



The Bank of Princeton

**Branching out
...and growing**

2011 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.

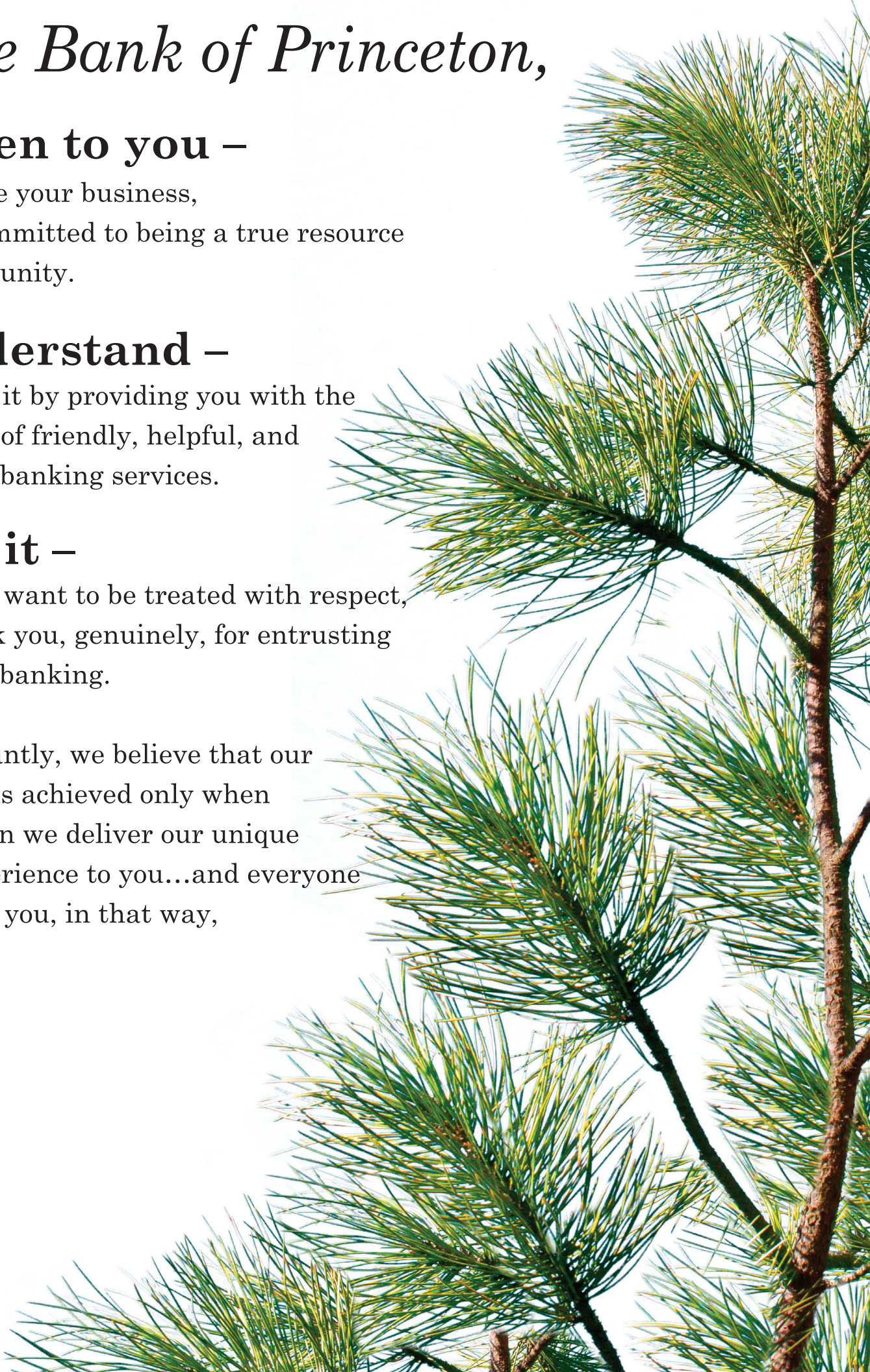
We understand –

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,



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Letter to the Shareholders

Dear Fellow Shareholders,

The Bank of Princeton (the “Bank”) earned \$2.8 million in 2011, an increase of 18% from 2010. Despite the economy continuing to face significant headwinds, we continued to grow loans, deposits and net income. At the same time, we continued to invest in our company’s future and to build our business. In 2011, we added two new branch locations to complement our nine existing branches, for a total of 11 full-service branches. Additionally, we continued our strong commitment to our community banking roots by providing capital to many local business and non-profit organizations while supporting more than 200 local charities and community groups.

Total assets at year-end 2011 were \$664.8 million, an increase of 36% from \$488.1 million at year-end 2010. The resulting increase in assets was primarily driven by the increase in loans. Total loans were \$411.2 million at year-end 2011, an increase of 44% from the \$285.2 million in loans at year-end 2010. New deposit customers, drawn by our larger branch network and community bank focus, grew in-kind with loans during 2011. Deposit balances at year-end 2011 were \$595.5 million, an increase of \$169.7 million, or 40%, compared to year-end 2010 deposit balances of \$425.8 million.

The growth in our net income was visible in several of our key ratios. Our net interest margin was 3.48% for the year 2011, an increase of 0.45% compared to 2010. Our cost of funds, a component of net interest margin, decreased to 1.41% in 2011, down 0.11% from 2010. Our efficiency ratio, which measures the relationship of our operating costs to revenue, was 75%, unchanged from 2010. We remain committed to improving these key ratios in 2012 as a means of increasing returns to stockholders. We are particularly proud to report some of the Bank’s major accomplishments in 2011. They included:

- In July, we opened our Lambertville Branch. This is our first branch in Hunterdon County, NJ. Year-end deposits at this branch were \$19.3 million. The branch is home to The Bank of Princeton’s first art gallery. The gallery features the work of area school children and local artists.
- In September, we relocated our North Wales, PA branch from inside a supermarket to an adjacent corner storefront in the same shopping center. The new site has been an enormous success, as branch deposits increased almost 50% to \$20.2 million at year-end.
- In December, we opened our 11th branch on Nassau Street in Princeton Borough. The branch complements our two other branches within the Princeton community, making us the most convenient community bank in this market.
- We conducted a successful capital raise during the third and fourth quarter, resulting in approximately \$8.8 million of additional capital from new and existing stockholders.
- We were selected as number 15 on NJBIZ Magazine’s 2011 listing of New Jersey’s 50 Fastest Growing Companies.

As a Company, we are committed to the business communities we serve as well as many local charities, community organizations and civic events. We recognize that our success as an organization is the result of the dedication of our employees and the partnerships that we have formed within the communities we serve. We are committed to our core mission statement: “We listen to you, we understand, and we make a difference.” Our Directors, Management and Staff thank you for your continued support.


Edward J. Dietzler, Acting President


Andrew M. Chon, Chairman



FEDERAL DEPOSIT INSURANCE CORPORATION
Washington, D.C. 20429

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the Fiscal Year Ended December 31, 2011

- OR -

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the transition period from _____ to _____

FDIC Certificate Number: 58513

THE BANK OF PRINCETON

(Exact name of Registrant as specified in its Charter)

New Jersey

(State or other Jurisdiction of
Incorporation or Organization)

68-0645074

(I.R.S. Employer
Identification No.)

183 Bayard Lane, Princeton, NJ

(Address of Principal Executive Offices)

08540

(Zip Code)

Registrant's telephone number, including area code: (609) 921-1700

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act: Common stock, par value \$5.00 per share

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES NO

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES NO

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or such shorter period that the registrant was required to submit and post such files). YES NO

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definition of "large accelerated filer", "accelerated filer", and "smaller reporting company" in Rule 12b-2 of the Exchange Act (Check one):

Large accelerated filer

Non-accelerated filer

(Do not check if a smaller reporting company)

Accelerated filer

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). YES NO

As of March 7, 2012 there were 4,578,330 shares of common stock outstanding.

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PART I

Forward-Looking Statements

The Bank of Princeton (the “Company” or the “Bank”) may from time to time make written or oral “forward-looking statements,” including statements contained in the Company’s filings with the Federal Deposit Insurance Corporation (the “FDIC”) (including this Annual Report on Form 10-K and the exhibits thereto), in its reports to stockholders and in other communications by the Company, which are made in good faith by the Company pursuant to the “safe harbor” provisions of the Private Securities Litigation Reform Act of 1995 and Section 21E of the Securities Exchange Act of 1934, as amended (referred to as the “Exchange Act”).

These forward-looking statements involve risks and uncertainties, such as statements of the Company’s plans, objectives, expectations, estimates and intentions that are subject to change based on various important factors (some of which are beyond the Company’s control). The following factors, among others, could cause the Company’s financial performance to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements: The strength of the United States economy in general and the strength of the local economies in which the Company conducts operations; the effects of, and changes in monetary and fiscal policies and laws, including interest rate policies of the Board of Governors of the Federal Reserve System, inflation, interest rate, market and monetary fluctuations; market volatility; the value of our products and services as perceived by actual and prospective customers, including the features, pricing and quality compared to competitors’ products and services; the willingness of customers to substitute competitors’ products and services for the Company’s products and services; the impact of changes in applicable laws and regulations; technological changes; acquisitions; changes in consumer spending and saving habits; and the success of the Company at managing the risks involved in the foregoing.

The Company cautions that the foregoing list of important factors is not exclusive. The Company does not undertake to update any forward-looking statement, whether written or oral, that may be made from time to time by or on behalf of the Company, except as required by applicable law or regulation.

Throughout this document, references to “we,” “us,” or “our” refer to the Bank and its consolidated subsidiaries.

Item 1. Business

General

The Bank of Princeton was incorporated on March 5, 2007 under the laws of the State of New Jersey as a New Jersey state-chartered bank. We received a certificate of authority from the New Jersey Department of Banking and Insurance on April 17, 2007, and commenced operations on April 23, 2007. We are a full service bank providing personal and business lending and deposit services. As a state-chartered bank, we are regulated by the New Jersey Department of Banking and Insurance and the FDIC. Our market area, which we serve through our eleven branches, is generally an area within an approximate 50 mile radius of Princeton, NJ, including parts of Mercer, Somerset, Hunterdon, Monmouth and Middlesex Counties in central New Jersey, and additional areas in portions of Philadelphia, Delaware, Montgomery and Bucks Counties in Pennsylvania.

Since we commenced operations, we have grown through both de novo branching and acquisitions. In May 2010, we acquired our Montgomery Township branch from The Provident Bank and, in September 2010, we acquired our three Pennsylvania branches through a merger with MoreBank.

MoreBank, a Pennsylvania state-chartered bank, commenced operations in March 2006. We acquired MoreBank in a stock-for-stock merger on September 30, 2010. Additional information about this transaction is included in “Note 3 – Business Combinations” in our audited financial statements, which are included in this Form 10-K. This acquisition expanded our geographic presence to areas in Philadelphia, Delaware and Montgomery Counties in Pennsylvania. We continue to operate the former MoreBank branches as a division of The Bank of Princeton under the “MoreBank” name.

Our headquarters and one of our branches are located at 183 Bayard Lane, Princeton, New Jersey 08540. Our telephone number is (609) 921-1700 and our website address is thebankofprinceton.com.

Competition

We have substantial competition in originating commercial and consumer loans in our market area. This competition comes principally from other banks, savings institutions, mortgage banking companies and other lenders. Many of our competitors enjoy advantages over us, including greater financial resources and higher lending limits, a wider geographic presence, more accessible branch office locations, the ability to offer a wider array of services or more favorable pricing alternatives, as well as lower origination and operating costs. Among other things, this competition could reduce our interest income and net income by decreasing the number and size of loans that we originate and the interest rates we may charge on these loans.

In attracting business and consumer deposits, we face substantial competition from other insured depository institutions such as banks, savings institutions and credit unions, as well as institutions offering uninsured investment alternatives, including money market funds. Many of our competitors enjoy advantages over us, including greater financial resources, more aggressive marketing campaigns, better brand recognition and more branch locations. These competitors may offer higher interest rates than we do, which could decrease the deposits that we attract, or require us to increase the rates we pay to retain existing deposits or attract new deposits. Deposit competition could adversely affect our net interest income and net income, and our ability to generate the funds we require for our lending or other operations. As a result, we may need to seek other sources of funds that may be more expensive to obtain and could increase our cost of funds.

Lending Activities

Our loan portfolio consists of variable-rate and fixed-rate loans with a significant concentration in commercial real estate lending. While most credit facilities are appropriately collateralized, major emphasis is placed upon the financial condition of the borrower and the borrower's cash flow versus debt service requirements. We use the familiarity of senior management and director members of our loan committee with prospective borrowers to better evaluate the creditworthiness of those prospective borrowers.

Loan growth is driven by customer demand, which in turn is influenced by individual and business indebtedness and consumer demand for goods. Loaning money will always entail some risk. Without loaning money, however, a bank cannot generate enough net interest income to be profitable. The risk involved in each loan must be carefully evaluated before the loan is made. The interest rate at which the loan is made should always reflect the risk factors involved, including the term of the loan, the value of collateral, if any, the reliability of the projected source of repayment, and the amount of the loan requested. Credit quality and repayment capacity are generally the most important factors in evaluating loan applications.

Loan Portfolio Composition. The following table presents our loan portfolio by segment at December 31, 2011, 2010, 2009, 2008 and 2007:

(in thousands)	As of December 31,				
	2011	2010	2009	2008	2007
Commercial real estate	\$ 233,504	\$ 166,472	\$ 89,959	\$ 48,382	\$ 14,077
Commercial and industrial	85,527	60,768	31,671	16,715	5,114
Construction	56,453	25,970	23,273	11,326	5,654
Residential first-lien mortgage	15,396	11,870	15,343	-	-
Home equity	19,341	19,285	13,681	12,302	2,098
Consumer	1,957	1,441	1,048	3,012	2,638
Total loans	<u>412,178</u>	<u>285,806</u>	<u>174,975</u>	<u>91,737</u>	<u>29,581</u>
Deferred fees and costs	(955)	(540)	(318)	(244)	(110)
Allowance for loan losses	<u>(5,362)</u>	<u>(3,693)</u>	<u>(2,147)</u>	<u>(1,092)</u>	<u>(354)</u>
Loans, net	<u>\$ 405,861</u>	<u>\$ 281,573</u>	<u>\$ 172,510</u>	<u>\$ 90,401</u>	<u>\$ 29,117</u>

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Substantially all of our loans are to borrowers in our immediate markets. We believe that no single borrower or group of borrowers presents a credit concentration whereby the borrowers' loan default would have a material adverse effect on our financial condition or results of operations.

Commercial Real Estate and Construction Loans. We originate various types of commercial loans, including construction loans, secured by collateral such as real estate and personal guarantees. The loans are solicited on a direct basis and through various professionals with whom we maintain contacts and by referral from our incorporators, directors, stockholders and customers.

Construction lending represents a segment of our loan portfolio, and is driven primarily by market conditions. Local builders of one-to-four family homes have been the primary source of these types of loans.

Residential First-Lien Mortgage Loans. We offer a narrow range of prime residential first-lien mortgage loans at competitive rates. Our customers, incorporators, stockholders and local real estate brokers are a significant source of these loans. We strive to process, approve and fund loans in a timeframe that meets the needs of our borrowers. Generally, we originate and retain non-conforming residential first-lien mortgage loans and refer conforming residential first-lien mortgage loans to a third party, whereby we may earn a fee.

Home Equity Loans and Lines of Credit. We generate these loans and lines of credit primarily through direct marketing at our branch locations, referrals from local real estate brokers and, to a lesser extent, by targeted direct marketing programs such as mail and electronic mail.

Consumer Loans. We solicit consumer loans on a direct basis and upon referrals from our incorporators, directors, stockholders and existing customers.

Deposits

Our deposit services are generally comprised of a traditional range of deposit products, including checking accounts, savings accounts, attorney trust accounts, money market accounts, and certificates of deposit.

We offer our customers access to ATMs and other services which increase customer convenience and encourage continued and additional banking relationships.

We endeavor to maintain competitive rates on deposit accounts, and actual rates are established at the time that they are offered and take into consideration competitor offerings. Although we advertise in local newspapers, our primary source of deposit relationships is satisfied customers. We offer a range of direct deposit products ranging from social security and disability payments to direct deposit of payroll checks.

As of December 31, 2011, we had one customer whose deposits with us represented 11.2% of our total deposits and another customer whose deposits represented 6.8% of our total deposits. We believe we have sufficient liquidity to fund our operations should either or both of these customers withdraw their deposits. See the liquidity discussion within Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations within this Form 10-K for more information regarding our available funds. No other customers accounted for more than 5% of our total deposits as of December 31, 2011.

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Other Services

To further attract and retain customer relationships, we provide a standard array of additional community banking services, which include the following:

Money orders	Direct deposit	Automated teller machines
Treasurer checks	Safe deposit boxes	On-line banking
Wire transfers	Night depository	Remote deposit capture
EE and I U.S. savings bonds redemption	Bank-by-mail	Automated telephone banking
		Debit cards

We may offer payroll services, credit card and merchant credit card processing through third parties whereby we do not undertake credit or fraud risk.

Internet Banking

We advertise but do not actively solicit new deposits or loans through our website, but utilize a qualified and experienced internet service provider to furnish the following types of customer account services:

Full on-line statements	Transaction histories
On-line bill payment	Transaction details
Account inquiries	Account-to-account transfers

Fee Income

Fee income is a component of our non-interest income. By charging non-customers fees for using our ATMs and charging customers for banking services such as money orders, cashier's checks, wire transfers and check orders, as well as other deposit and loan-related fees, we earn fee income. Prudent fee income opportunities are sought to supplement net interest income, but may be limited by our efforts to remain competitive.

Bank Premises and Market Area

Our principal office and corporate headquarters is in a full-service banking facility located at 183 Bayard Lane, Princeton, New Jersey. We have ten additional branches in New Jersey and Pennsylvania, as well as an operations center in Princeton, New Jersey.

The market area served by us through our eleven branches is generally an area within an approximate 50 mile radius of Princeton, including parts of Mercer, Somerset, Hunterdon, Monmouth and Middlesex Counties in central New Jersey, and additional areas in portions of Philadelphia, Delaware and Montgomery and Bucks Counties in Pennsylvania. Our market area is dominated by offices of large statewide, regional and interstate banking institutions. We believe that banking services provided in a friendly and courteous manner with timely response to customer needs will fill a niche that has arisen due to the loss of small, local community-focused institutions. Our Pennsylvania branches provide us with a market in the greater Philadelphia area and access to a growing, Asian market.

Staffing

As of December 31, 2011, we had 110 total employees and approximately 107 full-time equivalent employees.

Supervision and Regulation

General. We are extensively regulated under both federal and state law. These laws restrict permissible activities and investments and require compliance with various consumer protection provisions applicable to lending, deposit, brokerage and fiduciary activities. They also impose capital adequacy requirements and conditions to our ability to

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repurchase stock or to pay dividends. We are also subject to comprehensive examination and supervision by the New Jersey Department of Banking and Insurance (the “Department”) and the FDIC. The Department and the FDIC have broad discretion to impose restrictions and limitations on our operations. This supervisory framework could materially impact the conduct and profitability of our activities.

To the extent that the following information describes statutory and regulatory provisions, it is qualified in its entirety by reference to the particular statutory and regulatory provisions. Proposals to change the laws and regulations governing the banking industry are frequently raised at both the state and federal level. The likelihood and timing of any changes in these laws and regulations, and the impact such changes may have on us, are difficult to ascertain. A change in applicable laws and regulations, or in the manner such laws or regulations are interpreted by regulatory agencies or courts, may have a material effect on our business, financial condition and results of operations.

Our deposits have been insured by the FDIC Deposit Insurance Fund, or “DIF,” for less than seven years and, therefore, are subject to the FDIC’s Financial Institutions Letter 50-2009. Pursuant to this letter, we are examined on a 12 month risk management examination cycle, subjected to enhanced supervision for compliance examinations and Community Reinvestment Act, or “CRA”, evaluations, and required to obtain prior approval from the FDIC for any material changes to our business plan.

We are subject to various requirements and restrictions under federal and state law, including requirements to maintain reserves against deposits, restrictions on the types, amount and terms and conditions of loans that may be originated, and limits on the type of other activities in which we may engage and the investments we may make. Under the Gramm-Leach-Bliley Act, or “GLBA,” we may engage in expanded activities, such as insurance sales and securities underwriting, through the formation of a “financial subsidiary.” In order to be eligible to establish or acquire a financial subsidiary, we must be “well capitalized” and “well managed” and may not have less than a “satisfactory” CRA rating. At this time, we do not engage in any activity which would require us to maintain a financial subsidiary. We are also subject to federal laws that limit the amount of transactions between us and any nonbank affiliates. Under these provisions, transactions, such as a loan or investment, by us with any nonbank affiliate are generally limited to 10% of our capital and surplus for all covered transactions with such affiliate or 20% of capital and surplus for all covered transactions with all affiliates. Any extensions of credit, with limited exceptions, must be secured by eligible collateral in specified amounts. We are also prohibited from purchasing any “low quality” assets from an affiliate.

Monetary Policy. Our business, financial condition and results of operations are and will be affected by domestic economic conditions and the monetary and fiscal policies of the United States government and its agencies. The monetary policies of the Federal Reserve System, or “Federal Reserve,” have a significant effect upon the operating results of commercial banks such as us. The Federal Reserve has a major effect upon the levels of bank loans, investments and deposits through its open market operations in United States government securities transactions and through its regulation of, among other things, the discount rate on borrowings of member banks and the reserve requirements against member banks’ deposits. It is not possible to predict the nature and impact of future changes in monetary and fiscal policies.

Deposit Insurance. The Bank’s deposits are insured up to applicable limits by the Deposit Insurance Fund of the FDIC. The Deposit Insurance Fund is the successor to the Bank Insurance Fund and the Savings Association Insurance Fund, which were merged in 2006. Under the FDIC’s risk-based assessment system in effect through March 31, 2011, insured institutions were assigned to one of four risk categories based on supervisory evaluations, regulatory capital levels and certain other factors. An institution’s assessment rate depended upon the category to which it is assigned, and certain potential adjustments established by FDIC regulations, with less risky institutions paying lower assessments.

No institution may pay a dividend if in default of the federal deposit insurance assessment.

On November 12, 2009, the FDIC issued a rule that required all insured depository institutions, with limited exceptions, to prepay their estimated quarterly risk-based assessments for the fourth quarter of 2009 and for all of 2010, 2011 and 2012. The FDIC also adopted a uniform three basis point increase in assessment rates effective on January 1, 2011.

On July 21, 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”) was signed into law. The Dodd-Frank Act changed the assessment base for federal deposit insurance from the amount of insured deposits held by the depository institution to the depository institution’s average total consolidated assets less average tangible equity, eliminating the ceiling on the size of the DIF and increasing the floor on the size of the DIF. The Dodd-

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Frank Act established a minimum designated reserve ratio (“DRR”) of 1.35 percent of the estimated insured deposits, mandates the FDIC to adopt a restoration plan should the DRR fall below 1.35 percent, and provides dividends to the industry should the DRR exceed 1.50 percent.

On February 7, 2011, the Board of Directors of the FDIC approved a final rule on Assessments, Dividend Assessment Base and Large Bank Pricing (the “Final Rule”). The Final Rule implements the changes to the deposit insurance assessment system as mandated by the Dodd-Frank Act. The Final Rule became effective April 1, 2011.

The Final Rule changed the assessment base for insured depository institutions from adjusted domestic deposits to the average consolidated total assets during an assessment period less average tangible equity capital during that assessment period. Tangible equity is defined in the Final Rule as Tier 1 Capital and shall be calculated monthly, unless, like us, the insured depository institution has less than \$1 billion in assets, then the insured depository institution will calculate the Tier 1 Capital on an end-of-quarter basis.

The Final Rule retains the unsecured debt adjustment, which lowers an insured depository institution’s assessment rate for any unsecured debt on its balance sheet. In general, the unsecured debt adjustment in the Final Rule will be measured to the new assessment base and will be increased by 40 basis points. The Final Rule also contains a brokered deposit adjustment for assessments. The Final Rule provides an exemption to the brokered deposit adjustment to financial institutions that are “well capitalized” and have composite CAMEL ratings of 1 or 2. CAMEL ratings are confidential ratings used by the federal and state regulators for assessing the soundness of financial institutions. These ratings range from 1 to 5, with a rating of 1 being the highest rating.

The Final Rule also creates a new rate schedule that intends to provide more predictable assessment rates to financial institutions. The revenue under the new rate schedule will be approximately the same. Moreover, it indefinitely suspends the requirement that it pay dividends from the insurance fund when it reaches 1.5 percent of insured deposits, to increase the probability that the fund reserve ratio will reach a sufficient level to withstand a future crisis. In lieu of the dividend payments, the FDIC has adopted progressively lower assessment rate schedules that become effective when the reserve ratio exceeds 2 percent and 2.5 percent.

The Dodd-Frank Act made permanent the \$250,000 limit for federal deposit insurance and increased the cash limit of Securities Investor Protection Corporation protection from \$100,000 to \$250,000 and provides unlimited federal deposit insurance until January 1, 2013 for noninterest-bearing demand transaction accounts at all insured depository institutions.

In addition to the assessment for deposit insurance, institutions are required to make payments on bonds issued in the late 1980s by the Financing Corporation to recapitalize a predecessor deposit insurance fund. This payment is established quarterly and, during the four quarters ended December 31, 2011, averaged 1.34 basis points of average assets.

The FDIC has authority to increase insurance assessments. A significant increase in insurance assessments would likely have an adverse effect on our operating expenses and results of operations. Management cannot predict what insurance assessment rates will be in the future.

Deposit insurance may be terminated by the FDIC upon a finding that the institution has engaged in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations or has violated any applicable law, regulation, rule, order or condition imposed the FDIC.

Dividend Restrictions. Under the New Jersey Banking Act of 1948, as amended (the “Banking Act”), a bank may declare and pay cash dividends only if, after payment of the dividend, the capital stock of the bank will be unimpaired and either the bank will have a surplus of not less than 50% of its capital stock or the payment of the dividend will not reduce the bank’s surplus. The FDIC prohibits payment of cash dividends if, as a result, the institution would be undercapitalized or the institution is in default with respect to any assessment due to the FDIC.

Capital Adequacy Guidelines. The FDIC has promulgated risk-based capital guidelines applicable to the banking organizations which it supervises. These guidelines are designed to make regulatory capital requirements more sensitive to differences in risk profiles among banks, to account for off-balance sheet exposures, and to minimize disincentives for holding liquid assets. Under those guidelines, assets and off-balance sheet items are assigned to broad risk categories, each

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with appropriate weights. The resulting capital ratios represent capital as a percentage of total risk-weighted assets and off-balance sheet items.

Bank assets are given risk-weights of 0%, 20%, 50% and 100%. In addition, certain off-balance sheet items are given similar credit conversion factors to convert them to asset equivalent amounts to which an appropriate risk-weighting is applied. Those computations result in total risk-weighted assets. Most loans are assigned to the 100% risk category, except for performing first-mortgage loans fully secured by residential property, which carry a 50% risk-weighting. Most investment securities, including, primarily, general obligation claims of states or other political subdivisions of the United States, are assigned to the 20% category, except for municipal or state revenue bonds, which have a 50% risk-weighting, and direct obligations of the U.S. Treasury or obligations backed by the full faith and credit of the U.S. government, which have a 0% risk-weighting. Upon the conversion of off-balance sheet items to on-balance sheet equivalents, direct credit substitutes, including general guarantees and standby letters of credit backing financial obligations, are given a 100% risk-weighting. Transaction-related contingencies such as bid bonds, standby letters of credit backing non-financial obligations, and undrawn commitments (including commercial credit lines with an initial maturity of more than one year), have a 50% risk-weighting. Short-term commercial letters of credit have a 20% risk-weighting, and certain short-term unconditionally cancelable commitments have a 0% risk weighting.

The minimum ratio of total capital to risk-weighted assets (including certain off-balance sheet activities, such as standby letters of credit) is 8%. At least 4% of the total capital is required to be "Tier 1 Capital," consisting of stockholders' equity and qualifying preferred stock, less certain goodwill items and other intangible assets. The remainder, or "Tier 2 Capital," may consist of: the allowance for loan losses of up to 1.25% of risk-weighted assets; excess of qualifying preferred stock; hybrid capital instruments; perpetual debt; mandatory convertible securities; and qualifying subordinated debt and intermediate-term preferred stock up to 50% of Tier 1 Capital. Total capital is the sum of Tier 1 Capital and Tier 2 Capital less reciprocal holdings of other banking organization's capital instruments, investments in unconsolidated subsidiaries, and any other deductions as determined by the FDIC. At December 31, 2011, our Tier 1 and Total risk-based capital ratios were 11.51% and 12.71%, respectively.

In addition, the FDIC has established minimum leverage ratio requirements for the banking institutions it supervises. For banks that meet certain specified criteria, including having the highest regulatory rating and not experiencing significant growth or expansion, these requirements provide for a minimum leverage ratio of Tier 1 capital to adjusted average quarterly assets equal to 3%. Other banks and bank holding companies generally are required to maintain a leverage ratio of 4 to 5%. At December 31, 2011, our leverage ratio was 8.11%.

As an additional means to identify problems in the financial management of depository institutions, the Federal Deposit Insurance Act ("FDIA") requires federal bank regulatory agencies to establish certain non-capital safety and soundness standards for institutions for which they are the primary federal regulator. The standards relate generally to operations and management, asset quality, interest rate exposure and executive compensation. The agencies are authorized to take action against institutions that fail to meet such standards.

Basel III Proposed Changes in Capital Requirements. In December 2010, the Basel Committee released its final framework for strengthening international capital and liquidity regulation ("Basel III"). Basel III, when implemented by the U.S. banking agencies and fully phased-in, will require bank holding companies and their bank subsidiaries to maintain more capital, with a greater emphasis on common equity. Implementation is presently scheduled to be phased in between 2013 and 2019, although it is possible that implementation may be delayed as a result of multiple factors including the current condition of the banking industry within the U.S. and abroad.

The Basel III final capital framework, among other things, (i) introduces as a new capital measure "Common Equity Tier 1" ("CET1"); (ii) specifies that Tier 1 capital consists of CET1 and "Additional Tier 1 capital" instruments meeting specified requirements; (iii) defines CET1 narrowly by requiring that most adjustments to regulatory capital measures be made to CET1 and not to the other components of capital and (iv) expands the scope of the adjustments as compared to existing regulations.

When fully phased in, Basel III requires banks to maintain (i) as a newly adopted international standard, a minimum ratio of CET1 to risk-weighted assets of at least 4.5%, plus a "capital conservation buffer" of 2.5%; (ii) a minimum ratio of Tier 1 capital to risk-weighted assets of at least 6.0%, plus the capital conservation buffer; (iii) a minimum ratio of Total (Tier 1 plus Tier 2) capital to risk-weighted assets of at least 8.0% plus the capital conservation buffer and (iv) as a newly

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adopted international standard, a minimum leverage ratio of 3%, calculated as the ratio of Tier 1 capital to balance sheet exposures plus certain off-balance sheet exposures (computed as the average for each quarter of the month-end ratios for the quarter).

Basel III also provides for a "countercyclical capital buffer," generally to be imposed when national regulators determine that excess aggregate credit growth becomes associated with a buildup of systemic risk that would be a CET1 add-on to the capital conservation buffer in the range of 0% to 2.5% when fully implemented. The capital conservation buffer is designed to absorb losses during periods of economic stress. Banking institutions with a ratio of CET1 to risk-weighted assets above the minimum but below the conservation buffer (or below the combined capital conservation buffer and countercyclical capital buffer, when the latter is applied) may face constraints on dividends, equity repurchases and compensation based on the amount of the shortfall.

Prompt Corrective Action. In addition to the required minimum capital levels described above, federal law establishes a system of "prompt corrective actions" which federal banking agencies are required to take, and certain actions which they have discretion to take, based upon the capital category into which a federally regulated depository institution falls. Regulations set forth detailed procedures and criteria for implementing prompt corrective action in the case of any institution which is not adequately capitalized. Under the rules, an institution will be deemed "well capitalized" or better if its leverage ratio exceeds 5%, its Tier 1 risk-based capital ratio exceeds 6%, and if the Total risk-based capital ratio exceeds 10%. An institution will be deemed to be "adequately capitalized" or better if it exceeds the minimum federal regulatory capital requirements. However, it will be deemed "undercapitalized" if it fails to meet the minimum capital requirements; "significantly undercapitalized" if it has a Total risk-based capital ratio that is less than 6%, a Tier 1 risk-based capital ratio that is less than 3%, or a leverage ratio that is less than 3%, and "critically undercapitalized" if the institution has a ratio of tangible equity to total assets that is equal to or less than 2%.

The prompt corrective action rules require an undercapitalized institution to file a written capital restoration plan, along with a performance guaranty by a holding company or a third party. In addition, an undercapitalized institution becomes subject to certain automatic restrictions including a prohibition on payment of dividends, a limitation on asset growth and expansion, in certain cases, a limitation on the payment of bonuses or raises to senior executive officers, and a prohibition on the payment of certain "management fees" to any "controlling person." Institutions that are classified as undercapitalized are also subject to certain additional supervisory actions, including: increased reporting burdens and regulatory monitoring; a limitation on the institution's ability to make acquisitions, open new branch offices, or engage in new lines of business; obligations to raise additional capital; restrictions on transactions with affiliates; and restrictions on interest rates paid by the institution on deposits. In certain cases, bank regulatory agencies may require replacement of senior executive officers or directors, or sale of the institution to a willing purchaser. If an institution is deemed to be "critically undercapitalized" and continues in that category for four quarters, the statute requires, with certain narrowly limited exceptions, that the institution be placed in receivership.

As of December 31, 2011, we met the criteria to be classified as "well capitalized." This classification is primarily for the purpose of applying the federal prompt corrective action provisions and is not intended to be and should not be interpreted as a representation of our overall financial condition or prospects.

Community Reinvestment Act. The Community Reinvestment Act, or "CRA," requires that banks meet the credit needs of all of their assessment area (as established for these purposes in accordance with applicable regulations based principally on the location of branch offices), including those of low income areas and borrowers. The CRA also requires that the FDIC assess all financial institutions that it regulates to determine whether these institutions are meeting the credit needs of the community they serve. Under the CRA, institutions are assigned a rating of "outstanding," "satisfactory," "needs to improve" or "unsatisfactory". Our record in meeting the requirements of the CRA is made publicly available and is taken into consideration in connection with any applications with federal regulators to engage in certain activities, including approval of a branch or other deposit facility, mergers and acquisitions, office relocations, or expansions into non-banking activities. As of December 31, 2011, we maintained a "satisfactory" CRA rating.

Dodd-Frank Act. The Dodd-Frank Act became law on July 21, 2010. The Dodd-Frank Act implements far-reaching changes across the financial regulatory landscape.

The Dodd-Frank Act creates the Bureau of Consumer Financial Protection ("Bureau"), which is an independent bureau within the Federal Reserve System with broad authority to regulate the consumer finance industry, including

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regulated financial institutions such as us, and non-banks and others who are involved in the consumer finance industry. The Bureau has exclusive authority through rulemaking, orders, policy statements, guidance and enforcement actions to administer and enforce federal consumer finance laws, to oversee non-federally regulated entities, and to impose its own regulations and pursue enforcement actions when it determines that a practice is unfair, deceptive or abusive (“UDA”). The federal consumer finance laws were previously interpreted, administered and enforced by different federal agencies, including the FDIC, our current federal regulator. On July 21, 2011, all of the functions and responsibilities of the Bureau were transferred to it. While the Bureau has the exclusive power to interpret, administer and enforce federal consumer finance laws and UDA, the Dodd-Frank Act provides that the FDIC continues to have examination and enforcement powers over us relating to the matters within the jurisdiction of the Bureau because we have less than \$10 billion in assets. The Dodd-Frank Act also gives state attorneys general the ability to enforce federal consumer protection laws.

The Dodd-Frank Act also:

- Applies the same leverage and risk-based capital requirements to most bank holding companies (“BHCs”) that apply to insured depository institutions. On June 14, 2011 the federal banking agencies published a final rule regarding minimum leverage and risk-based capital requirements for certain banks and for bank holding companies consistent with the requirements of Section 171 of the Dodd-Frank Act. For a more detailed description of the minimum capital requirements see “Regulation and Supervision – Capital Requirements”;
- Requires the FDIC to make its capital requirements for insured depository institutions countercyclical, so that capital requirements increase in times of economic expansion and decrease in times of economic contractions;
- Requires BHCs and banks to be both well-capitalized and well-managed in order to acquire banks located outside their home state and requires any BHC electing to be treated as a financial holding company to be both well-managed and well-capitalized;
- Changes the assessment base for federal deposit insurance from the amount of insured deposits held by the depository institution to the depository institution’s average total consolidated assets less tangible equity, eliminates the ceiling on the size of the DIF and increases the floor on the size of the DIF;
- Makes permanent the \$250,000 limit for federal deposit insurance and increases the cash limit of Securities Investor Protection Corporation protection from \$100,000 to \$250,000 and provides unlimited federal deposit insurance until January 1, 2013 for noninterest-bearing demand transaction accounts at all insured depository institutions;
- Eliminates all remaining restrictions on interstate banking by authorizing national and state banks to establish de novo branches in any state that would permit a bank chartered in that state to open a branch at that location;
- Repeals Regulation Q, the federal prohibitions on the payment of interest on demand deposits, effective July 21, 2011, thereby permitting depository institutions to pay interest on business transaction and other accounts;
- Enhances the requirements for certain transactions with affiliates under Section 23A and 23B of the Federal Reserve Act, including an expansion of the definition of “covered transactions” and increasing the amount of time for which collateral requirements regarding covered transactions must be maintained. These requirements became effective on July 21, 2011.
- Expands insider transaction limitations through the strengthening of loan restrictions to insiders and the expansion of the types of transactions subject to the various limits, including derivative transactions, repurchase agreements, reverse repurchase agreements and securities lending or borrowing transactions. Restrictions are also placed on certain asset sales to and from an insider to an institution, including requirements that such sales be on market terms and, in certain circumstances, approved by the institution’s board of directors. These requirements became effective on July 21, 2011.
- Strengthens the previous limits on a depository institution’s credit exposure to one borrower which limited a depository institution’s ability to extend credit to one person (or group of related persons) in an amount exceeding certain thresholds. The Dodd-Frank Act expanded the scope of these restrictions to include credit exposure arising from derivative transactions, repurchase agreements, and securities lending and borrowing transactions.

While designed primarily to reform the financial regulatory system, the Dodd Frank Act also contains a number of corporate governance provisions that will affect companies with securities registered under the Exchange Act. The Dodd-

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Frank Act requires the Securities and Exchange Commission to adopt rules which may affect our executive compensation policies and disclosure. It also exempts smaller issuers, such as us, from the requirement, originally enacted under Section 404(b) of the Sarbanes-Oxley Act of 2002, that our independent auditor also attest to and report on management's assessment of internal control over financial reporting.

Although a significant number of the rules and regulations mandated by the Dodd-Frank Act have been finalized, many of the new requirements called for have yet to be implemented and will likely be subject to implementing regulations over the course of several years. Given the uncertainty associated with the manner in which the provisions of the Dodd-Frank Act will be implemented by the various agencies, the full extent of the impact such requirements will have on financial institutions' operations is unclear. The Dodd-Frank Act could require us to make material expenditures, in particular personnel training costs and additional compliance expenses, or otherwise adversely affect our business, financial condition, results of operations or cash flow. It could also require us to change certain of our business practices, adversely affect our ability to pursue business opportunities that we might otherwise consider pursuing, cause business disruptions and/or have other impacts that are as of yet unknown to us. Failure to comply with these laws or regulations, even if inadvertent, could result in negative publicity, fines or additional expenses, any of which could have an adverse effect on our business, financial condition, results of operations or cash flow.

Federal Home Loan Bank Membership. We are a member of the Federal Home Loan Bank of New York (FHLB-NY). Each member of the FHLB-NY is required to maintain a minimum investment in capital stock of the FHLB-NY. The Board of Directors of the FHLB-NY can increase the minimum investment requirements in the event it has concluded that additional capital is required to allow it to meet its own regulatory capital requirements. Any increase in the minimum investment requirements outside of specified ranges requires the approval of the Federal Housing Finance Agency. Because the extent of any obligation to increase our investment in the FHLB-NY depends entirely upon the occurrence of a future event, potential payments to the FHLB-NY are not determinable.

Additionally, in the event that we fail, the right of the FHLB-NY to seek repayment of funds loaned to us will take priority over certain other creditors.

Other Laws and Regulations. We are subject to a variety of laws and regulations which are not limited to banking organizations. For example, in lending to commercial and consumer borrowers, and in owning and operating its own property, we are subject to regulations and potential liabilities under state and federal environmental laws.

We are heavily regulated by regulatory agencies at the federal and state levels. As a result of the recent financial crisis and economic downturn, we, like most of our competitors, have faced and expect to continue to face increased regulation and regulatory and political scrutiny, which creates significant uncertainty for us and the financial services industry in general.

Several recent regulatory initiatives were adopted that may have future impacts on our business and financial results. For instance, on September 24, 2010 the Board of Governors of the Federal Reserve System issued a final rule to regulate the compensation of mortgage loan originators and prohibits compensation to a mortgage loan originator that is based on the loan's terms or conditions, except for the amount of credit extended. The final rule was effective April 1, 2011. In addition, the federal banking agencies released a final rule on July 28, 2010 to implement the requirements of the Secure and Fair Enforcement for Mortgage Licensing Act of 2008 for the federal registration of mortgage loan originators (the "Rule"). Under the Rule, banks and employees of a bank who engage in the business of loan origination must, among other things, register with the National Mortgage Licensing System and Registry (the "NMLS"). The deadline for registration with the NMLS was July 29, 2011.

Future Legislation and Regulation. In light of current conditions in the U.S. and global financial markets and the U.S. and global economies, regulators have increased their focus on the regulation of the financial services industry. Proposals that could substantially intensify the regulation of the financial services industry have been and are expected to continue to be introduced in the U.S. Congress, in state legislatures and by applicable regulatory authorities. These proposals may change banking statutes and regulation and our operating environment in substantial and unpredictable ways. If enacted, these proposals could increase or decrease the cost of doing business, limit or expand permissible activities or affect the competitive balance among banks, savings associations, credit unions, and other financial institutions. We cannot predict whether any of these proposals will be enacted and, if enacted, the effect that it, or any implementing regulations, would have on our business, financial condition and results of operations.

Item 1A. Risk Factors

As a smaller reporting company, the Company is not required to provide the information otherwise required by this Item.

Item 1B. Unresolved Staff Comments

Not applicable.

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Item 2. Properties

We conduct our operations from our headquarters and branch located at 183 Bayard Lane, Princeton, New Jersey, an operations center at 403 Wall Street, Princeton, New Jersey, and from ten other branch locations in New Jersey and Pennsylvania. The following table sets forth certain information regarding the Company's properties as of December 31, 2011:

<u>Location</u>	<u>Leased or Owned</u>	<u>Date of Lease Expiration</u>
<i>Corporate Headquarters</i> 183 Bayard Lane Princeton, NJ	Leased	October 31, 2018
<i>Operations Center</i> 403 Wall Street Princeton, NJ	Leased	April 30, 2016
<i>Hamilton Branch</i> 339 Route 33 Hamilton, NJ	Leased	October 31, 2014
<i>Pennington Branch</i> 2 Route 31 Pennington, NJ	Leased	April 30, 2012
<i>Chambers Street Branch</i> 21 Chambers Street Princeton, NJ	Leased	December 31, 2016
<i>Monroe Branch</i> 1 Rossmoor Drive, Suite 1200 Monroe Township, NJ	Leased	July 31, 2020
<i>Montgomery Branch</i> 1185 Route 206 North Princeton, NJ	Leased	April 30, 2015
<i>Lambertville Branch</i> 10-12 Bridge Street Lambertville, NJ	Owned	N/A
<i>Nassau Street Branch</i> 194 Nassau Street Princeton, NJ	Leased	November 30, 2021
<i>Upper Darby Branch (MoreBank Division)</i> 7050 Terminal Square Upper Darby, PA	Leased	November 30, 2012
<i>North Wales Branch (MoreBank Division)</i> 1222-A North Welsh Road North Wales, PA	Leased	September 30, 2016
<i>Cheltenham Branch (MoreBank Division)</i> 470 West Cheltenham Avenue Philadelphia, PA	Leased	January 25, 2016

Item 3. Legal Proceedings

From time to time, we may be a party to ordinary routine litigation incidental to our business. There were no material legal proceedings to which we were a party or of which any of our property was the subject, pending or, to our knowledge, contemplated by governmental authorities, at December 31, 2011 or the date of this report.

