The Bank of Princeton®

Bank Wisely.

2016
Annual Report

Established 2007

At The Bank of Princeton...

We Listen -

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

We Understand -

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,

Est. 2007

We Make a Difference.

Annual Report 2016

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Letter to Shareholders

Dear Fellow Shareholders,

The Bank of Princeton (the "Bank") earned $11.8 million in 2016, an increase of 8% percent from 2015. We were able to build on our strong results from 2015 and continued to grow loans and net income in 2016. Book value per share was $22.01 at December 31, 2016, an increase of $2.50 per share, or 13%, from December 31, 2015.

In 2016, we continued to focus on balance sheet optimization. Total assets increased 1.3% to $1.026 billion. However, our mix of assets was more profitable. Gross loans increased $52.4 million or 6% in 2016, while less profitable investments and cash decreased 20% and 31%, respectively. Customer deposits showed an increase of $73.1 million or 9% versus 2015. This change in mix of both assets and liabilities had a positive impact on our 2016 profits.

The Bank's return on average assets was 1.17% and our return on equity was 12.06%, demonstrating the consistent profitability of the Bank. Despite the growing competition, we were able to increase our net interest margin to 3.86% in 2016 compared to 3.84% in 2015. Another key aspect in maintaining and expanding the Bank's profitability is having high-quality assets, as evidenced by our non-performing assets to total assets ratio. In 2016, this ratio decreased to 0.33% versus 1.21% at year-end 2015. We remain committed to improving our financial performance while staying focused on high-quality asset growth in 2017 so that we may continue to increase value to our shareholders.

For the greater part of 2016, the Bank was under a merger agreement that was terminated in early 2017. In spite of the challenges faced, we continued to grow uninterrupted. This is in large part due to the Bank's business model and the professionalism of people who are part of The Bank of Princeton team. Collectively, we remain committed to the communities that we serve.

Once again, we are extremely pleased to report a notable selection of the Bank's accomplishments for 2016 which include:

- The Bank had two new successful product launches - the Princeton Money Market and Princeton Savings accounts.
    - The combination of these two products brought the Bank over 1,000 new relationships.
    - The launch of these products was done exclusively with digital advertising.
- Thirteen branches continued to provide quality customer service in the Mercer, