



# The Bank of Princeton



*Still Growing*

Established 2007

**Annual Report 2012**



*At The Bank of Princeton,*

**We listen to you –**

we appreciate your business,  
and we're committed to being a true resource  
for our community.

**We understand –**

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

**We get it –**

we know you want to be treated with respect,  
and we thank you, genuinely, for entrusting  
us with your banking.

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

***We make a difference.***

# 2012 Annual Report

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# Letter to the Shareholders

Dear Fellow Shareholders,

The Bank of Princeton (the “Bank”) earned \$6.3 million in 2012, an increase of 124% from 2011. Despite the economy facing ongoing challenges on its road to recovery, we continued to grow loans, deposits and net income. The Bank remained focused in 2012 with prudent investment in our infrastructure that will allow for further efficient growth in the future. We added two new branch locations to our existing organization, for a total of 12 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 2012 were \$769 million, an increase of 16% from \$665 million at year-end 2011. The resulting increase in assets was primarily driven through “de novo” branch openings and organic growth through the Bank’s existing branch network. Gross loans were \$539 million at year-end 2012, an increase of 31% from the \$411 million in loans at year-end 2011. New deposit customers, drawn by our larger branch network and community bank focus, grew in-kind with loans during 2012. Deposit balances at year-end 2012 were \$672 million, an increase of \$76 million, or 13%, compared to year-end 2011 deposit balances of \$596 million.

The growth in our net income was visible in several of our key ratios. Our net interest margin was 3.56% for the year 2012, an increase of 0.24% compared to 2011. Our cost of funds, a component of net interest margin, decreased to 1.20% in 2012, down 0.30% from 2011. The Bank’s operating efficiency, or efficiency ratio, which measures the relationship of our operating costs to revenue, was 62% in 2012, an improvement of 17% from 2011. In addition, the Bank is focused on maintaining high asset quality. The Bank’s non-performing asset ratio decreased from 1.80% in 2011 to 1.68% in 2012. We remain committed to improving these key ratios in 2013 as a means of increasing returns to stockholders. We are particularly proud to report some of the Bank’s major accomplishments in 2012. They include:

- On April 25, 2012, The Bank of Princeton celebrated its 5th anniversary in business. Beginning with one location at 21 Chambers St. and a dozen employees, the Bank has grown to 12 full service branch locations at year-end, supported by a committed staff of over 120.
- In late August, we ventured into a new market, as the bank opened a branch in the heart of New Brunswick. Located at 1 Spring Street, our full-service branch is convenient to the municipal complex, hospital facilities, the Rutgers University campus and the New Brunswick train station. As of year-end, the branch had over \$8.0 million in deposits.
- In September, the New Jersey Economic Development Authority approved the addition of The Bank of Princeton as a Premier Lender. This partnership assists and demonstrates our commitment to providing resources to the small business community in the markets that we serve.
- In December, we introduced a new look and redesign of our website.
- MoreBank, a division of The Bank of Princeton, opened a branch location at 921 Arch Street in Philadelphia on December 18, 2012. This full-service branch is positioned in historic Chinatown and features exceptional customer service delivered by a multi-lingual staff.
- We were selected as one of New Jersey’s 50 fastest growing companies by NJBIZ. The Bank was extremely proud to receive this honor for the second year in a row as we moved from 15<sup>th</sup> in 2011 to an impressive 3<sup>rd</sup> place in 2012.

As a Company, we remain 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 maintain the focus on 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, 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, 2012

- 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 4,578,569 shares of common stock outstanding.

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## PART I

### Forward-Looking Statements

The Bank of Princeton (the “Bank”) may from time to time make written or oral “forward-looking statements,” including statements contained in the Bank’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 Bank, which are made in good faith by the Bank 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 Bank’s plans, objectives, expectations, estimates and intentions that are subject to change based on various important factors (some of which are beyond the Bank’s control). The following factors, among others, could cause the Bank’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 Bank 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 Bank’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 Bank at managing the risks involved in the foregoing.

The Bank cautions that the foregoing list of important factors is not exclusive. The Bank 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 Bank, 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 twelve 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, 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 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. This acquisition expanded our geographic presence to areas in Philadelphia, Delaware and Montgomery Counties in Pennsylvania. We continue to operate two of the former MoreBank branches as a division of The Bank of Princeton under the “MoreBank” name. In the fourth quarter of 2012 we opened one additional branch within the MoreBank division in Philadelphia, Pennsylvania.

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 [www.thebankofprinceton.com](http://www.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 on deposits, 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 loans and other 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 also use any familiarity that senior management and director members of our loan committee have 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, 2012, 2011, 2010, 2009 and 2008:

| (in thousands)                  | As of December 31, |            |            |            |           |
|---------------------------------|--------------------|------------|------------|------------|-----------|
|                                 | 2012               | 2011       | 2010       | 2009       | 2008      |
| Commercial real estate          | \$ 317,946         | \$ 233,504 | \$ 166,472 | \$ 89,959  | \$ 48,382 |
| Commercial and industrial       | 103,627            | 85,527     | 60,768     | 31,671     | 16,715    |
| Construction                    | 62,702             | 56,453     | 25,970     | 23,273     | 11,326    |
| Residential first-lien mortgage | 29,127             | 15,396     | 11,870     | 15,343     | -         |
| Home equity                     | 25,617             | 19,341     | 19,285     | 13,681     | 12,302    |
| Consumer                        | 1,480              | 1,957      | 1,441      | 1,048      | 3,012     |
| Total loans                     | 540,499            | 412,178    | 285,806    | 174,975    | 91,737    |
| Deferred fees and costs         | (1,351)            | (955)      | (540)      | (318)      | (244)     |
| Allowance for loan losses       | (7,033)            | (5,362)    | (3,693)    | (2,147)    | (1,092)   |
| Loans, net                      | \$ 532,115         | \$ 405,861 | \$ 281,573 | \$ 172,510 | \$ 90,401 |



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, Commercial and Industrial, and Construction Loans.*** We originate various types of commercial loans, including construction loans, secured by collateral such as real estate, business assets 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 subsequently, based on contractual terms, 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, 2012, we had one customer whose deposits with us represented 5.5% of our total deposits and another customer whose deposits represented 5.4% 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, 2012.

## 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-related 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 eleven 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 twelve 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, 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, 2012, we had 122 total employees and approximately 116 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

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. The Dodd-Frank Act significantly expands the coverage and scope of the limitations on affiliate transactions within a banking organization.

**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-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 provided unlimited federal deposit insurance until December 31, 2012 for noninterest-bearing demand transaction accounts at all insured depository institutions. The unlimited coverage for noninterest-bearing demand transaction accounts was not renewed.

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, 2012, averaged 0.90 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 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 assigned certain 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. Exceptions include, 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, 2012, our Tier 1 and Total risk-based capital ratios were 10.3% and 11.5%, 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, 2012, our leverage ratio was 7.6%.

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 requires bank holding companies and their bank subsidiaries to maintain more capital, with a greater emphasis on common equity. Basel III also provides for a "countercyclical capital buffer" in the range of 0% to 2.5% when fully implemented. Basel III would 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.

On June 7, 2012, the U.S. banking agencies requested comment on the three proposed rules that, taken together, would establish an integrated regulatory capital framework implementing Basel III in the U.S. As proposed, U.S. implementation of Basel III would lead to significantly higher capital requirements and more restrictive leverage and liquidity ratios than those currently in place. Once adopted, these new capital requirements would be phased in over time. Comments to the proposed rules were requested by September 7, 2012 in order to begin the gradual integration of the proposed rules on January 1, 2013. U.S. banking agencies have delayed implementation of the proposed new rules as they continue to weigh views expressed during the comment period. The ultimate impact that the U.S. implementation of the new capital and liquidity standards would have on us is currently being reviewed. At this point, we cannot determine the ultimate

effect that any final regulations, if enacted, would have upon our earnings or financial condition. In addition, important questions remain as to how the numerous capital and liquidity mandates of the Dodd-Frank Act will be integrated

**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, 2012, 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, 2012, 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 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 and all of the functions and responsibilities associated with them were transferred to the Bureau on July 21, 2011. 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;
- 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 provided unlimited federal deposit insurance until December 31, 2012 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, 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;
- 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; and
- 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-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, including rules regulating compensation of residential mortgage loan originators, residential mortgage loan servicing practices, and defining qualified mortgage loans, 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 events in the financial markets and the economy in recent years, 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.

***Future Legislation and Regulation.*** Regulators have increased their focus on the regulation of the financial services industry in recent years. 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 Bank is not required to provide the information otherwise required by this Item.

#### **Item 1B. Unresolved Staff Comments**

Not applicable.



## **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 twelve other branch locations in New Jersey and Pennsylvania. The following table sets forth certain information regarding the Bank's properties as of December 31, 2012:

| <b><u>Location</u></b>  | <b><u>Leased or Owned</u></b> | <b><u>Date of Lease Expiration</u></b> |
|---|-------------------------------|--|
| <i>Corporate Headquarters</i><br>183 Bayard Lane<br>Princeton, NJ                                     | Leased                        | October 31, 2018                       |
| <i>Operations Center</i><br>403 Wall Street<br>Princeton, NJ  | Leased                        | April 30, 2016                         |
| <i>Hamilton Branch</i><br>339 Route 33<br>Hamilton, NJ  | Leased                        | October 31, 2015                       |
| <i>Pennington Branch</i><br>2 Route 31<br>Pennington, NJ  | Leased                        | April 30, 2017                         |
| <i>Chambers Street Branch</i><br>21 Chambers Street<br>Princeton, NJ                                  | Leased                        | December 31, 2016                      |
| <i>Monroe Branch</i><br>1 Rossmoor Drive, Suite 1200<br>Monroe Township, NJ                           | Leased                        | July 31, 2020                          |
| <i>Montgomery Branch</i><br>1185 Route 206 North<br>Princeton, NJ                                     | Leased                        | April 30, 2015                         |
| <i>Lambertville Branch</i><br>10-12 Bridge Street<br>Lambertville, NJ                                 | Owned                         | N/A                                    |
| <i>Nassau Street Branch</i><br>194 Nassau Street<br>Princeton, NJ                                     | Leased                        | November 30, 2021                      |
| <i>New Brunswick Branch</i><br>1 Spring Street, Suite 102<br>New Brunswick, NJ                        | Leased                        | March 31, 2017                         |
| <i>Upper Darby Branch (MoreBank Division)</i><br>7050 Terminal Square<br>Upper Darby, PA <sup>1</sup> | Leased                        | February 28, 2013                      |
| <i>North Wales Branch (MoreBank Division)</i><br>1222 North Welsh Road<br>North Wales, PA             | Leased                        | September 30, 2016                     |

|  |        |                   |
|--|--------|-------------------|
| <i>Cheltenham Branch (MoreBank Division)</i><br>470 West Cheltenham Avenue<br>Philadelphia, PA | Leased | January 25, 2016  |
| <i>Arch Street Branch (MoreBank Division)</i><br>921 Arch Street<br>Philadelphia, PA           | Leased | November 30, 2017 |

<sup>1</sup> The Bank closed this branch as of February 1, 2013.

### **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, 2012 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 11, 2013, there were approximately 656 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 Bank 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, 2012.

| <u>Plan Category</u>  | <u>Number of shares of common stock to be issued upon exercise of outstanding options, warrants and rights</u> | <u>Weighted-average exercise price of outstanding options, warrants and rights</u> | <u>Number of shares of common stock remaining available for future issuance under compensation plans</u> |
|---|--|--|--|
| <i>Equity Compensation Plans approved by security holders:</i>    |  |  |  |
| The Bank of Princeton 2007 Stock Option Plan                      | 239,727  | \$11.74  | 13,073   |
| The Bank of Princeton 2012 Stock Option Plan                      | 92,400   | \$13.75  | 7,600  |
| 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   | <u>476,827</u>   | <u>\$13.21</u>   | <u>20,673</u>  |

### **Item 6. Selected Financial Data**

As a smaller reporting company, the Bank 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, 2012 and December 31, 2011
- Comparison of Operating Results for the Years Ended December 31, 2012 and December 31, 2011
- 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

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.

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, 2012 and December 31, 2011

**General.** Our total assets increased from \$664.9 million at December 31, 2011 to \$769.0 million at December 31, 2012, an increase of \$104.1 million, or 16%. This increase was primarily due to increases in loans, net and securities available-for-sale, partially offset by a decrease in cash and cash equivalents. Total liabilities increased from \$610.6 million at December 31, 2011 to \$706.7 million at December 31, 2012, an increase of \$96.1 million, or 16%. This increase was primarily the result of a \$76.8 million increase in total deposits and a \$16.9 million increase in borrowings. Total stockholders' equity increased from \$54.3 million at December 31, 2011 to \$62.3 million at December 31, 2012, an increase of \$8.0 million, or 15%. This increase was primarily attributable to net income of \$6.3 million and an increase in accumulated other comprehensive income of \$1.3 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 decreased from \$59.2 million at December 31, 2011 to \$24.6 million at December 31, 2012, a decrease of \$34.6 million, or 58%. The decrease in cash was primarily due to the funding of the increase in loans, net and securities available-for-sale in excess of the increases in deposits and borrowings from December 31, 2011 to December 31, 2012.

**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 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.

The following table presents a summary of the amortized cost and fair value of our securities available-for-sale at December 31, 2012, 2011 and 2010.

|   | December 31,      |                   |                   |                   |                   |                   |
|---|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
|   | 2012              |                   | 2011              |                   | 2010              |                   |
|   | Amortized<br>Cost | Fair<br>Value     | Amortized<br>Cost | Fair<br>Value     | Amortized<br>Cost | Fair<br>Value     |
| (in thousands)  |                   |                   |                   |                   |                   |                   |
| U.S. Treasury securities  | \$ 27,330         | \$ 28,268         | \$ -              | \$ -              | \$ 3,746          | \$ 3,754          |
| U.S. Government<br>agency securities  | -                 | -                 | -                 | -                 | 15,052            | 15,042            |
| Mortgage-backed Securities-U.S.<br>Government-sponsored<br>Enterprises (GSEs) | 88,340            | 90,887            | 117,395           | 119,612           | 108,936           | 110,120           |
| Obligations of state and<br>political subdivisions                            | 65,532            | 66,886            | 53,589            | 54,639            | 28,383            | 27,742            |
| Corporate securities  | -                 | -                 | 2,000             | 1,912             | 2,955             | 2,943             |
| Total   | <u>\$ 181,202</u> | <u>\$ 186,041</u> | <u>\$ 172,984</u> | <u>\$ 176,163</u> | <u>\$ 159,072</u> | <u>\$ 159,601</u> |

Securities available-for-sale at fair value increased \$9.9 million during the twelve months ended December 31, 2012. This increase was the result of additional liquidity provided by our increasing deposit base, 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, 2012, 2011 and 2010.

|   | December 31,      |               |                   |               |                   |               |
|---|-------------------|---------------|-------------------|---------------|-------------------|---------------|
|   | 2012              |               | 2011              |               | 2010              |               |
|   | Amortized<br>Cost | Fair<br>Value | Amortized<br>Cost | Fair<br>Value | Amortized<br>Cost | Fair<br>Value |
| (in thousands)  |                   |               |                   |               |                   |               |
| Mortgage-backed Securities-U.S.<br>Government-sponsored<br>Enterprises (GSEs) | \$ 600            | \$ 643        | \$ 1,074          | \$ 1,166      | \$ 1,394          | \$ 1,454      |

Securities held-to-maturity decreased minimally from December 31, 2012 to December 31, 2011. The decline in held-to-maturity securities is the result of our decision to allow the held-to-maturity portfolio to run off.

The following table summarizes the maturity distribution schedule of the amortized cost of debt securities with corresponding weighted-average yields at December 31, 2012. 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)  | <b>December 31, 2012</b>    |   |   |                            | <b>Total</b>      |
|---|-----------------------------|---|---|----------------------------|-------------------|
|   | <b>One year<br/>or less</b> | <b>After one<br/>through five<br/>years</b> | <b>After five<br/>through ten<br/>years</b> | <b>After ten<br/>years</b> |                   |
| Mortgage-backed Securities-U.S. Government-sponsored Enterprises (GSEs) | \$ -                        | \$ 1,585                                    | \$ 43,577                                   | \$ 71,108                  | \$ 116,270        |
| Obligations of state and political subdivisions                         | 662                         | 1,610                                       | 22,669                                      | 40,591                     | 65,532            |
| <b>Total</b>  | <b>\$ 662</b>               | <b>\$ 3,195</b>                             | <b>\$ 66,246</b>                            | <b>\$ 111,699</b>          | <b>\$ 181,802</b> |
| Weighted average yield  | 1.08%                       | 1.80%                                       | 2.28%                                       | 2.61%                      | 2.47%             |

At December 31, 2012, 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 3 - 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 \$126.2 million from \$405.9 million at December 31, 2011 to \$532.1 million at December 31, 2012, an increase of 31%. The increase was attributable to our efforts to grow our loan portfolio through existing relationships and new business and was funded by available cash, a 13% year-over-year increase in our total deposits and \$16.9 million of additional borrowings.

The following table details our loan maturities by loan class and interest rate type at December 31, 2012:

| (in thousands)                  | <b>December 31, 2012</b>               |   |                                 | <b>Total</b>      |
|---------------------------------|--|---|---------------------------------|-------------------|
|                                 | <b>Due in<br/>one year<br/>or less</b> | <b>Due after<br/>one<br/>through<br/>five years</b> | <b>Due after<br/>five years</b> |                   |
| Commercial real estate          | \$ 40,069                              | \$ 71,342   | \$ 206,535                      | \$ 317,946        |
| Commercial and industrial       | 8,632                                  | 35,914  | 59,081                          | 103,627           |
| Construction                    | 19,677                                 | 7,935   | 35,090                          | 62,702            |
| Residential first-lien mortgage | -                                      | 1,415   | 27,712                          | 29,127            |
| Home equity                     | 3,155                                  | 235   | 22,227                          | 25,617            |
| Consumer                        | 558                                    | 424   | 498                             | 1,480             |
| <b>Total loans</b>              | <b>\$ 72,091</b>                       | <b>\$ 117,265</b>                                   | <b>\$ 351,143</b>               | <b>\$ 540,499</b> |
| Type:                           |  |   |                                 |                   |
| Fixed rate loans                | \$ 14,794                              | \$ 68,681   | \$ 29,930                       | \$ 113,405        |
| Floating rate loans             | 57,297                                 | 48,584  | 321,213                         | 427,094           |
| <b>Total loans</b>              | <b>\$ 72,091</b>                       | <b>\$ 117,265</b>                                   | <b>\$ 351,143</b>               | <b>\$ 540,499</b> |

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, 2012, 2011, 2010, 2009 and 2008.

| (in thousands)  | <b>December 31,</b> |                  |                  |                 |               |
|---|---------------------|------------------|------------------|-----------------|---------------|
|   | <b>2012</b>         | <b>2011</b>      | <b>2010</b>      | <b>2009</b>     | <b>2008</b>   |
| Nonaccrual loans:   |                     |                  |                  |                 |               |
| Commercial real estate  | \$ 2,690            | \$ 5,229         | \$ 3,488         | \$ 886          | \$ 155        |
| Commercial and industrial   | 4,596               | 2,135            | 1,782            | 1,000           | -             |
| Construction  | 892                 | 892              | -                | 427             | -             |
| Residential first-lien mortgage                                   | -                   | -                | -                | -               | -             |
| Home equity   | 359                 | 456              | 276              | -               | -             |
| Consumer  | 11                  | -                | -                | -               | -             |
| Total nonaccrual loans  | <u>8,548</u>        | <u>8,712</u>     | <u>5,546</u>     | <u>2,313</u>    | <u>155</u>    |
| Troubled debt restructurings (TDRs) – performing                  | 2,412               | 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                                   | -                   | -                | -                | -               | -             |
| Home equity   | -                   | -                | -                | -               | -             |
| Consumer  | -                   | -                | -                | -               | -             |
| Total accrual loans 90 days or more past due                      | <u>-</u>            | <u>-</u>         | <u>-</u>         | <u>-</u>        | <u>-</u>      |
| Total nonperforming loans, performing TDRs and nonperforming TDRs | 10,960              | 11,044           | 9,334            | 6,305           | 155           |
| Other real estate owned   | 1,550               | 919              | 1,140            | 227             | -             |
| Total nonperforming assets and performing TDRs                    | <u>\$ 12,510</u>    | <u>\$ 11,963</u> | <u>\$ 10,474</u> | <u>\$ 6,532</u> | <u>\$ 155</u> |

See Note 5 - 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, 2012 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 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 \$5.4 million at December 31, 2011 to \$7.0 million at December 31, 2012, an increase of \$1.6 million or 31%. This increase was primarily attributable to applying our allowance methodology to our gross loans at December 31, 2012, which increased 31% from December 31, 2011 to December 31, 2012.

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, 2012, 2011, 2010, 2009 and 2008:

| (in thousands)  | <b>Year Ended December 31,</b> |                 |                 |                 |                 |
|---|--------------------------------|-----------------|-----------------|-----------------|-----------------|
|   | <b>2012</b>                    | <b>2011</b>     | <b>2010</b>     | <b>2009</b>     | <b>2008</b>     |
| Balance at beginning of year                                | \$ 5,362                       | \$ 3,693        | \$ 2,147        | \$ 1,092        | \$ 354          |
| Charge offs:  |                                |                 |                 |                 |                 |
| Commercial real estate                                      | -                              | (286)           | (1,251)         | -               | -               |
| Commercial and industrial                                   | (388)                          | (217)           | (446)           | (149)           | -               |
| Construction  | -                              | (143)           | (7)             | -               | -               |
| Residential first-lien mortgage                             | -                              | -               | -               | -               | -               |
| Home equity   | -                              | (80)            | (52)            | -               | -               |
| Consumer  | (5)                            | -               | -               | -               | -               |
| Total charge offs   | <u>(393)</u>                   | <u>(726)</u>    | <u>(1,756)</u>  | <u>(149)</u>    | <u>-</u>        |
| Recoveries:   |                                |                 |                 |                 |                 |
| Commercial real estate                                      | -                              | -               | 1               | -               | -               |
| Commercial and industrial                                   | 95                             | 18              | -               | -               | -               |
| Construction  | -                              | -               | -               | -               | -               |
| Residential first-lien mortgage                             | -                              | -               | -               | -               | -               |
| Home equity   | 1                              | -               | -               | -               | -               |
| Consumer  | -                              | -               | -               | -               | -               |
| Total recoveries  | <u>96</u>                      | <u>18</u>       | <u>1</u>        | <u>-</u>        | <u>-</u>        |
| Net charge-offs   | (297)                          | (708)           | (1,755)         | (149)           | -               |
| Additions charged to operations (provision for loan losses) | <u>1,968</u>                   | <u>2,377</u>    | <u>3,301</u>    | <u>1,204</u>    | <u>738</u>      |
| Balance at end of year                                      | <u>\$ 7,033</u>                | <u>\$ 5,362</u> | <u>\$ 3,693</u> | <u>\$ 2,147</u> | <u>\$ 1,092</u> |
| Net charge offs to average loans outstanding                | <u>0.06%</u>                   | <u>0.21%</u>    | <u>0.84%</u>    | <u>0.12%</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.



The following table presents the allocation of the allowance for loan losses by portfolio segment for the years ended December 31, 2012, 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,    |                                    |                 |                                    |                 |                                    |                 |                                    |
|------------------------------------|-----------------|------------------------------------|-----------------|------------------------------------|-----------------|------------------------------------|-----------------|------------------------------------|
|                                    | 2012            |                                    | 2011            |                                    | 2010            |                                    | 2009            |                                    |
|                                    | Amount          | % of<br>Loans to<br>Total<br>Loans | Amount          | % of<br>Loans<br>to Total<br>Loans | Amount          | % of<br>Loans to<br>Total<br>Loans | Amount          | % of<br>Loans<br>to Total<br>Loans |
| Commercial real estate             | \$ 2,557        | 58.8%                              | \$ 2,082        | 56.6%                              | \$ 1,484        | 58.1%                              | \$ 900          | 51.4%                              |
| Commercial and industrial          | 1,244           | 19.2                               | 1,011           | 20.8                               | 718             | 21.3                               | 563             | 18.1                               |
| Construction                       | 2,163           | 11.6                               | 1,965           | 13.7                               | 904             | 9.1                                | 349             | 13.3                               |
| Residential first-lien<br>mortgage | 204             | 5.4                                | 101             | 3.7                                | 78              | 4.2                                | 154             | 8.8                                |
| Home equity                        | 256             | 4.7                                | 179             | 4.7                                | 178             | 6.8                                | 171             | 7.8                                |
| Consumer                           | 10              | 0.3                                | 12              | 0.5                                | 9               | 0.5                                | 10              | 0.6                                |
| Unallocated                        | 599             | -                                  | 12              | -                                  | 322             | -                                  | -               | -                                  |
| Total                              | <u>\$ 7,033</u> | <u>100.0%</u>                      | <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, our allowance for loan losses was comprised primarily of unallocated reserves. Our allowances for loan losses was approximately \$1.1 million at December 31, 2008, and our loans were approximately \$91.5 million at December 31, 2008. See Note 5 Loans Receivable in the Notes to Consolidated Financial Statements within this Form 10-K for additional information regarding our allowance for loan losses.

**Premises and equipment.** Premises and equipment, net increased from \$5.2 million at December 31, 2011 to \$5.8 million at December 31, 2012, an increase of \$600,000 or 13%. This increase was primarily due to the opening of one new branch during the year ended December 31, 2011.

**Other assets.** Accrued interest receivable and other assets increased \$1.5 million from December 31, 2011 to December 31, 2012, primarily due to increases of \$371,000 in accrued interest receivable, \$883,000 in restricted investments in bank stocks and \$552,000 in deferred tax assets that were partially offset by a decrease in prepaid assets and other assets during the period. The increase in accrued interest receivable was primarily due to increases of 31% and 6% in loans receivable, net and securities available for sale, respectively, from December 31, 2011 to December 31, 2012. We are required to own restricted investments in the form of stock of the FHLB-NY. The amount of FHLB-NY stock we are required to hold is determined in part by the amount of FHLB-NY borrowings outstanding. The restricted investments in bank stocks increased as a result of the 149% increase in FHLB-NY borrowings from December 31, 2011 to December 31, 2012.

**Deposits.** Total deposits increased from \$595.6 million at December 31, 2011 to \$672.4 million at December 31, 2012, an increase of \$76.8 million or 13%. Non-interest-bearing deposits increased \$30.4 million, or 66%, to \$76.8 million at December 31, 2012, compared to \$46.4 million at December 31, 2011. Interest-bearing deposits increased \$46.4 million, or 8%, to \$595.6 million at December 31, 2012, compared to \$549.2 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.

The following table presents our time deposit maturities as of December 31, 2012.

|                                      | <b>December 31, 2012</b>    |                                      |                                       |                           |                   |
|--------------------------------------|-----------------------------|--------------------------------------|---------------------------------------|---------------------------|-------------------|
|                                      | <b>Three months or less</b> | <b>Over three through six months</b> | <b>Over six through twelve months</b> | <b>Over twelve months</b> | <b>Total</b>      |
| (in thousands)                       |                             |                                      |                                       |                           |                   |
| Time deposits of \$100,000 or more   | \$ 9,250                    | \$ 6,161                             | \$ 23,301                             | \$ 72,871                 | \$ 111,583        |
| Time deposits of less than \$100,000 | 7,834                       | 9,190                                | 31,003                                | 67,553                    | 115,580           |
| Total                                | <u>\$ 17,084</u>            | <u>\$ 15,351</u>                     | <u>\$ 54,304</u>                      | <u>\$ 140,424</u>         | <u>\$ 227,163</u> |

The following table presents the average balance of our deposit accounts for the years ended December 31, 2012, 2011 and 2010, and the average cost of funds for each category of our deposits.

|                                       | <b>2012</b>           |                       |                                    | <b>2011</b>           |                       |                                    | <b>2010</b>           |                       |                                    |
|---------------------------------------|-----------------------|-----------------------|------------------------------------|-----------------------|-----------------------|------------------------------------|-----------------------|-----------------------|------------------------------------|
|                                       | <b>Average Amount</b> | <b>Avg. Rate Paid</b> | <b>% of Average Total Deposits</b> | <b>Average Amount</b> | <b>Avg. Rate Paid</b> | <b>% of Average Total Deposits</b> | <b>Average Amount</b> | <b>Avg. Rate Paid</b> | <b>% of Average Total Deposits</b> |
| (in thousands)                        |                       |                       |                                    |                       |                       |                                    |                       |                       |                                    |
| Demand, non-interest-bearing checking | \$ 65,333             | 0.00%                 | 10.3%                              | \$ 37,429             | 0.00%                 | 7.6%                               | \$ 20,623             | 0.00%                 | 6.6%                               |
| Demand Interest-bearing               | 119,121               | 0.99                  | 18.7                               | 99,194                | 1.41                  | 20.1                               | 62,829                | 1.29                  | 20.2                               |
| Money market                          | 140,405               | 0.61                  | 22.1                               | 104,600               | 1.05                  | 21.2                               | 86,699                | 1.29                  | 27.8                               |
| Savings deposits                      | 87,604                | 0.77                  | 13.8                               | 80,704                | 1.22                  | 16.3                               | 47,628                | 1.47                  | 15.3                               |
| Time deposits of \$100,000 or more    | 103,222               | 2.32                  | 16.2                               | 76,934                | 2.13                  | 15.6                               | 43,127                | 2.30                  | 13.8                               |
| Other time deposits                   | <u>120,525</u>        | <u>1.93</u>           | <u>18.9</u>                        | <u>95,341</u>         | <u>1.83</u>           | <u>19.2</u>                        | <u>50,628</u>         | <u>2.31</u>           | <u>16.3</u>                        |
| Total                                 | <u>\$ 636,210</u>     | <u>1.17%</u>          | <u>100.0%</u>                      | <u>\$494,202</u>      | <u>1.39%</u>          | <u>100.0%</u>                      | <u>\$311,534</u>      | <u>1.54%</u>          | <u>100.0%</u>                      |

**Borrowings.** Borrowings increased from \$11.3 million at December 31, 2011 to \$28.2 million at December 31, 2012, an increase of \$16.9 million or 149%. This increase was due to increases of 31% and 5% in loans receivable, net and securities available for sale, respectively, from December 31, 2011 to December 31, 2012. The Bank utilizes its available capacity with FHLB-NY as an additional source of funding. The deposit growth experienced by the Bank during the year ended December 31, 2012 was not sufficient to fund our loan growth and investments in our securities available-for-sale, causing us to utilize our available capacity with the FHLB-NY in order to increase these interest-earning assets.

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.

**Accrued interest payable and other liabilities.** Accrued interest payable and other liabilities increased from \$3.6 million at December 31, 2011 to \$6.1 million at December 31, 2012, an increase of \$2.5 million or 68%. This increase was primarily attributable to an increase in accrued expenses and other liabilities of \$2.1 million and an increase of \$486,000 in income taxes payable. The increase in accrued expenses and other liabilities was primarily attributable to an increase in

securities purchased and not yet settled and an increase in loan participation payments payable. The increase in income taxes payable was attributable to a 124% increase in net income for the year ended December 31, 2012 compared to the prior year period.

**Stockholders' equity.** Stockholders' equity increased from \$54.3 million at December 31, 2011 to \$62.3 million at December 31, 2012, an increase of \$8.0 million or 15%. The increase in stockholders' equity was due to increases in retained earnings from current year net income and accumulated other comprehensive income from unrealized gains on securities-available-for-sale during the year ended December 31, 2012.