Item 4. Mine Safety Disclosures

Not applicable.

PART II

Item 5. Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Market Information

There is no established public trading market for our common stock. Although shares of our common stock are transferable, our common stock is not listed on any stock exchange or quoted in any over-the-counter securities market. There can be no assurance that a trading market for our common stock will develop in the future, and stockholders wishing to sell common stock may have to seek buyers and negotiate a transaction price by themselves.

Holders

As of March 7, 2012, there were approximately 636 shareholders of our common stock.

Dividends

We have not declared or paid cash dividends on our common stock since we began operations. Under the New Jersey Banking Act of 1948, as amended, we may declare and pay cash dividends only if, after payment of the dividend, our capital stock will be unimpaired and either we will have a surplus of not less than 50% of our capital stock or the payment of the dividend will not reduce our surplus. The FDIC prohibits payment of cash dividends if, as a result, we would be undercapitalized or are in default with respect to any assessment due to the FDIC. Our board of directors intends to follow a policy of retaining earnings for the purpose of increasing our capital and therefore the Company does not anticipate declaring or paying dividends for the foreseeable future.

Securities Authorized for Issuance under Equity Compensation Plans

The following table summarizes our equity compensation plan information as of December 31, 2011.

Plan Category	Number of shares of common stock to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of shares of common stock remaining available for future issuance under compensation plans
<i>Equity Compensation Plan approved by security holders:</i>			
The Bank of Princeton 2007 Stock Option Plan	257,716	\$11.45	22,351
MoreBank 2004 Incentive Equity Compensation Plan	1,200	\$25.00	-
<i>Equity compensation plan not approved by security holders:</i>			
Organizer warrants	97,500	\$10.00	-
MoreBank Organizer options	46,000	\$25.00	-
Total	402,416	\$12.82	22,351

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Item 6. Selected Financial Data

As a smaller reporting company, the Company is not required to provide the information otherwise required by this Item.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read in conjunction with "Part I—Item 1. Business" and our Consolidated Financial Statements and the notes thereto included in this Form 10-K. The following discussion should also be read in conjunction with the "Cautionary Note Regarding Forward-Looking Statements"

Our Management's Discussion and Analysis of Financial Condition and Results of Operations is presented in sections as follows:

- Overview and Strategy
- Comparison of Financial Condition at December 31, 2011 and December 31, 2010
- Comparison of Operating Results for the Years Ended December 31, 2011 and December 31, 2010
- Rate Volume Analysis
- Liquidity, Commitments and Capital Resources
- Off-Balance Sheet Arrangements
- Impact of Inflation
- Return on Equity and Assets
- Critical Accounting Policies and Estimates
- Recently Issued Accounting Standards

Overview and Strategy

The Bank of Princeton was incorporated on March 5, 2007 under the laws of the State of New Jersey as a New Jersey state-chartered bank. We received a certificate of authority from the New Jersey Department of Banking and Insurance on April 17, 2007, and commenced operations on April 23, 2007. We are a full service bank providing personal and business lending and deposit services. As a state-chartered bank, we are primarily regulated by the New Jersey Department of Banking and Insurance and the Federal Deposit Insurance Corporation, or "FDIC." Our market area, which we serve through our eleven branches, is generally an area within an approximate 50 mile radius of Princeton, NJ, including parts of Mercer, Somerset, Hunterdon, Monmouth and Middlesex Counties in central New Jersey, and additional areas in portions of Philadelphia, Delaware, Montgomery and Bucks Counties in Pennsylvania.

Since we commenced operations, we have grown through both de novo branching and acquisitions. In May 2010, we acquired our Montgomery Township branch from The Provident Bank, in September 2010, we acquired our three Pennsylvania branches through a merger with MoreBank and in December 2011 we opened our third Princeton branch.

MoreBank, a Pennsylvania state-chartered bank, commenced operations in March 2006. We acquired MoreBank in a stock-for-stock merger on September 30, 2010. Additional information about this transaction is included in "Note 3 – Business Combinations" in our Consolidated Financial Statements included in this Form 10-K. This acquisition expanded our geographic presence to areas in Philadelphia, Delaware and Montgomery Counties in Pennsylvania. We continue to operate the former MoreBank branches as a division of The Bank of Princeton under the "MoreBank" name.

We remain focused on establishing and retaining customer relationships by offering a broad range of traditional financial services and products, competitively-priced and delivered in a responsive manner to small businesses, professionals and individuals in our market area. As a locally-operated community bank, we seek to provide superior customer service that is highly personalized, efficient and responsive to local needs. To better serve our customers, we endeavor to provide state-of-the-art delivery systems with automated teller machines (ATMs), current operating software, timely reporting, online bill pay and other similar up-to-date products and services. We seek to deliver these products and services with the care and professionalism expected of a community bank and with a special dedication to personalized customer service.

Our primary business objectives are:

- to provide local businesses, professionals and individuals with banking services responsive to and determined by their needs and local market conditions,
- to attract deposits and loans through competitive pricing, responsiveness and service, and
- to provide a reasonable return to stockholders on capital invested.

We strive to serve the financial needs of our customers while providing an appropriate return to our stockholders, consistent with safe and sound banking practices. We expect that a financial strategy that utilizes variable rates and matching assets and liabilities will enable us to increase our net interest margin, while managing interest rate risk. We also seek to generate fee income from various sources, subject to our desire to maintain competitive pricing within our market area.

We have used and will continue to use correspondent relationships when it is cost-beneficial to complete product lines. Our recognition of, and commitment to, the needs of the local community, combined with highly personalized and responsive customer service, differentiate us from our competition. We continue to capitalize upon the personal contacts and relationships of our organizers, directors, stockholders and officers to establish and grow our customer base.

Comparison of Financial Condition at December 31, 2011 and December 31, 2010

General. Our total assets increased from \$488.3 million at December 31, 2010 to \$664.9 million at December 31, 2011, an increase of \$176.6 million, or 36%. This increase was primarily due to increases in loans, net, cash and cash equivalents, securities available-for-sale and bank-owned life insurance. Total liabilities increased from \$447.3 million at December 31, 2010 to \$610.6 million at December 31, 2011, an increase of \$163.3 million, or 37%. This increase was primarily the result of a \$169.8 million increase in total deposits, partially offset by a decrease in borrowings. Total stockholders' equity increased from \$41.0 million at December 31, 2010 to \$54.3 million at December 31, 2011, an increase of \$13.4 million, or 33%. This increase was primarily attributable to the sale of common stock of \$8.6 million, net income of \$2.8 million and other comprehensive income of \$1.7 million. The growth of our balance sheet has been a direct result of the successful implementation of our business plan. Although we will continue to seek to grow our business through the continued implementation of our business plan, the growth experienced in the past may not be indicative of future results.

Cash and cash equivalents. Cash and cash equivalents increased from \$25.6 million at December 31, 2010 to \$59.2 million at December 31, 2011, an increase of \$33.6 million, or 131%. The increase in cash was primarily due to the increase in deposits and proceeds from the sale of common stock in excess of the increase in loans and investment securities from December 31, 2010 to December 31, 2011.

Investment Securities. We hold securities that are available to fund increased loan demand or deposit withdrawals and other liquidity needs, and which provide an additional source of interest income. Securities are classified as held-to-maturity ("HTM") or available-for-sale ("AFS") at the time of purchase. Securities are classified as HTM if we have the ability and intent to hold them until maturity. HTM securities are carried at cost, adjusted for unamortized purchase premiums and discounts. Securities that are not classified as AFS are carried at fair value with unrealized gains and losses, net of income taxes, reported as a component of equity within other comprehensive income.

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The following table presents a summary of the amortized cost and fair value of our securities available-for-sale at December 31, 2011, 2010 and 2009.

	December 31,					
	2011		2010		2009	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
(in thousands)						
U.S. Treasury securities	\$ -	\$ -	\$ 3,746	\$ 3,754	\$ -	\$ -
U.S. Government agency securities	-	-	15,052	15,042	2,501	2,498
U.S. Government-sponsored Residential mortgage-backed securities	117,395	119,612	108,936	110,120	64,368	65,882
Obligations of state and political subdivisions	53,589	54,639	28,383	27,742	-	-
Corporate securities	2,000	1,912	2,955	2,943	1,937	2,043
Total	\$ 172,984	\$ 176,163	\$ 159,072	\$ 159,601	\$ 68,806	\$ 70,423

Securities available-for-sale at fair value increased \$16.6 million during the twelve months ended December 31, 2011. This increase was the result of additional liquidity provided by our increasing deposit base and proceeds from the sale of common stock, net of loan growth.

The following table presents a summary of the amortized cost and fair value of our securities held-to-maturity at December 31, 2011, 2010 and 2009.

	December 31,					
	2011		2010		2009	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
(in thousands)						
U.S. Government agency securities	-	-	-	-	6,008	5,990
U.S. Government-sponsored Residential mortgage-backed securities	1,074	1,166	1,394	1,454	2,162	2,200
Obligations of state and political subdivisions	-	-	-	-	501	507
Total	\$ 1,074	\$ 1,166	\$ 1,394	\$ 1,454	\$ 8,671	\$ 8,697

Securities held-to-maturity decreased minimally from December 31, 2010 to December 31, 2011. The decline in held-to-maturity securities in the table above is the result of our decision to allow the held-to-maturity portfolio to run off.

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The following table summarizes the maturity distribution schedule of the amortized cost of debt securities with corresponding weighted-average yields at December 31, 2011. Interest income presented in this Form 10-K for tax-advantaged obligations of state and political subdivisions has not been adjusted to reflect fully taxable-equivalent interest income. Weighted-average yields presented below have also not been computed on a fully taxable-equivalent basis. Expected maturities may differ from contractual maturities because the securities may be called without any penalties.

(in thousands)	December 31, 2011				Total
	One year or less	After one through five years	After five through ten years	After ten years	
U.S. government-sponsored Residential mortgage-backed securities	\$ 612	\$ 3,471	\$ 22,241	\$ 92,145	\$ 118,469
Obligations of state and political subdivisions	1,114	1,440	16,399	34,636	53,589
Corporate securities	-	1,000	1,000	-	2,000
Total	\$ 1,726	\$ 5,911	\$ 39,640	\$ 126,781	\$ 174,058
Weighted average yield	2.06%	1.84%	2.29%	2.50%	2.43%

At December 31, 2011, there were no holdings of any one issuer, other than the U.S. government and its agencies, in an amount greater than 10% of our total stockholders' equity. See Note 6 - Investment Securities in the Notes to Consolidated Financial Statements within this Form 10-K for additional information regarding debt securities.

Loans, net. Loans receivable, net increased \$124.3 million from \$281.6 million at December 31, 2010 to \$405.9 million at December 31, 2011, an increase of 44%. The increase was attributable to our efforts to grow our loan portfolio through existing relationships and new business and was primarily funded by a 40% year over year increase in our total deposits.

The following table details our loan maturities by loan class and interest rate type at December 31, 2011:

(in thousands)	December 31, 2011			
	Due in one year or less	Due after one through five years	Due after five years	Total
Commercial real estate	\$ 9,432	\$ 45,410	\$ 178,662	\$ 233,504
Commercial and industrial	31,379	28,329	25,819	85,527
Construction	18,756	4,195	33,502	56,453
Residential first-lien mortgage	1,583	-	13,813	15,396
Home equity	1,723	2,965	14,653	19,341
Consumer	1,342	495	120	1,957
Total	\$ 64,215	\$ 81,394	\$ 266,569	\$ 412,178
Type:				
Fixed rate loans	\$ 15,099	\$ 39,601	\$ 29,073	\$ 83,773
Floating rate loans	49,116	41,793	237,496	328,405
Total	\$ 64,215	\$ 81,394	\$ 266,569	\$ 412,178

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The accrual of interest is discontinued when the contractual payment of principal or interest is 90 days past due or management has serious doubts about further collectability of the principal or interest, even if 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. The following table sets forth certain information regarding our nonaccrual loans, troubled debt restructurings, accruing loans 90 days or more past-due, and other real estate owned as of December 31, 2011, 2010, 2009 and 2008.

(in thousands)	December 31,			
	2011	2010	2009	2008
Nonaccrual loans:				
Commercial real estate	\$ 5,229	\$ 3,488	\$ 886	\$ 155
Commercial and industrial	2,135	1,782	1,000	-
Construction	892	-	427	-
Residential first-lien mortgage	-	-	-	-
Home equity	456	276	-	-
Consumer	-	-	-	-
Total nonaccrual loans	<u>8,712</u>	<u>5,546</u>	<u>2,313</u>	<u>155</u>
Troubled debt restructurings (TDRs) – performing	2,332	3,788	3,992	-
Troubled debt restructurings (TDRs) – nonperforming	-	-	-	-
Accrual loans 90 days or more past due:				
Commercial real estate	-	-	-	-
Commercial and industrial	-	-	-	-
Construction	-	-	-	-
Residential first-lien mortgage	-	-	-	-
Residential second-lien mortgage	-	-	-	-
Consumer	-	-	-	-
Total accrual loans 90 days or more past due	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total nonperforming loans, performing TDRs and nonperforming TDRs	11,044	9,334	6,305	155
Other real estate owned	919	1,140	227	-
Total nonperforming assets and performing TDRs	<u>\$ 11,963</u>	<u>\$ 10,474</u>	<u>\$ 6,532</u>	<u>\$ 155</u>

There were no nonaccrual loans, troubled debt restructurings, accruing loans 90 days or more past-due or other real estate owned as of December 31, 2007. See Note 7 - Loans Receivable in the Notes to Consolidated Financial Statements within this Form 10-K for additional information regarding our loans not classified as nonperforming assets as of December 31, 2011 for which we have classified the loans as having potential credit problems that could result in the loans being classified as nonaccrual, past-due 90 or more days or troubled debt restructurings in a future period.

Analysis of Allowance for Loan Losses. Our allowance for loan losses is based on a documented methodology, which includes an ongoing evaluation of the loan portfolio, and reflects management's best estimate of probable losses in the loan portfolio as of the reporting date. The determination of the allowance for loan losses involves a high degree of judgment and complexity. In evaluating the adequacy of the allowance for loan losses, management gives consideration to current economic conditions, statutory examinations of the loan portfolio by regulatory agencies, loan reviews performed periodically by independent third parties, delinquency information, management's internal review of the loan portfolio, and other relevant factors. In determining and maintaining our allowance for loan losses, we comply with the Federal Financial Institutions Examination Council (FFIEC) Interagency Policy Statements on the Allowance for Loan and Lease Losses and on Allowance for Loan and Lease Losses Methodologies and Documentation for Banks and Savings Associations.

Our allowance for loan losses is maintained at a level considered adequate to provide for probable losses. We perform, at least quarterly, an evaluation of the adequacy of the allowance. The allowance is based on our past loan loss experience (which is bound by our limited operating history), known and inherent risks in the portfolio, adverse situations

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that may affect the borrower's ability to repay, the estimated value of any underlying collateral, the 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 loans not considered impaired, as well as smaller balance homogeneous loans, such as residential mortgage 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.

The allowance for loan losses increased from \$3.7 million at December 31, 2010 to \$5.4 million at December 31, 2011, an increase of \$1.7 million or 45%. This increase was primarily attributable to a 44% increase in gross loans from December 31, 2010 to December 31, 2011.

The following table presents a summary of changes in our allowance for loan losses and includes information regarding charge-offs, and selected coverage ratios for the years ended December 31, 2011, 2010, 2009, 2008 and 2007:

(in thousands)	Year Ended December 31,				
	2011	2010	2009	2008	2007
Balance at beginning of year	\$ 3,693	\$ 2,147	\$ 1,092	\$ 354	\$ -
Charge offs:					
Commercial real estate	(286)	(1,251)	-	-	-
Commercial and industrial	(217)	(446)	(149)	-	-
Construction	(143)	(7)	-	-	-
Residential first-lien mortgage	-	-	-	-	-
Home equity	(80)	(52)	-	-	-
Consumer	-	-	-	-	-
Total charge offs	<u>(726)</u>	<u>(1,756)</u>	<u>(149)</u>	<u>-</u>	<u>-</u>
Recoveries:					
Commercial real estate	-	1	-	-	-
Commercial and industrial	18	-	-	-	-
Construction	-	-	-	-	-
Residential first-lien mortgage	-	-	-	-	-
Home equity	-	-	-	-	-
Consumer	-	-	-	-	-
Total recoveries	<u>18</u>	<u>1</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net charge-offs	(708)	(1,755)	(149)	-	-
Additions charged to operations (provision for loan losses)	<u>2,377</u>	<u>3,301</u>	<u>1,204</u>	<u>738</u>	<u>354</u>
Balance at end of year	<u>\$ 5,362</u>	<u>\$ 3,693</u>	<u>\$ 2,147</u>	<u>\$ 1,092</u>	<u>\$ 354</u>
Net charge offs to average loans outstanding	<u>0.21%</u>	<u>0.84%</u>	<u>0.12%</u>	<u>-%</u>	<u>-%</u>

Our allowance for loan losses is allocated to the various segments of our portfolio identified above. The unallocated component of the allowance for loan losses is maintained to cover uncertainties that could affect our estimate of probable losses. The unallocated component reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio. Additions to the allowance charged to operations are the result of applying our allowance methodology to the existing loan portfolio. Increases in the additions charged to operations were primarily the result of increases in the loan portfolio, combined with increases in nonperforming loans as discussed above.

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The following table presents the allocation of the allowance for loan losses by portfolio segment for the years ended December 31, 2011, 2010 and 2009. The allocation of a portion of the allowance for loan losses to one category of loans does not preclude its availability to absorb losses in other categories.

(in thousands)	December 31,					
	2011		2010		2009	
	Amount	% of Loans to Total Loans	Amount	% of Loans to Total Loans	Amount	% of Loans to Total Loans
Commercial real estate	\$ 2,082	56.6%	\$ 1,484	58.1%	\$ 900	51.4%
Commercial and industrial	1,011	20.8	718	21.3	563	18.1
Construction	1,965	13.7	904	9.1	349	13.3
Residential first-lien mortgage	101	3.7	78	4.2	154	8.8
Home equity	179	4.7	178	6.8	171	7.8
Consumer	12	0.5	9	0.5	10	0.6
Unallocated	12	-	322	-	-	-
Total	<u>\$ 5,362</u>	<u>100.0%</u>	<u>\$ 3,693</u>	<u>100.0%</u>	<u>\$ 2,147</u>	<u>100.0%</u>

At December 31, 2008 and 2007, our allowance for loan losses was comprised primarily of unallocated reserves. Our allowances for loan losses were approximately \$1.1 million and \$355,000 at December 31, 2008 and 2007, respectively, and our loans were approximately \$91.5 million and \$29.5 million at December 31, 2008 and 2007, respectively. See Note 7 Loans Receivable in the Notes to Consolidated Financial Statements within this Form 10-K for additional information regarding our allowance for loan losses.

Bank Owned Life Insurance. Bank-owned life insurance (“BOLI”) increased \$2.6 million to \$8.6 million at December 31, 2011 compared to \$6.0 million the prior year. The increase was attributable to an increase in additional insureds added to our BOLI program in 2011.

Premises and equipment. Premises and equipment, net increased from \$4.2 million at December 31, 2010 to \$5.2 million at December 31, 2011, an increase of \$1.0 million or 24%. This increase was primarily due to the opening of two new branches and the relocation of one branch during the year ended December 31, 2011, one of which included a purchase of land and building.

Other assets. Accrued interest receivable and other assets decreased \$908,000 from December 31, 2010 to December 31, 2011, primarily due to decreases of \$471,000 in deferred tax assets and \$960,000 in prepaid assets and other assets that were partially offset by increases in accrued interest receivable and restricted investments in bank stocks during the period.

Deposits. Total deposits increased from \$425.8 million at December 31, 2010 to \$595.6 million at December 31, 2011, an increase of \$169.8 million or 40%. Non-interest-bearing deposits increased \$15.7 million, or 51%, to \$46.4 million at December 31, 2011, compared to \$30.7 million at December 31, 2010. Interest-bearing deposits increased \$154.0 million, or 39%, to \$549.2 million at December 31, 2011, compared to \$395.1 million in the prior year. Our deposit growth was primarily related to the competitive pricing of our deposit products coupled with the continued development of relationships with local small business and the high level of individualized customer service we provide.

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The following table presents our time deposit maturities as of December 31, 2011.

	December 31, 2011				
	Three months or less	Over three through six months	Over six through twelve months	Over twelve months	Total
(in thousands)					
Time deposits of \$100,000 or more	\$ 13,276	\$ 11,238	\$ 29,537	\$ 48,804	\$ 102,855
Time deposits of less than \$100,000	10,986	9,182	34,677	64,328	119,173
Total	<u>\$ 24,262</u>	<u>\$ 20,420</u>	<u>\$ 64,214</u>	<u>\$ 113,132</u>	<u>\$ 222,028</u>

The following table presents the average balance of our deposit accounts for the years ended December 31, 2011, 2010 and 2009, and the average cost of funds for each category of our deposits.

