debt restructurings and classified as impaired. Troubled debt restructurings of \$3,788,304 were performing in accordance with their modified terms at December 31, 2010. The remaining \$2,223,935 of troubled debt restructurings were on nonaccrual status at December 31, 2010.

The Bank of Princeton

Notes to Financial Statements

December 31, 2010 and 2009

Note 4 - 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 \$407,000 for the year ended December 31, 2010. During 2009, interest income that would have been recognized on impaired 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.

Nonaccrual and past-due loans

Loans are considered past-due if the required principal and interest payments have not been received as of the date such payments were due. Loans are placed on nonaccrual status at 90 days past-due, or when, in the Bank's opinion, the borrower may be unable to meet payment obligations as they become due, as well as when required by regulatory provisions. Loans may be placed on nonaccrual status regardless of whether or not such loans are considered past-due. At the time that 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.

The following table presents nonaccrual loans at December 31, 2010, segregated by loan portfolio class:

	<u>2010</u>
Commercial real estate	\$ 3,487,766
Commercial and industrial	1,782,628
Construction	-
Residential first-lien mortgage	-
Residential second-lien mortgage	275,821
Consumer	<u>-</u>
Total	<u>\$ 5,546,215</u>

The Bank of Princeton

Notes to Financial Statements

December 31, 2010 and 2009

Note 4 - Loans (continued)

The following table presents an aging analysis of past-due loans as of December 31, 2010, segregated by loan portfolio class:

	30-59 days past due	60-89 days past due	> than 90 days	Total past due	Current	Total loans receivables	Loans receivable > 90 days and accruing
Commercial real estate	\$ 1,689,605	\$ 1,915,890	\$ 2,174,642	\$ 5,780,137	\$160,691,965	\$166,472,102	\$ -
Commercial and industrial	460,157	-	1,679,762	2,139,919	58,628,308	60,768,227	-
Construction	323,188	-	-	323,188	25,646,877	25,970,065	-
Residential first-lien mortgage	-	-	-	-	11,869,889	11,869,889	-
Residential second-lien mortgage	-	160,873	127,250	288,123	18,996,357	19,284,480	-
Consumer	-	-	-	-	1,441,365	1,441,365	-
Total	<u>\$ 2,472,950</u>	<u>\$ 2,076,763</u>	<u>\$ 3,981,654</u>	<u>\$ 8,531,367</u>	<u>\$277,274,761</u>	<u>\$285,806,128</u>	<u>\$ -</u>

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

Credit quality indicators

As part of the on-going monitoring of the credit quality of the loan portfolio, the Bank tracks certain credit quality indicators including trends related to (i) the weighted-average risk grade of commercial loans, (ii) the level of classified commercial loans, (iii) net charge-offs and (iv) non-performing loans (see details above). The Bank utilizes a risk grading matrix to assign a risk grade to each of its commercial loans. Loans are graded on a scale of 1 to 8. A description of the general characteristics of the 8 risk grades is as follows:

Grade 1 - This grade includes “pass” loans to very high credit-quality borrowers. The borrowers in this grade generally have significant capital strength, moderate leverage and readily available financing alternatives.

Grades 2 to 4 - These grades include “pass” loans to borrowers of solid credit quality with moderate risk. The borrowers in these grades are differentiated from borrowers in grade 1 on the basis of size (capital and/or revenue), leverage, asset quality and the stability of the industry or market area.

Grade 5 - This grade includes “pass” loans to borrowers of acceptable credit quality and risk. The borrowers in this grade are differentiated from grades 1 to 4 in terms of size, secondary sources of repayment and/or lesser stature in other key credit metrics.

Grade 6 - This grade includes “special mention” loans in accordance with regulatory guidelines. This grade is intended to be temporary, and includes loans to borrowers whose credit quality has clearly deteriorated and are at risk of further decline unless active measures are taken to correct the situation.

The Bank of Princeton

Notes to Financial Statements

December 31, 2010 and 2009

Note 4 - Loans (continued)

Grade 7 - This grade includes “substandard” loans in accordance with regulatory guidelines. A “substandard” loan is defined as having particular weaknesses which make payment default or principal exposure likely but not yet certain. Such loans are usually dependent upon collateral liquidation, a secondary source of repayment or an event outside of the normal course of business.

Grade 8 - This grade includes “doubtful” loans in accordance with regulatory guidelines. These loans are placed on nonaccrual status and may be dependent upon collateral having a value that is difficult to determine or upon some near-term event which lacks certainty.

Grade 9 - This grade includes “loss” loans in accordance with regulatory guidelines. These loans are to be charged-off or charged-down when payment is acknowledged to be uncertain or when the timing or value of payments cannot be determined. “Loss” is not intended to imply that the entire loan or some portion of the loan will never be paid, nor does it in any way imply that there has been a forgiveness of debt. There were no loans rated loss at December 31, 2010.

The following table presents weighted-average risk grades and classified loans by loan portfolio class at December 31, 2010. Classified loans include loans in risk grades 7 (substandard) and 8 (doubtful).

	<u>Pass</u>	<u>Special mention</u>	<u>Substandard</u>	<u>Doubtful</u>	<u>Total</u>
Commercial real estate	\$ 160,368,904	\$ -	\$ 5,985,570	\$ 117,628	\$ 166,472,102
Commercial and industrial	57,203,731	1,557,894	2,006,602	-	60,768,227
Construction	22,457,832	-	3,512,233	-	25,970,065
Residential first-lien mortgage	11,869,889	-	-	-	11,869,889
Residential second-lien mortgage	18,768,108	79,678	436,694	-	19,284,480
Consumer	1,441,365	-	-	-	1,441,365
Total	<u>\$ 272,109,829</u>	<u>\$ 1,637,572</u>	<u>\$ 11,941,099</u>	<u>\$ 117,628</u>	<u>\$ 285,806,128</u>

The Bank of Princeton

Notes to Financial Statements

December 31, 2010 and 2009

Note 5 - Premises and Equipment

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

	Estimated useful lives	2010	2009
Leasehold improvements	10 Yrs.	\$ 2,126,556	\$ 1,451,557
Furniture, fixtures and equipment	3-7 Yrs.	1,678,208	1,269,246
Construction in progress		<u>1,544,470</u>	<u>2,896</u>
		5,349,234	2,723,699
Accumulated depreciation and amortization		<u>(1,195,956)</u>	<u>(716,194)</u>
Premises and equipment, net		<u>\$ 4,153,278</u>	<u>\$ 2,007,505</u>

Depreciation and amortization expense charged to operations amounted to \$479,761 and \$371,025 for the years ended December 31, 2010 and 2009, respectively.

Construction in progress represents costs for acquisition and fit-out of new branches. Total commitments for these purposes at December 31, 2010 were \$620,000.

Note 6 - Accrued Interest Receivable and Other Assets

The components of accrued interest receivable and other assets at December 31 were as follows:

	2010	2009
Accrued interest receivable	\$ 1,970,690	\$ 1,037,209
Deferred tax asset	3,165,739	-
Restricted investments in bank stocks	1,422,200	948,000
Prepaid assets and other assets	<u>2,184,144</u>	<u>1,532,951</u>
	<u>\$ 8,742,773</u>	<u>\$ 3,518,160</u>

The Bank of Princeton

Notes to Financial Statements

December 31, 2010 and 2009

Note 7 - Deposits

The components of deposits at December 31 were as follows:

	<u>2010</u>	<u>2009</u>
Demand, non-interest-bearing	\$ 30,669,037	\$ 16,576,817
Demand, interest-bearing and savings	159,474,898	65,285,222
Money market	100,626,289	77,004,979
Time deposits, \$100,000 and over	57,642,614	23,336,364
Time deposits, other	<u>77,400,187</u>	<u>36,424,971</u>
Total deposits	<u>\$ 425,813,025</u>	<u>\$ 218,628,353</u>

At December 31, 2010, the scheduled maturities of time deposits were as follows:

2011	\$ 62,688,335
2012	35,977,510
2013	6,108,281
2014	21,091,946
2015	<u>9,176,729</u>
	<u>\$ 135,042,801</u>

The Bank of Princeton

Notes to Financial Statements

December 31, 2010 and 2009

Note 8 - Borrowings

The following table is a schedule of the Bank's long-term debt as of December 31, 2010 and 2009, consisting of FHLB-NY and FHLB-Pittsburgh amortizing fixed-rate long-term advances by maturities:

Rate at December 31, 2010	Maturity	2010	2009
1.60%	8/8/2011	\$ 702,083	\$ -
2.34%	12/19/2011	1,470,644	-
1.93%	5/14/2012	1,023,061	-
1.82%	8/28/2012	1,769,860	2,756,204
1.66%	10/15/2012	1,289,232	1,945,778
2.61%	6/3/2013	1,032,235	-
2.23%	8/28/2013	2,091,055	2,820,230
2.05%	10/15/2013	1,474,410	1,959,983
2.70%	7/23/2014	1,492,753	1,874,893
3.30%	8/6/2014	1,033,678	-
2.61%	8/28/2014	3,048,341	3,812,141
2.40%	10/14/2014	1,586,779	1,968,594
		<u>\$ 18,014,131</u>	<u>\$ 17,137,823</u>

Maturities of long-term debt in years subsequent to December 31, 2010 are as follows:

2011	\$ 6,743,942
2012	5,311,545
2013	3,709,760
2014	<u>2,248,884</u>
	<u>\$ 18,014,131</u>

At December 31, 2010, federal funds purchased were \$1,044,000. There were no amounts outstanding at December 31, 2009.

At December 31, 2010, the Bank had federal funds available for purchase with the ACBB of \$6,000,000 at interest rates that adjust daily.

At December 31, 2010, the Bank also had \$244,381,500 of borrowing capacity with the FHLB-NY that is based upon collateral available at that date.

The Bank of Princeton

Notes to Financial Statements

December 31, 2010 and 2009

Note 9 - Accrued Interest Payable and Other Liabilities

The components of accrued interest payable and other liabilities at December 31 were as follows:

	<u>2010</u>	<u>2009</u>
Accrued interest payable	\$ 1,092,169	\$ 627,264
Accrued expenses and other liabilities	<u>1,334,888</u>	<u>377,283</u>
	<u>\$ 2,427,057</u>	<u>\$ 1,004,547</u>

Note 10 - 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 and standby letters of credit. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized on the balance sheet. The contract, or notional, amounts of those instruments reflect the extent of involvement the Bank has in particular classes of financial instruments.

The Bank's exposure to credit loss in the event of nonperformance by the other party (the "counterparty") to the financial instrument for commitments to extend credit and standby letters of credit written is represented by the contractual notional amount of those instruments. The Bank uses the same credit policies in making commitments and conditional obligations as they do for on-balance-sheet instruments.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee by the counterparty. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements.

The Bank evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation of the counterparty. Collateral held varies, but primarily includes residential and income-producing real estate.

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

	<u>2010</u>	<u>2009</u>
Performance and standby letters of credit	\$ 2,550,345	\$ 7,945,909
Commitments to grant loans	57,473,806	3,596,294
Unfunded commitments under lines of credit	<u>8,083,948</u>	<u>34,660,520</u>
	<u>\$ 68,108,099</u>	<u>\$ 46,202,723</u>

The Bank of Princeton

Notes to Financial Statements

December 31, 2010 and 2009

Note 11 - Commitments and Contingencies

The Bank has operating leases for nine 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 were as follows:

2011	\$	877,417
2012		873,743
2013		840,451
2014		858,479
2015		840,395
Thereafter		<u>1,601,256</u>
	\$	<u>5,891,741</u>

Rental expense for the years ended December 31, 2010 and 2009 was \$748,272 and \$618,945, respectively.

The Bank has an operating lease agreement with a related party for its corporate headquarters and a 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, 2010 and 2009 was approximately \$284,000 in each year.

The Bank may at times be subject to potential liability under laws and government regulation and various claims and legal actions that are pending or may be asserted against it. Liabilities are established for legal claims when payments associated with the claims become probable and the costs can be reasonably estimated. The actual costs of resolving legal claims may be substantially higher or lower than the amounts established for those claims. Based on information currently available, advice of counsel, available insurance coverage and established liabilities, the Bank has determined that there are no eventual outcomes that will have a material adverse effect on the Bank's financial position or results of operations.

The Bank of Princeton

Notes to Financial Statements

December 31, 2010 and 2009

Note 12 - Income Taxes

The components of income tax expense (benefit) at December 31 were as follows:

	<u>2010</u>	<u>2009</u>
Current:		
Federal	\$ 38,326	\$ -
State	<u>29,212</u>	<u>-</u>
Total current	<u>67,538</u>	<u>-</u>
Deferred:		
Federal	(83,444)	195,085
State	<u>(35,692)</u>	<u>56,638</u>
Total deferred	<u>(119,136)</u>	<u>251,723</u>
Reversal of valuation allowance	<u>(1,436,646)</u>	<u>(251,723)</u>
Total income taxes applicable to pre-tax income	<u>\$ (1,488,244)</u>	<u>\$ -</u>

There was no provision for income taxes for the year ended December 31, 2009 due to net operating losses incurred.

Total income taxes differed from the amount computed by applying the statutory federal income tax rate to pre-tax income as follows:

	<u>2010</u>	<u>2009</u>
Federal income tax expense at statutory rate	\$ 305,593	\$ 140,320
Increases (reductions) in taxes resulting from:		
State income taxes, net of federal benefit	42,837	-
Tax-exempt income, net	(61,223)	(5,554)
Non-deductible expenses	105,123	86,908
Gain on acquisition	(344,922)	-
Decrease in valuation allowance	(1,436,646)	(251,723)
Other	<u>(99,006)</u>	<u>30,049</u>
Total	<u>\$ (1,488,244)</u>	<u>\$ -</u>

The Bank of Princeton

Notes to Financial Statements

December 31, 2010 and 2009

Note 12 - Income Taxes (continued)

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

	<u>2010</u>	<u>2009</u>
Deferred tax assets:		
Allowance for loan losses	\$ 1,241,080	\$ 803,158
Net operating loss carry-forwards	1,586,820	729,659
Acquisition accounting adjustments	424,810	-
Organizational costs	367,420	354,864
Organizer warrants	-	109,656
Other	<u>270,076</u>	<u>61,469</u>
	3,890,206	2,058,806
Valuation allowance	<u>-</u>	<u>(1,436,646)</u>
Total deferred tax assets, net of valuation allowance	<u>3,890,206</u>	<u>622,160</u>
Deferred tax liabilities:		
Premises and equipment	(52,300)	(97,626)
Cash basis conversions	(269,780)	(375,767)
Unrealized gains on securities	(179,847)	(549,718)
Deferred loan costs	(222,530)	(98,836)
Discount accretion	<u>(10)</u>	<u>(49,931)</u>
Total deferred tax liabilities	<u>(724,467)</u>	<u>(1,171,878)</u>
Net deferred tax asset (liability)	<u>\$ 3,165,739</u>	<u>\$ (549,718)</u>

At December 31, 2010, the Bank had available federal net operating loss carryforwards of approximately \$4,600,000, which expire between 2028 and 2030. There are currently no state net operating loss carryforwards available. Included in the net operating loss carryforwards are amounts that were generated by MoreBank, which the Bank acquired on September 30, 2010. These net operating losses are subject to an annual Internal Revenue Code Section 382 limitation of approximately \$220,000.

Based on projections of future taxable income over periods in which the deferred tax assets are deductible, management believes it is more likely than not that the Bank will realize the benefits of these deductible differences.

As a result of the acquisition of MoreBank, the Bank acquired net deferred tax assets of approximately \$1,800,000.

The Bank of Princeton

Notes to Financial Statements

December 31, 2010 and 2009

Note 13 - 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. All 97,500 Organizer warrants were outstanding at December 31, 2010 and 2009.

In 2007, the Bank adopted the 2007 Stock Option Plan (the “2007 Plan”), which was approved by the Board of Directors in August 2007 and by the stockholders 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 2007 Plan are authorized and unissued shares of the Bank. The maximum number of shares that may be subject to options under the 2007 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 2007 Plan, out of its authorized and unissued shares, such number of shares. The 2007 Plan will terminate ten years from the date of stockholder approval.

In accordance with the 2007 Plan, 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 an initial term no shorter than three (3) years and includes an immediate vested amount and equal annual vesting amounts thereafter over the vesting term.

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

	<u>2010</u>	<u>2009</u>
Expected life	7 years	7 years
Expected volatility	24.57%	25.95%
Forfeiture rate	18.36%	0.00%
Dividend yield	0.00%	0.00%
Risk-free interest rate	2.52%	2.74%

The Bank of Princeton

Notes to Financial Statements

December 31, 2010 and 2009

Note 13 - Share-Based Compensation (continued)

The following is a summary of the Bank's share-based compensation activity and related information for the years ended December 31, 2010 and 2009:

	<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, 2010:				
Outstanding - beginning of year	255,183	\$ 10.14		
Options granted	93,833	\$ 11.56		
Options issued in acquisition	47,200	\$ 25.00		
Exercised	(50)	\$ 10.00		
Forfeited	<u>(63,250)</u>	<u>\$ 10.12</u>		
Outstanding - end of year	<u>332,916</u>	<u>\$ 12.66</u>	<u>7.4 years</u>	<u>\$ 735,910</u>
Options exercisable - end of year	<u>261,352</u>	<u>\$ 13.03</u>	<u>7.0 years</u>	<u>\$ 687,057</u>
Weighted-average fair value of options granted and issued during the year		<u>\$ 2.49</u>		
December 31, 2009:				
Outstanding - beginning of year	219,700	\$ 10.10		
Options granted	60,266	\$ 10.28		
Exercised	-	-		
Forfeited	<u>(24,783)</u>	<u>\$ 10.00</u>		
Outstanding - end of year	<u>255,183</u>	<u>\$ 10.14</u>	<u>8.4 years</u>	<u>\$ -</u>
Options exercisable - end of year	<u>67,535</u>	<u>\$ 10.00</u>	<u>8.8 years</u>	<u>\$ -</u>
Weighted-average fair value of options granted during the year		<u>\$ 3.38</u>		

Total share-based compensation expense for the years ended December 31, 2010 and 2009 was \$220,893 and \$231,917, respectively, which related to stock options only.

As of December 31, 2010, there was \$305,224 of unrecognized compensation cost related to non-vested stock options granted in 2010 and prior years. The cost is expected to be recognized on a graded vesting method over a weighted-average period of 2.3 years.

The Bank of Princeton

Notes to Financial Statements

December 31, 2010 and 2009

Note 14 - 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, 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. These warrants were exercisable at any time up to their expiration date of April 17, 2010, three years from the date of issuance.

There were 747,625 of these warrants outstanding at December 31, 2009. There were 464,565 and 2,375 warrants exercised during the years ended December 31, 2010 and 2009, respectively. There were 283,060 warrants that expired during the year ended December 31, 2010.

Note 15 - Employment Agreement

The Bank entered into employment agreements with certain employees. The term of the agreements is one year, with automatic, one-year renewals. 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 16 - 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 \$3,361,053 and \$3,452,020 at December 31, 2010 and 2009, respectively. Deposits of related parties totaled \$11,637,045 and \$2,695,694 as of December 31, 2010 and 2009, respectively.

During 2010, no loans to related parties were originated. During 2009, loans originated to related parties totaled \$125,000. During 2010 and 2009, principal repayments on loans to related parties were \$90,967 and \$46,798, respectively.

The Bank of Princeton

Notes to Financial Statements

December 31, 2010 and 2009

Note 17 - 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 the federal banking agencies 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 classifications 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, 2010, 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, which ended on April 16, 2010.

The Bank's actual capital amounts and ratios at December 31, 2010 and 2009 are presented below:

	Actual		For capital adequacy purposes		To be well capitalized under prompt corrective action provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2010:						
Total capital (to risk-weighted assets)	\$ 42,030	12.3%	\$ 27,292	≥ 8.0%	\$ 34,115	≥ 10.0%
Tier 1 capital (to risk-weighted assets)	\$ 38,336	11.2%	\$ 13,646	≥ 4.0%	\$ 20,649	≥ 6.0%
Tier 1 capital (to average assets)	\$ 38,336	7.9%	\$ 24,331	≥ 5.0%	\$ 38,930	≥ 8.0%
December 31, 2009:						
Total capital (to risk-weighted assets)	\$ 29,073	15.7%	\$ 14,864	≥ 8.0%	\$ 18,580	≥ 10.0%
Tier 1 capital (to risk-weighted assets)	\$ 26,926	14.5%	\$ 7,432	≥ 4.0%	\$ 11,148	≥ 6.0%
Tier 1 capital (to average assets)	\$ 26,926	10.0%	\$ 21,635	≥ 8.0%	\$ 21,635	≥ 8.0%

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

The New Jersey Department of Banking and Insurance, in issuing a 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, both to defray anticipated initial losses. Accordingly, \$1,950,000 of the Bank's surplus is reserved for this purpose.

The Bank of Princeton

Notes to Financial Statements

December 31, 2010 and 2009

Note 18 - 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 an 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 is a reasonable point within the range that is most representative of fair value under current market conditions.

In accordance with this guidance, the Bank groups its financial assets and financial liabilities 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. These levels are:

Level 1: Valuation is based on unadjusted 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 Bank of Princeton

Notes to Financial Statements

December 31, 2010 and 2009

Note 18 - Fair Values of Financial Instruments (continued)

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 as well as projected repayments and prepayments of principal. Generally, for variable rate loans that repriced frequently with no significant change in credit risk, fair values are based on carrying values.

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. At December 31, 2009, the fair value consists of the loan balances of \$229,617 net of a valuation allowance of \$141,417. There were no impaired loans measured at fair value at December 31, 2010.

Other real estate owned

Real estate owned assets are adjusted to fair value less estimated selling costs upon transfer of a loan 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 accrued interest payable (carried at cost)

The carrying amounts of accrued interest receivable and accrued interest payable approximate fair value.

The Bank of Princeton

Notes to Financial Statements

December 31, 2010 and 2009

Note 18 - Fair Values of Financial Instruments (continued)

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 of deposit to a schedule of aggregated expected monthly maturities on time deposits.

Federal funds purchased (carried at cost)

The carrying amounts of federal funds purchased approximate fair value.

Borrowings (carried at cost)

Fair values of FHLB-NY and FHLB-Pittsburgh advances are estimated using discounted cash flow analysis, based on quoted prices for new FHLB-NY and FHLB-Pittsburgh 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, comprised of letters of credit, 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 Bank of Princeton

Notes to Financial Statements

December 31, 2010 and 2009

Note 18 - 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 at December 31, 2010 and 2009 were 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, 2010:				
U.S. Treasury securities	\$ 3,753,900	\$ 3,753,900	\$ -	\$ -
U.S. government agency securities	15,042,060	-	15,042,060	-
Mortgage-backed securities:				
U.S. government-sponsored entity issue	110,119,937	-	110,119,937	-
Obligations of state and political subdivisions	27,742,239	-	27,742,239	-
Corporate securities	2,942,480	2,942,480	-	-
Securities available for sale	<u>\$ 159,600,616</u>	<u>\$ 6,696,380</u>	<u>\$ 152,904,236</u>	<u>\$ -</u>
December 31, 2009:				
U.S. government agency securities	\$ 2,498,105	\$ -	\$ 2,498,105	\$ -
Mortgage-backed securities:				
U.S. government-sponsored entity issue	65,881,849	-	65,881,849	-
Corporate securities	2,043,293	2,043,293	-	-
Securities available for sale	<u>\$ 70,423,247</u>	<u>\$ 2,043,293</u>	<u>\$ 68,379,954</u>	<u>\$ -</u>

Certain assets and liabilities are measured at fair value on a non-recurring 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).

The Bank of Princeton

Notes to Financial Statements

December 31, 2010 and 2009

Note 18 - Fair Values of Financial Instruments (continued)

For assets measured at fair value on a non-recurring basis, the fair value measurements by level within the fair value hierarchy at December 31, 2010 were 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, 2010:				
Other real estate owned	\$ 1,140,000	\$ -	\$ -	\$ 1,140,000
December 31, 2009:				
Impaired loans	\$ 88,200	\$ -	\$ -	\$ 88,200
Other real estate owned	227,283	-	-	227,283
Total	\$ 315,483	\$ -	\$ -	\$ 315,483

The estimated fair values, and related carrying amounts, of the Bank's financial instruments at December 31, 2010 and 2009 were as follows:

	2010		2009	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets:				
Cash and cash equivalents	\$ 25,619,625	\$ 25,619,625	\$ 7,303,513	\$ 7,303,513
Securities available for sale	159,600,616	159,600,616	70,423,247	70,423,247
Securities held to maturity	1,394,188	1,454,053	8,670,715	8,696,634
Loans, net	281,572,864	285,001,994	172,510,112	174,729,529
Restricted investments in bank stocks	1,422,200	1,422,200	948,000	948,000
Accrued interest receivable	1,970,690	1,970,690	1,037,209	1,037,209
Financial liabilities:				
Deposits	425,813,025	422,724,000	218,628,353	217,972,468
Federal funds purchased	1,044,000	1,044,000	-	-
Borrowings	18,014,131	18,048,000	17,137,823	17,341,491
Accrued interest payable	1,092,169	1,092,169	627,264	627,264