### **Comparison of Operating Results for the Years Ended December 31, 2012 and December 31, 2011**

**General.** Net income for the year ended December 31, 2012 was \$6.3 million, an increase of approximately \$3.5, or 124%, from \$2.8 million for the year ended December 31, 2011. 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 provision for loan losses increased \$8.4 million, or 52%, to \$24.5 million for the year ended December 31, 2012, compared to \$16.1 million for the year ended December 31, 2011. Our net interest margin on the average balance of interest-earning assets increased 24 basis points, to 3.72%, compared to 3.48% in the prior year. The average yield on interest-earning assets decreased slightly from 4.82% to 4.76%, when comparing the twelve months ended December 31, 2012 to the prior year period. The average cost of interest-bearing liabilities decreased 30 basis points. The average cost of interest-bearing liabilities for the years ending December 31, 2012 and 2011 was 1.20% and 1.50%, respectively.

**Total interest and dividend income.** Total interest and dividend income increased \$8.0 million, or 31%, to \$33.7 million for the year ended December 31, 2012, compared to \$25.7 million for the prior year. The improvement in interest income resulted primarily from an increase in the average balance of interest-earning assets as further discussed below.

Interest income and fees on loans increased \$7.6 million, or 36%, to \$29.1 million for the year ended December 31, 2012, compared to \$21.5 million for the prior year. The increase was primarily attributable to an increase in the average balance of loans of \$141.4 million from \$336.0 million in 2011 to \$477.4 million in 2012. This increase was partially offset by a decrease in the average yield on loans, year-over-year of 30 basis points. The increase in average loans was due to increased loan production. The decrease in the average yield on loans was due to lower interest rates on new loan production that was caused by the overall drop in market interest rates throughout the banking business sector.

Interest income on securities available-for-sale increased \$352,000, or 9%, to \$4.4 million for the year ended December 31, 2012, compared to \$4.0 million in the prior year. This increase was primarily attributable to a 20% increase in the average balance of securities available-for-sale from an average balance of \$177.5 million during the year ended December 31, 2011 to an average balance of \$212.5 during the twelve months ended December 31, 2012. This increase was partially offset by a 20 basis point decrease in the average yield for the year ended December 31, 2012 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, combined with our decision to utilize cash and FHLB-NY borrowings to fund additional interest-earning assets.

Interest income on securities held-to-maturity changed minimally during the year ended December 31, 2012 compared to prior year period. We continue to maintain our strategy 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 89,000 for the year ended December 31, 2012, compared to the prior year period. The increase was due to a 27% increase in average interest-bearing liabilities that was almost completely offset by a 30 basis point decline in our cost of interest-bearing liabilities.

Interest expense on deposits increased \$105,000, or 2%, to \$7.0 million in 2012, compared to \$6.9 million in 2011. Average interest-bearing deposits increased \$114.1 million, or 25%, to \$570.9 million for the year ended December 31, 2012, compared to \$456.8 million in 2011. The cost of interest-bearing deposits decreased 29 basis points from year to year. As the Bank worked to grow its total deposits during 2012 through organic growth and de novo branches, average interest-bearing and savings deposits, average money market deposits and average time deposits increased 13%, 34% and 32%, respectively,

for the year ended December 31, 2012 compared to the prior year period. The lower cost of interest-bearing deposits was reflective of the overall market trend as we lowered the rates we were willing to pay for deposits in order to alleviate pressure on the spread between the interest rate with which we earn income from interest-earning assets and the interest rate we pay for interest-bearing liabilities.

**Provision for Loan Losses.** The provision for loan losses decreased 409,000 or 17% to \$2.0 million in 2012 compared to \$2.4 million in the prior year. The decrease in the 2012 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 \$358,000 in 2012, compared to \$708,000 in 2011. 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 decreased approximately \$246,000, or 9%, to \$2.6 million in 2012, compared to \$2.8 million in the prior year. In 2012, non-interest income included gains of \$897,000 on sales of securities available-for-sale and \$1.2 million from service charges and other fees earned in the normal course of banking operations. In 2011, non-interest income included gains of \$2.0 million on sales of securities available-for-sale, \$594,000 from service charges and other fees earned in the normal course of banking operations, as well as nominal amounts of income from bank-owned life insurance. The increase in fees and service charges was primarily attributable to an increase in early loan payoff fees collected from borrowers who paid prepayment penalties in order to take advantage of lower interest rates.

**Non-Interest Expense.** Non-interest expense increased \$2.9 million, or 20%, to \$18.0 million in 2012, compared to \$15.1 million in the prior year. The increase was due to the growth the Bank experienced during 2012.

Salaries and employee benefits increased \$1.6 million, or 22%, to \$8.9 million in 2012, compared to \$7.3 million in the prior year. The increase in costs were related to an increase in overall FTEs associated with the growth of the bank, including additional branch openings.

Occupancy and equipment expenses increased approximately \$416,000, or 17%, to \$2.9 million in 2012 compared to \$2.5 million in the prior year. The increase was attributable to the costs associated with the opening of one new branch and the full-year impact of a branch that was opened in the fourth quarter of 2011.

Loss on other real estate owned increased to \$1.1 million in 2012 compared to approximately \$271,000 in the prior year. The increase was attributable to the write-down of two properties below their initial net realizable values.

All other non-interest expenses changed minimally during 2012 as we sought to manage our non-interest expenses and maintain our operating efficiency as we continue to organically grow the bank.

**Provision for Income Taxes.** The provision for income taxes increased \$1.6 million, or 153%, to \$2.7 million in 2012 compared to \$1.1 million in the prior year. The increase is primarily related to an increase of 132% in pre-tax income. The effective tax rate for 2012 was 30% compared to 27% for 2011.

**Average Balance Sheets.** The average yields and cost of funds 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, |                  |                    |                   |                  |                    |
|--|---------------------------------|------------------|--------------------|-------------------|------------------|--------------------|
|  | 2012                            |                  |                    | 2011              |                  |                    |
|  | Average Balance                 | Interest         | Average Yield/Cost | Average Balance   | Interest         | Average Yield/Cost |
| <b>Interest-earning assets:</b>  |                                 |                  |                    |                   |                  |                    |
| Loans receivable, net  | \$ 477,366                      | \$ 29,133        | 6.10%              | \$ 336,003        | \$ 21,488        | 6.40%              |
| Investment securities:   |                                 |                  |                    |                   |                  |                    |
| Available-for-sale   | 212,464                         | 4,369            | 2.06               | 177,498           | 4,017            | 2.26               |
| Held-to-maturity   | 922                             | 37               | 4.01               | 1,308             | 59               | 4.49               |
| Other interest-earning assets  | 17,362                          | 134              | 0.77               | 17,037            | 109              | 0.64               |
| Total interest-earning assets  | <u>708,114</u>                  | <u>33,673</u>    | 4.76               | <u>531,846</u>    | <u>25,673</u>    | 4.82               |
| Non-interest-earning assets  | 26,977                          |                  |                    | 30,072            |                  |                    |
| Total assets   | <u>\$ 735,091</u>               |                  |                    | <u>\$ 561,918</u> |                  |                    |
| <b>Interest-bearing liabilities:</b>   |                                 |                  |                    |                   |                  |                    |
| Demand, interest-bearing and savings deposits                                    | \$ 206,725                      | \$ 1,859         | 0.90               | \$ 183,238        | \$ 2,428         | 1.33               |
| Money market   | 140,405                         | 863              | 0.61               | 104,600           | 1,089            | 1.04               |
| Time deposits  | 223,747                         | 4,259            | 1.90               | 168,934           | 3,359            | 1.99               |
| Total interest-bearing deposits  | <u>570,877</u>                  | <u>6,981</u>     | 1.22               | <u>456,772</u>    | <u>6,876</u>     | 1.51               |
| Federal Home Loan Bank borrowings  | 34,273                          | 273              | 0.80               | 19,320            | 289              | 1.50               |
| Total interest-bearing liabilities   | <u>605,150</u>                  | <u>7,254</u>     | 1.20%              | <u>476,092</u>    | <u>7,165</u>     | 1.50%              |
| Non-interest-bearing liabilities   | <u>70,730</u>                   |                  |                    | <u>40,877</u>     |                  |                    |
| Total liabilities  | <u>675,880</u>                  |                  |                    | <u>516,969</u>    |                  |                    |
| Stockholders' equity   | <u>59,211</u>                   |                  |                    | <u>44,949</u>     |                  |                    |
| Total liabilities and stockholders' equity                                       | <u>\$ 735,091</u>               |                  |                    | <u>\$ 561,918</u> |                  |                    |
| Interest rate spread <sup>(1)</sup>  |                                 |                  | <u>3.56%</u>       |                   |                  | <u>3.32%</u>       |
| Net interest income  |                                 | <u>\$ 26,419</u> |                    |                   | <u>\$ 18,508</u> |                    |
| Net yield on interest-earning assets <sup>(2)</sup>                              |                                 |                  | <u>3.72%</u>       |                   |                  | <u>3.48%</u>       |
| Ratio of average interest-earning assets to average interest-bearing liabilities |                                 |                  | <u>1.17x</u>       |                   |                  | <u>1.18x</u>       |

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

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

| (in thousands)  | <b>For the Year Ended December 31,</b> |                  |                               |
|---|--|------------------|-------------------------------|
|   | <b>2010</b>                            |                  |                               |
|   | <b>Average<br/>Balance</b>             | <b>Interest</b>  | <b>Average<br/>Yield/Cost</b> |
| <b>Interest-earning assets:</b>   |  |                  |                               |
| Loans receivable, net   | \$ 200,670                             | \$ 13,007        | 6.48 %                        |
| Investment securities:  |  |                  |                               |
| Available-for-sale  | 99,371                                 | 2,892            | 2.91                          |
| Held-to-maturity  | 4,778                                  | 205              | 4.30                          |
| Other interest-earning assets   | <u>32,649</u>                          | <u>97</u>        | 0.30                          |
| Total interest-earning assets   | <u>337,468</u>                         | <u>16,201</u>    | 4.80                          |
| Non-interest-earning assets   | <u>15,915</u>                          |                  |                               |
| Total assets  | <u>\$ 353,383</u>                      |                  |                               |
| <b>Interest-bearing liabilities:</b>  |  |                  |                               |
| Demand, interest-bearing<br>and savings deposits  | \$ 106,522                             | \$ 1,483         | 1.39                          |
| Money market  | 83,718                                 | 1,118            | 1.34                          |
| Time deposits   | <u>90,916</u>                          | <u>2,187</u>     | 2.41                          |
| Total interest-bearing deposits   | 281,156                                | 4,788            | 1.70                          |
| Federal Home Loan Bank<br>borrowings  | <u>15,204</u>                          | <u>342</u>       | 2.25                          |
| Total interest-bearing<br>liabilities   | <u>296,360</u>                         | <u>5,130</u>     | 1.73 %                        |
| Non-interest-bearing liabilities  | <u>22,157</u>                          |                  |                               |
| Total liabilities   | <u>318,517</u>                         |                  |                               |
| Stockholders' equity  | <u>34,866</u>                          |                  |                               |
| Total liabilities and<br>stockholders' equity   | <u>\$ 353,383</u>                      |                  |                               |
| Interest rate spread <sup>(1)</sup>   |  |                  | <u>3.07 %</u>                 |
| Net interest income   |  | <u>\$ 11,071</u> |                               |
| Net yield on interest-<br>earning assets <sup>(2)</sup>                                 |  |                  | <u>3.28 %</u>                 |
| Ratio of average interest-<br>earning assets to average<br>interest-bearing liabilities |  |                  | <u>1.14x</u>                  |

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

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

## 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,<br>2012 vs. 2011 |                   |                 | Year Ended December 31,<br>2011 vs. 2010 |                 |                 |
|--------------------------------------|--|-------------------|-----------------|--|-----------------|-----------------|
|                                      | Increase (Decrease) Due to               |                   |                 | Increase (Decrease) Due to               |                 |                 |
|                                      | Volume                                   | Rate              | Net             | Volume                                   | Rate            | Net             |
| Interest and dividend income:        |  |                   |                 |  |                 |                 |
| Loans receivable                     | \$ 8,627                                 | \$ (982)          | \$ 7,645        | \$ 8,686                                 | \$ (205)        | \$ 8,481        |
| Investment securities:               |  |                   |                 |  |                 |                 |
| Available-for-sale                   | 854                                      | (502)             | 352             | 1,772                                    | (647)           | 1,125           |
| Held-to-maturity                     | (15)                                     | (7)               | (22)            | (156)                                    | 10              | (146)           |
| Other interest-earnings assets       | 2  | 23                | 25              | (146)                                    | 158             | 12              |
| Total interest-earning assets        | <u>\$ 9,468</u>                          | <u>\$ (1,468)</u> | <u>\$ 8,000</u> | <u>\$ 10,156</u>                         | <u>\$ (684)</u> | <u>\$ 9,472</u> |
| Interest expense:                    |  |                   |                 |  |                 |                 |
| Demand, interest-bearing and savings | \$ 211                                   | \$ (780)          | \$ (569)        | \$ 967                                   | \$ (60)         | \$ 907          |
| Money market                         | 220                                      | (446)             | (226)           | 220                                      | (236)           | (16)            |
| Time deposits                        | 1,044                                    | (144)             | 900             | 1,619                                    | (422)           | 1,197           |
| Federal Home Loan Bank borrowings    | 119                                      | (135)             | (16)            | 25                                       | (78)            | (53)            |
| Total interest-bearing liabilities   | <u>\$ 1,594</u>                          | <u>\$ (1,505)</u> | <u>\$ 89</u>    | <u>\$ 2,831</u>                          | <u>\$ (796)</u> | <u>\$ 2,035</u> |
| Change in net interest income        | <u>\$ 7,874</u>                          | <u>\$ 37</u>      | <u>\$ 7,911</u> | <u>\$ 7,325</u>                          | <u>\$ 112</u>   | <u>\$ 7,437</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 FHLB-NY. At December 31, 2012, we had \$22.2 million of advances outstanding from the FHLB-NY and \$6.0 million of advances outstanding from the FHLB-Pittsburgh. At December 31, 2012, we had available capacity with FHLB-NY, subject

to certain collateral restrictions, of \$380.4 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, 2012, 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, 2012:

| Years Ended December 31:        | (in thousands)  |
|---------------------------------|-----------------|
| 2013                            | \$ 1,197        |
| 2014                            | 1,208           |
| 2015                            | 1,195           |
| 2016                            | 995             |
| 2017                            | 707             |
| Thereafter                      | 1,437           |
| Total minimum payments required | <u>\$ 6,739</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, 2012, we met the capital requirements to be considered “well capitalized”. See Note 16 - 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>2012</u>      | <u>2011</u>      |
|--|------------------|------------------|
| Performance and standby letters of credit  | \$ 2,378         | \$ 2,367         |
| Commitments to grant loans                 | 67,317           | 57,563           |
| Unfunded commitments under lines of credit | <u>9,260</u>     | <u>6,767</u>     |
|  | <u>\$ 78,955</u> | <u>\$ 66,697</u> |



For additional information regarding our outstanding lending commitments at December 31, 2012, see Note 11 – Commitments and Contingencies in the Notes to 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, 2012, 2011 and 2010.

|                                  | <u>2012</u> | <u>2011</u> | <u>2010</u> |
|----------------------------------|-------------|-------------|-------------|
| Return on Average Assets (ROA)   | 0.86%       | 0.50%       | 0.62%       |
| Return on Average Equity (ROE)   | 10.66%      | 6.15%       | 6.78%       |
| Average Equity to Average Assets | 8.05%       | 8.13%       | 9.46%       |

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, 2012, 2011 and 2010.

### 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. Generally, 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 when 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, 2012 and 2011. 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**

See Note 1 to the Consolidated Financial Statements contained in this Annual Report on Form 10-K for a discussion of recently issued accounting standards.