	2011			2010			2009		
	Average Amount	Avg. Rate Paid	% of Average Total Deposits	Average Amount	Avg. Rate Paid	% of Average Total Deposits	Average Amount	Avg. Rate Paid	% of Average Total Deposits
(in thousands)									
Non-interest-bearing demand deposits	\$ 37,429	-%	7.6%	\$ 20,623	0.00%	6.6%	\$ 14,628	0.00%	7.3%
Interest-bearing demand deposits	99,194	1.4	20.1	62,829	1.29	20.2	31,232	0.84	15.5
Money market deposits	104,600	1.1	21.2	86,699	1.29	27.8	78,115	1.90	38.7
Savings deposits	80,704	1.2	16.3	47,628	1.47	15.3	8,484	1.18	4.2
Time deposits of \$100,000 or more	76,934	2.1	15.6	43,127	2.30	13.8	28,459	2.57	14.1
Other time deposits	95,341	1.8	19.2	50,628	2.31	16.3	40,834	2.70	20.2
Total	<u>\$ 494,202</u>	<u>1.4%</u>	<u>100.0%</u>	<u>\$311,534</u>	<u>1.54%</u>	<u>100.0%</u>	<u>\$201,752</u>	<u>1.82%</u>	<u>100.0%</u>

Borrowings. Borrowings decreased from \$19.1 million at December 31, 2010 to \$11.3 million at December 31, 2011, a decrease of \$7.7 million or 40%. This decrease was primarily the result of the scheduled maturity of certain of our FHLB-NY and FHLB-Pittsburgh advances during the period. The Company utilizes its available capacity with FHLB-NY as an additional source of funding. Due to the deposit growth experienced by the Bank during the year ended December 31, 2011, it was not necessary for us to utilize our borrowing capacity with the FHLB.

The FHLB-Pittsburgh advances were among the liabilities assumed in connection with our acquisition of MoreBank in September 2010. The remaining FHLB-Pittsburgh advances are fixed-rate term advances that are being paid down in accordance with their terms. We do not have additional borrowing capacity with the FHLB-Pittsburgh and our relationship with them will terminate once the remaining advances are repaid. See Note 3 - Business Combination in the Notes to Consolidated Financial Statements within this Form 10-K for more information regarding our acquisition of MoreBank.

Accrued interest payable and other liabilities. Accrued interest payable and other liabilities increased from \$2.4 million at December 31, 2010 to \$3.6 million at December 31, 2011, an increase of \$1.2 million or 50%. This increase was primarily attributable to an increase in accrued interest payable as a result of the increase in interest-bearing deposits during the year ended December 31, 2011, combined with an increase in accrued expenses and other liabilities at year-end 2011.

Stockholders' equity. Stockholders' equity increased from \$41.0 million at December 31, 2010 to \$54.3 million at December 31, 2011, an increase of \$13.3 million or 33%. The increase in stockholders' equity was due to increases in retained earnings from current year net income as well as common stock and paid-in-capital from our stock sale that occurred in the second half of 2011.

Comparison of Operating Results for the Years Ended December 31, 2011 and December 31, 2010

General. Net income for the year ended December 31, 2011 was \$2.8 million, an increase of approximately \$400,000, or 18%, from \$2.4 million for the year ended December 31, 2010. This increase was primarily attributable to an increase in net interest income that was partially offset by increases in non-interest expense and income tax expense.

Net interest income. Net interest income after the provision for loan loss increased \$8.3 million, or 108%, to \$16.1 million for the year ended December 31, 2011, compared to \$7.8 million for the year ended December 31, 2010. Our net interest rate spread on the average balance of interest-earning assets increased 25 basis points, to 3.32%, compared to 3.07% in the prior year. The average yield on interest-earning assets was relatively unchanged, while the average cost of interest-bearing liabilities decreased 23 basis points. The average yield on interest-earning assets was 4.82% and 4.80% for the years ended December 31, 2011 and 2010, respectively. The average cost of interest-bearing liabilities for the years ending December 31, 2011 and 2010 was 1.50% and 1.73%, respectively.

Total interest and dividend income. Total interest and dividend income increased \$9.5 million, or 59%, to \$25.7 million for the year ended December 31, 2011, compared to \$16.2 million for the prior year. The improvement in interest income resulted primarily from an increase in the average balance of interest-earning assets.

Interest income and fees on loans increased \$8.5 million, or 65%, to \$21.5 million for the year ended December 31, 2011, compared to \$13.0 million for the prior year. The increase was primarily attributable to an increase in the average balance of loans of \$136.1 million from \$200.7 million in 2010 to \$336.8 million in 2011. This increase was partially offset by a decrease in the average yield on loans, year-over-year of 10 basis points. The increase in average loans was due to increased loan production, combined with the effect of the MoreBank acquisition that occurred at the end of the third quarter of 2010.

Interest income on securities available-for-sale increased \$1.1 million, or 39%, to \$4.0 million for the year ended December 31, 2011, compared to \$2.9 million in the prior year. This increase was primarily attributable to a 79% increase in the average balance of Securities available-for-sale from an average balance of \$99.4 million during the twelve months ended December 31, 2010 to an average balance of \$177.8 during the twelve months ended December 31, 2011. This increase was partially offset by a 65 basis point decrease in the average yield for the twelve months ended December 31, 2011 compared to the prior year period. The increase in the average balance was primarily attributable to the difference between average deposit and average loan growth during the period.

Interest income on securities held-to-maturity decreased \$146,000, or 71%, to \$59,000 for the year ended December 31, 2011 compared to \$205,000 for the prior year. The average balance of securities held-to-maturity decreased \$3.5 million to \$1.3 million in 2011, compared to \$4.8 million in the prior year. The average yield on securities held-to-maturity increased 19 basis points to 4.49%, compared to 4.30% in the prior year. The decrease in the average balance was primarily due to maturities and our decision to not purchase additional securities for the held-to-maturity portfolio as we manage our investment portfolio to allow for greater flexibility as our liquidity needs change.

Interest Expense. Total interest expense increased \$2.0 million, or 40%, to \$7.2 million for the year ended December 31, 2011, compared to \$5.1 million in the prior year. The increase primarily related to a \$179.7 million increase in the average balance of interest-bearing liabilities when comparing the twelve months ended December 31, 2011 to the prior year period. This increase was partially offset by a 23 basis point decrease in the average cost of interest-bearing liabilities to 1.50% compared to 1.73% in the prior year.

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Interest expense on deposits increased \$2.1 million, or 44%, to \$6.9 million in 2011, compared to \$4.8 million in 2010. Average interest-bearing deposits increased \$175.6 million, or 62%, to \$456.8 million for the year ended December 31, 2011, compared to \$281.2 million in 2010. The average cost of interest-bearing deposits decreased 19 basis points from year to year. As the Company worked to grow its total deposits during 2011 through organic growth, de novo branches, as well as the MoreBank acquisition in the third quarter of 2010, average demand deposits, interest-bearing and savings deposits, average money market deposits and average time deposits increased 69%, 25% and 89%, respectively, for the twelve months ended December 31, 2011 compared to the prior year period.

Provision for Loan Losses. The provision for loan losses decreased 924,000 or 28% to \$2.4 million in 2011 compared to \$3.3 million in the prior year. The decrease in the 2011 provision for loan losses reflected, among other things, the stabilization of economic conditions that impact our loan portfolio in our markets. Our loan charge-offs, net of recoveries were \$708,000 in 2011, compared to \$1.8 million in 2010. See the section above titled “Financial Condition — Allowance for Loan Losses” for a discussion of our allowance for loan losses methodology, including additional information regarding the determination of the provision for loan losses.

Non-Interest Income. Non-interest income increased approximately \$275,000, or 11%, to \$2.8 million in 2011, compared to \$2.6 million in the prior year. In 2011, non-interest income included gains of \$2.0 million on sales of securities available-for-sale and nominal amounts for income from bank-owned life insurance and service charges and other fees earned in the normal course of banking operations. In 2010, non-interest income included gains of \$1.2 million on sales of securities available-for-sale and a bargain purchase gain of \$1.0 million from the acquisition of MoreBank, as well as nominal amounts of income from bank-owned life insurance and service charges and other fees earned in the normal course of banking operations.

Non-Interest Expense. Non-interest expense increased \$5.7 million, or 60%, to \$15.1 million in 2011, compared to \$9.4 million in the prior year. The increase was due to the growth of the Bank experienced during 2011, inclusive of the costs associated with the operation of the three MoreBank branches for all of 2011 versus only the fourth quarter of 2010.

Salaries and employee benefits increased \$2.4 million, or 51%, to \$7.3 million in 2011, compared to \$4.8 million in the prior year. The increase in costs were related to an increase in overall FTEs associated with the growth of the bank through additional branch openings as well as the full-year impact of the MoreBank acquisition that only impacted the fourth quarter of 2010.

Occupancy and equipment expenses increased approximately \$847,000, or 53%, to \$2.5 million in 2011 compared to \$1.6 million in the prior year. The increase was attributable to the costs associated with the opening of two new branches and the relocation of a third branch in 2011, combined with the full-year impact of the additional MoreBank branches that only impacted the fourth quarter of 2010.

Professional fees increased \$416,000, or 46%, to \$1.3 million in 2011, compared to 903,000 in the prior year. This increase was attributable to increased audit and legal fees related to our Form 10 registration filing, quarterly report filings, the organization of a New Jersey investment company subsidiary and our common stock offering discussed further in Note 3 in the Notes to Consolidated Financial Statements within this Form 10-K.

Other real estate owned expense increased \$177,000, or 188%, to \$271,000 in 2011 from \$94,000 in the prior year. This increase was primarily related to the write down of other real estate owned to net realizable value.

All other non-interest expenses increased primarily as a result of the Bank’s opening of three new branches in 2011, combined with the inclusion of operating costs associated with MoreBank impacting the full year 2011 versus only the fourth quarter of 2010.

Provision for Income Taxes. The provision for income taxes increased \$2.6 million, or 171%, to \$1.1 million in 2011 compared to an income tax benefit of \$1.5 million in the prior year. The increase is primarily related to an increase of 331% in pre-tax income, combined with the tax benefit realized in 2010 due to the reversal of the valuation allowance on deferred tax assets that were previously not more likely than not to be realized. The effective tax rate for 2011 was 27% compared to (166)% for 2010.

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Average Balance Sheets. The average yields and costs shown in the following table are derived by dividing income or expense by the daily average balance of assets or liabilities, respectively, for the periods presented. Nonaccrual loans are included in the average balance of loans receivable, net for all periods presented. No tax equivalent adjustments have been made.

(in thousands)	For the Year Ended December 31,					
	2011			2010		
	Average Balance	Interest	Average Yield/Cost	Average Balance	Interest	Average Yield/Cost
Interest-earning assets:						
Loans receivable, net	\$ 336,813	\$ 21,488	6.38 %	\$ 200,670	\$ 13,007	6.48 %
Investment securities:						
Available-for-sale	177,760	4,017	2.26	99,371	2,892	2.91
Held-to-maturity	1,308	59	4.49	4,778	205	4.30
Other interest-earning assets	16,711	109	0.65	32,649	97	0.30
Total interest-earning assets	532,592	25,673	4.82	337,468	16,201	4.80
Non-interest-earning assets	29,919			15,915		
Total assets	\$ 562,511			\$ 353,383		
Interest-bearing liabilities:						
Demand, interest-bearing and savings deposits	\$ 179,898	\$ 2,390	1.33	\$ 106,522	\$ 1,483	1.39
Money market	104,599	1,102	1.05	83,718	1,118	1.34
Time deposits	172,275	3,384	1.96	90,916	2,187	2.41
Total interest-bearing deposits	456,772	6,876	1.51	281,156	4,788	1.70
Federal Home Loan Bank borrowings	19,325	289	1.50	15,204	342	2.25
Total interest-bearing liabilities	476,097	7,165	1.50 %	296,360	5,130	1.73 %
Non-interest-bearing liabilities	40,659			22,157		
Total liabilities	516,756			318,517		
Stockholders' equity	45,755			34,866		
Total liabilities and stockholders' equity	\$ 562,511			\$ 353,383		
Interest rate spread ⁽¹⁾			3.32 %			3.07 %
Net interest income		\$ 18,508			\$ 11,071	
Net yield on interest- earning assets ⁽²⁾			3.48 %			3.28 %
Ratio of average interest- earning assets to average interest-bearing liabilities			1.12x			1.14x

⁽¹⁾ Interest rate spread represents the difference between the average yield on interest-earning assets and the average cost of interest-bearing liabilities.

⁽²⁾ Net yield on interest-earning assets represents net interest income as a percentage of average interest-earning assets.

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(in thousands)	2009		
	Average Balance	Interest	Average Yield/Cost
Interest-earning assets:			
Loans receivable, net	\$ 129,746	\$ 7,466	5.75 %
Investment securities:			
Available-for-sale	82,338	3,548	4.31
Held-to-maturity	9,060	384	4.24
Other interest-earning assets	8,164	25	0.31
Total interest-earning assets	229,308	\$ 11,423	4.98
Non-interest-earning assets	7,607		
Total assets	\$ 236,915		
Interest-bearing liabilities:			
Demand, interest-bearing and savings deposits	\$ 37,008	\$ 337	0.91
Money market	78,115	1,483	1.90
Time deposits	72,001	1,858	2.58
Total interest-bearing deposits	187,124	3,678	1.97
Federal Home Loan Bank borrowings	6,493	129	1.98
Total interest-bearing liabilities	193,617	3,807	1.97 %
Non-interest-bearing liabilities	16,243		
Total liabilities	209,860		
Stockholders' equity	27,055		
Total liabilities and stockholders' equity	\$ 236,915		
Interest rate spread ⁽¹⁾			3.32 %
Net interest income		\$ 7,616	
Net yield on interest- earning assets ⁽²⁾			3.48 %
Ratio of average interest- earning assets to average interest-bearing liabilities			1.12x

⁽¹⁾ Interest rate spread represents the difference between the average yield on interest-earning assets and the average cost of interest-bearing liabilities.

⁽²⁾ Net yield on interest-earning assets represents net interest income as a percentage of average interest-earning assets.

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Rate/Volume Analysis

The following table reflects the sensitivity of our interest income and interest expense to changes in volume and in yields on interest-earning assets and costs of interest-bearing liabilities during the periods indicated.

(in thousands)	Year Ended December 31, 2011 vs. 2010			Year Ended December 31, 2010 vs. 2009		
	Increase (Decrease) Due to			Increase (Decrease) Due to		
	Volume	Rate	Net	Volume	Rate	Net
Interest and dividend income:						
Loans receivable	\$ 8,686	\$ (205)	\$ 8,481	\$ 4,597	\$ 944	\$ 5,541
Investment securities:						
Available-for-sale	1,772	(647)	1,125	496	(1,152)	(656)
Held-to-maturity	(156)	10	(146)	(184)	5	(179)
Other interest-earnings assets	(146)	158	12	(56)	128	72
Total interest-earning assets	<u>\$ 10,156</u>	<u>\$ (684)</u>	<u>\$ 9,472</u>	<u>\$ 4,853</u>	<u>\$ (75)</u>	<u>\$ 4,778</u>
Interest expense:						
Demand, interest-bearing and savings	\$ 967	\$ (60)	\$ 907	\$ 990	\$ 156	\$ 1,146
Money market	220	(236)	(16)	75	(440)	(365)
Time deposits	1,619	(422)	1,197	477	(148)	329
Federal Home Loan Bank borrowings	25	(78)	(53)	197	16	213
Total interest-bearing liabilities	<u>\$ 2,831</u>	<u>\$ (796)</u>	<u>\$ 2,035</u>	<u>\$ 1,739</u>	<u>\$ (416)</u>	<u>\$ 1,323</u>
Change in net interest income	<u>\$ 7,325</u>	<u>\$ 112</u>	<u>\$ 7,437</u>	<u>\$ 3,114</u>	<u>\$ 341</u>	<u>\$ 3,455</u>

Liquidity, Commitments and Capital Resources

Liquidity. Our liquidity, represented by cash and cash equivalents, is a product of our operating, investing and financing activities. Our primary sources of funds are deposits, principal repayments of securities and outstanding loans, and funds provided from operations. In addition, we invest excess funds in short-term interest-earnings assets such as overnight deposits or U.S. agency securities, which provide liquidity to meet lending requirements. While scheduled payments from the amortization of loans and securities and short-term investments are relatively predictable sources of funds, general interest rates, economic conditions and competition greatly influence deposit flows and repayments on loans and mortgage-backed securities.

We strive to maintain sufficient liquidity to fund operations, loan demand and to satisfy fluctuations in deposit levels. We are required to have enough investments that qualify as liquid assets in order to maintain sufficient liquidity to ensure safe and sound banking operations. Liquidity may increase or decrease depending upon the availability of funds and comparative yields on investments in relation to the return on loans. We attempt to maintain adequate but not excessive liquidity, and liquidity management is both a daily and long-term function of our business management. We manage our liquidity in accordance with a board of directors-approved asset liability policy, which is administered by our asset liability committee (ALCO). ALCO reports interest rate sensitivity, liquidity, capital and investment related matters on a quarterly basis to our board of directors.

We review cash flow projections regularly and update them in order to maintain liquid assets at levels believed to meet the requirements of normal operations, including loan commitments and potential deposit outflows from maturing certificates of deposit and savings withdrawals.

While deposits are our primary source of funds, we are also able to generate cash through borrowings from the FHLBPNY. At December 31, 2011, we had \$8.3 million of advances outstanding from the FHLBPNY and \$3.0 million of advances outstanding from the FHLB-Pittsburgh. At December 31, 2011, we had available capacity with FHLBPNY, subject

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to certain collateral restrictions, of \$324.2 million. We have elected to allow the advances outstanding from FHLB-Pittsburgh that were assumed as part of the MoreBank acquisition, to amortize in accordance with their terms. We do not have any additional borrowing capacity available with the FHLB-Pittsburgh.

Additionally, we are a member of the Atlantic Central Bankers Bank (“ACBB”) and as of December 31, 2011, we had available capacity with ACBB of \$6.0 million to provide short-term liquidity generally for a period of not more than fourteen days.

Contractual Obligations. We have non-cancelable operating leases for branch offices and our operations center. The following is a schedule by years of future minimum rental payments required under operating leases that have initial or remaining non-cancelable lease terms in excess of one year at December 31, 2011:

Years Ended December 31:	(in thousands)
2012	\$ 1,048
2013	1,025
2014	1,047
2015	1,032
2016	828
Thereafter	2,038
Total minimum payments required	<u>\$ 7,018</u>

Capital Resources. Consistent with our goals to operate as a sound and profitable financial organization, we actively seek to maintain our status as a well-capitalized institution in accordance with regulatory standards. As of December 31, 2011, we met the capital requirements to be considered “well capitalized”. See Note 18 - Regulatory Capital Requirements in the Notes to Consolidated Financial Statements included within this Form 10-K for more information regarding our capital resources.

Off-Balance Sheet Arrangements

We are a party to financial instruments with off-balance sheet risk in the normal course of our business of investing in loans and securities as well as in the normal course of maintaining and improving the Bank’s facilities. These financial instruments include significant purchase commitments, such as commitments related to capital expenditure plans and commitments to purchase investment securities or mortgage-backed securities, and commitments to extend credit to meet the financial needs of our customers.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the loan contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee by our customers. Our exposure to credit loss in the event of non-performance by the other party to the financial instrument for commitments to extend credit is represented by the contractual notional amount of those instruments. We use the same credit policies in making commitments and conditional obligations as we do for on-balance-sheet instruments. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements.

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

(in thousands)	<u>2011</u>	<u>2010</u>
Performance and standby letters of credit	\$ 2,367	\$ 2,550
Commitments to grant loans	57,563	57,474
Unfunded commitments under lines of credit	6,767	8,084
	<u>\$ 66,697</u>	<u>\$ 68,108</u>

The Bank of Princeton

For additional information regarding our outstanding lending commitments at December 31, 2011, see Note 13 to the Consolidated Financial Statements contained in this Annual Report on Form 10-K.

Impact of Inflation

The financial statements included in this document have been prepared in accordance with accounting principles generally accepted in the United States of America. These principles require the measurement of financial position and results of operations in terms of historical dollars, without considering changes in the relative purchasing power of money, over time, due to inflation. Our primary assets and liabilities are monetary in nature. As a result, interest rates have a more significant impact on our performance than the effects of general levels of inflation. Interest rates, however, do not necessarily move in the same direction or with the same magnitude as the price of goods and services, since such prices are affected by inflation.

Return on Equity and Assets

The following table presents certain performance ratios for the years ended December 31, 2011, 2010 and 2009.

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Return on Average Assets (ROA)	0.50%	0.62%	0.17%
Return on Average Equity (ROE)	6.15%	6.78%	1.53%
Average Equity to Average Assets	8.13%	9.46%	11.42%

Our dividend payout ratio was zero for all periods presented above as we did not declare or pay dividends during any of the years ended December 31, 2011, 2010 and 2009.

Critical Accounting Policies and Estimates

In the preparation of our financial statements, we have adopted various accounting policies that govern the application of accounting principles generally accepted in the United States and in accordance with general practices within the banking industry. Our significant accounting policies are described in our financial statements under Note 1- Summary of Significant Accounting Policies. While all of these policies are important to understanding the financial statements, certain accounting policies described below involve significant judgment and assumptions by management that have a material impact on the carrying value of certain assets and liabilities. We consider these accounting estimates to be critical accounting policies. The judgments and assumptions we use are based on historical experience and other factors, which we believe to be reasonable under the circumstances. Because of the nature of the judgments and assumptions we make, actual results could differ from these judgments and assumptions that could have a material impact on the carrying values of our assets and liabilities and our results of operations.

Allowance for Credit 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 our 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 our estimate of losses inherent in our unfunded loan commitments and is recorded in other liabilities on the balance sheet. The allowance for loan 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 for loan losses. All, or part, of the principal balance of loans receivable are charged-off to the allowance for loan losses as soon as it is determined that the repayment of all, or part, of the principal balance is highly unlikely. For a more detailed discussion of our allowance for loan loss methodology and the allowance for loan losses see the section titled "Analysis of the Allowance for Loan Losses" in this "Management's Discussion and Analysis of Financial Condition and Results Of Operations."

Acquired Loans. Loans that we acquire in acquisitions subsequent to January 1, 2009 are recorded at fair value with no carryover of the related allowance for loan losses. Determining the fair value of the loans involves estimating the amount and timing of principal and interest cash flows expected to be collected on the loans and discounting those cash flows at a market rate of interest.

The excess of cash flows expected at acquisition over the estimated fair value is referred to as the accretable discount or premium and is recognized in interest income over the remaining life of the loans. The difference between the contractually-required payments at acquisition and the cash flows expected to be collected at acquisition is referred to as the nonaccretable discount. The nonaccretable discount represents estimated future credit losses expected to be incurred over the life of the loans. Subsequent decreases to the expected cash flows require us to evaluate the need for an allowance for loan losses. Subsequent improvements in expected cash flows result in the reversal of a corresponding amount of the nonaccretable discount which we then reclassify as accretable discount that is recognized in interest income over the remaining life of the loan using the interest method. Our evaluation of the amount of future cash flows that we expect to collect is performed in a similar manner as that used to determine our allowance for loan losses. Charge-offs of the principal on acquired loans would be first applied to the nonaccretable discount portion of the fair value adjustment.

Income Taxes. We account 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 uncertainties in income taxes, which sets out a consistent framework to determine the appropriate level of tax reserves to maintain for uncertain tax positions. We had no material unrecognized tax benefits or accrued interest and penalties as of December 31, 2011 and 2010. Our policy is to account for interest and penalties as a component of other expense.

We have provided for federal and state income taxes on the basis of reported income. 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 liabilities and assets, respectively, 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.

Recently Issued Accounting Standards

Refer to Note 2 of the Notes to Consolidated Financial Statements for discussion of recently issued accounting standards.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

As a smaller reporting company, the Company is not required to provide the information otherwise required by this Item.

Item 8. Financial Statements and Supplementary Data

The following audited financial statements are set forth in this Annual Report on Form 10-K on the pages listed in the Index to Consolidated Financial Statements below.

THE BANK OF PRINCETON
INDEX TO
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

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Report of Independent Registered Public Accounting Firm

Board of Directors and
Stockholders of The Bank of Princeton

We have audited the accompanying consolidated statements of financial condition of The Bank of Princeton and subsidiaries ("the Company") as of December 31, 2011 and 2010, and the related consolidated statements of operations, changes in stockholders' equity, and cash flows for the years then ended. The Company's management is responsible for these consolidated financial statements. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits 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 Company'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 audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Bank of Princeton and subsidiaries as of December 31, 2011 and 2010, 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.

ParenteBeard LLC

Philadelphia, Pennsylvania
March 23, 2012

THE BANK OF PRINCETON
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
(in thousands, except share data)

	December 31,	
	2011	2010
ASSETS		
Cash and due from banks	\$ 18,015	\$ 11,257
Federal funds sold	41,200	14,363
	<hr/>	<hr/>
Cash and cash equivalents	59,215	25,620
Securities available-for-sale at fair value	176,163	159,601
Securities held-to-maturity (fair value of \$1,166 and \$1,454, respectively)	1,074	1,394
Loans receivable, net of allowance for loan losses of \$5,362 and \$3,693 at December 31, 2011 and 2010, respectively	405,861	281,573
Bank-owned life insurance	8,639	6,032
Other real estate owned	919	1,140
Premises and equipment, net	5,165	4,153
Accrued interest receivable and other assets	7,835	8,743
	<hr/>	<hr/>
TOTAL ASSETS	\$ 664,871	\$ 488,256
	<hr/>	<hr/>
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES:		
Deposits:		
Non-interest-bearing	\$ 46,385	\$ 30,669
Interest-bearing	549,188	395,144
Total deposits	595,573	425,813
	<hr/>	<hr/>
Borrowings	11,344	19,058
Accrued interest payable and other liabilities	3,636	2,427
TOTAL LIABILITIES	610,553	447,298
	<hr/>	<hr/>
STOCKHOLDERS' EQUITY:		
Common stock, \$5.00 par value, 10,000,000 authorized, 4,578,330 and 3,952,185 shares issued and outstanding at December 31, 2011 and 2010, respectively	22,892	19,761
Paid-in capital	28,182	22,515
Retained earnings (accumulated deficit)	1,146	(1,667)
Accumulated other comprehensive income	2,098	349
TOTAL STOCKHOLDERS' EQUITY	54,318	40,958
	<hr/>	<hr/>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 664,871	\$ 488,256
	<hr/>	<hr/>

See notes to consolidated financial statements.

THE BANK OF PRINCETON
CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except share data)

	For the Year ended December 31,	
	2011	2010
INTEREST AND DIVIDEND INCOME		
Loans receivable, including fees	\$ 21,488	\$ 13,007
Debt securities:		
Securities available-for-sale	4,017	2,892
Securities held-to-maturity	59	205
Other interest and dividend income	109	97
TOTAL INTEREST AND DIVIDEND INCOME	25,673	16,201
INTEREST EXPENSE		
Deposits	6,876	4,788
Borrowings	289	342
TOTAL INTEREST EXPENSE	7,165	5,130
NET INTEREST INCOME	18,508	11,071
Provision for loan losses	2,377	3,301
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	16,131	7,770
NON-INTEREST INCOME		
Gain on sale of securities available-for-sale, net	1,976	1,229
Gain on acquisition of MoreBank	-	1,014
Income from bank-owned life insurance	255	33
Fees and service charges	599	279
TOTAL NON-INTEREST INCOME	2,830	2,555
NON-INTEREST EXPENSE		
Salaries and employee benefits	7,254	4,805
Occupancy and equipment	2,457	1,610
Professional fees	1,319	903
Data processing and communications	1,153	732
Federal deposit insurance	616	454
Advertising and promotion	318	199
Office expense	312	159
Other real estate owned expense	271	94
Loss on disposal of premises and equipment	112	-
Other	1,273	470
TOTAL NON-INTEREST EXPENSE	15,085	9,426
INCOME BEFORE INCOME TAX EXPENSE (BENEFIT)	3,876	899
INCOME TAX EXPENSE (BENEFIT)	1,063	(1,488)
NET INCOME	\$ 2,813	\$ 2,387
Earnings per common share-basic	\$ 0.69	\$ 0.68
Earnings per common share-diluted	\$ 0.68	\$ 0.68

See notes to consolidated financial statements.

THE BANK OF PRINCETON
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
For the Years Ended December 31, 2011 and 2010
(in thousands, except share data)

	<u>Common stock</u>	<u>Paid-in capital</u>	<u>Retained earnings (accumulated deficit)</u>	<u>Accumulated other comprehensive income</u>	<u>Total</u>
Balance, December 31, 2009	\$ 15,112	\$ 15,765	\$ (4,054)	\$ 1,067	\$ 27,890
Comprehensive income:					
Net income	-	-	2,387	-	2,387
Other comprehensive income (loss):					
Unrealized loss on available-for-sale securities, net of reclassification adjustments and income taxes of \$859	-	-	-	(718)	(718)
Total comprehensive income				<u>\$ 1,669</u>	
Acquisition of MoreBank (465,195 shares at \$12.00 per share)	2,326	3,257	-	-	5,583
Acquisition of MoreBank (47,200 options at \$0.43 per option)	-	20	-	-	20
Warrants exercised (464,565 shares at \$12.00 per share)	2,323	3,252	-	-	5,575
Stock-based compensation expense	-	221	-	-	221
Balance, December 31, 2010	<u>\$ 19,761</u>	<u>\$ 22,515</u>	<u>\$ (1,667)</u>	<u>\$ 349</u>	<u>\$ 40,958</u>
Comprehensive income:					
Net income	-	-	2,813	-	2,813
Other comprehensive income:					
Unrealized gain on available-for-sale securities, net of reclassification adjustments and income taxes of \$901	-	-	-	1,749	1,749
Total comprehensive income				<u>\$ 4,562</u>	
Sale of common stock (621,862 shares at \$13.75 per share)	3,109	5,441	-	-	8,550
Stock options exercised (4,283 shares at \$10.48 per share)	22	23	-	-	45
Stock-based compensation expense	-	203	-	-	203
Balance, December 31, 2011	<u>\$ 22,892</u>	<u>\$ 28,182</u>	<u>\$ 1,146</u>	<u>\$ 2,098</u>	<u>\$ 54,318</u>

See notes to consolidated financial statements.

THE BANK OF PRINCETON
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	For the Year ended December 31,	
	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 2,813	\$ 2,387
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	2,377	3,301
Depreciation and amortization	742	480
Stock-based compensation	203	221
Amortization of premiums and accretion of discounts on securities	1,731	648
Accretion of net deferred loan fees and costs	(1,068)	(130)
Amortization of premiums and accretion of discounts on deposits	97	24
Amortization of premiums on borrowings	(82)	(21)
Net realized gains on sale of securities available-for-sale	(1,976)	(1,229)
Gain on acquisition of MoreBank	-	(1,014)
Increase in cash surrender value of bank-owned life insurance	(255)	(32)
Loss on disposition of premises and equipment	112	-
Increase in deferred income taxes	(430)	(1,556)
Loss on other real estate owned	197	80
Proceeds on sale of other real estate owned	203	-
Amortization of core deposit intangible	126	45
Decrease (increase) in accrued interest receivable and other assets	327	(395)
Increase in accrued interest payable and other liabilities	1,209	1,809
NET CASH PROVIDED BY OPERATING ACTIVITIES	6,326	4,618
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of available-for-sale securities	(146,197)	(144,276)
Maturities, calls and principal repayments of available-for-sale securities	56,799	33,360
Proceeds from sale of available-for-sale securities	75,740	32,431
Maturities, calls and principal repayments of held-to-maturity securities	312	7,248
Net increase in loans	(125,777)	(64,075)
Purchases of bank-owned life insurance	(2,352)	(6,000)
Purchases of premises and equipment	(1,866)	(1,846)
Purchases of restricted bank stock	(16)	(40)
Net cash received from MoreBank acquisition	-	11,028
NET CASH USED IN INVESTING ACTIVITIES	(143,357)	(132,170)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in deposits	169,663	143,635
Net (repayments) proceeds of overnight borrowings	(1,044)	1,044
Repayments of term borrowings	(6,588)	(4,386)
Proceeds from issuance of common stock	8,550	-
Proceeds from exercise of stock options	45	5,575
NET CASH PROVIDED BY FINANCING ACTIVITIES	170,626	145,868
NET INCREASE IN CASH AND CASH EQUIVALENTS	33,595	18,316
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	25,620	7,304
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 59,215	\$ 25,620

See notes to consolidated financial statements.

THE BANK OF PRINCETON
CONSOLIDATED STATEMENTS OF CASH FLOWS – (Continued)
(in thousands)

SUPPLEMENTARY CASH FLOWS INFORMATION:

Interest paid	\$	6,594	\$	4,693
Income taxes paid	\$	1,419	\$	-

SUPPLEMENTARY SCHEDULE OF NONCASH ACTIVITIES:

Transfers from loans receivable, net to other real estate owned	\$	179	\$	993
Assets from acquisition of MoreBank	\$	-	\$	64,560
Liabilities from acquisition of MoreBank	\$	-	\$	68,971

See notes to consolidated financial statements.

THE BANK OF PRINCETON
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 – Summary of Significant Accounting Policies

Organization and Nature of Operations

The Bank of Princeton (the “Bank” or the “Company”) was incorporated on March 5, 2007 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, 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 eleven branches, is generally an area within an approximate 50 mile radius of Princeton, NJ, including parts of Mercer, Somerset, Hunterdon, Monmouth and Middlesex Counties in central New Jersey, and additional areas in portions of Philadelphia, Delaware, Montgomery and Bucks Counties in Pennsylvania.

The Bank offers traditional retail banking services, one-to four-family residential mortgage loans, multi-family and commercial mortgage loans, construction loans, commercial business loans and consumer loans, including home equity loans and lines of credit. As of December 31, 2011, the Bank had 103 full-time employees and 7 part-time employees. The Bank maintains a website at www.thebankofprinceton.com.

Basis of Financial Statement Presentation

The consolidated financial statements include the accounts of the Bank and its wholly-owned subsidiaries: Bayard Lane, LLC, Bayard Properties, LLC, 112 Fifth Avenue, LLC and TBOP New Jersey Investment Company. All significant inter-company accounts and transactions have been eliminated in consolidation.

The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (“GAAP”).

Estimates

The preparation of consolidated financial statements in conformity with GAAP 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 consolidated 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 determination of other-than-temporary impairment of securities and the valuation of deferred tax assets.

Management believes that the allowance for loan losses is adequate as of December 31, 2011 and 2010. While management uses current information 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 or other factors.

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 effect certain changes that result in additions to the allowance based on their judgments about information available to them at the time of their examinations.

Subsequent Events

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

THE BANK OF PRINCETON
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 – Summary of Significant Accounting Policies (Continued)

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. 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.

Business combinations

The Bank accounts for business combinations in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("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, on deposit at other financial institutions 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 or 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, 2011 and 2010. 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 evaluates securities for other-than-temporary-impairment ("OTTI") on, at least, a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation. In determining OTTI under the ASC Topic 320, management considers many factors, including: (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; (3) whether the market decline was affected by macroeconomic conditions, and (4) whether the entity has the intent to sell the debt security or more likely than not will be required to sell the debt security before its anticipated recovery. The assessment of whether

THE BANK OF PRINCETON
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 – Summary of Significant Accounting Policies (Continued)

an OTTI decline exists involves a high degree of subjectivity and judgment and is based on information available to management at a point in time. An OTTI is deemed to have occurred if there has been an adverse change in the remaining expected future cash flows.

When an OTTI of debt securities occurs, the amount of the OTTI recognized in earnings depends on whether the Bank intends to sell the security or more likely than not will be required to sell the security before recovery of its amortized cost basis. If the Bank intends to sell or more likely than not will be required to sell the security before recovery of its amortized cost basis, the OTTI shall be recognized in earnings at an amount equal to the difference between the security's amortized cost basis and its fair value at the balance sheet date. If the Bank does not intend to sell the security and it is not more likely than not that the Bank will be required to sell the security before recovery of its amortized cost basis, the OTTI shall be separated into the amount representing the credit loss and the amount related to all other factors. The amount of the total OTTI related to the credit loss is determined based on the present value of cash flows expected to be collected and is recognized in earnings. The amount of the total OTTI related to other factors shall be recognized in other comprehensive income, net of applicable tax benefit. The previous amortized cost basis less the OTTI recognized in earnings shall become the new amortized cost basis of the investment.

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.

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 Receivable

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. 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, home equity and consumer loan classes.

For all classes of loans receivable, the accrual of interest is discontinued when the contractual payment of principal or interest is 90 days past due or management has serious doubts about further collectability 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 collectability 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 collectability 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.

THE BANK OF PRINCETON
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 – Summary of Significant Accounting Policies (Continued)

Allowance for credit 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 loan 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 allowance for loan losses is maintained at a level considered adequate to provide for probable losses. The Company performs, at least quarterly, an evaluation of the adequacy of the allowance. The allowance is based on past loan loss experience (which is bound by the Company's limited operating history), 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, the 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, general and unallocated 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 loans not considered impaired, as well as smaller balance homogeneous loans, such as residential mortgage 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.

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, home equity 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.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 – Summary of Significant Accounting Policies (Continued)

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.

Residential first-lien mortgage loans involve certain risks such as interest rate risk and risk of non-repayment. Adjustable-rate loans decrease 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 degree of 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 for projects which are pre-sold or leased, 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 and industrial 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 assets. In most cases, any repossessed collateral for a defaulted commercial business loan 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.

An unallocated component of the allowance for loan losses 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 BANK OF PRINCETON
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 – Summary of Significant Accounting Policies (Continued)

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 loan 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 costs to sell the property.

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 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, home equity loans and consumer loans for impairment disclosures, unless such loans are a troubled debt restructuring.

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-off to the allowance for loan losses. Loan not classified are rated pass.

THE BANK OF PRINCETON
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 – Summary of Significant Accounting Policies (Continued)

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 allowance for loan losses is adequate at the reported dates.

Bank-owned life insurance

The Bank is the beneficiary of insurance policies on the lives of certain officers 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.

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 \$1,338,000 and \$1,322,000 is carried at cost at December 31, 2011 and 2010, 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 of stock in Atlantic Central Bankers Bank ("ACBB") at December 31, 2011 and 2010.

Management believes no impairment charge is necessary related to the FHLB restricted stock or the ACBB restricted stock as of December 31, 2011 or 2010.

THE BANK OF PRINCETON
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Note 1 – Summary of Significant Accounting Policies (Continued)

Intangible assets

The acquisition of MoreBank on September 30, 2010 and the acquisition of a branch in 2010 resulted in the Bank recording core deposit intangibles of \$551,000 and \$100,000, respectively. 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 core deposit intangible, net of accumulated amortization, was \$481,000 and \$607,000 as of December 31, 2011 and 2010, respectively. Amortization expense is anticipated to be approximately \$125,000 in 2012, 2013 and 2014, respectively, and approximately \$106,000 in 2015.

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 the twelve month periods ended December 31, 2011 and 2010.

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, 2011 and 2010. 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, 2011, tax years 2008 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 liabilities and assets, respectively, 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 tax 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 and letters of 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, 2011 and 2010, no matching contributions were made.

THE BANK OF PRINCETON
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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.

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.

Reclassifications

Certain amounts as of and for the year ended December 31, 2010 have been reclassified to conform to the current year's presentation. These reclassifications did not have any impact on stockholders' equity or net income.

Note 2 – Recent Accounting Pronouncements

Receivables. In April 2011, the FASB issued Accounting Standards Update (ASU) No. 2011-02, Receivables (Topic 310): *A Creditor's Determination of Whether a Restructuring is a Troubled Debt Restructuring*, to clarify the accounting principles applied to loan modifications. ASU No. 2011-02 was issued to address the recording of an impairment loss in FASB ASC 310, Receivables. ASU No. 2011-02 adds text to the scope guidance Section 310-40-15 that is meant to help determine when a lender has granted a concession on their terms of a loan. The added material also provides criteria that should be used to help determine when the loan restructuring delays a payment by a length of time that is considered insignificant and when the borrower is having financial problems. For public companies, the effective date is for the first interim or annual period beginning on or after June 15, 2011, or later with retrospective application to the beginning of the fiscal year for loans that

THE BANK OF PRINCETON
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Note 2 – Recent Accounting Pronouncements (Continued)

are restructured during the year in which the changes are adopted. The Bank adopted this update as of the quarter beginning July 1, 2011 with retrospective application to the beginning of the year. The adoption of ASU No. 2011-02 did not impact the Company's financial condition or results of operations.

Transfers and Servicing. In April 2011, the FASB issued ASU No. 2011-03, Transfers and Servicing (Topic 860): *Reconsideration of Effective Control for Repurchase Agreements*. The amendments in ASU No. 2011-03 remove from the assessment of effective control (1) the criterion requiring the transferor to have the ability to repurchase or redeem the financial assets on substantially the agreed terms, even in the event of default by the transferee, and (2) the collateral maintenance implementation guidance related to that criterion. Other criteria applicable to the assessment of effective control are not changed by the amendments in ASU No. 2011-03. This update is effective for the first interim or annual period beginning on or after December 15, 2011 and is to be applied prospectively to transactions or modifications of transactions that occur on or after the effective date. The Bank does not expect the adoption of ASU No. 2011-03 to have a material impact on its financial condition or results of operations.

Fair Value. In May 2011, the FASB issued ASU No. 2011-04, Fair Value Measurement (Topic 820): *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*. The amendments in this update result in common fair value measurement and disclosure requirements in U.S. GAAP and International Financial Reporting Standards (IFRS). Consequently, the amendments change the wording used to describe many of the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements. Some of the amendments in this update clarify the FASB's intent about the application of existing fair value measurement requirements. Other amendments change a particular principle or requirement for measuring fair value or for disclosing information about fair value measurements. This update is effective during interim and annual periods beginning on or after December 15, 2011 and is to be applied prospectively; early adoption is not permitted. The Bank does not anticipate the adoption of this update will impact its financial condition or results of operations.

Comprehensive Income. In June 2011, the FASB issued ASU No. 2011-05, Comprehensive Income (Topic 220): *Presentation of Comprehensive Income*. This update provides an entity the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In both choices, an entity is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. In a single continuous statement, the entity is required to present the components of net income and total net income, the components of other comprehensive income and a total for other comprehensive income, along with the total of comprehensive income in that statement. In the two-statement approach, an entity is required to present components of net income and total net income in the statement of net income. The statement of other comprehensive income should immediately follow the statement of net income and include the components of other comprehensive income and a total for other comprehensive income, along with a total for comprehensive income. The amendments do not affect how earnings per share is calculated or presented. This update is effective for fiscal years and interim periods beginning after December 15, 2011 and is to be applied retrospectively. The adoption of this update will not impact the Bank's financial condition or results of operations, but will result in a change in presentation of other comprehensive income.

In December, 2011, the FASB issued ASU 2011-12, *Deferral of the Effective Date to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update 2011-05*. In response to stakeholder concerns regarding the operational ramifications of the presentation of these reclassifications for current and previous years, the FASB has deferred the implementation date of this provision to allow time for further consideration. The requirement in ASU 2011-05, *Presentation of Comprehensive Income*, for the presentation of a combined statement of comprehensive income or separate, but consecutive, statements of net income and other comprehensive income is still effective for fiscal years and interim periods beginning after December 15, 2011 for public companies, and fiscal years ending after December 15, 2011 for nonpublic companies.

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Note 3 – Business Combination

The Bank acquired MoreBank on September 30, 2010. The Bank exchanged 465,195 of its common shares for all outstanding MoreBank shares and also replaced outstanding and unexercised MoreBank options with fully-vested options to purchase common stock of the Bank. Total consideration transferred by the Bank amounted to approximately \$5,602,000 for net assets of approximately \$6,617,000. The transaction included no contingent consideration arrangements.

The excess of net assets acquired over the consideration transferred of approximately \$1,014,000 was recognized as a gain on acquisition for the year ended December 31, 2010. 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.

The Bank acquired loans with a fair value of \$49.2 million. Included in this amount was \$1.5 million of 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 mark discount of \$0.1 million, 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.

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.

Information about the acquired loan portfolio as of September 30, 2010 is as follows (in thousands):

	Loans Acquired without Deteriorated Credit Quality	Loans Acquired with Deteriorated Credit Quality	Total Loans Acquired
Contractually required principal and interest at acquisition	\$ 59,022	\$ 1,996	\$ 61,018
Contract cash flows not expected to be collected (nonaccretable discount)	(535)	(424)	(959)
Expected cash flows at acquisition	58,487	1,572	60,059
Interest component of expected cash flows (accretable discount)	(10,839)	(68)	(10,907)
Fair value of acquired loans	<u>\$ 47,648</u>	<u>\$ 1,504</u>	<u>\$ 49,152</u>

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.

THE BANK OF PRINCETON
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3 – Business Combination (Continued)

Acquisition-related costs amounted to approximately \$155,000 and are presented in professional fees within the statements of operations for the year ended December 31, 2010. 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 following table summarizes the estimated fair value of the assets acquired and liabilities assumed as of the date of the acquisition (in thousands):

Assets	
Cash and cash equivalents	\$ 11,028
Securities available for sale	11,169
Loans receivable, net	49,152
Premises and equipment, net	780
Core deposit intangible	551
Other assets	2,908
Total assets acquired	<u>75,588</u>
Liabilities	
Deposits	63,525
Borrowings	5,283
Other liabilities	163
Total liabilities assumed	<u>68,971</u>
Net assets acquired	<u>\$ 6,617</u>

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

(in thousands, except earnings per common share data)

Net interest income	\$ 13,042
Net income	\$ 1,936
Earnings per common share-basic	\$ 0.58
Earnings per common share-diluted	\$ 0.57

Note 4 – Stock Offering

The Bank conducted a stock offering during the third and fourth quarters of 2011. The Bank sold 621,862 shares of common stock at the offering price per share of \$13.75. The effect of these transactions was to increase the Bank's cash and capital positions by \$8.6 million during the year ended December 31, 2011.

Note 5 – Earnings Per Share

Basic earnings per share ("EPS") is calculated by dividing net income by the weighted average number of common shares outstanding for the period. Diluted EPS is calculated by dividing net income by the weighted average number of common stock outstanding for the period, adjusted to include the effect of outstanding stock options and warrants, if dilutive, using the treasury stock method. Shares issued during any period are weighted for the portion of the period they were outstanding.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 5 – Earnings Per Share (Continued)

The following schedule presents earnings per share data for the twelve month periods ended December 31, 2011 and 2010:

	Twelve months ended	
	December 31,	
	2011	2010
	(in thousands, except per share data)	
Net income applicable to common stock	\$ 2,813	\$ 2,387
Weighted average number of common shares outstanding	4,103	3,490
Basic earnings per share	<u>\$ 0.69</u>	<u>\$ 0.68</u>
Net income applicable to common stock	\$ 2,813	\$ 2,387
Weighted average number of common shares outstanding	4,103	3,490
Dilutive effect on common shares outstanding	52	30
Weighted average number of diluted common shares outstanding	<u>4,155</u>	<u>3,520</u>
Diluted earnings per share	<u>\$ 0.68</u>	<u>\$ 0.68</u>

Options and warrants to purchase 330,549 shares of common stock at a weighted average exercise price of \$10.86 were included in the computation of diluted earnings per share for the twelve months ended December 31, 2011. Options to purchase 73,366 shares of common stock at a weighted average exercise price of \$21.66 were not included in the computation of diluted earnings per share because the exercise price equaled or exceeded the estimated fair value of our common stock for the twelve months ended December 31, 2011.

Options and warrants to purchase 218,616 shares of common stock at a weighted average exercise price of \$10.18 were included in the computation of diluted earnings per share for the twelve months ended December 31, 2010. Options to purchase 101,467 shares of common stock at a weighted average exercise price of \$18.61 were not included in the computation of diluted earnings per share because the exercise price equaled or exceeded the estimated fair value of our common stock for the twelve months ended December 31, 2010.

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Note 6 – Investment Securities

The following summarizes the amortized cost and estimated fair value of securities available-for-sale at December 31, 2011 and 2010 with gross unrealized gains and losses therein:

	December 31, 2011			Fair Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
	(in thousands)			
Available-for-sale:				
Mortgage-backed securities-U.S.				
Government Sponsored Enterprises (GSE's)	\$ 117,395	\$ 2,252	\$ (35)	\$ 119,612
Obligations of state and political subdivisions	53,589	1,057	(7)	54,639
Corporate securities	2,000	-	(88)	1,912
	<u>\$ 172,984</u>	<u>\$ 3,309</u>	<u>\$ (130)</u>	<u>\$ 176,163</u>

	December 31, 2010			Fair Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
	(in thousands)			
Available-for-sale:				
U.S. Treasury securities	\$ 3,746	\$ 17	\$ (9)	\$ 3,754
U.S. Government agency securities	15,052	35	(45)	15,042
Mortgage-backed securities-U.S.				
Government Sponsored Enterprises (GSE's)	108,936	1,735	(551)	110,120
Obligations of state and political subdivisions	28,383	25	(666)	27,742
Corporate securities	2,955	8	(20)	2,943
	<u>\$ 159,072</u>	<u>\$ 1,820</u>	<u>\$ (1,291)</u>	<u>\$ 159,601</u>

The unrealized losses, categorized by the length of time in a continuous loss position, and the fair value of related securities available-for-sale as of December 31, 2011 are as follows:

	Less than 12 Months		More than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(in thousands)					
December 31, 2011:						
Mortgage-backed securities-U.S.						
Government Sponsored Enterprises (GSE's)	\$ 8,870	\$ 34	\$ 1,130	\$ 1	\$ 10,000	\$ 35
Obligations of state and political subdivisions	1,613	6	1,009	1	2,622	7
Corporate securities	933	67	979	21	1,912	88
	<u>\$ 11,416</u>	<u>\$ 107</u>	<u>\$ 3,118</u>	<u>\$ 23</u>	<u>\$ 14,534</u>	<u>\$ 130</u>

THE BANK OF PRINCETON
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 6 – Investment Securities (Continued)

The unrealized losses, categorized by the length of time in a continuous loss position, and the fair value of related securities available-for-sale as of December 31, 2010 are as follows:

	Less than 12 Months		More than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(in thousands)					
December 31, 2010:						
U.S. Treasury securities	\$ 1,882	\$ 9	\$ -	\$ -	\$ 1,882	\$ 9
U.S. Government agency securities	2,978	45	-	-	2,978	45
Mortgage-backed securities-U.S.						
Government Sponsored Enterprises (GSE's)	48,519	551	-	-	48,519	551
Obligations of state and political subdivisions	23,266	666	-	-	23,266	666
Corporate securities	1,980	20	-	-	1,980	20
	\$ 78,625	\$ 1,291	\$ -	\$ -	\$ 78,625	\$ 1,291

At December 31, 2011, the Bank's debt securities portfolio consisted of approximately 237 securities, of which 11 were in an unrealized loss position for less than twelve months and 4 were in a continuous loss position for more than twelve months. No OTTI charges were recorded for the twelve months ended December 31, 2011. The Bank does not intend to sell these securities and it is not more likely than not that we will be required to sell these securities. Unrealized losses primarily relate to interest rate fluctuations and not credit concerns.

The amortized cost and estimated fair value of securities available-for-sale at December 31, 2011 by contractual maturity are shown below. Expected maturities will differ from contractual maturities as borrowers may have the right to call or prepay obligations with or without call or prepayment penalties:

	Amortized	
	Cost	Fair Value
	(in thousands)	
Due in one year or less	\$ 1,726	\$ 1,756
Due after one year through five years	5,911	5,891
Due after five years through ten years	39,640	40,368
Due after ten years	125,707	128,148
Total	\$ 172,984	\$ 176,163

THE BANK OF PRINCETON
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 6 – Investment Securities (Continued)

The following summarizes the amortized cost and estimated fair value of securities held-to-maturity at December 31, 2011 and 2010 with gross unrealized gains and losses therein:

	December 31, 2011			Fair Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
	(in thousands)			
Held-to-maturity:				
Mortgage-backed securities-U.S.				
Government Sponsored Enterprises (GSE's)	\$ 1,074	\$ 92	\$ -	\$ 1,166

	December 31, 2010			Fair Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
	(in thousands)			
Held-to-maturity:				
Mortgage-backed securities-U.S.				
Government Sponsored Enterprises (GSE's)	\$ 1,394	\$ 60	\$ -	\$ 1,454

Proceeds from the sale of securities available-for-sale amounted to \$75.7 million for the twelve months ended December 31, 2011, which included realized gains of approximately \$2.0 million and realized losses of approximately \$6,000. Proceeds from the sale of securities available-for-sale amounted to \$32.4 million for the twelve months ended December 31, 2010, which included realized gains of approximately \$1.2 million and no realized losses.

Approximately \$2.1 million of securities available-for-sale were pledged as collateral for Federal Home Loan Bank of New York (“FHLBNY”) borrowings at December 31, 2011. Approximately \$4.6 million of securities available-for-sale were pledged as collateral for Federal Home Loan Bank of Pittsburgh borrowings at December 31, 2011. Approximately \$62.5 million of securities available-for-sale and \$1.2 million of securities held-to-maturity were pledged as collateral for NJ Governmental Unit Deposit Protection Act (“GUDPA”) deposits at December 31, 2011. Approximately \$2.0 million of securities available-for-sale were pledged as collateral for business sweep accounts at December 31, 2011.

THE BANK OF PRINCETON
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 7 – Loans Receivable

Loans receivable, net at December 31, 2011 and 2010 were comprised of the following:

	<u>December 31,</u> <u>2011</u>	<u>December 31,</u> <u>2010</u>
	(in thousands)	
Commercial real estate	\$ 233,504	\$ 166,472
Commercial and industrial	85,527	60,768
Construction	56,453	25,970
Residential first-lien mortgage	15,396	11,870
Home equity	19,341	19,285
Consumer	1,957	1,441
Total loans	<u>412,178</u>	<u>285,806</u>
Deferred fees and costs	(955)	(540)
Allowance for loan losses	<u>(5,362)</u>	<u>(3,693)</u>
Loans, net	<u>\$ 405,861</u>	<u>\$ 281,573</u>

The following table presents nonaccrual loans by classes of the loan portfolio as of September 30, 2011 and December 31, 2010:

	<u>December 31,</u> <u>2011</u>	<u>December 31,</u> <u>2010</u>
	(in thousands)	
Commercial real estate	\$ 5,229	\$ 3,488
Commercial and industrial	2,135	1,782
Construction	892	-
Residential first-lien mortgage	-	-
Home equity	456	276
Consumer	-	-
Total	<u>\$ 8,712</u>	<u>\$ 5,546</u>

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 loans and 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 loans, payment extensions, forgiveness of principal, forbearance or other actions intended to maximize collection.

**THE BANK OF PRINCETON
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Note 7 – Loans Receivable (Continued)

The following table summarizes information in regards to impaired loans by loan portfolio class segregated by those for which a related allowance was required and those for which a related allowance was not necessary, as of December 31, 2011 and the year then ended:

	<u>Unpaid Principal Balance</u>	<u>Recorded Investment</u>	<u>Related Allowance</u> (in thousands)	<u>Average Recorded Investment</u>	<u>Interest Income Recognized</u>
With no related allowance recorded:					
Commercial real estate	\$ 5,021	3,615	\$ -	\$ 4,422	\$ -
Commercial and industrial	2,599	2,152	-	2,278	-
Construction	3,004	2,961	-	2,961	86
Residential first-lien mortgage	-	-	-	-	-
Home equity	558	455	-	485	-
Consumer	-	-	-	-	-
	<u>11,182</u>	<u>9,183</u>	<u>-</u>	<u>10,146</u>	<u>86</u>
With an allowance recorded:					
Commercial real estate	1,897	1,633	14	1,633	-
Commercial and industrial	-	-	-	-	-
Construction	-	-	-	-	-
Residential first-lien mortgage	-	-	-	-	-
Home equity	362	385	2	393	22
Consumer	-	-	-	-	-
	<u>2,259</u>	<u>2,018</u>	<u>16</u>	<u>2,026</u>	<u>22</u>
Total:					
Commercial real estate	6,918	5,248	14	6,055	-
Commercial and industrial	2,599	2,152	-	2,278	-
Construction	3,004	2,961	-	2,961	86
Residential first-lien mortgage	-	-	-	-	-
Home equity	920	840	2	878	22
Consumer	-	-	-	-	-
	<u>\$ 13,441</u>	<u>\$ 11,201</u>	<u>\$ 16</u>	<u>\$ 12,172</u>	<u>\$ 108</u>

**THE BANK OF PRINCETON
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Note 7 – Loans Receivable (Continued)

The following table summarizes information in regards to impaired loans by loan portfolio class segregated by those for which a related allowance was required and those for which a related allowance was not necessary, as of December 31, 2010 and the year then ended:

	<u>Unpaid Principal Balance</u>	<u>Recorded Investment</u>	<u>Related Allowance</u> (in thousands)	<u>Average Recorded Investment</u>	<u>Interest Income Recognized</u>
With no related allowance recorded:					
Commercial real estate	\$ 7,942	\$ 5,867	\$ -	\$ 6,797	\$ -
Commercial and industrial	2,961	1,783	-	3,003	-
Construction	1,998	1,991	-	1,991	-
Residential first-lien mortgage	-	-	-	-	-
Home equity	720	657	-	715	-
Consumer	-	-	-	-	-
	<u>13,621</u>	<u>10,298</u>	<u>-</u>	<u>12,506</u>	<u>-</u>
With an allowance recorded:					
Commercial real estate	-	-	-	-	-
Commercial and industrial	-	-	-	-	-
Construction	-	-	-	-	-
Residential first-lien mortgage	-	-	-	-	-
Home equity	-	-	-	-	-
Consumer	-	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total:					
Commercial real estate	7,942	5,867	-	6,797	-
Commercial and industrial	2,961	1,783	-	3,003	-
Construction	1,998	1,991	-	1,991	-
Residential first-lien mortgage	-	-	-	-	-
Home equity	720	657	-	715	-
Consumer	-	-	-	-	-
	<u>\$ 13,621</u>	<u>\$ 10,298</u>	<u>\$ -</u>	<u>\$ 12,506</u>	<u>\$ -</u>

At December 31, 2011, thirteen loans totaling \$7.0 million were considered troubled debt restructurings and classified as impaired. Troubled debt restructurings of \$2.3 million were performing in accordance with their modified terms at December 31, 2011. The remaining \$4.7 million of troubled debt restructurings were on non-accrual status at December 31, 2011.

At December 31, 2010, eight loans totaling \$6.0 million were considered troubled debt restructurings and classified as impaired. Troubled debt restructurings of \$3.5 million were performing in accordance with their modified terms at December 31, 2010. The remaining \$2.5 million of troubled debt restructurings were on non-accrual status at December 31, 2010.

THE BANK OF PRINCETON
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 7 – Loans Receivable (Continued)

The performance and credit quality of the loan portfolio is also monitored by analyzing the age of the loans receivable by the length of time a recorded payment is past due. The following table presents the classes of the loan portfolio summarized by the past due status as of December 31, 2011:

	<u>30-59 Days Past Due</u>	<u>60-89 Days Past Due</u>	<u>Greater than 90 days</u>	<u>Total Past Due</u>	<u>Current</u>	<u>Total Loans Receivable</u>	<u>Loans Receivable >90 Days and Accruing</u>
	(in thousands)						
Commercial real estate	\$ 1,958	\$ 93	\$ 4,919	\$ 6,970	\$ 226,534	\$ 233,504	\$ -
Commercial and industrial	362	559	1,031	1,952	83,575	85,527	-
Construction	-	-	892	892	55,561	56,453	-
Residential first-lien mortgage	187	-	-	187	15,209	15,396	-
Home equity	-	-	182	182	19,159	19,341	-
Consumer	-	-	-	-	1,957	1,957	-
Total	<u>\$ 2,507</u>	<u>\$ 652</u>	<u>\$ 7,024</u>	<u>\$ 10,183</u>	<u>\$ 401,995</u>	<u>\$ 412,178</u>	<u>\$ -</u>

The following table presents the classes of the loan portfolio summarized by the past due status as of December 31, 2010:

	<u>30-59 Days Past Due</u>	<u>60-89 Days Past Due</u>	<u>Greater than 90 days</u>	<u>Total Past Due</u>	<u>Current</u>	<u>Total Loans Receivable</u>	<u>Loans Receivable >90 Days and Accruing</u>
	(in thousands)						
Commercial real estate	\$ 1,690	\$ 1,916	\$ 2,174	\$ 5,780	\$ 160,692	\$ 166,472	\$ -
Commercial and industrial	460	-	1,680	2,140	58,628	60,768	-
Construction	323	-	-	323	25,647	25,970	-
Residential first-lien mortgage	-	-	-	-	11,870	11,870	-
Home equity	-	161	127	288	18,997	19,285	-
Consumer	-	-	-	-	1,441	1,441	-
Total	<u>\$ 2,473</u>	<u>\$ 2,077</u>	<u>\$ 3,981</u>	<u>\$ 8,531</u>	<u>\$ 277,275</u>	<u>\$ 285,806</u>	<u>\$ -</u>

The following table presents the classes of the loan portfolio summarized by the aggregate pass rating and the classified ratings of special mention, substandard and doubtful within the Bank's internal risk rating system as of December 31, 2011:

	<u>Pass</u>	<u>Special Mention</u>	<u>Substandard</u>	<u>Doubtful</u>	<u>Total</u>
	(in thousands)				
Commercial real estate	\$ 224,776	\$ 3,499	\$ 5,112	\$ 117	\$ 233,504
Commercial and industrial	82,046	1,093	2,388	-	85,527
Construction	50,933	4,628	892	-	56,453
Residential first-lien mortgage	15,396	-	-	-	15,396
Home equity	18,885	-	421	35	19,341
Consumer	1,957	-	-	-	1,957
Total	<u>\$ 393,993</u>	<u>\$ 9,220</u>	<u>\$ 8,813</u>	<u>\$ 152</u>	<u>\$ 412,178</u>

THE BANK OF PRINCETON
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 7 – Loans Receivable (Continued)

The following table presents the classes of the loan portfolio summarized by the aggregate pass rating and the classified ratings of special mention, substandard and doubtful within the Bank's internal risk rating system as of December 31, 2010:

	<u>Pass</u>	<u>Special Mention</u>	<u>Substandard</u>	<u>Doubtful</u>	<u>Total</u>
	(in thousands)				
Commercial real estate	\$ 160,369	\$ -	\$ 5,986	\$ 117	\$ 166,472
Commercial and industrial	57,203	1,558	2,007	-	60,768
Construction	22,458	-	3,512	-	25,970
Residential first-lien mortgage	11,870	-	-	-	11,870
Home equity	18,769	80	436	-	19,285
Consumer	1,441	-	-	-	1,441
Total	<u>\$ 272,110</u>	<u>\$ 1,638</u>	<u>\$ 11,941</u>	<u>\$ 117</u>	<u>\$ 285,806</u>

Allowance for loan losses on financing receivables at and for the year ended December 31, 2011:

	<u>Commercial real estate</u>	<u>Commercial and industrial</u>	<u>Construction</u>	<u>Residential first-lien mortgage</u>	<u>Home equity</u>	<u>Consumer</u>	<u>Unallocated</u>	<u>Total</u>
	(in thousands)							
Allowance for loan losses:								
Beginning balance	\$ 1,484	\$ 718	\$ 904	\$ 78	\$ 178	\$ 9	\$ 322	\$ 3,693
Provisions	884	492	1,204	23	81	3	(310)	2,377
Charge-offs	(286)	(217)	(143)	-	(80)	-	-	(726)
Recoveries	-	18	-	-	-	-	-	18
Ending Balance	<u>\$ 2,082</u>	<u>\$ 1,011</u>	<u>\$ 1,965</u>	<u>\$ 101</u>	<u>\$ 179</u>	<u>\$ 12</u>	<u>\$ 12</u>	<u>\$ 5,362</u>
Ending Balance:								
Individually evaluated for impairment	\$ 14	\$ -	\$ -	\$ -	\$ 2	\$ -	\$ -	\$ 16
Collectively evaluated for impairment	\$ 2,068	\$ 1,011	\$ 1,965	\$ 101	\$ 177	\$ 12	\$ 12	\$ 5,346
Loans acquired with deteriorated credit quality*	\$ 86	\$ 22	\$ -	\$ -	\$ 13	\$ -	\$ -	\$ 121

Recorded investment in financing receivables at December 31, 2011:

Loans:								
Ending Balance:								
Individually evaluated for impairment	\$ 4,377	\$ 1,974	\$ 2,961	\$ -	\$ 693	\$ -	\$ -	\$ 10,005
Collectively evaluated for impairment	228,256	83,375	53,492	15,396	18,501	1,957	-	400,977
Loans acquired with deteriorated credit quality	<u>871</u>	<u>178</u>	<u>-</u>	<u>-</u>	<u>147</u>	<u>-</u>	<u>-</u>	<u>1,196</u>
Ending Balance	<u>\$ 233,504</u>	<u>\$ 85,527</u>	<u>\$ 56,453</u>	<u>\$ 15,396</u>	<u>\$ 19,341</u>	<u>\$ 1,957</u>	<u>\$ -</u>	<u>\$ 412,178</u>

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

THE BANK OF PRINCETON
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 7 – Loans Receivable (Continued)

Allowance for loan losses and recorded investment in financing receivables at and for the year ended December 31, 2010:

	<u>Commercial real estate</u>	<u>Commercial and industrial</u>	<u>Construction</u>	<u>Residential first-lien mortgage</u>	<u>Home equity</u>	<u>Consumer</u>	<u>Unallocated</u>	<u>Total</u>
	(in thousands)							
Allowance for loan losses:								
Beginning balance	\$ 900	\$ 563	\$ 349	\$ 154	\$ 171	\$ 10	\$ -	\$ 2,147
Provisions	1,833	601	562	(76)	60	(1)	322	3,301
Charge-offs	(1,250)	(446)	(7)	-	(53)	-	-	(1,756)
Recoveries	1	-	-	-	-	-	-	1
Ending Balance	<u>\$ 1,484</u>	<u>\$ 718</u>	<u>\$ 904</u>	<u>\$ 78</u>	<u>\$ 178</u>	<u>\$ 9</u>	<u>\$ 322</u>	<u>\$ 3,693</u>
Ending Balance:								
Individually evaluated for impairment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Collectively evaluated for impairment	\$ 1,484	\$ 718	\$ 904	\$ 78	\$ 178	\$ 9	\$ 322	\$ 3,693
Loans acquired with deteriorated credit quality*	\$ 86	\$ 35	\$ -	\$ -	\$ 14	\$ -	\$ -	\$ 135

Recorded investment in financing receivables at December 31, 2010:

Loans:								
Ending Balance:								
Individually evaluated for impairment	\$ 4,914	\$ 1,396	\$ 1,991	\$ -	\$ 508	\$ -	\$ -	\$ 8,809
Collectively evaluated for impairment	160,605	58,985	23,979	11,870	18,628	1,441	-	275,508
Loans acquired with deteriorated credit quality	953	387	-	-	149	-	-	1,489
Ending Balance	<u>\$ 166,472</u>	<u>\$ 60,768</u>	<u>\$ 25,970</u>	<u>\$ 11,870</u>	<u>\$ 19,285</u>	<u>\$ 1,441</u>	<u>\$ -</u>	<u>\$ 285,806</u>

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

The following table summarizes information in regards to troubled debt restructurings for the year ended December 31, 2011 (dollars in thousands):

	<u>Number of Contracts</u>	<u>Pre-Modification Outstanding Recorded Investment</u>	<u>Post-Modification Outstanding Recorded Investment</u>
Troubled debt restructurings:			
Commercial real estate	1	\$ 1,001	\$ 1,351
Commercial and industrial	2	\$ 487	\$ 545
Construction	1	\$ 1,990	\$ 1,970
Home equity	2	\$ 868	\$ 868

THE BANK OF PRINCETON
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 7 – Loans Receivable (Continued)

As indicated above, the Bank modified six loans during the twelve months ended December 31, 2011. In modifying these loans, the Bank capitalized interest, extended the maturity and/or reduced the interest rate on the original loan. Other than the two modifications discussed further below, the remaining troubled debt restructurings in the table above are all performing in accordance with their modified terms. These troubled debt restructurings are impaired loans and therefore, in accordance with the Company's policy, are individually evaluated for impairment. As of December 31, 2011, there is no specific allowance for any of these modified loans.

The following table summarizes information in regards to troubled debt restructurings for the year ended December 31, 2011 that subsequently defaulted (dollars in thousands):

	<u>Number of Contracts</u>	<u>Outstanding Recorded Investment</u>
Troubled debt restructurings that subsequently defaulted:		
Commercial real estate	1	\$ 93
Home equity	1	\$ 618

Subsequent to modification, the Bank collected a payment of \$908 on the commercial real estate loan modified during 2011 that reduced the outstanding balance of the loan to \$93. This troubled debt restructuring is currently in default. The home equity loan modified during 2011 is also in default as of December 31, 2011. These troubled debt restructurings are impaired loans and therefore, in accordance with the Company's policy, are individually evaluated for impairment. As of December 31, 2011, there is no specific allowance for any of these modified loans.

Loans to Related Party. In 2008 the Bank extended two commercial real estate loans to a member of its board of directors. One of the commercial real estate loans is secured by the building that houses the Bank's corporate headquarters and one of its branches that the Bank leases from a company that is 99% owned by this member of our board of directors. See Note 13 Commitments and Contingencies for additional information regarding the terms of the lease. Both of the commercial real estate loans were negotiated as arms-length and were reviewed and approved by the disinterested members of the Bank's board of directors. The loans were made in the ordinary course of business, on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable loans with persons not related to the Bank and did not involve more than the normal risk of collectability or present other unfavorable features.

The table below presents information regarding the loans to the related party for the years ended December 31, 2011 and 2010.

(in thousands)	<u>2011</u>	<u>2010</u>
Outstanding related party loans at January 1,	\$ 3,361	\$ 3,452
New loans	-	
Repayments	(97)	(91)
Outstanding related party loans at December 31,	<u>\$ 3,264</u>	<u>\$ 3,361</u>

No loans to related parties were nonaccrual, past due, restructured or potential problems at December 31, 2011 and 2010.

THE BANK OF PRINCETON
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 8 – Premises and Equipment

The components of premises and equipment at December 31 were as follows (in thousands):

	Estimated useful lives	2011	2010
Land	N/A	\$ 410	\$ -
Buildings	40 Yrs.	1,741	-
Leasehold improvements	10 Yrs.	2,454	2,127
Furniture, fixtures and equipment	3-7 Yrs.	2,160	1,678
Construction in progress		284	1,544
		7,049	5,349
Accumulated depreciation and amortization		(1,884)	(1,196)
Total		\$ 5,165	\$ 4,153

Note 9 – Accrued Interest Receivable and Other Assets

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

	2011	2010
Accrued interest receivable	\$ 2,478	\$ 1,971
Deferred tax asset	2,695	3,166
Restricted investments in bank stocks	1,438	1,422
Prepaid assets and other assets	1,224	2,184
Total	\$ 7,835	\$ 8,743

Note 10 – Deposits

The components of deposits at December 31 were as follows (in thousands):

	2011	2010
Demand, non-interest-bearing checking	\$ 46,385	\$ 30,669
Demand, interest-bearing and savings	204,297	159,475
Money market	122,863	100,626
Time deposits, \$100,000 and over	102,855	57,643
Time deposits, other	119,173	77,400
Total	\$ 595,573	\$ 425,813

As of December 31, 2011, one customer's deposits with the Bank represented 11.2% of total deposits and another customer represented 6.8% of total deposits. No other customer accounted more than 5% of total deposits as of December 31, 2011.

**THE BANK OF PRINCETON
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Note 10 – Deposits (Continued)

At December 31, 2011, the scheduled maturities of certificates of deposit were as follows (in thousands):

		<u>Amounts</u>
2012	\$	108,896
2013		45,852
2014		27,684
2015		11,548
2016		28,048
		<u>222,028</u>
	\$	<u>222,028</u>

Note 11 – Borrowings

The following table is a schedule of the Bank’s long-term debt as of December 31, 2011, consisting of FHLB-NY amortizing and FHLB-Pittsburgh term, fixed-rate advances with weighted average interest rates and maturities (dollars in thousands):

	Weighted Average Interest Rate at December 31, 2011	Maturity		2011
	1.82 %	2012	\$	2,384
	2.29 %	2013		3,350
	2.71 %	2014		5,610
				<u>11,344</u>
			\$	<u>11,344</u>

The Bank had \$18.0 million of long-term debt outstanding with the FHLB-NY and FHLB-Pittsburgh at December 31, 2010.

There were no federal funds purchased as of December 31, 2011. Federal funds purchased were \$1.0 million at December 31, 2010. At December 31, 2011, the Bank had federal funds available for purchase with the ACBB of \$6.0 million at interest rates that adjust daily.

At December 31, 2011, the Bank also had \$324.2 million of borrowing capacity with the FHLB-NY that is subject to the Bank providing acceptable collateral in the form of certain investment securities or loans.

Note 12 – Accrued Interest Payable and Other Liabilities

The components of Accrued interest payable and other liabilities at December 31 were as follows (in thousands):

	<u>2011</u>		<u>2010</u>
Accrued interest payable	\$ 1,663	\$	1,092
Income taxes payable	167		93
Accrued expenses and other liabilities	1,806		1,242
Total	<u>\$ 3,636</u>	\$	<u>2,427</u>

THE BANK OF PRINCETON
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 13 – Commitments and Contingencies

Operating leases

The Bank has operating leases for ten 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 (in thousands):

2012	\$ 1,048
2013	1,025
2014	1,047
2015	1,032
2016	828
Thereafter	2,038
	<u>\$ 7,018</u>

Rental expense for the years ended December 31, 2011 and 2010 was \$1.0 million and \$700,000, respectively.

The Bank has an operating lease agreement with a member of the Bank’s board of directors for a building containing the Bank’s 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 each of the years ended December 31, 2011 and 2010 was approximately \$256,000 and \$253,000, respectively.

Commitments to extend credit

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 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 (in thousands):

	<u>2011</u>	<u>2010</u>
Performance and standby letters of credit	\$ 2,367	\$ 2,550
Commitments to grant loans	57,563	57,474
Unfunded commitments under lines of credit	6,767	8,084
	<u>\$ 66,697</u>	<u>\$ 68,108</u>

THE BANK OF PRINCETON
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 13 – Commitments and Contingencies (Continued)

Litigation

The Bank, in the normal course of business, may 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.

Note 14 – Income Taxes

Income tax expense (benefit) from operations for the years ended December 31 is as follows:

	2011	2010
	(in thousands)	
Current tax expense:		
Federal	\$ 1,215	\$ 39
State	322	29
Total current	1,537	68
Deferred income tax benefit:		
Federal	(318)	(83)
State	(156)	(36)
Total deferred	(474)	(119)
Reversal of valuation allowance	-	(1,437)
Total income taxes applicable to pre-tax income	\$ 1,063	\$ (1,488)

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

	2011	2010
	(in thousands)	
Deferred tax assets:		
Allowance for loan losses	\$ 1,948	\$ 1,241
Net operating loss carry-forwards	1,439	1,587
Acquisition accounting adjustments	154	425
Organizational costs	294	367
Other	367	270
Total deferred tax assets	4,202	3,890
Deferred tax liabilities:		
Premises and equipment	60	(52)
Cash basis conversions	(186)	(270)
Unrealized gains on securities	(1,081)	(180)
Deferred loan costs	(300)	(222)
Total deferred tax liabilities	(1,507)	(724)
Net deferred tax asset	\$ 2,695	\$ 3,166

THE BANK OF PRINCETON
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 14 – Income Taxes (Continued)

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

	2011	2010
	(in thousands)	
Federal income tax expense at statutory rate	\$ 1,318	\$ 306
Increases (reductions) in taxes resulting from:		
State income taxes, net of federal benefit	109	43
Tax-exempt income, net	(307)	(61)
Non-deductible expenses	7	105
Gain on acquisition	-	(345)
Decrease in valuation allowance	-	(1,437)
Other	(64)	(99)
Total income taxes applicable to pre-tax income	\$ 1,063	\$ (1,488)

At December 31, 2011, the Bank had available federal net operating loss carryforwards of approximately \$4.2 million, which expire between 2028 and 2030. There are currently no state net operating loss carryforwards available. 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 \$222,000.

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 in 2010, the Bank acquired net deferred tax assets of approximately \$1.8 million.

Note 15 – Fair Value Measurements and Disclosure

The Bank follows the guidance on fair value measurements now codified as FASB ASC Topic 820, *Fair Value Measurements and Disclosures*. Fair value measurements are not adjusted for transaction costs. ASC Topic 820 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value.

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

The fair value measurement hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

Level 1: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

Level 2: Quoted prices in markets that are not active, or inputs that are observable either directly or indirectly, for substantially the full term of the asset or liability.

**THE BANK OF PRINCETON
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Note 15 – Fair Value Measurements and Disclosure (Continued)

Level 3: Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e., supported with little or no market activity).

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

For financial assets measured at fair value on a recurring basis, the fair value measurements by level within the fair value hierarchy used at December 31, 2011 were as follows:

<u>Description</u>	<u>(Level 1) Quoted Prices in Active Markets for Identical Assets</u>	<u>(Level 2) Significant Other Observable Inputs</u>	<u>(Level 3) Significant Unobservable Inputs</u>	<u>Total Fair Value December 31, 2011</u>
	(in thousands)			
Mortgage-backed securities-U.S. Government Sponsored Enterprises (GSE's)	\$ -	\$ 119,612	\$ -	\$ 119,612
Obligations of state and political subdivisions	-	54,639	-	54,639
Corporate securities	-	1,912	-	1,912
Securities available-for-sale	<u>\$ -</u>	<u>\$ 176,163</u>	<u>\$ -</u>	<u>\$ 176,163</u>

For financial assets measured at fair value on a recurring basis, the fair value measurements by level within the fair value hierarchy used at December 31, 2010 were as follows:

<u>Description</u>	<u>(Level 1) Quoted Prices in Active Markets for Identical Assets</u>	<u>(Level 2) Significant Other Observable Inputs</u>	<u>(Level 3) Significant Unobservable Inputs</u>	<u>Total Fair Value December 31, 2010</u>
	(in thousands)			
U.S. Treasury securities	\$ 3,754	\$ -	\$ -	\$ 3,754
U.S. Government agency securities	-	15,042	-	15,042
Mortgage-backed securities-U.S. Government Sponsored Enterprises (GSE's)	-	110,120	-	110,120
Obligations of state and political subdivisions	-	27,742	-	27,742
Corporate securities	2,943	-	-	2,943
Securities available-for-sale	<u>\$ 6,697</u>	<u>\$ 152,904</u>	<u>\$ -</u>	<u>\$ 159,601</u>

**THE BANK OF PRINCETON
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Note 15 – Fair Value Measurements and Disclosure (Continued)

For assets measured at fair value on a nonrecurring basis, the fair value measurements by level within the fair value hierarchy used at December 31, 2011, were as follows:

<u>Description</u>	<u>(Level 1) Quoted Prices in Active Markets for Identical Assets</u>	<u>(Level 2) Significant Other Observable Inputs</u>	<u>(Level 3) Significant Unobservable Inputs</u>	<u>Total Fair Value December 31, 2011</u>
	(in thousands)			
Impaired loans	\$ -	\$ -	\$ 4,927	\$ 4,927
Real estate owned	-	-	740	740
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,667</u>	<u>\$ 5,667</u>

For assets measured at fair value on a nonrecurring basis, the fair value measurements by level within the fair value hierarchy used at December 31, 2010, were as follows:

<u>Description</u>	<u>(Level 1) Quoted Prices in Active Markets for Identical Assets</u>	<u>(Level 2) Significant Other Observable Inputs</u>	<u>(Level 3) Significant Unobservable Inputs</u>	<u>Total Fair Value December 31, 2010</u>
	(in thousands)			
Real estate owned	\$ -	\$ -	\$ 1,140	\$ 1,140
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,140</u>	<u>\$ 1,140</u>

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

Cash and cash equivalents (carried at cost)

The carrying amounts reported in the balance sheet 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 receivable (carried at cost)

The fair value of loans receivable 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

THE BANK OF PRINCETON
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 15 – Fair Value Measurements and Disclosure (Continued)

contractual maturity or call dates, projected repayments and prepayments of principal. Generally, for variable rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values.

Impaired loans (generally carried at fair value)

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

Other real estate owned (carried at fair value)

Other real estate owned is adjusted to fair value, less estimated selling costs, upon transfer of loans to other real estate owned. Subsequently, other real estate owned is carried at the lower of carrying value or fair value less costs to sell. 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.

Federal Home Loan Bank stock and ACBB stock (carried at cost)

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

Accrued interest receivable and payable (carried at cost)

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

Deposit liabilities (carried at cost)

The fair value 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 value 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.

Borrowings

Fair value of FHLB advances are determined by discounting the anticipated future cash payments by using the rates currently available to the Bank for debt with similar terms and remaining maturities.

Off-Balance sheet financial instruments (disclosed at cost)

Fair value for the Bank's off-balance sheet financial instruments (lending commitments and letters 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 fair values of these off-balance sheet financial instruments are not considered material as of December 31, 2011 and December 31, 2010.

THE BANK OF PRINCETON
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 15 – Fair Value Measurements and Disclosure (Continued)

The carrying amounts and estimated fair value of financial instruments are as follows:

	December 31, 2011		December 31, 2010	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
	(in thousands)			
Financial assets:				
Cash and cash equivalents	\$ 59,215	\$ 59,215	\$ 25,620	\$ 25,620
Securities available-for-sale	176,163	176,163	159,601	159,601
Securities held-to-maturity	1,074	1,166	1,394	1,454
Loans receivable, net	405,861	417,284	281,573	285,002
Restricted investments in bank stocks	1,438	1,438	1,422	1,422
Accrued interest receivable	2,478	2,478	1,971	1,971
Financial liabilities:				
Deposits	595,573	597,703	425,813	422,724
Federal funds purchased	-	-	1,044	1,044
Borrowings	11,344	11,383	18,014	18,048
Accrued interest payable	1,663	1,663	1,092	1,092

Limitations

The fair value estimates are made at a discrete point in time based on relevant market information and information about the financial instruments. Fair value estimates are based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors.

These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates. Further, the foregoing estimates may not reflect the actual amount that could be realized if all or substantially all of the financial instruments were offered for sale. This is due to the fact that no market exists for a sizable portion of the loan, deposit and off-balance sheet instruments.

In addition, the fair value estimates are based on existing on and off-balance sheet financial instruments without attempting to value anticipated future business and the value of assets and liabilities that are not considered financial instruments. Other significant assets that are not considered financial assets include premises and equipment. In addition, the tax ramifications related to the realization of unrealized gains and losses can have a significant effect on fair value estimates and have not been considered in any of the estimates.

Finally, reasonable comparability between financial institutions may not be likely due to the wide range of permitted valuation techniques and numerous estimates which must be made given the absence of active secondary markets for many of the financial instruments. This lack of uniform valuation methodologies introduces a greater degree of subjectivity to these estimated fair values.

Note 16 – 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 BANK OF PRINCETON
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 16 – Comprehensive Income (Continued)

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

	<u>2011</u>	<u>2010</u>
	(Dollars in thousands)	
Unrealized holding gains on securities available-for-sale	\$ 4,626	\$ 141
Reclassifications of gains included in net income	<u>(1,976)</u>	<u>(1,229)</u>
	2,650	(1,088)
Tax effect	<u>(901)</u>	<u>370</u>
Other comprehensive income (loss)	<u>\$ 1,749</u>	<u>\$ (718)</u>

Reclassification gains of \$2.0 million and \$1.2 million were included within Gain on sale of securities available-for-sale in the Consolidated Statements of Operations for the years ended December 31, 2011 and 2010, respectively.

Note 17 – Stock 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 10 years after the grant date 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, 2011 and 2010 and will expire in 2017.

In 2007, the Bank adopted the 2007 Stock Option Plan (the “2007 Plan”), which was approved by our board of directors in August 2007 and by our 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. The 2007 Plan will terminate ten years from the date of stockholder approval.

In connection with the Bank’s acquisition of MoreBank on September 30, 2010, all outstanding and unexercised options to acquire shares of MoreBank common stock became fully vested and exercisable and converted into fully vested and exercisable options to purchase shares of common stock of the Bank in an amount and at an exercise price based on the merger exchange ratio. These options remain subject to all of the other terms and conditions to which they were subject immediately prior to the effective time of the merger.

**THE BANK OF PRINCETON
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Note 17 – Stock Based Compensation (Continued)

The following is a summary of the status of the Bank’s stock option and warrant activity and related information for the twelve months ended December 31, 2011:

	Number of Stock Options / Warrants	Weighted Avg. Exercise Price	Weighted Avg. Remaining Contractual Life	Aggregate Intrinsic Value
Balance at January 1, 2010	255,183	\$ 10.14		
Granted	93,833	\$ 11.56		
Options issued at acquisition	47,200	\$ 25.00		
Exercised	(50)	\$ 10.00		
Forfeited	(63,250)	\$ 10.12		
Balance at December 31, 2010	<u>332,916</u>	<u>\$ 12.66</u>	<u>7.7 years</u>	<u>\$ 735,910</u>
Exercisable at December 31, 2010	<u>261,352</u>	<u>\$ 13.03</u>	<u>7.4 years</u>	<u>\$ 687,057</u>
Balance at January 1, 2011	332,916	\$ 12.66		
Granted	86,150	\$ 12.52		
Exercised	(4,283)	\$ 10.48		
Forfeited	(12,367)	\$ 10.96		
Balance at December 31, 2011	<u>402,416</u>	<u>\$ 12.82</u>	<u>7.6 years</u>	<u>\$ 928,110</u>
Exercisable at December 31, 2011	<u>299,106</u>	<u>\$ 13.09</u>	<u>5.6 years</u>	<u>\$ 778,218</u>

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:

	For the twelve months ended December 31,	
	<u>2011</u>	<u>2010</u>
Expected life	6.0 years	7 years
Expected volatility	23.99%	24.57%
Forfeiture rate	22.70%	18.36%
Dividend yield	0.00%	0.00%
Risk-free interest rate	1.67%	2.52%
Fair value	\$ 3.26	\$ 2.49

Stock option expenses included in salaries and employee benefits expense in the Consolidated Statements of Operations were \$203,000 and \$221,000 for the twelve months ended December 31, 2011 and 2010, respectively. At December 31, 2011, there was approximately \$238,000 of unrecognized expense related to outstanding stock options, which will be recognized over a period of approximately 3.1 years.

Note 18 – Regulatory Capital Requirements

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

THE BANK OF PRINCETON
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 18 – Regulatory Capital Requirements (Continued)

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, 2011, 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, 2011 and 2010 are presented below:

	<u>Actual</u>		<u>For capital adequacy purposes</u>		<u>To be well capitalized under prompt corrective action provisions</u>	
	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>
December 31, 2011:						
Total capital (to risk-weighted assets)	\$57,101	12.7%	\$ 35,952	≥ 8.0%	\$ 44,940	≥ 10.0%
Tier 1 capital (to risk-weighted assets)	\$51,739	11.5%	\$ 17,976	≥ 4.0%	\$ 26,964	≥ 6.0%
Tier 1 capital (to average assets)	\$51,739	8.1%	\$ 25,520	≥ 4.0%	\$ 31,900	≥ 5.0%
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	≥ 4.0%	\$ 38,930	≥ 5.0%

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

**THE BANK OF PRINCETON
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Note 19 – Quarterly Financial Data

	Year Ended December 31, 2011			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	(In thousands, except per share data)			
Interest and dividend income	\$ 5,614	\$ 6,175	\$ 6,598	\$ 7,286
Interest expense	1,677	1,712	1,811	1,965
Net Interest Income	3,937	4,463	4,787	5,321
Provision for loan losses	128	355	525	1,369
Net Interest Income after Provision for Loan Losses	3,809	4,108	4,262	3,952
Non-interest income	275	840	540	1,175
Non-interest expense	3,137	3,807	3,915	4,226
Income before Income Taxes	947	1,141	887	901
Income tax expense	326	392	261	84
Net Income	\$ 621	\$ 749	\$ 626	\$ 817
Earnings per common share				
Basic	\$ 0.16	\$ 0.19	\$ 0.16	\$ 0.18
Diluted	\$ 0.16	\$ 0.19	\$ 0.15	\$ 0.18

	Year Ended December 31, 2010			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	(In thousands, except for share and per share data)			
Interest and dividend income	\$ 3,345	\$ 3,587	\$ 3,891	\$ 5,378
Interest expense	937	1,132	1,337	1,724
Net Interest Income	2,408	2,455	2,554	3,654
Provision for loan losses	90	383	816	2,012
Net Interest Income after Provision for Loan Losses	2,318	2,072	1,738	1,642
Non-interest income	39	731	1,595	190
Non-interest expenses	1,967	2,178	2,211	3,070
Income before Income Taxes	390	625	1,122	(1,238)
Income tax expense (benefit)	-	2	-	(1,490)
Net Income	\$ 390	\$ 623	\$ 1,122	\$ 252
Earnings per common share				
Basic	\$ 0.13	\$ 0.18	\$ 0.32	\$ 0.05
Diluted	\$ 0.13	\$ 0.18	\$ 0.32	\$ 0.05

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

Not applicable.

Item 9A. Controls and Procedures

(a) **Disclosure Controls and Procedures**

An evaluation was performed under the supervision, and with the participation of the Company's management, including the Acting President and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) promulgated under the Exchange Act) as of December 31, 2011. Based on such evaluation, the Company's Acting President and Chief Financial Officer have concluded that the Company's disclosure controls and procedures are effective, as of December 31, 2011, to ensure that the information required to be disclosed by the Company in the reports that the Company files or submits under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in FDIC rules and forms.

(b) **Internal Control Over Financial Reporting**

This annual report does not include a report of management's assessment regarding internal control over financial reporting or an attestation report of the Company's registered public accounting firm due to a transition period established by rules of the Securities and Exchange Commission for newly public companies.

There have been no changes in the Company's internal control over financial reporting that occurred during the last fiscal quarter to which this Annual Report on Form 10-K relates that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The Company responds to this Item by incorporating by reference the material responsive to this Item in the Company's definitive proxy statement to be filed with the Federal Deposit Insurance Corporation in connection with its 2012 Annual Meeting of Stockholders to be held April 24, 2012.

Item 11. Executive Compensation

The Company responds to this Item by incorporating by reference the material responsive to this Item in the Company's definitive proxy statement to be filed with the Federal Deposit Insurance Corporation in connection with its 2012 Annual Meeting of Stockholders to be held April 24, 2012.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The Company responds to this Item by incorporating by reference the material responsive to this Item in the Company's definitive proxy statement to be filed with the Federal Deposit Insurance Corporation in connection with its 2012 Annual Meeting of Stockholders to be held April 24, 2012.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The Company responds to this Item by incorporating by reference the material responsive to this Item in the Company's definitive proxy statement to be filed with the Federal Deposit Insurance Corporation in connection with its 2012 Annual Meeting of Stockholders to be held April 24, 2012.

Item 14. Principal Accountant Fees and Services

The Company responds to this Item by incorporating by reference the material responsive to this Item in the Company's definitive proxy statement to be filed with the Federal Deposit Insurance Corporation in connection with its 2012 Annual Meeting of Stockholders to be held April 24, 2012.

PART IV

Item 15. Exhibits, Financial Statement Schedules

- (a) The following portions of the Company's consolidated financial statements are set forth in Item 8 of this Annual Report:
- i. Consolidated Statements of Financial Condition as of December 31, 2011 and 2010
 - ii. Consolidated Statements of Operations for the years ended December 31, 2011 and 2010
 - iii. Consolidated Statements of Changes in Stockholders' Equity for the years ended December 31, 2011 and 2010
 - iv. Consolidated Statements of Cash Flows for the years ended December 31, 2011 and 2010
 - v. Notes to Consolidated Financial Statements
- (b) Financial Statement Schedules

All financial statement schedules are omitted as the information, if applicable, is presented in the consolidated financial statements or notes thereto.

The Bank of Princeton

(c) Exhibits

Exhibit

No.	Description
2.1	(A) Agreement and Plan of Merger dated as of May 5, 2010 by and between The Bank of Princeton and MoreBank.
3.1	(A) Certificate of Incorporation, as amended.
3.2	(A) Amended and Restated Bylaws
4.1	(A) Specimen form of stock certificate.
10.1	(A) The Bank of Princeton 2007 Stock Option Plan*
10.2	(A) Form of Incentive Stock Option Agreement*
10.3	(A) Form of Nonqualified Stock Option Agreement*
10.4	(A) Warrant Agreement for Organizers*
10.5	(A) Form of Warrant Certificate*
10.6	(A) MoreBank 2004 Incentive Equity Compensation Plan*
10.7	(A) Form of Incentive Stock Option Agreement*
10.8	(A) Form of Nonqualified Stock Option*
10.9	(A) Form of Option for the Purchase of Shares of the Par Value of \$1.00 Per Share of MoreBank*
10.10	(B) Agreement and Release by and between Steven C. Ackmann and The Bank of Princeton*
21.1	Subsidiaries of the Registrant
31.1	Rule 13a-14(a) Certification of the Principal Executive Officer
31.2	Rule 13a-14(a) Certification of the Principal Financial Officer
32.1	Section 1350 Certifications

* Management contract or compensatory plan, contract or arrangement.

(A) Incorporated by reference to the exhibit to registrant's Form 10, General Form For Registration Of Securities, filed with the Federal Deposit Insurance Corporation on May 2, 2011.

(B) Incorporated by reference to the exhibit to registrant's Current Report on Form 8-K, filed with the Federal Deposit Insurance Corporation on January 26, 2012.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized as of March 23, 2012.

The Bank of Princeton

By: /s/Edward Dietzler
Edward Dietzler
Acting President
(Principal Executive Officer)

The Bank of Princeton

By: /s/Michael J. Sanwald
Michael J. Sanwald
Executive Vice President and Chief Financial Officer
(Principal Financial and Accounting Officer)

The Bank of Princeton

Pursuant to the requirement of the Securities Exchange Act of 1934, this Report has been signed below on March 23, 2012 by the following persons on behalf of the Registrant and in the capacities indicated.

/s/Edward Dietzler

Edward Dietzler
Acting President
(Principal Executive Officer)

/s/Michael J. Sanwald

Michael J. Sanwald
Executive Vice President and Chief Financial Officer
(Principal Financial and Accounting Officer)

/s/Andrew M. Chon

Andrew M. Chon
Director, Chairman

/s/Stephen Shueh

Stephen Shueh
Director

/s/Stephen Distler

Stephen Distler
Director, Vice Chairman

/s/Robert N. Ridolfi, Esq

Robert N. Ridolfi, Esq
Director

/s/Judith A. Giacin

Judith A. Giacin
Director

/s/Ross Wishnick

Ross Wishnick
Director, Vice Chairman

/s/Richard Gillespie

Richard Gillespie
Director

EXHIBIT INDEX

Exhibit No.	Description
2.1	(A) Agreement and Plan of Merger dated as of May 5, 2010 by and between The Bank of Princeton and MoreBank.
3.1	(A) Certificate of Incorporation, as amended.
3.2	(A) Amended and Restated Bylaws
4.1	(A) Specimen form of stock certificate.
10.1	(A) The Bank of Princeton 2007 Stock Option Plan*
10.2	(A) Form of Incentive Stock Option Agreement*
10.3	(A) Form of Nonqualified Stock Option Agreement*
10.4	(A) Warrant Agreement for Organizers*
10.5	(A) Form of Warrant Certificate*
10.6	(A) MoreBank 2004 Incentive Equity Compensation Plan*
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(B) Incorporated by reference to the exhibit to registrant's Current Report on Form 8-K, filed with the Federal Deposit Insurance Corporation on January 26, 2012.

SUBSIDIARIES OF REGISTRANT
As of December 31, 2011

Name of Subsidiary	Jurisdiction of Incorporation or Formation
TBOP New Jersey Investment Company	NJ
Bayard Lane, LLC	NJ
112 Fifth Avenue, LLC	NJ
Bayard Properties, LLC	NJ

**RULE 13A-14(A)/15D-14(A) CERTIFICATIONS OF THE
CHIEF EXECUTIVE OFFICER**

I, Edward Dietzler, certify that:

1. I have reviewed this annual report on Form 10-K of The Bank of Princeton:
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of circumstances under which such statements were made, not misleading with respect to the period covered by this report.
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operation and cash flows of the registrant as of, and for, the periods presented in this report.
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Intentionally omitted.
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting

Date: March 23, 2012

/s/Edward Dietzler
Edward Dietzler
Acting President

**RULE 13A-14(A)/15D-14(A) CERTIFICATIONS OF THE
CHIEF FINANCIAL OFFICER**

I, Michael J. Sanwald, certify that:

1. I have reviewed this annual report on Form 10-K of The Bank of Princeton:
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of circumstances under which such statements were made, not misleading with respect to the period covered by this report.
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operation and cash flows of the registrant as of, and for, the periods presented in this report.
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Intentionally omitted.
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting

Date: March 23, 2012

/s/Michael J. Sanwald
Michael J. Sanwald
Executive Vice President and Chief Financial Officer

SECTION 1350 CERTIFICATIONS

In connection with the Annual Report of The Bank of Princeton (the “Company”) on Form 10-K for the period ending December 31, 2011 as filed with the Federal Deposit and Insurance Corporation on the date hereof (the “Report”), the undersigned certify, pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities and Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/Edward Dietzler
Edward Dietzler
Acting President

/s/Michael J. Sanwald
Michael J. Sanwald
Executive Vice President and Chief Financial Officer

March 23, 2012



*Branching out
in “More” ways than one.*

MoreBank at the grand reopening ceremony celebrates the move to an expanded, more convenient business location in the Assi Plaza in North Wales. Shown at the ribbon cutting marking the event are: (l to r) Ross Wishnick, vice chairman of The Bank of Princeton; Joong Keun Song, advisory board member of MoreBank, and president, of the Korean American Chamber of Commerce; Andrew Chon, chairman of The Bank of Princeton; Paul Hyon, president of MoreBank; and Stephen Distler, vice chairman of The Bank of Princeton.

MoreBank is a division of The Bank of Princeton and has three locations in Pennsylvania. The merger of MoreBank with The Bank of Princeton occurred in 2010.



Who We Are

Board of Directors

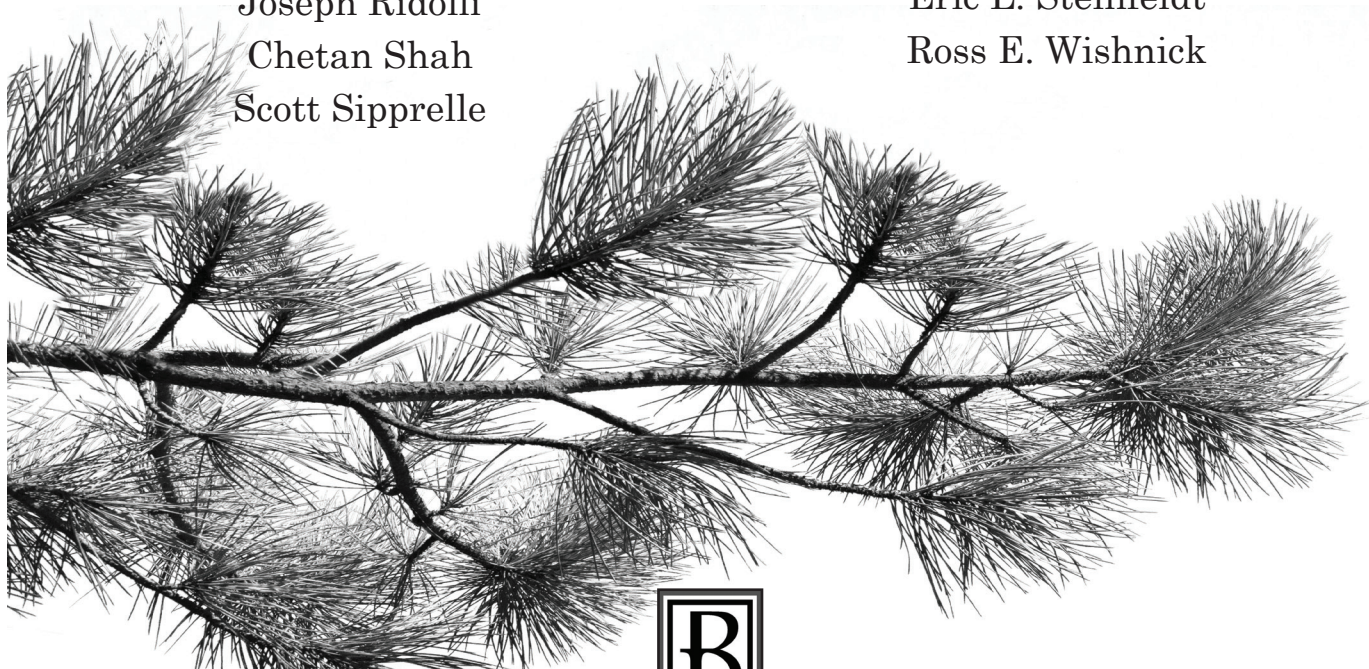
Andrew M. Chon, *Chairman*
Stephen Distler, *Vice Chairman*
Ross E. Wishnick, *Vice Chairman*
Judith Giacin
Richard Gillespie
Robert N. Ridolfi, Esq.
Stephen K. Shueh

Advisory Board

J. Scott Needham, *Chairman*
George Bustin
Barbara Cuneo
Peter J. Dawson
Michael Goodman, Esq.
Yongkuen Joh
Emmett Lescroart
Lance Liverman
Jerry Maclean
Joseph Ridolfi
Chetan Shah
Scott Sippelle

Incorporators

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



Who We Are

Relationship Management

Community Banking Executives

Stephanie M Adkins, *Chambers*

Nina D. Melker, *Hamilton*

Paul M. Bencivengo, *Hamilton*

William McDowell, *Pennington*

William McCoy, *Montgomery*

William D. Allan, *Monroe*

Michael Johnson, *Lambertville*

Kris Muse, *Nassau*

Retail

Carly Meyer, *Chambers*

Customer Service Managers

Rose Russo, *Bayard*

Cathy E. Proctor, *Chambers*

Suzanne M. Lippincott, *Hamilton*

Ulrike Ahrens, *Pennington*

Miriam I. Colon, *Montgomery*

Doris Kostanek, *Monroe*

Emilia Dovidio, *Lambertville*

Rhoda Sundhar, *Nassau*

Management & Support

Senior Management

Edward J. Dietzler

Michael J. Sanwald

Douglas V. Conover

Carol R. Coles

Marketing

Barbara A. Cromwell

Human Resources

Anna Maria Miller

Administration

Kelly Tarity

Operations & Compliance

Karen D. Pfeifer

Thomas Perrotta

Loan Administration

Carol Safchinsky

Mary Beth Gorecki, *Consumer Credit*

Harold John Young, *Commercial Lender*

Finance

Edward P. Hassenkamp

William E. Fischer

MoreBank Division

Senior Management

Paul Hyon

Lender

Mike Han

Customer Service Managers

Haeran Hwangbo, *Cheltenham*

Young Soon Sim, *North Wales*

Woomee Han, *Upper Darby*

Operations & Administration

Rebekah Oh





*A special community deserves
a special bank.*

The Bank of Princeton hosts a ribbon-cutting ceremony and grand opening celebration at 10 Bridge St. in Lambertville. The Lambertville Branch, located in a beautiful historic building, features an art gallery displaying the work of local artists. Pictured above is the staff of the Lambertville branch: (l to r) Michael Johnson, community banking executive, Marianne Rosato, Wilson Weed, Emilia Dovidio, customer service manager, James Czajowski and Kerry Ann Douglas.



***Making a difference ...
growing into the most convenient
community bank.***

Late in December, The Bank of Princeton opened its 11th branch at 194 Nassau St. in Princeton. With three branch locations in the Princeton Market, The Bank of Princeton became the most convenient community bank in the area. Pictured above are (l to r) Kris Muse, community banking executive and healthcare lender, Rhoda Sundhar, customer service manager, Fatima Majeed, Amanda Clipper and Kerri Symon. A grand opening celebration is scheduled for early 2012.



Growing *our* Communities.



The Bank of Princeton
Bank Wisely.

Advancing Opportunities
Allies, Inc,
Alzheimer's Association
American Friends of Yeshiva Amalah
Shel Torah
American Heart Association
American Legion
Arc Mercer
Arts Council of Princeton
Auxiliary of University Medical
Center at Princeton
Artsbridge
Beth El Synagogue
Big Brothers Big Sisters of Mercer County
Capital Health Foundation
Catholic Charities of the
Diocese of Trenton
Christine's Hope for Kids Foundation
City of Angels NJ, Inc.
Colin Pascik Road to Recovery Fund
Community Options
Corner House Foundation
Crawford House
Cystic Fibrosis Foundation
Derek's Dream
Dress for Success of Mercer County
Duke University Hospital
Eden Autism Services
Foundation of Morris Hall/
St. Lawrence, Inc.
Friends of Ely Park
Fund: 101
Hadassah Southern New Jersey Region
Hamilton Area YMCA
Hamilton Education Foundation
Hamilton Post 31
Hamilton Township Economic
Development Advisory Committee
Health Care Ministry of Princeton
Historical Society of Princeton
HomeFront
Hopewell Valley Education
Foundation
Hopewell Valley Gridiron Club
Hopewell Valley Soccer Association

Hopewell Valley Veterans Association
Hopewell Valley YMCA
Hunterdon County
Chamber of Commerce
Jewish Family & Children's Services
of Mercer County
Joint Effort Community Sports
Junior Achievement of NJ
Kidsbridge
Korean American Institute
of Princeton
Korean Community Center of Princeton
Lambertville Chamber of Commerce
Lambertville Historical Society
Literacy Volunteers in Mercer County
Lower Bucks County YMCA
Mary Jacobs Library
Mercer County Community
College Foundation
Mercer County Italian American
Festival Association
Mercer Regional Chamber of Commerce
Mercer Hispanic Association
Miracle League of Mercer County
Montgomery Business Association
Montgomery-Rocky Hill Rotary Club
Montgomery Township Fireworks
Montgomery Township Food Pantry
Montgomery Township Volunteer Fire
Company No.1
Nassau Hockey League
Nemours Funds for Childrens Health
New Hope Chamber of Commerce
New Jersey Regional Coalition
New School for Music Study
Nick & Jim Friends in Heaven
Memorial Foundation
Opera New Jersey
Our Lady of Sorrows, St. Anthony Parish
Passage Theatre Company
Peddie Parents Association
Pennington Business &
Professional Association
Pi Day
Plan Smart NJ
Play for Pink
Princeton Academy of
the Sacred Heart

Princeton Alumni Association
Princeton Cranbury Babe Ruth League
Princeton Education Foundation
Princeton Family YMCA
Princeton Regional Schools
PrincetonKIDS
Princeton Montessori School
Princeton Pop Warner Football
Princeton Pro Musica
Princeton Recreation Department
Princeton Regional Chamber
of Commerce
Princeton Senior Resource Center
Princeton Soccer Association
Princeton Symphony Orchestra
Princeton University Art Museum
Princeton Young Achievers
Project Freedom
Recreational Foundation
of Hopewell Valley
Riverside Symphonia
Rotary Club of Princeton
Robert Wood Johnson Foundation
Run Free Ranch
Ryan's Quest
Saint Hedwig's Council #7344
Sanctuary Guild of
Our Lady of the Angels
Science Mentors 1:1
Smith Memorial
South Hunterdon Regional Schools
South Soccer Parent Organization
Special Olympics New Jersey
St. Francis Medical Center Foundation
Steinert High School Athletics
Stony Brook Millstone
Watershed Association
Teal Tea Foundation
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 Jewish Center of Princeton
The Parkinson Alliance, Inc.
The Princeton Singers
The Salvation Army

continued...

We Listen...We Understand...We make a difference.

Growing *more* Communities.



The Bank of Princeton
Bank Wisely.

(Continued from the previous page...)

The Salvation Army
The Trenton Irish American Association
Thomas Edison State College Foundation
Trenton Public Education Foundation
Trinity Church
Trustees of Princeton University
200 Club of Mercer County
UIH Family Partners
Union Fire Company
United Way of Hunterdon County
West Amwell Golf Day
YWCA Trenton
Zonta Club of Trenton



Asian Pacific American Bar Association of Pennsylvania
Beautiful Foundation
Greater Philadelphia Asian Social Service Center
Greater Philadelphia Korean American Golf Association
Greater Philadelphia Korean Association of 5 North Province
Greater Southern New Jersey Korean American Association
Korean American Broadcasting Company
Korean American Youth Foundation
Korean Community Center of Greater Princeton
National Association for Korean Schools
Philadelphia Chinatown Development Corporation
The Milal Mission in Philadelphia

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

21 Chambers Street
Princeton, NJ 08542
609.921.6800

194 Nassau Street
Princeton, NJ 08542
609.921.3311

1185 Route 206 North
Princeton, NJ 08540
609.497.0500

2 Route 31 South
Pennington, NJ 08534
609.730.8500

339 Route 33
Hamilton, NJ 08619
609.584.0011

1 Rossmoor Drive, Suite 120
Monroe Township, NJ 08831
609.655.7790

10 Bridge Street
Lambertville, NJ 08530
609.397.0333

Loan Operations
403 Wall Street
Princeton, NJ 08540
609.454.0116



MoreBank *A Division of The Bank of Princeton*

www.morebankusa.com

470 West Cheltenham Avenue
Philadelphia, PA 19126
215.224.6400

7050 Terminal Square, Suite 201
Upper Darby, PA 19082
610.734.1444

1222A Welsh Road
North Wales, PA 19454
215.631.9911

We look forward to 2012!

Branching out wisely.