Who We Are

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Stephen Distler
Judith Giacin
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Robert N. Ridolfi, Esq.
James M. Riley
Jeffrey H. Sands
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Ross E. Wishnick



Who We Are

Relationship Management

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Stephanie M. Adkins, *Chambers Street*

Nina D. Melker, *Hamilton*

William McDowell, *Pennington*

William D. Allan, *Monroe*

LENDERS

Mary Beth Gorecki, *Consumer Credit*

Kris Muse, *Healthcare*

Harold John Young, *Commercial Lender*

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Cathy Proctor, *Chambers Street*

Suzanne Lippincott, *Hamilton*

Charlene Jones, *Pennington*

Miriam Colon, *Montgomery*

Doris Kostanek, *Monroe*

CUSTOMER SERVICE REPRESENTATIVES

Dwayne Armstrong, *Bayard Lane*

Madalyn Citera, *Bayard Lane*

Rose Russo, *Bayard Lane*

Rosalia Salam, *Bayard Lane*

Wilson Weed, *Bayard Lane*

Oliver Guzman, *Chambers Street*

Suzanne Lang, *Chambers Street*

Ginamarie Marino, *Chambers Street*

Justin Naidoo, *Chambers Street*

Madhu Vysyaraju, *Chambers Street*

Linda Brown, *Hamilton*

Earl Hawley, *Hamilton*

Trinace Johnson, *Hamilton*

Pratiksha Shah, *Hamilton*

Angela Arduini, *Pennington*

April Sullivan, *Pennington*

Darshana Jadav, *Montgomery*

Frank Polizzi, *Montgomery*

Dorothy Siegelman, *Montgomery*

Wendy Evans, *Monroe*

Connie Inverso, *Monroe*

Ana Salazar, *Monroe*

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Ulrike Ahrens, *Chambers Street*

Carly Meyer, *Chambers Street*

Paul M. Bencivengo, *Hamilton*

Joseph Ciampa, *Pennington*

Loan Administration

Carol Safchinsky

Praful Bhagat

David Geyer

Michelle Goldstein

Deborah Josephson

Sharon Litchman

Amela Muslic

Lois Newman

Edna Stout

Lana Trembly

Rosa Ucci

Management & Support

SENIOR MANAGEMENT

Steven C. Ackmann

Douglas V. Conover

Edward J. Dietzler

William A. Siegenthaler

OPERATIONS & COMPLIANCE

Karen D. Pfeifer

Nancy C. German

Brian K. Maslowski

Thomas Perrotta

FINANCE

Edward Hassenkamp

Ronald Giampaolo

Kathleen Thomson

ADMINISTRATION

Kelly Tarity

HUMAN RESOURCES

Anna Maria Miller

MARKETING

Barbara A. Cromwell

Carly Thompson

MoreBank Division

SENIOR MANAGEMENT

Paul Hyon

LENDERS

Mike Han

Jennifer Yoo

CUSTOMER SERVICE MANAGERS

Haeran Hwangbo, *Cheltenham*

Sokah Eng, *Cheltenham*

Yuet Chui, *Upper Darby*

Young Soon Sim, *North Wales*

CUSTOMER SERVICE REPRESENTATIVES

Woo Mee Han, *Cheltenham*

Jessie Kim, *Cheltenham*

Soojin Kim, *Cheltenham*

Siu Mo, *Cheltenham*

Phoebe S. Kim, *Upper Darby*

Mi-Kyung Lee, *Upper Darby*

Rebecca Zang, *Upper Darby*

Kyung Song, *North Wales*

LOAN ADMINISTRATION

Sook Chung, *Cheltenham*

Hyun Suk Kang, *Cheltenham*

Joanna Lee, *Cheltenham*

OPERATIONS & ADMINISTRATION

Kristine Hong

Rebekah Oh





*A Special Community Deserves
a Special Bank.*

The Bank of Princeton Board Members and Staff joined Monroe Township Council Members to celebrate the opening of our Monroe Branch at 1 Rossmoor Drive.





*A Special Community Deserves
a Special Bank.*

In September, The Bank of Princeton attended the Frist Center Open House at Princeton University, where we met the students and faculty and raffled off an iPad. Above, our Chambers Street Staff pick the lucky winner (Arda Bozyigit, Class of '12).



Growing *our* Communities.