### **Item 7A. Quantitative and Qualitative Disclosures About Market Risk**

As a smaller reporting company, the Bank 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, 2012 AND 2011**

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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, 2012 and 2011, and the related consolidated statements of income, comprehensive income, 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, 2012 and 2011, 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 21, 2013

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

|  | December 31, |            |
|--|--------------|------------|
|  | 2012         | 2011       |
| <b>ASSETS</b>  |              |            |
| Cash and due from banks  | \$ 24,619    | \$ 18,015  |
| Federal funds sold   | -            | 41,200     |
|  | 24,619       | 59,215     |
| Cash and cash equivalents  | 24,619       | 59,215     |
| Securities available-for-sale at fair value  | 186,041      | 176,163    |
| Securities held-to-maturity (fair value of \$643 and \$1,166, respectively)  | 600          | 1,074      |
| Loans receivable, net of allowance for loan losses of \$7,033 and \$5,362 at December 31, 2012 and 2011, respectively                                    | 532,115      | 405,861    |
| Bank-owned life insurance  | 8,918        | 8,639      |
| Other real estate owned  | 1,550        | 919        |
| Premises and equipment, net  | 5,841        | 5,165      |
| Accrued interest receivable and other assets   | 9,318        | 7,835      |
|  | \$ 769,002   | \$ 664,871 |
| <b>TOTAL ASSETS</b>  |              |            |
| <br><b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>  |              |            |
| <b>LIABILITIES:</b>  |              |            |
| <b>Deposits:</b>   |              |            |
| Non-interest-bearing   | \$ 76,793    | \$ 46,385  |
| Interest-bearing   | 595,571      | 549,188    |
| Total deposits   | 672,364      | 595,573    |
| Borrowings   | 28,246       | 11,344     |
| Accrued interest payable and other liabilities   | 6,109        | 3,636      |
| <b>TOTAL LIABILITIES</b>   | 706,719      | 610,553    |
| <br><b>STOCKHOLDERS' EQUITY:</b>   |              |            |
| Common stock, \$5.00 par value, 10,000,000 authorized, 4,578,569 and 4,578,330 shares issued and outstanding at December 31, 2012 and 2011, respectively | 22,893       | 22,892     |
| Paid-in capital  | 28,539       | 28,182     |
| Retained earnings  | 7,457        | 1,146      |
| Accumulated other comprehensive income   | 3,394        | 2,098      |
| <b>TOTAL STOCKHOLDERS' EQUITY</b>  | 62,283       | 54,318     |
|  | \$ 769,002   | \$ 664,871 |
| <b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>  |              |            |

*See notes to consolidated financial statements.*

**THE BANK OF PRINCETON**  
**CONSOLIDATED STATEMENTS OF INCOME**  
(in thousands, except per share data)

|  | <b>For the Years ended<br/>December 31,</b> |                 |
|--|---|-----------------|
|  | <b>2012</b>                                 | <b>2011</b>     |
| <b>INTEREST AND DIVIDEND INCOME</b>                        |   |                 |
| Loans receivable, including fees                           | \$ 29,133                                   | \$ 21,488       |
| Available-for-sale debt securities:                        |   |                 |
| Taxable  | 2,660                                       | 3,025           |
| Tax-exempt   | 1,709                                       | 992             |
| Held-to-maturity debt securities                           | 37  | 59              |
| Other interest and dividend income                         | 134   | 109             |
| <b>TOTAL INTEREST AND DIVIDEND INCOME</b>                  | <u>33,673</u>                               | <u>25,673</u>   |
| <b>INTEREST EXPENSE</b>                                    |   |                 |
| Deposits   | 6,981                                       | 6,876           |
| Borrowings   | 273   | 289             |
| <b>TOTAL INTEREST EXPENSE</b>                              | <u>7,254</u>                                | <u>7,165</u>    |
| <b>NET INTEREST INCOME</b>                                 | 26,419                                      | 18,508          |
| Provision for loan losses                                  | 1,968                                       | 2,377           |
| <b>NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES</b> | <u>24,451</u>                               | <u>16,131</u>   |
| <b>NON-INTEREST INCOME</b>                                 |   |                 |
| Gain on sale of securities available-for-sale, net         | 897   | 1,976           |
| Income from bank-owned life insurance                      | 279   | 255             |
| Fees and service charges                                   | 1,197                                       | 594             |
| Other income   | 211   | 5               |
| <b>TOTAL NON-INTEREST INCOME</b>                           | <u>2,584</u>                                | <u>2,830</u>    |
| <b>NON-INTEREST EXPENSE</b>                                |   |                 |
| Salaries and employee benefits                             | 8,879                                       | 7,254           |
| Occupancy and equipment                                    | 2,873                                       | 2,457           |
| Professional fees  | 1,373                                       | 1,319           |
| Data processing and communications                         | 1,237                                       | 1,153           |
| Federal deposit insurance                                  | 586   | 616             |
| Advertising and promotion                                  | 296   | 318             |
| Office expense   | 281   | 312             |
| Other real estate owned expense, net                       | 1,137                                       | 271             |
| Loss on disposal of premises and equipment                 | 58  | 112             |
| Other  | 1,319                                       | 1,273           |
| <b>TOTAL NON-INTEREST EXPENSE</b>                          | <u>18,039</u>                               | <u>15,085</u>   |
| <b>INCOME BEFORE INCOME TAX EXPENSE</b>                    | 8,996                                       | 3,876           |
| <b>INCOME TAX EXPENSE</b>                                  | 2,685                                       | 1,063           |
| <b>NET INCOME</b>  | <u>\$ 6,311</u>                             | <u>\$ 2,813</u> |
| Earnings per common share-basic                            | \$ 1.38                                     | \$ 0.69         |
| Earnings per common share-diluted                          | \$ 1.36                                     | \$ 0.68         |

*See notes to consolidated financial statements.*

**THE BANK OF PRINCETON**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
(in thousands)

|   | <b>For the Years ended<br/>December 31,</b> |                 |
|---|---|-----------------|
|   | <b>2012</b>                                 | <b>2011</b>     |
| NET INCOME  | \$ 6,311                                    | \$ 2,813        |
| Other comprehensive income  |   |                 |
| Unrealized holding gains arising during period on securities available-<br>for-sale | 2,557                                       | 4,626           |
| Less: reclassification adjustment for gains included in net income                  | (897)                                       | (1,976)         |
| Income tax effect   | (364)                                       | (901)           |
| Total other comprehensive income  | 1,296                                       | 1,749           |
| <b>COMPREHENSIVE INCOME</b>   | <b>\$ 7,607</b>                             | <b>\$ 4,562</b> |

*See notes to consolidated financial statements.*

**THE BANK OF PRINCETON**  
**CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**  
**For the Years Ended December 31, 2012 and 2011**  
(in thousands, except share data)

|  | <u>Common stock</u> | <u>Paid-in capital</u> | <u>Retained earnings<br/>(accumulated<br/>deficit)</u> | <u>Accumulated<br/>other<br/>comprehensive<br/>income</u> | <u>Total</u>     |
|--|---------------------|------------------------|--|---|------------------|
| <b>Balance, December 31, 2010</b>  | \$ 19,761           | \$ 22,515              | \$ (1,667)   | \$ 349  | \$ 40,958        |
| Net income   | -                   | -                      | 2,813  | -   | 2,813            |
| Other comprehensive income   | -                   | -                      | -  | 1,749   | 1,749            |
| Sale of common stock (621,862<br>shares at \$13.75 per share)                                      | 3,109               | 5,441                  | -  | -   | 8,550            |
| Stock options exercised (4,283 shares<br>at \$10.48 per share)                                     | 22                  | 23                     | -  | -   | 45               |
| Stock-based compensation expense   | -                   | 203                    | -  | -   | 203              |
| <b>Balance, December 31, 2011</b>  | <u>22,892</u>       | <u>28,182</u>          | <u>1,146</u>   | <u>2,098</u>  | <u>54,318</u>    |
| Net income   | -                   | -                      | 6,311  | -   | 6,311            |
| Other comprehensive income   | -                   | -                      | -  | 1,296   | 1,296            |
| Stock options exercised (140 shares<br>at \$10.50 per share and 99 shares<br>at \$12.00 per share) | 1                   | 2                      | -  | -   | 3                |
| Stock-based compensation expense   | -                   | 355                    | -  | -   | 355              |
| <b>Balance, December 31, 2012</b>  | <u>\$ 22,893</u>    | <u>\$ 28,539</u>       | <u>\$ 7,457</u>  | <u>\$ 3,394</u>   | <u>\$ 62,283</u> |

*See notes to consolidated financial statements.*



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

|   | <b>For the Years ended December 31,</b> |                  |
|---|---|------------------|
|   | <b>2012</b>                             | <b>2011</b>      |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                                       |   |                  |
| Net income  | \$ 6,311                                | \$ 2,813         |
| Adjustments to reconcile net income to net cash provided by operating activities: |   |                  |
| Provision for loan losses   | 1,968                                   | 2,377            |
| Depreciation and amortization   | 830                                     | 742              |
| Stock-based compensation  | 355                                     | 203              |
| Amortization of premiums and accretion of discounts on securities                 | (964)                                   | 1,731            |
| Accretion of net deferred loan fees and costs                                     | 497                                     | (1,068)          |
| Amortization of premiums and accretion of discounts on deposits                   | 59                                      | 97               |
| Amortization of premiums on borrowings  | (36)                                    | (82)             |
| Net realized gains on sale of securities available-for-sale                       | (897)                                   | (1,976)          |
| Increase in cash surrender value of bank-owned life insurance                     | (279)                                   | (255)            |
| Loss on disposition of premises and equipment                                     | 58                                      | 112              |
| Increase in deferred income taxes   | (916)                                   | (430)            |
| Net loss on other real estate owned   | 928                                     | 197              |
| Amortization of core deposit intangible   | 125                                     | 126              |
| (Increase) decrease in accrued interest receivable and other assets               | (172)                                   | 327              |
| Increase in accrued interest payable and other liabilities                        | 1,862                                   | 1,209            |
| <b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>                                  | <b>9,729</b>                            | <b>6,123</b>     |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                                       |   |                  |
| Purchases of available-for-sale securities  | (101,952)                               | (146,197)        |
| Maturities, calls and principal repayments of available-for-sale securities       | 51,155                                  | 56,799           |
| Proceeds from sale of available-for-sale securities                               | 45,040                                  | 75,740           |
| Proceeds on sale of other real estate owned                                       | 796                                     | 203              |
| Maturities, calls and principal repayments of held-to-maturity securities         | 483                                     | 312              |
| Net increase in loans   | (131,072)                               | (125,777)        |
| Purchases of bank-owned life insurance  | -                                       | (2,352)          |
| Purchases of premises and equipment   | (1,565)                                 | (1,866)          |
| Purchases of restricted bank stock  | (884)                                   | (16)             |
| <b>NET CASH USED IN INVESTING ACTIVITIES</b>                                      | <b>(137,999)</b>                        | <b>(143,154)</b> |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                                       |   |                  |
| Net increase in deposits  | 76,733                                  | 169,663          |
| Net proceeds (repayments) of overnight borrowings                                 | 22,200                                  | (1,044)          |
| Repayments of term borrowings   | (5,262)                                 | (6,588)          |
| Proceeds from issuance of common stock  | -                                       | 8,550            |
| Proceeds from exercise of stock options   | 3                                       | 45               |
| <b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>                                  | <b>93,674</b>                           | <b>170,626</b>   |
| <b>NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>                       | <b>(34,596)</b>                         | <b>33,595</b>    |
| <b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>                             | <b>59,215</b>                           | <b>25,620</b>    |
| <b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>                                   | <b>\$ 24,619</b>                        | <b>\$ 59,215</b> |

*See notes to consolidated financial statements.*

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

**SUPPLEMENTARY CASH FLOWS INFORMATION:**

|                   |    |       |    |       |
|-------------------|----|-------|----|-------|
| Interest paid     | \$ | 7,349 | \$ | 6,594 |
| Income taxes paid | \$ | 3,112 | \$ | 1,419 |

**SUPPLEMENTARY SCHEDULE OF NONCASH ACTIVITIES:**

|   |    |       |    |     |
|---|----|-------|----|-----|
| Transfers from loans receivable, net to other real estate owned | \$ | 2,355 | \$ | 179 |
| Securities purchased and not yet settled                        | \$ | 610   |    | -   |

*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”) 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 twelve 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, 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, 2012, the Bank had 110 full-time employees and 12 part-time employees. The Bank maintains a website at [www.thebankofprinceton.com](http://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, 2012 and 2011. 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.

**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, 2012 and 2011. 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") quarterly, 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 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. 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

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

**Note 1 – Summary of Significant Accounting Policies (Continued)**

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 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.

**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

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

**Note 1 – Summary of Significant Accounting Policies (Continued)**

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 Bank 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 Bank'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.

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

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

**Note 1 – Summary of Significant Accounting Policies (Continued)**

underlying property may be adversely affected by higher interest rates. Repayment risk can be affected by job loss, divorce, illness and personal bankruptcy of 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 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 OF PRINCETON**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Note 1 – Summary of Significant Accounting Policies (Continued)**

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.

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.



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

**Note 1 – Summary of Significant Accounting Policies (Continued)**

**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 \$2,221,000 and \$1,338,000 is carried at cost at December 31, 2012 and 2011, 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, 2012 and 2011.

Management believes no impairment charge is necessary related to the FHLB restricted stock or the ACBB restricted stock as of December 31, 2012 or 2011.

**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 \$356,000 and \$481,000 as of December 31, 2012 and 2011, respectively. Amortization expense is anticipated to be approximately \$126,000 in 2013, \$114,000 in 2014 and approximately \$9,000 in 2015 and 2016, respectively.

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

**Note 1 – Summary of Significant Accounting Policies (Continued)**

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, 2012 and 2011.

**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, 2012 and 2011. 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, 2012, tax years 2009 through 2011 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 sponsors 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 year ended December 31, 2012, the Bank contributed \$32,000 in matching contributions to employees. During the year ended December 31, 2011, no matching contributions were made.

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

**Note 1 – Summary of Significant Accounting Policies (Continued)**

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 stock options and warrants. Diluted earnings per share amounts include the dilutive effects of stock 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, 2012 have been reclassified to conform to the current year's presentation. These reclassifications did not have any impact on stockholders' equity or net income.

**Recently issued accounting standards**

In February 2013, the FASB issued ASU 2013-02, Reporting of Amounts Reclassified Out of Comprehensive Income. The amendments in this ASU are intended to improve the reporting of reclassifications out of accumulated other comprehensive income by requiring an entity to report the effect of significant reclassifications out of accumulated other comprehensive income on the respective line items in net income if the amount being reclassified is required to be reclassified in its entirety to net income. For other amounts that are not required to be reclassified in their entirety to net income in the same reporting period, an entity is required to cross-reference other disclosures required that provide additional detail about those amounts. This would be the case when a portion of the amount reclassified out of accumulated other comprehensive income is reclassified to a balance sheet account instead of directly to income or expense in the same reporting period. The ASU is effective for public entities for reporting periods beginning after December 15, 2012. The Bank is evaluating the impact of the ASU, but does not expect a material impact on the financial statements.

**Note 2 – 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.

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

**Note 3 – Earnings Per Share**

The following schedule presents earnings per share data for the years ended December 31, 2012 and 2011:

|  | <b>Twelve months ended<br/>December 31,</b> |                |
|--|---|----------------|
|  | <b>2012</b>                                 | <b>2011</b>    |
|  | (in thousands, except per share data)       |                |
| Net income applicable to common stock                        | \$ 6,311                                    | \$ 2,813       |
| Weighted average number of common shares outstanding         | 4,578                                       | 4,103          |
| <b>Basic earnings per share</b>                              | <b>\$ 1.38</b>                              | <b>\$ 0.69</b> |
| <br>   |   |                |
| Net income applicable to common stock                        | \$ 6,311                                    | \$ 2,813       |
| Weighted average number of common shares outstanding         | 4,578                                       | 4,103          |
| Dilutive effect of potential common shares                   | 63  | 52             |
| Weighted average number of diluted common shares outstanding | 4,641                                       | 4,155          |
| <b>Diluted earnings per share</b>                            | <b>\$ 1.36</b>                              | <b>\$ 0.68</b> |

Options and warrants to purchase 286,377 shares of common stock at a weighted average exercise price of \$10.73 were included in the computation of diluted earnings per share for the year ended December 31, 2012. Options to purchase 198,800 shares of common stock at a weighted average exercise price of \$16.67 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 year ended December 31, 2012.