Alzheimer's Association
American Heart Association
Arts Council of Princeton
Auxiliary of University Medical Center at Princeton
Big Brothers Big Sisters of Mercer County
Capital Health Foundation
Catholic Charities of the Diocese of Trenton
Christine's Hope for Kids Foundation
Corner House Foundation
Crawford House
Crisis Ministry of Trenton & Princeton
Cystic Fibrosis Foundation
Dress for Success of Mercer County
Eden Autism Services
Friends of the Princeton Public Library
Fund: 101
Hamilton Area YMCA
Hamilton Education Foundation
Hamilton Township Economic Development Advisory Committee
Har Sinai Temple
Historical Society of Princeton
HiTOPS
Home Town Princeton, Inc.
HomeFront
Hopewell Valley Education Foundation
Hopewell Valley Gridiron Club
Hopewell Valley Pop Warner
Hopewell Valley Soccer
Hopewell Valley YMCA
HTRBA Little League
Isles, Inc.
Jewish Family & Children's Services of Mercer County
Joint Effort Community Sports
Kidsbridge
Korean Community Center of Princeton
March of Dimes
McCarter Theater Center
Mercer County Bar Association
Mercer County Community College Foundation
Mercer County Italian American Festival Association

Mercer County Sports and Entertainment Commission
Mercer Regional Chamber of Commerce
Metropolitan Trenton African-American Chamber of Commerce
Miracle League of Mercer County
Montgomery-Rocky Hill Rotary Club
Montgomery Township Food Pantry
Muscular Dystrophy Association
New Jersey Regional Coalition
Nick & Jim Friends in Heaven Memorial Foundation
Opera New Jersey
Our Lady of Sorrows, St. Anthony Parish
Peddie School
Pennington Business & Professional Association
Pennington Day School
Pet Rescue of Mercer County
Princeton Academy of the Sacred Heart
Princeton Education Foundation
Princeton Family YMCA
Princeton Human Services
PrincetonKIDS
Princeton Merchants Association
Princeton Pro Musica
Princeton Project 55
Princeton Public Library Foundation
Princeton Recreation Department
Princeton Regional Chamber of Commerce
Princeton Regional Schools
Princeton Senior Resource Center
Princeton Symphony Orchestra
Princeton Young Achievers
Project Freedom
Recreational Foundation of Hopewell Valley
Robert Wood Johnson Foundation
Ryan's Quest
Special Olympics New Jersey
St. Francis Medical Center Foundation
Steinert High School Athletics
The American Cancer Society
The Arc of Hunterdon Foundation
The Foundation of Morris Hall
The Friendly Sons & Daughters of St. Patrick of Mercer County
The Oxford Group
The Parkinson Alliance, Inc.
The Princeton Singers
The Salvation Army

Thomas Edison State College Foundation
Trenton Area Soup Kitchen
United Way of Hunterdon County
West Amwell Golf Day
Witherspoon Elks Lodge #178
Women's Fund of New Jersey
YWCA Princeton



Asian Pacific American Bar Association of Pennsylvania
Greater Philadelphia Asian Social Service Center
Institute of Korean American Studies
KCBMC
Milal Mission
Penn Asian Senior Services
Philadelphia Chinatown Development Corporation
The Korean Loyalty & Filial Piety
People Movement of Philadelphia
The Korean Senior Citizen Association of Greater Philadelphia
The Philip Jaisohn Memorial Foundation

*Thank you to our
community partners for
making a
difference.*





The Bank of Princeton

www.thebankofprinceton.com

Corporate Headquarters
183 Bayard Lane
Princeton, NJ 08540
609.921.1700

2 Route 31 South
Pennington, NJ 08534
609.730.8500

Loan Operations
403 Wall Street
Princeton, NJ 08540
609.454.0116

1185 Route 206 North
Princeton, NJ 08540
609.497.0500

21 Chambers Street
Princeton, NJ 08542
609.921.6800

1 Rossmoor Drive
Suite 120
Monroe Township, NJ 08831
609.655.7790

339 Route 33
Hamilton, NJ 08619
609.584.0011

10 Bridge Street
Lambertville, NJ 08530
Opening in 2011



MoreBank *A Division of The Bank of Princeton*

www.morebankusa.com

470 West Cheltenham Avenue
Philadelphia, PA 19126
215.224.6400

1222 Welsh Road
North Wales, PA 19454
215.631.9911

7050 Terminal Square
Suite 201
Upper Darby, PA 19082
610.734.1444



Branching out *wisely.*