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 year 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 year ended December 31, 2011.

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

**Note 4 – Investment Securities**

The following summarizes the amortized cost and estimated fair value of securities available-for-sale at December 31, 2012 and 2011 with gross unrealized gains and losses therein:

|   | <b>December 31, 2012</b>  |                                       |  |                   |
|---|---------------------------|---------------------------------------|--|-------------------|
|   | <b>Amortized<br/>Cost</b> | <b>Gross<br/>Unrealized<br/>Gains</b> | <b>Gross<br/>Unrealized<br/>Losses</b> | <b>Fair Value</b> |
|   | (in thousands)            |                                       |  |                   |
| <b>Available-for-sale:</b>                      |                           |                                       |  |                   |
| U.S. Treasury securities                        | \$ 27,330                 | \$ 951                                | \$ (13)                                | \$ 28,268         |
| Mortgage-backed securities-U.S.                 |                           |                                       |  |                   |
| Government Sponsored Enterprises (GSE's)        | 88,340                    | 2,550                                 | (3)                                    | 90,887            |
| Obligations of state and political subdivisions | 65,532                    | 1,477                                 | (123)                                  | 66,886            |
|   | <u>\$ 181,202</u>         | <u>\$ 4,978</u>                       | <u>\$ (139)</u>                        | <u>\$ 186,041</u> |

|   | <b>December 31, 2011</b>  |                                       |  |                   |
|---|---------------------------|---------------------------------------|--|-------------------|
|   | <b>Amortized<br/>Cost</b> | <b>Gross<br/>Unrealized<br/>Gains</b> | <b>Gross<br/>Unrealized<br/>Losses</b> | <b>Fair Value</b> |
|   | (in thousands)            |                                       |  |                   |
| <b>Available-for-sale:</b>                      |                           |                                       |  |                   |
| 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> |

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, 2012 are as follows:

|   | <b>Less than 12 Months</b> |                              | <b>More than 12 Months</b> |                              | <b>Total</b>          |                              |
|---|----------------------------|------------------------------|----------------------------|------------------------------|-----------------------|------------------------------|
|   | <b>Fair<br/>Value</b>      | <b>Unrealized<br/>Losses</b> | <b>Fair<br/>Value</b>      | <b>Unrealized<br/>Losses</b> | <b>Fair<br/>Value</b> | <b>Unrealized<br/>Losses</b> |
|   | (in thousands)             |                              |                            |                              |                       |                              |
| <b>December 31, 2012:</b>                       |                            |                              |                            |                              |                       |                              |
| Mortgage-backed securities-U.S.                 |                            |                              |                            |                              |                       |                              |
| Government Sponsored Enterprises (GSE's)        | \$ -                       | \$ -                         | \$ 349                     | \$ (3)                       | \$ 349                | \$ (3)                       |
| Obligations of state and political subdivisions | 9,738                      | (123)                        | -                          | -                            | 9,738                 | (123)                        |
| US Treasury securities                          | 4,945                      | (13)                         | -                          | -                            | 4,945                 | (13)                         |
|   | <u>\$ 14,683</u>           | <u>\$ (136)</u>              | <u>\$ 349</u>              | <u>\$ (3)</u>                | <u>\$ 15,032</u>      | <u>\$ (139)</u>              |

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

**Note 4 – 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, 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)      |                   |                     |                   |            |                   |
| <b>December 31, 2011:</b>                       |                     |                   |                     |                   |            |                   |
| 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)              |
|   | \$ 11,416           | \$ (107)          | \$ 3,118            | \$ (23)           | \$ 14,534  | \$ (130)          |

At December 31, 2012, the Bank's debt securities portfolio consisted of approximately 277 securities, of which 46 were in an unrealized loss position for less than twelve months and one was in a continuous loss position for more than twelve months. No OTTI charges were recorded for the twelve months ended December 31, 2012. 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, 2012 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                | \$ 662         | \$ 664     |
| Due after one year through five years  | 3,195          | 3,248      |
| Due after five years through ten years | 66,246         | 68,216     |
| Due after ten years                    | 111,099        | 113,913    |
| Total                                  | \$ 181,202     | \$ 186,041 |

The following summarizes the amortized cost and estimated fair value of securities held-to-maturity at December 31, 2012 with gross unrealized gains and losses therein:

|  | December 31, 2012 |                        |                         |            |
|--|-------------------|------------------------|-------------------------|------------|
|  | Amortized Cost    | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|  |                   | (in thousands)         |                         |            |
| <b>Held-to-maturity:</b>                 |                   |                        |                         |            |
| Mortgage-backed securities-U.S.          |                   |                        |                         |            |
| Government Sponsored Enterprises (GSE's) | \$ 600            | \$ 43                  | \$ -                    | \$ 643     |

All securities held-to-maturity are due after ten years.

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

**Note 4 – Investment Securities (Continued)**

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

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

Proceeds from the sale of securities available-for-sale amounted to \$45.0 million for year ended December 31, 2012, which included realized gains of approximately \$957,000 and realized losses of approximately \$60,000. Proceeds from the sale of securities available-for-sale amounted to \$75.7 million for the year ended December 31, 2011, which included realized gains of approximately \$2.0 million and realized losses of approximately \$6,000.

Approximately \$2.1 million of securities available-for-sale were pledged as collateral for Federal Home Loan Bank of Pittsburgh borrowings at December 31, 2012. Approximately \$95.7 million of securities available-for-sale and \$643,000 of securities held-to-maturity were pledged as collateral for NJ Governmental Unit Deposit Protection Act (“GUDPA”) deposits at December 31, 2012. Approximately \$2.0 million of securities available-for-sale were pledged as collateral for business sweep accounts at December 31, 2012.

**Note 5 – Loans Receivable**

Loans receivable, net at December 31, 2012 and 2011 were comprised of the following:

|                                 | <b>December 31,<br/>2012</b> | <b>December 31,<br/>2011</b> |
|---------------------------------|------------------------------|------------------------------|
|                                 | (in thousands)               |                              |
| Commercial real estate          | \$ 317,946                   | \$ 233,504                   |
| Commercial and industrial       | 103,627                      | 85,527                       |
| Construction                    | 62,702                       | 56,453                       |
| Residential first-lien mortgage | 29,127                       | 15,396                       |
| Home equity                     | 25,617                       | 19,341                       |
| Consumer                        | 1,480                        | 1,957                        |
| Total loans                     | 540,499                      | 412,178                      |
| Deferred fees and costs         | (1,351)                      | (955)                        |
| Allowance for loan losses       | (7,033)                      | (5,362)                      |
| Loans, net                      | \$ 532,115                   | \$ 405,861                   |

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

**Note 5 – Loans Receivable (Continued)**

The following table presents nonaccrual loans by classes of the loan portfolio as of December 31, 2012 and 2011:

|                                 | <b>December 31,<br/>2012</b> | <b>December 31,<br/>2011</b> |
|---------------------------------|------------------------------|------------------------------|
|                                 | (in thousands)               |                              |
| Commercial real estate          | \$ 2,690                     | \$ 5,229                     |
| Commercial and industrial       | 4,596                        | 2,135                        |
| Construction                    | 892                          | 892                          |
| Residential first-lien mortgage | -                            | -                            |
| Home equity                     | 359                          | 456                          |
| Consumer                        | 11                           | -                            |
| <b>Total</b>                    | <b>\$ 8,548</b>              | <b>\$ 8,712</b>              |

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 5 – 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, 2012 and the year then ended:

|                                     | <u>Unpaid<br/>Principal<br/>Balance</u> | <u>Recorded<br/>Investment</u> | <u>Related<br/>Allowance</u><br>(in thousands) | <u>Average<br/>Recorded<br/>Investment</u> | <u>Interest<br/>Income<br/>Recognized</u> |
|-------------------------------------|---|--------------------------------|--|--|---|
| With no related allowance recorded: |   |                                |  |  |   |
| Commercial real estate              | \$ 3,646                                | 2,697                          | \$ -   | \$ 2,658                                   | \$ -                                      |
| Commercial and industrial           | 2,857                                   | 2,629                          | -  | 1,621                                      | -   |
| Construction                        | 3,004                                   | 2,877                          | -  | 2,881                                      | 86  |
| Residential first-lien mortgage     | -                                       | -                              | -  | -  | -   |
| Home equity                         | 829                                     | 805                            | -  | 780  | 5   |
| Consumer                            | 12                                      | 11                             | -  | 11   | -   |
|                                     | <u>10,348</u>                           | <u>9,019</u>                   | <u>-</u>                                       | <u>7,951</u>                               | <u>91</u>                                 |
| With an allowance recorded:         |   |                                |  |  |   |
| Commercial real estate              | -                                       | -                              | -  | -  | -   |
| Commercial and industrial           | 2,183                                   | 1,985                          | 255  | 2,082                                      | -   |
| Construction                        | -                                       | -                              | -  | -  | -   |
| Residential first-lien mortgage     | -                                       | -                              | -  | -  | -   |
| Home equity                         | -                                       | -                              | -  | -  | -   |
| Consumer                            | -                                       | -                              | -  | -  | -   |
|                                     | <u>2,183</u>                            | <u>1,985</u>                   | <u>255</u>                                     | <u>2,082</u>                               | <u>-</u>                                  |
| Total:                              |   |                                |  |  |   |
| Commercial real estate              | 3,646                                   | 2,697                          | -  | 2,658                                      | -   |
| Commercial and industrial           | 5,040                                   | 4,614                          | 255  | 3,703                                      | -   |
| Construction                        | 3,004                                   | 2,877                          | -  | 2,881                                      | 86  |
| Residential first-lien mortgage     | -                                       | -                              | -  | -  | -   |
| Home equity                         | 829                                     | 805                            | -  | 780  | 5   |
| Consumer                            | 12                                      | 11                             | -  | 11   | -   |
|                                     | <u>\$ 12,531</u>                        | <u>\$ 11,004</u>               | <u>\$ 255</u>                                  | <u>\$ 10,033</u>                           | <u>\$ 91</u>                              |

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

**Note 5 – 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<br/>Principal<br/>Balance</u> | <u>Recorded<br/>Investment</u> | <u>Related<br/>Allowance</u><br>(in thousands) | <u>Average<br/>Recorded<br/>Investment</u> | <u>Interest<br/>Income<br/>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>                             |

At December 31, 2012, thirteen loans totaling \$5.8 million were considered troubled debt restructurings and classified as impaired. Troubled debt restructurings of \$2.4 million were performing in accordance with their modified terms at December 31, 2012. The remaining \$3.4 million of troubled debt restructurings were on non-accrual status at December 31, 2012.

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.

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

**Note 5 – 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, 2012:

|                                 | <u>30-59<br/>Days Past<br/>Due</u> | <u>60-89<br/>Days Past<br/>Due</u> | <u>Greater<br/>than<br/>90 days</u> | <u>Total<br/>Past<br/>Due</u> | <u>Current</u>    | <u>Total<br/>Loans<br/>Receivable</u> | <u>Loans<br/>Receivable<br/>&gt;90 Days<br/>and<br/>Accruing</u> |
|---------------------------------|------------------------------------|------------------------------------|-------------------------------------|-------------------------------|-------------------|---------------------------------------|--|
|                                 | (in thousands)                     |                                    |                                     |                               |                   |                                       |  |
| Commercial real estate          | \$ 988                             | \$ -                               | \$ 2,515                            | \$ 3,503                      | \$ 314,443        | \$ 317,946                            | \$ -   |
| Commercial and industrial       | 305                                | 1,095                              | 3,335                               | 4,735                         | 98,892            | 103,627                               | -  |
| Construction                    | -                                  | 2,840                              | 892                                 | 3,732                         | 58,970            | 62,702                                | -  |
| Residential first-lien mortgage | -                                  | -                                  | -                                   | -                             | 29,127            | 29,127                                | -  |
| Home equity                     | -                                  | -                                  | 147                                 | 147                           | 25,470            | 25,617                                | -  |
| Consumer                        | 12                                 | -                                  | -                                   | 12                            | 1,468             | 1,480                                 | -  |
| Total                           | <u>\$ 1,305</u>                    | <u>\$ 3,935</u>                    | <u>\$ 6,889</u>                     | <u>\$ 12,129</u>              | <u>\$ 528,370</u> | <u>\$ 540,499</u>                     | <u>\$ -</u>  |

The following table presents the classes of the loan portfolio summarized by the past due status as of December 31, 2011:

|                                 | <u>30-59<br/>Days Past<br/>Due</u> | <u>60-89<br/>Days Past<br/>Due</u> | <u>Greater<br/>than<br/>90 days</u> | <u>Total<br/>Past<br/>Due</u> | <u>Current</u>    | <u>Total<br/>Loans<br/>Receivable</u> | <u>Loans<br/>Receivable<br/>&gt;90 Days<br/>and<br/>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 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, 2012:

|                                 | <u>Pass</u>       | <u>Special<br/>Mention</u> | <u>Substandard</u> | <u>Doubtful</u> | <u>Total</u>      |
|---------------------------------|-------------------|----------------------------|--------------------|-----------------|-------------------|
|                                 | (in thousands)    |                            |                    |                 |                   |
| Commercial real estate          | \$ 310,212        | \$ 4,221                   | \$ 3,420           | \$ 93           | \$ 317,946        |
| Commercial and industrial       | 98,484            | 290                        | 4,853              | -               | 103,627           |
| Construction                    | 59,841            | -                          | 2,861              | -               | 62,702            |
| Residential first-lien mortgage | 29,127            | -                          | -                  | -               | 29,127            |
| Home equity                     | 25,153            | -                          | 464                | -               | 25,617            |
| Consumer                        | 1,468             | -                          | 12                 | -               | 1,480             |
| Total                           | <u>\$ 524,285</u> | <u>\$ 4,511</u>            | <u>\$ 11,610</u>   | <u>\$ 93</u>    | <u>\$ 540,499</u> |

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

**Note 5 – 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, 2011:

|                                 | <u>Pass</u>       | <u>Special<br/>Mention</u> | <u>Substandard</u><br>(in thousands) | <u>Doubtful</u> | <u>Total</u>      |
|---------------------------------|-------------------|----------------------------|--------------------------------------|-----------------|-------------------|
| 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             |
| <b>Total</b>                    | <u>\$ 393,993</u> | <u>\$ 9,220</u>            | <u>\$ 8,813</u>                      | <u>\$ 152</u>   | <u>\$ 412,178</u> |

Allowance for loan losses on loans receivables at and for the year ended December 31, 2012:

|  | <u>Commercial<br/>real estate</u> | <u>Commercial<br/>and industrial</u> | <u>Construction</u> | <u>Residential<br/>first-lien<br/>mortgage</u><br>(in thousands) | <u>Home equity</u> | <u>Consumer</u> | <u>Unallocated</u> | <u>Total</u>    |
|--|-----------------------------------|--------------------------------------|---------------------|--|--------------------|-----------------|--------------------|-----------------|
| <b>Allowance for loan losses:</b>                |                                   |                                      |                     |  |                    |                 |                    |                 |
| Beginning balance                                | \$ 2,082                          | \$ 1,011                             | \$ 1,965            | \$ 101   | \$ 179             | \$ 12           | \$ 12              | \$ 5,362        |
| Provisions                                       | 475                               | 526                                  | 198                 | 103  | 76                 | 3               | 587                | 1,968           |
| Charge-offs                                      | -                                 | (388)                                | -                   | -  | -                  | (5)             | -                  | (393)           |
| Recoveries                                       | -                                 | 95                                   | -                   | -  | 1                  | -               | -                  | 96              |
| <b>Ending Balance</b>                            | <u>\$ 2,557</u>                   | <u>\$ 1,244</u>                      | <u>\$ 2,163</u>     | <u>\$ 204</u>  | <u>\$ 256</u>      | <u>\$ 10</u>    | <u>\$ 599</u>      | <u>\$ 7,033</u> |
| Ending Balance:                                  |                                   |                                      |                     |  |                    |                 |                    |                 |
| Individually evaluated for impairment            | \$ -                              | \$ 255                               | \$ -                | \$ -   | \$ -               | \$ -            | \$ -               | \$ 255          |
| Collectively evaluated for impairment            | \$ 2,557                          | \$ 989                               | \$ 2,163            | \$ 204   | \$ 256             | \$ 10           | \$ 599             | \$ 6,778        |
| Loans acquired with deteriorated credit quality* | \$ 86                             | \$ 9                                 | \$ -                | \$ -   | \$ 13              | \$ -            | \$ -               | \$ 108          |

Recorded investment in loans receivables at December 31, 2012:

|   |                   |                   |                  |                  |                  |                 |             |                   |
|---|-------------------|-------------------|------------------|------------------|------------------|-----------------|-------------|-------------------|
| <b>Loans:</b>                                   |                   |                   |                  |                  |                  |                 |             |                   |
| Ending Balance:                                 |                   |                   |                  |                  |                  |                 |             |                   |
| Individually evaluated for impairment           | \$ 2,291          | \$ 4,526          | \$ 2,877         | \$ -             | \$ 667           | \$ 11           | \$ -        | \$ 10,372         |
| Collectively evaluated for impairment           | 315,249           | 99,013            | 59,825           | 29,127           | 24,812           | 1,469           | -           | 529,495           |
| Loans acquired with deteriorated credit quality | <u>406</u>        | <u>88</u>         | <u>-</u>         | <u>-</u>         | <u>138</u>       | <u>-</u>        | <u>-</u>    | <u>632</u>        |
| <b>Ending Balance</b>                           | <u>\$ 317,946</u> | <u>\$ 103,627</u> | <u>\$ 62,702</u> | <u>\$ 29,127</u> | <u>\$ 25,617</u> | <u>\$ 1,480</u> | <u>\$ -</u> | <u>\$ 540,499</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.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Note 5 – Loans Receivable (Continued)**

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

|  | <u>Commercial<br/>real estate</u> | <u>Commercial<br/>and industrial</u> | <u>Construction</u> | <u>Residential<br/>first-lien<br/>mortgage</u> | <u>Home equity</u> | <u>Consumer</u> | <u>Unallocated</u> | <u>Total</u>    |
|--|-----------------------------------|--------------------------------------|---------------------|--|--------------------|-----------------|--------------------|-----------------|
|  | (in thousands)                    |                                      |                     |  |                    |                 |                    |                 |
| <b>Allowance for loan losses:</b>                |                                   |                                      |                     |  |                    |                 |                    |                 |
| 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:

|   |                   |                  |                  |                  |                  |                 |             |                   |
|---|-------------------|------------------|------------------|------------------|------------------|-----------------|-------------|-------------------|
| <b>Loans:</b>                                   |                   |                  |                  |                  |                  |                 |             |                   |
| 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 | 871               | 178              | -                | -                | 147              | -               | -           | 1,196             |
| 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 following table summarizes information in regards to troubled debt restructurings for the year ended December 31, 2012 (dollars in thousands):

|                               | <u>Number of<br/>Contracts</u> | <u>Pre-Modification<br/>Outstanding<br/>Recorded Investment</u> | <u>Post-Modification<br/>Outstanding<br/>Recorded Investment</u> |
|-------------------------------|--------------------------------|---|--|
| Troubled debt restructurings: |                                |   |  |
| Commercial real estate        | -                              | \$ -  | \$ -   |
| Commercial and industrial     | 1                              | \$ 564  | \$ 564   |
| Construction                  | -                              | \$ -  | \$ -   |
| Home equity                   | 1                              | \$ 100  | \$ 100   |

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

**Note 5 – Loans Receivable (Continued)**

As indicated above, the Bank modified two loans during the twelve months ended December 31, 2012 that were categorized as troubled debt restructurings. In modifying these loans, the Bank capitalized interest, extended the maturity and/or reduced the interest rate on the original loan. Other than the modifications discussed further below, the remaining troubled debt restructurings in the table above are performing in accordance with their modified terms. These troubled debt restructurings are impaired loans and therefore, in accordance with the Bank's policy, are individually evaluated for impairment. As of December 31, 2012, 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 (dollars in thousands):

|                               | <u>Number of<br/>Contracts</u> | <u>Pre-Modification<br/>Outstanding<br/>Recorded Investment</u> | <u>Post-Modification<br/>Outstanding<br/>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   |

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, 2012, 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, 2012 that subsequently defaulted (dollars in thousands):

|   | <u>Number of<br/>Contracts</u> | <u>Outstanding<br/>Recorded<br/>Investment</u> |
|---|--------------------------------|--|
| Troubled debt restructurings that subsequently defaulted: |                                |  |
| Commercial real and industrial                            | 1                              | \$ 564   |

This troubled debt restructuring is an impaired loan and therefore, in accordance with the Bank's policy, is individually evaluated for impairment. As of December 31, 2012, there is a \$63,000 specific allowance for this modified loan.

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

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

**Note 5 – Loans Receivable (Continued)**

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. The home equity loan modified during 2011 is in default as of December 31, 2012. 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, 2012, there is no specific allowance for any of these modified loans.

**Loans to Related Party.** In 2008 the Bank made 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 11-Commitments and Contingencies for additional information regarding the terms of the lease.

In 2011 the Bank made two commercial and industrial loans to a company for which one member of its board of directors is a partial owner, in the amount of \$52,000. The terms of these commercial and industrial 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 rate 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.

In 2012 the Bank made a commercial real estate loan to a member of its board of directors in the amount of \$2.0 million. The terms of this commercial real estate loan were negotiated as arms-length and were reviewed and approved by the disinterested members of the Bank's board of directors. The loan was made in the ordinary course of business, on substantially the same terms, including interest rate 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 related parties for the years ended December 31, 2012 and 2011.

| (in thousands)                                  | <u>2012</u>     | <u>2011</u>     |
|---|-----------------|-----------------|
| Outstanding related party loans at January 1,   | \$ 3,310        | \$ 3,264        |
| New loans                                       | 1,988           | 52              |
| Repayments                                      | <u>(119)</u>    | <u>(6)</u>      |
| Outstanding related party loans at December 31, | <u>\$ 5,179</u> | <u>\$ 3,310</u> |

No loans to related parties were nonaccrual, past due, restructured or potential problems at December 31, 2012 and 2011.

**Note 6 – Premises and Equipment**

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

|   | <b>Estimated<br/>useful lives</b> | <u>2012</u>     | <u>2011</u>     |
|---|-----------------------------------|-----------------|-----------------|
| Land                                      | N/A                               | \$ 410          | \$ 410          |
| Buildings                                 | 40 Yrs.                           | 1,741           | 1,741           |
| Leasehold improvements                    | 10 Yrs.                           | 3,271           | 2,454           |
| Furniture, fixtures and equipment         | 3-7 Yrs.                          | 2,613           | 2,160           |
| Construction in progress                  |                                   | <u>521</u>      | <u>284</u>      |
|   |                                   | 8,556           | 7,049           |
| Accumulated depreciation and amortization |                                   | <u>(2,715)</u>  | <u>(1,884)</u>  |
| <b>Total</b>                              |                                   | <u>\$ 5,841</u> | <u>\$ 5,165</u> |

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

**Note 7 – Accrued Interest Receivable and Other Assets**

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

|                                       | <u>2012</u>     | <u>2011</u>     |
|---------------------------------------|-----------------|-----------------|
| Accrued interest receivable           | \$ 2,849        | \$ 2,478        |
| Deferred tax asset                    | 3,247           | 2,695           |
| Restricted investments in bank stocks | 2,321           | 1,438           |
| Prepaid assets and other assets       | 901             | 1,224           |
| <b>Total</b>                          | <u>\$ 9,318</u> | <u>\$ 7,835</u> |

**Note 8 – Deposits**

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

|                                       | <u>2012</u>       | <u>2011</u>       |
|---------------------------------------|-------------------|-------------------|
| Demand, non-interest-bearing checking | \$ 76,793         | \$ 46,385         |
| Demand, interest-bearing and savings  | 213,684           | 204,297           |
| Money market                          | 154,724           | 122,863           |
| Time deposits, \$100,000 and over     | 111,583           | 102,855           |
| Time deposits, other                  | 115,580           | 119,173           |
| <b>Total</b>                          | <u>\$ 672,364</u> | <u>\$ 595,573</u> |

As of December 31, 2012, one customer's deposits with the Bank represented 5.5% of total deposits and another customer's deposits represented 5.4% of total deposits. No other customer accounted more than 5% of total deposits as of December 31, 2012.

At December 31, 2012, the scheduled maturities of certificates of deposit were as follows (in thousands):

|      | <u>Amounts</u>    |
|------|-------------------|
| 2013 | \$ 86,739         |
| 2014 | 62,659            |
| 2015 | 18,653            |
| 2016 | 29,700            |
| 2017 | 29,412            |
|      | <u>\$ 227,163</u> |

**Note 9 – Borrowings**

The Bank's borrowings consist of FHLB-NY overnight advances and FHLB-NY amortizing and FHLB-Pittsburgh term, fixed-rate advances. The Bank utilizes federal funds purchased to meet short-term liquidity needs. All of the Bank's borrowings are collateralized by securities and/or loans pledged to the respective FHLB. The terms of the security agreements with each FHLB include a specific assignment of collateral that requires the maintenance of qualifying collateral in excess of the FHLB advances, when discounted at certain pre-established rates.



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

**Note 9 – Borrowings (Continued)**

The following table presents the Bank’s borrowings at December 31.

|                            | <b>2012</b>      | <b>2011</b>      |
|----------------------------|------------------|------------------|
|                            | (in thousands)   |                  |
| FHLB-NY overnight advances | \$ 22,200        | \$ -             |
| FHLB term advances         | 6,046            | 11,344           |
| <b>Total Borrowings</b>    | <b>\$ 28,246</b> | <b>\$ 11,344</b> |

The following table is a schedule of the Bank’s long-term debt as of December 31, 2012, consisting of FHLB-NY amortizing and FHLB-Pittsburgh term, fixed-rate advances with weighted average interest rates and maturities (dollars in thousands):

| <b>Weighted<br/>Average<br/>Interest Rate at<br/>December 31,<br/>2012</b> | <b>Maturity</b> | <b>Balance at<br/>December 31,<br/>2012</b> |
|--|-----------------|---|
| 2.37 %   | 2013            | 2,064                                       |
| 2.76 %   | 2014            | 3,982                                       |
|  |                 | <b>\$ 6,046</b>                             |

At December 31, 2012, the Bank has available borrowing capacity with FHLB-NY, subject to certain collateral restrictions, of \$380.5 million. The Bank is also a member of the Atlantic Central Bankers Bank (“ACBB”). As of December 31, 2012, the Bank has available borrowing capacity with ACBB of \$6.0 million to provide short-term liquidity generally for a period of not more than fourteen days.

**Note 10 – Accrued Interest Payable and Other Liabilities**

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

|  | <b>2012</b>     | <b>2011</b>     |
|--|-----------------|-----------------|
| Accrued interest payable               | \$ 1,568        | \$ 1,663        |
| Income taxes payable                   | 653             | 167             |
| Accrued expenses and other liabilities | 3,888           | 1,806           |
| <b>Total</b>                           | <b>\$ 6,109</b> | <b>\$ 3,636</b> |

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

**Note 11 – Commitments and Contingencies**

***Operating leases***

The Bank has operating leases for eleven 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):

|            |    |              |
|------------|----|--------------|
| 2013       | \$ | 1,197        |
| 2014       |    | 1,208        |
| 2015       |    | 1,195        |
| 2016       |    | 995          |
| 2017       |    | 707          |
| Thereafter |    | <u>1,437</u> |
|            | \$ | <u>6,739</u> |

Rental expense for the years ended December 31, 2012 and 2011 was \$1.3 million and \$1.0 million, 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, which is included in the above lease schedule. The lease terms were comparable to similarly outfitted office space in the Bank's market. The Bank is also required to pay a monthly fee for certain operating expenses, including real estate taxes, insurance, utilities, maintenance and repairs, in addition to the base rent. Rental expense to this related party for the years ended December 31, 2012 and 2011 was approximately \$245,000 and \$256,000, 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.

Standby letters of credit written are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. The majority of these standby letters of credit expire within the next twelve months. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending other loan commitments. The Bank requires collateral supporting these letters of credit as deemed necessary. Management believes that the proceeds obtained through a liquidation of such collateral should be sufficient to cover the maximum potential amount under the corresponding guarantees. The current amount of the liability as of December 31, 2012 and 2011 for guarantees under standby letters of credit issued is not material.

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

**Note 11 – Commitments and Contingencies (Continued)**

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

|  | <u>2012</u>      | <u>2011</u>      |
|--|------------------|------------------|
| Performance and standby letters of credit  | \$ 2,378         | \$ 2,367         |
| Commitments to grant loans                 | 67,317           | 57,563           |
| Unfunded commitments under lines of credit | <u>9,260</u>     | <u>6,767</u>     |
|  | <u>\$ 78,955</u> | <u>\$ 66,697</u> |

***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 12 – Income Taxes**

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

|                              | <u>2012</u>     | <u>2011</u>     |
|------------------------------|-----------------|-----------------|
|                              | (in thousands)  |                 |
| Current tax expense:         |                 |                 |
| Federal                      | \$ 2,892        | \$ 1,215        |
| State                        | 709             | 322             |
| Total current                | <u>3,601</u>    | <u>1,537</u>    |
| Deferred income tax benefit: |                 |                 |
| Federal                      | (731)           | (318)           |
| State                        | (185)           | (156)           |
| Total deferred               | <u>(916)</u>    | <u>(474)</u>    |
| Total income tax expense     | <u>\$ 2,685</u> | <u>\$ 1,063</u> |

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

**Note 12 – Income Taxes (Continued)**

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:

|                                    | <b>2012</b>    | <b>2011</b> |
|------------------------------------|----------------|-------------|
|                                    | (in thousands) |             |
| Deferred tax assets:               |                |             |
| Allowance for loan losses          | \$ 2,597       | \$ 1,948    |
| Net operating loss carry-forwards  | 1,363          | 1,439       |
| Acquisition accounting adjustments | 191            | 154         |
| Organizational costs               | 260            | 294         |
| Other                              | 760            | 367         |
| Total deferred tax assets          | 5,171          | 4,202       |
| Deferred tax liabilities:          |                |             |
| Premises and equipment             | (89)           | 60          |
| Cash basis conversions             | (91)           | (186)       |
| Unrealized gains on securities     | (1,445)        | (1,081)     |
| Deferred loan costs                | (299)          | (300)       |
| Total deferred tax liabilities     | (1,924)        | (1,507)     |
| Net deferred tax asset             | \$ 3,247       | \$ 2,695    |

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

|   | <b>2012</b>    | <b>2011</b> |
|---|----------------|-------------|
|   | (in thousands) |             |
| Federal income tax expense at statutory rate    | \$ 3,058       | \$ 1,318    |
| Increases (reductions) in taxes resulting from: |                |             |
| State income taxes, net of federal benefit      | 345            | 109         |
| Tax-exempt income, net                          | (707)          | (307)       |
| Non-deductible expenses                         | 14             | 7           |
| Other   | (25)           | (64)        |
| Total income taxes applicable to pre-tax income | \$ 2,685       | \$ 1,063    |

At December 31, 2012, the Bank had available federal net operating loss carryforwards of approximately \$4.0 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.

**Note 13 – Fair Value Measurements and Disclosure**

The Bank follows the guidance on fair value measurements now codified as FASB ASC Topic 820, *Fair Value Measurement*. 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.

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

**Note 13 – Fair Value Measurements and Disclosure (Continued)**

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.

*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, 2012 were as follows:

| <b>Description</b>   | <b>(Level 1)<br/>Quoted Prices<br/>in Active<br/>Markets for<br/>Identical<br/>Assets</b> | <b>(Level 2)<br/>Significant<br/>Other<br/>Observable<br/>Inputs</b> | <b>(Level 3)<br/>Significant<br/>Unobservable<br/>Inputs</b> | <b>Total Fair<br/>Value<br/>December 31,<br/>2012</b> |
|--|---|--|--|---|
|  | (in thousands)  |  |  |   |
| U.S. Treasury securities   | \$ 28,268   | \$ -   | \$ -   | \$ 28,268   |
| Mortgage-backed securities-U.S.<br>Government Sponsored Enterprises<br>(GSE's) | -   | 90,887   | -  | 90,887  |
| Obligations of state and<br>political subdivisions                             | -   | 66,886   | -  | 66,886  |
| Securities available-for-sale at fair value                                    | <u>\$ 28,268</u>  | <u>\$ 157,773</u>  | <u>\$ -</u>  | <u>\$ 186,041</u>                                     |

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Note 13 – Fair Value Measurements and Disclosure (Continued)**

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

| <b>Description</b>   | <b>(Level 1)<br/>Quoted Prices<br/>in Active<br/>Markets for<br/>Identical<br/>Assets</b> | <b>(Level 2)<br/>Significant<br/>Other<br/>Observable<br/>Inputs</b> | <b>(Level 3)<br/>Significant<br/>Unobservable<br/>Inputs</b> | <b>Total Fair<br/>Value<br/>December 31,<br/>2011</b> |
|--|---|--|--|---|
|  | (in thousands)  |  |  |   |
| Mortgage-backed securities-U.S.<br>Government Sponsored Enterprises<br>(GSE's) | \$ -  | \$ 119,612   | \$ -   | \$ 119,612  |
| Obligations of state and<br>political subdivisions                             | -   | 54,639   | -  | 54,639  |
| Corporate securities   | -   | 1,912  | -  | 1,912   |
| Securities available-for-sale at fair value                                    | <u>\$ -</u>   | <u>\$ 176,163</u>  | <u>\$ -</u>  | <u>\$ 176,163</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, 2012, were as follows:

| <b>Description</b> | <b>(Level 1)<br/>Quoted Prices<br/>in Active<br/>Markets for<br/>Identical<br/>Assets</b> | <b>(Level 2)<br/>Significant<br/>Other<br/>Observable<br/>Inputs</b> | <b>(Level 3)<br/>Significant<br/>Unobservable<br/>Inputs</b> | <b>Total Fair<br/>Value<br/>December 31,<br/>2012</b> |
|--------------------|---|--|--|---|
|                    | (in thousands)  |  |  |   |
| Impaired loans     | \$ -  | \$ -   | \$ 5,820   | \$ 5,820  |
| Real estate owned  | -   | -  | 1,550  | 1,550   |
|                    | <u>\$ -</u>   | <u>\$ -</u>  | <u>\$ 7,370</u>  | <u>\$ 7,370</u>                                       |

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Note 13 – 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:

|                   | (Level 1)<br>Quoted Prices in<br>Active<br>Markets for<br>Identical<br>Assets | (Level 2)<br>Significant<br>Other<br>Observable<br>Inputs | (Level 3)<br>Significant<br>Unobservable<br>Inputs | Total Fair<br>Value<br>December 31,<br>2011 |
|-------------------|---|---|--|---|
|                   | (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>                             |

The following table presents quantitative information with regards to Level 3 fair value measurements at December 31, 2012.

| Description       | Fair Value at<br>December 31,<br>2012<br>(in thousands) | Valuation<br>Technique | Unobservable<br>Input  | Range<br>(Weighted<br>Average) |
|-------------------|---|------------------------|------------------------|--------------------------------|
| Impaired loans    | \$ 5,820  | Discounted appraisals  | Discount<br>adjustment | 7.7%-69.2%<br>(26.9%)          |
| Real estate owned | \$ 1,550  | Discounted appraisals  | Discount<br>adjustment | 0.0%-35.4%<br>(33.9%)          |

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.

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

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Note 13 – Fair Value Measurements and Disclosure (Continued)**

**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, 2012 and December 31, 2011.



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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Note 13 – Fair Value Measurements and Disclosure (Continued)**

The carrying amounts and estimated fair value of financial instruments at December 31, 2012, are as follows:

|   | <b>December 31, 2012</b>   |                                 |                |                |                |
|---|----------------------------|---------------------------------|----------------|----------------|----------------|
|   | <b>Carrying<br/>Amount</b> | <b>Estimated<br/>Fair Value</b> | <b>Level 1</b> | <b>Level 2</b> | <b>Level 3</b> |
| (in thousands)                              |                            |                                 |                |                |                |
| <b>Financial assets:</b>                    |                            |                                 |                |                |                |
| Cash and cash equivalents                   | \$ 24,619                  | \$ 24,619                       | \$ 24,619      | \$ -           | \$ -           |
| Securities available-for-sale at fair value | 186,041                    | 186,041                         | 28,268         | 157,773        | -              |
| Securities held-to-maturity                 | 600                        | 643                             | -              | 643            | -              |
| Loans receivable, net                       | 532,115                    | 548,920                         | -              | -              | 548,920        |
| Restricted investments in bank stocks       | 2,321                      | 2,321                           | -              | 2,321-         | -              |
| Accrued interest receivable                 | 2,849                      | 2,849                           | -              | 2,849          | -              |
| <b>Financial liabilities:</b>               |                            |                                 |                |                |                |
| Deposits                                    | 672,364                    | 677,398                         | -              | 677,398        | -              |
| Borrowings                                  | 28,246                     | 28,248                          | -              | -              | 28,248         |
| Accrued interest payable                    | 1,568                      | 1,568                           | -              | 1,568          | -              |

The carrying amounts and estimated fair value of financial instruments at December 31, 2011 are as follows:

|   | <b>Carrying<br/>Amount</b> | <b>Estimated<br/>Fair Value</b> |
|---|----------------------------|---------------------------------|
| (in thousands)                              |                            |                                 |
| <b>Financial assets:</b>                    |                            |                                 |
| Cash and cash equivalents                   | \$ 59,215                  | \$ 59,215                       |
| Securities available-for-sale at fair value | 176,163                    | 176,163                         |
| Securities held-to-maturity                 | 1,074                      | 1,166                           |
| Loans receivable, net                       | 405,861                    | 417,284                         |
| Restricted investments in bank stocks       | 1,438                      | 1,438                           |
| Accrued interest receivable                 | 2,478                      | 2,478                           |
| <b>Financial liabilities:</b>               |                            |                                 |
| Deposits                                    | 595,573                    | 597,703                         |
| Borrowings                                  | 11,344                     | 11,383                          |
| Accrued interest payable                    | 1,663                      | 1,663                           |

**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.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Note 13 – Fair Value Measurements and Disclosure (Continued)**

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 14 – Accumulated Comprehensive Income**

Accumulated comprehensive income is comprised of net unrealized holding gains, net of taxes, on available-for-sale securities of \$3,394,000 and \$2,098,000 as of December 31, 2012 and 2011, respectively. Realized gains or losses are reclassified out of accumulated comprehensive income when the underlying security is sold, based upon the specific identification method.

**Note 15 – 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, 2012 and 2011 and will expire in 2017.

In 2007, the Bank adopted The Bank of Princeton 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. Vesting periods range from immediate to four years from the date of grant. 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.

In 2012, the Bank adopted The Bank of Princeton 2012 Stock Option Plan (the “2012 Plan”), which was approved by our board of directors in February 2012 and by our stockholders in May 2012. The 2012 Plan enables the board of directors to grant stock options or restricted shares of common stock to employees, directors, consultants and other individuals who provide services to the Bank. The shares subject to or related to options under the 2012 Plan are authorized and unissued shares of the Bank. The maximum number of shares that may be subject to options under the 2012 Plan is 100,000, all of which may be issued as Incentive Stock Options or as Non-Qualified Stock Options. Vesting periods range from immediate to four years from the date of grant. The 2012 Plan will terminate ten years from the date of stockholder approval.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Note 15 – 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 year ended December 31, 2012:

|                                  | Number of<br>Stock<br>Options /<br>Warrants | Weighted<br>Avg.<br>Exercise Price | Weighted Avg.<br>Remaining<br>Contractual<br>Life | Aggregate<br>Intrinsic<br>Value |
|----------------------------------|---|------------------------------------|---|---------------------------------|
| Balance at January 1, 2012       | 402,416                                     | \$ 12.82                           |   |                                 |
| Granted                          | 129,450                                     | \$ 13.75                           |   |                                 |
| Exercised                        | (239)                                       | \$ 11.12                           |   |                                 |
| Forfeited                        | (40,976)                                    | \$ 11.61                           |   |                                 |
| Expired                          | (13,824)                                    | \$ 11.43                           |   |                                 |
| Balance at December 31, 2012     | <u>476,827</u>                              | <u>\$ 13.21</u>                    | <u>6.8 years</u>                                  | <u>\$ 837,886</u>               |
| Exercisable at December 31, 2012 | <u>373,278</u>                              | <u>\$ 13.25</u>                    | <u>6.3 years</u>                                  | <u>\$ 767,880</u>               |

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

|                                  | Number of<br>Stock<br>Options /<br>Warrants | Weighted<br>Avg.<br>Exercise Price | Weighted Avg.<br>Remaining<br>Contractual<br>Life | Aggregate<br>Intrinsic<br>Value |
|----------------------------------|---|------------------------------------|---|---------------------------------|
| 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:

|                         | <b>For the year ended December 31,</b> |             |
|-------------------------|--|-------------|
|                         | <u>2012</u>                            | <u>2011</u> |
| Expected life           | 5.58 years                             | 6.0 years   |
| Expected volatility     | 26.42%                                 | 23.99%      |
| Forfeiture rate         | 2.89%                                  | 22.70%      |
| Dividend yield          | 0.00%                                  | 0.00%       |
| Risk-free interest rate | 0.81%                                  | 1.67%       |
| Fair value              | \$ 3.60                                | \$ 3.26     |

Stock option expenses included in salaries and employee benefits expense in the Consolidated Statements of Operations were \$161,000 and \$203,000 for the year ended December 31, 2012 and 2011, respectively. Stock option expense

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

**Note 15 – Stock Based Compensation (Continued)**

recorded within other expenses was \$194,000 for the year ended December 31, 2012. There was no stock option expense recorded within other expenses for the year ended December 31, 2011. At December 31, 2012, there was approximately \$274,000 of unrecognized expense related to outstanding stock options, which will be recognized over a period of approximately 1.4 years.

**Note 16 – 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 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, 2012, that the Bank meets all capital adequacy requirements to which it is subject.

The Bank's actual capital amounts and ratios at December 31, 2012 and 2011 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, 2012:                       |               |              |                                      |              |   |              |
| Total capital (to risk-weighted assets)  | \$65,567      | 11.5%        | \$ 45,622                            | ≥ 8.0%       | \$ 57,027   | ≥ 10.0%      |
| Tier 1 capital (to risk-weighted assets) | \$58,534      | 10.3%        | \$ 22,811                            | ≥ 4.0%       | \$ 34,216   | ≥ 6.0%       |
| Tier 1 capital (to average assets)       | \$58,534      | 7.6%         | \$ 30,713                            | ≥ 4.0%       | \$ 38,391   | ≥ 5.0%       |
| 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%       |

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

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Note 17 – Quarterly Financial Data**

|   | <b>Year Ended December 31, 2012</b>   |                 |                 |                 |
|---|---------------------------------------|-----------------|-----------------|-----------------|
|   | <b>First</b>                          | <b>Second</b>   | <b>Third</b>    | <b>Fourth</b>   |
|   | <b>Quarter</b>                        | <b>Quarter</b>  | <b>Quarter</b>  | <b>Quarter</b>  |
|   | (In thousands, except per share data) |                 |                 |                 |
| Interest and dividend income                        | \$ 7,838                              | \$ 8,268        | \$ 8,818        | \$ 8,749        |
| Interest expense                                    | 1,856                                 | 1,850           | 1,772           | 1,776           |
| Net Interest Income                                 | 5,982                                 | 6,418           | 7,046           | 6,973           |
| Provision for loan losses                           | 456                                   | 813             | 392             | 307             |
| Net Interest Income after Provision for Loan Losses | 5,526                                 | 5,605           | 6,654           | 6,666           |
| Non-interest income                                 | 225                                   | 761             | 463             | 1,135           |
| Non-interest expense                                | 4,049                                 | 4,363           | 4,457           | 5,170           |
| Income before Income Taxes                          | 1,702                                 | 2,003           | 2,660           | 2,631           |
| Income tax expense                                  | 591                                   | 597             | 853             | 644             |
| Net Income  | <u>\$ 1,111</u>                       | <u>\$ 1,406</u> | <u>\$ 1,807</u> | <u>\$ 1,987</u> |
| Earnings per common share                           |                                       |                 |                 |                 |
| Basic   | \$ 0.24                               | \$ 0.31         | \$ 0.39         | \$ 0.44         |
| Diluted   | \$ 0.24                               | \$ 0.30         | \$ 0.39         | \$ 0.43         |

|   | <b>Year Ended December 31, 2011</b>                 |                |                |                |
|---|---|----------------|----------------|----------------|
|   | <b>First</b>  | <b>Second</b>  | <b>Third</b>   | <b>Fourth</b>  |
|   | <b>Quarter</b>                                      | <b>Quarter</b> | <b>Quarter</b> | <b>Quarter</b> |
|   | (In thousands, except for share and 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 expenses                               | 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  | <u>\$ 621</u>                                       | <u>\$ 749</u>  | <u>\$ 626</u>  | <u>\$ 817</u>  |
| Earnings per common share                           |   |                |                |                |
| Basic   | \$ 0.16   | \$ 0.19        | \$ 0.16        | \$ 0.18        |
| Diluted   | \$ 0.16   | \$ 0.19        | \$ 0.15        | \$ 0.18        |

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

Not applicable.

## **Item 9A. Controls and Procedures**

### **Disclosure Controls and Procedures**

An evaluation was performed under the supervision, and with the participation of the Bank's management, including the President and Chief Financial Officer, of the effectiveness of the design and operation of the Bank's disclosure controls and procedures (as defined in Rule 13a-15(e) promulgated under the Exchange Act) as of December 31, 2012. Based on such evaluation, the Bank's President and Chief Financial Officer have concluded that the Bank's disclosure controls and procedures are effective, as of December 31, 2012, to ensure that the information required to be disclosed by the Bank in the reports that the Bank files or submits under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in FDIC rules and forms.

### **Internal Control Over Financial Reporting**

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with accounting principles generally accepted in the United States, which is commonly referred to as GAAP. The effectiveness of any system of internal control over financial reporting is subject to inherent limitations, including the exercise of judgment in designing, implementing, operating and evaluating the Bank's internal control over financial reporting. Because of these inherent limitations, internal control over financial reporting cannot provide absolute assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with GAAP and may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that our internal control over financial reporting may become inadequate because of changes in conditions or other factors, or that the degree of compliance with the policies or procedures may deteriorate.

Management, with the participation of the Bank's President and Chief Financial Officer, evaluated the effectiveness of the Bank's internal control over financial reporting as of December 31, 2012 using the criteria in "Internal Control—Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on such evaluation, management assessed that the Bank's internal control over financial reporting was effective as of December 31, 2012.

### **Changes in Internal Control Over Financial Reporting**

There was no change in the Bank's internal control over financial reporting identified during the quarter ended December 31, 2012 that has materially affected, or is reasonably likely to materially affect, the Bank's internal control over financial reporting.

## **Item 9B. Other Information**

None.

## **PART III**

## **Item 10. Directors, Executive Officers and Corporate Governance**

The Bank responds to this Item by incorporating by reference the material responsive to this Item in the Bank's definitive proxy statement to be filed with the Federal Deposit Insurance Corporation in connection with its 2013 Annual Meeting of Stockholders to be held April 30, 2013.

### **Item 11. Executive Compensation**

The Bank responds to this Item by incorporating by reference the material responsive to this Item in the Bank's definitive proxy statement to be filed with the Federal Deposit Insurance Corporation in connection with its 2013 Annual Meeting of Stockholders to be held April 30, 2013.

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

The Bank responds to this Item by incorporating by reference the material responsive to this Item in the Bank's definitive proxy statement to be filed with the Federal Deposit Insurance Corporation in connection with its 2013 Annual Meeting of Stockholders to be held April 30, 2013.

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

The Bank responds to this Item by incorporating by reference the material responsive to this Item in the Bank's definitive proxy statement to be filed with the Federal Deposit Insurance Corporation in connection with its 2013 Annual Meeting of Stockholders to be held April 30, 2013.

### **Item 14. Principal Accountant Fees and Services**

The Bank responds to this Item by incorporating by reference the material responsive to this Item in the Bank's definitive proxy statement to be filed with the Federal Deposit Insurance Corporation in connection with its 2013 Annual Meeting of Stockholders to be held April 30, 2013.

## **PART IV**

### **Item 15. Exhibits, Financial Statement Schedules**

- (a) The following portions of the Bank's consolidated financial statements are set forth in Item 8 of this Annual Report:
- i. Consolidated Statements of Financial Condition as of December 31, 2012 and 2011
  - ii. Consolidated Statements of Operations for the years ended December 31, 2012 and 2011
  - iii. Consolidated Statements of Comprehensive Income for the years ended December 31, 2012 and 2011
  - iv. Consolidated Statements of Changes in Stockholders' Equity for the years ended December 31, 2012 and 2011
  - v. Consolidated Statements of Cash Flows for the years ended December 31, 2012 and 2011
  - vi. 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.

(c) Exhibits

**Exhibit**

| <b>No.</b> | <b>Description</b>   |
|------------|--|
| 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.  |
| 4.2        | The Bank will furnish to the FDIC upon request copies of the instruments defining the rights of the Federal Home Loan Bank of New York and the Federal Home Loan Bank of Pittsburgh with respect to the Bank's long-term debt. |
| 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 21, 2013.

### **The Bank of Princeton**

By: /s/Edward Dietzler  
Edward Dietzler  
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)

Pursuant to the requirement of the Securities Exchange Act of 1934, this Report has been signed below on March 21, 2013 by the following persons on behalf of the Registrant and in the capacities indicated.

/s/Edward Dietzler

Edward Dietzler  
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

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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

| <b>Name of Subsidiary</b>          | <b>Jurisdiction of<br/>Incorporation<br/>or Formation</b> |
|------------------------------------|---|
| TBOP New Jersey Investment Company | NJ  |
| Bayard Lane, LLC                   | NJ  |
| 112 Fifth Avenue, LLC              | NJ  |
| Bayard Properties, LLC             | NJ  |
| TBOP REIT, Inc.                    | NJ  |
| TBOP Delaware Investment Company   | DE  |

**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 operations 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - 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 21, 2013

/s/Edward Dietzler

Edward Dietzler

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 operations 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - 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 21, 2013

/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 “Bank”) on Form 10-K for the period ending December 31, 2012 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 Bank.

/s/Edward Dietzler  
Edward Dietzler  
President

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

March 21, 2013

## Who We Are

### Board of Directors

Andrew M. Chon, *Chairman*  
Stephen Distler, *Vice Chairman*  
Ross E. Wishnick, *Vice Chairman*  
Edward J. Dietzler, *President*  
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  
Martin Kahn  
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*  
William D. Allan, *Monroe*  
Paul M. Bencivengo, *Hamilton*  
William McDowell, *Pennington*  
William McCoy, *Montgomery/New Brunswick*  
Kris Muse, *Nassau*  
R.Christian Pfefferle, *Lambertville*

#### **Retail Administrator**

Carly Meyer, *Chambers*

#### **Regional Relationship Manager**

Suzanne M. Lippincott, *Hamilton*

#### **Market Managers**

Ulrike Ahrens, *Pennington*  
Miriam I. Colón, *New Brunswick*  
Sokha Eng, *Arch Street*  
Haeran Hwangbo, *Cheltenham*  
Connie Inverso, *Monroe*  
Darshana Jadav, *Montgomery*  
Cathy E. Proctor, *Chambers*  
Rose Russo, *Bayard*  
Paul Sabol, *Lambertville*  
Young Soon Sim, *North Wales*  
Rhoda Sundhar, *Nassau*

### *Management & Support*

---

#### **Senior Management**

Edward J. Dietzler  
Douglas V. Conover  
Michael J.Sanwald  
Paul Hyon  
Carol R. Coles

#### **Marketing**

Barbara A. Cromwell

#### **Human Resources**

Anna Maria Miller

#### **Operations & Compliance**

Karen D. Pfeifer  
Thomas Perrotta

#### **Loan Administration**

Carol Safchinsky  
Mary Beth Gorecki, *Consumer Credit*  
Christopher Tonkovich, *Commercial Credit*

#### **Finance**

Edward P. Hassenkamp  
William E. Fischer





***Making a difference... celebrating  
five years of community banking.***

The Bank of Princeton celebrates the Bank's "5th Anniversary" with bank wide festivities and community outreach. Pictured above Michael Sanwald, EVP Chief Financial Officer; Ed Hassenkamp, VP Controller; Edward Dietzler, Bank President; (f) Anna Maria Miller, VP HR Director; (r) Michelle Liquari, Human Resource Administrator; (f) Barbara Cromwell, SVP Director of Market Development; (r) Ross Wishnick, Vice Chairman; Stephen Dister, Vice Chairman; Stephen Shueh, Board Member; (f) Kelly Tarity, IT Director; (r) William Fischer, VP of Finance; and Doug Conover, EVP Chief Lending Officer.





*A special community deserves  
a special bank.*

The Bank of Princeton hosts a ribbon-cutting ceremony and grand opening celebration at 1 Spring Street in New Brunswick. The New Brunswick branch is located in the heart of the city, close to Rutgers University and the Court House.

Upper image: (l to r) Edward Dietzler, Bank President; Pam Stefanek, New Brunswick Advisory Board Member and Executive Director of New Brunswick City Market; Mr. Russell Marchetta Public Information Officer Mayor's office of New Brunswick; Andrew Chon, Chairman of the Board of Directors; Miriam Colón, New Brunswick Market Manager; Judith A. Giacini, Board Member; Mr. Omar Boraie of Boraie Development; and Robert N. Ridolfi, Esq., Board Member. Lower image (l to r) William McCoy, SVP Community Bank Executive; Linda Brown, Assistant Market Manager; Chris Gemmill, Relationship Manager; Miriam Colón, New Brunswick Market Manager; Luke Kiensicki, Teller Manager; and Edward Dietzler, Bank President.





***Making a difference...  
and becoming one of the fastest  
growing community banks.***

The Bank of Princeton accepted the Bank’s “50 Fastest Growing Companies” award at a recent ceremony in Somerset. The sponsors and representatives for the award were (from left to right): Ted Knauss, Market Leader, PNC Bank ; Ross Wishnick, Vice Chairman for The Bank of Princeton; Michael McGuire, CEO, United Healthcare of New Jersey; Andrew Chon, Chairman of the Board for The Bank of Princeton; and Thomas R. Vreeland, Partner, ParenteBeard. This is the second year in a row The Bank of Princeton was honored, transitioning from 15th place in 2011 to 3rd place in 2012.





*Partnering with Communities,  
in “More” ways than one.*

MoreBank, a division of The Bank of Princeton, celebrates their newest location at 921 Arch Street in the Chinatown section of Philadelphia. With the abilities to communicate in Chinese, Korean and Vietnamese, MoreBank has been welcomed into this diverse community. Shown at the ribbon-cutting ceremony marking the event are: (l to r) John Chin, Executive Director, Philadelphia Chinatown Development Corporation; Stephen Shueh, Board Member of The Bank of Princeton; Daniel Oh, Minority Whip and Councilman-At-Large from the City of Philadelphia; (r) Mark Squilla, District #1 Councilman from the City of Philadelphia, (f) Paul Hyon, Regional President of MoreBank; Kevin Dow, Chief Operating Officer and Deputy Commerce Director for the City of Philadelphia; Ross Wishnick, Vice Chairman of The Bank of Princeton; 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.



# Reaching Communities...



## The Bank of Princeton

*Bank Wisely.*

African American Chamber of Commerce  
Alborada Spanish dance Theater  
Allies, Inc.  
Alzheimer's Association  
American Heart Association  
American Legion  
Arc Mercer  
Arts Council of Princeton  
Auxiliary of University Medical Center at Princeton  
Artsbridge  
Attack Mac, Inc.  
Beth El Synagogue  
Big Brothers Big Sisters of Mercer County  
Boy Scouts Troop #29  
Bucks County Presbyterian Church  
Building One New Jersey  
Capital Health Foundation  
Capital Region Minority Chamber of Commerce  
Catholic Charities of the Diocese of Trenton  
Chabad of Mercer County - Princeton  
Christine's Hope for Kids  
Citera Children's Fund  
Community Options  
Corner House Foundation  
Crawford House  
Dance Stop Studio  
Delaware County Fraternal Order of Police, Lodge #27  
Delaware Township Schools, Partners in Education  
Dress for Success of Mercer County  
Eden Autism Services  
Edison Chamber of Commerce  
Friends of Ely Park  
Friends of Lambertville Library/  
Acme Screening Room  
Greater Brunswick Charter School  
Hadassah Southern New Jersey Region  
Hamilton Area YMCA  
Hamilton Education Foundation  
Hamilton Police Athletic League  
Hamilton Post 31  
Hamilton Township Economic Development Advisory Committee  
Health Care Ministry of Princeton  
Help Portrait - Princeton Chapter  
HiTops Half Marathon  
HomeFront  
HomeSharing  
Hopewell Harvest Fair  
Hopewell Valley Central High School  
Hopewell Valley Education Foundation  
Hopewell Valley Gridiron Club  
Hopewell Valley Soccer Association  
Hopewell Valley Veterans Association  
Hopewell Valley YMCA  
Hunterdon County Chamber of Commerce  
Isles  
Jamesburg Fall Festival  
Jewish Family & Children's Services of Mercer County  
Joint Effort Community Sports  
Kids4Kids Through Music  
Kidsbridge  
Korean Community Center of Greater Princeton  
Lambertville Area Education Foundation  
Lambertville Chamber of Commerce  
Lambertville Historical Society  
Lambertville/NewHope Winterfest  
Lambertville/New Hope Fireworks  
Lambertville/West Amwell Youth Association  
Lawrenceville Flames Hockey Association  
LUPE Fund, Inc.  
March of Dimes  
Mary Jacobs Library Foundation  
Mercer County Bar Association  
Mercer County Community College Foundation  
Mercer County Italian American Association  
Mercer Regional Chamber of Commerce  
Middlesex County Regional Chamber of Commerce

Monmouth Medical Center Foundation  
Montgomery Basketball Association  
Montgomery Business Association  
Montgomery - Rocky Hill Rotary Club  
Montgomery Township Education Development Community  
Montgomery Township Fireworks  
Montgomery Township Food Pantry  
Montgomery Township Volunteer Fire Company No.1  
NAMI Mercer  
National Multiple Sclerosis Society- NJ Metro Chapter  
New Brunswick City Market  
New Brunswick Community Food Alliance  
New Hope Chamber of Commerce  
New Hope Film Festival  
New Hope Historical Society  
NJ Bankers Association  
Our Lady of Sorrows, St. Anthony Parish  
Pennington Business & Professional Association  
Pennington Day, Inc.  
Pennington Montessori  
Pennington Volunteer Fire Department  
PeopleCare Center for Non Profits  
Plan Smart NJ  
Princeton Academy of the Sacred Heart  
Princeton Alumni Association - PA3  
Princeton Area Community Foundation  
Princeton Community Housing  
Princeton Cranbury Babe Ruth League  
Princeton Education Foundation  
Princeton Family YMCA  
Princeton in Africa  
Princeton KIDS/TOTS  
Princeton Merchants Association  
Princeton Pro Musica  
Princeton Recreation Department  
Princeton Regional Schools  
Princeton Regional Chamber of Commerce  
Princeton Senior Resource Center  
Princeton Symphony Orchestra

Continued...

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

# Cultivating *more* Partnerships.



**The Bank of Princeton**

*Bank Wisely.*

(Continued from the previous page...)

Recreational Foundation  
of Hopewell Valley  
Riverside Symphonia  
Rocky Hill Hook & Ladder Co. #1  
Rossmoor Charity  
Rotary Club of Princeton  
Robert Wood Johnson Foundation  
Ryan's Quest  
Sanctuary Guild of  
Our Lady of the Angels  
Science Mentors 1:1  
SERV Behavioral Health Services  
Sisterhood of Rossmoor  
Jewish Congregation  
Sourland Hills Actors Guild  
South Hunterdon Regional Schools  
South Soccer Parent Organization  
Special Olympics New Jersey  
St. Francis Medical Center Foundation  
St. Gregory The Great  
Steinert High School Athletics  
The American Cancer Society  
The Arc of Hunterdon Foundation  
The Learning Center for Exceptional  
Children  
The Lewis School  
The Foundation of Morris Hall/  
St. Lawrence, Inc.  
The Friendly Sons & Daughters of  
St. Patrick of Mercer County  
The Parkinson Alliance, Inc.  
The Trenton Area Soup Kitchen  
Thomas Edison State College Foundation  
Trenton Catholic Academy  
Trenton Fire Department &  
Local 6 Firefighters Union  
Trinity Church  
Trustees of Princeton University  
UIH Family Partners  
United Way of Hunterdon County  
University Medical Center of Princeton  
Waldorf School of Princeton  
West Amwell Golf Day  
Yeshivat Keter Torah  
YWCA of Trenton  
YWCA of Princeton



Asian Pacific American Bar Association of Pennsylvania  
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 NK-5P  
Korean American Association of Greater Philadelphia  
Korean American Broadcasting Company  
Korean American Soccer Association of Greater Philadelphia  
Korean CBMC of North America  
Pan Asian Association  
Philadelphia Chinatown Development Corporation  
Philadelphia Master Chorale  
The Mil Al Mission in Philadelphia  
The National Association for Korean Schools  
- Mid Atlantic Chapter

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



# The Bank of Princeton

[www.thebankofprinceton.com](http://www.thebankofprinceton.com)

*Corporate Headquarters*

183 Bayard Lane  
Princeton, NJ 08540  
609.921.1700

339 Route 33  
Hamilton, NJ 08619  
609.584.0011

21 Chambers Street  
Princeton, NJ 08542  
609.921.6800

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

194 Nassau Street  
Princeton, NJ 08542  
609.921.3311

10 Bridge Street  
Lambertville, NJ 08530  
609.397.0333

1185 Route 206 North  
Princeton, NJ 08540  
609.497.0500

1 Spring Street, Suite 102  
New Brunswick, NJ 08901  
732.993.0066

2 Route 31 South  
Pennington, NJ 08534  
609.730.8500

*Operations Center*  
403 Wall Street  
Princeton, NJ 08540  
609.454.0116



## MoreBank

*A Division of The Bank of Princeton*

[www.morebankusa.com](http://www.morebankusa.com)

470 West Cheltenham Avenue  
Philadelphia, PA 19126  
215.224.6400

921 Arch Street  
Philadelphia, PA 19107  
215.923.6200

1222 Welsh Road  
North Wales, PA 19454  
215.631.9911

*We look forward to 2013!*

**Branching out *wisely.***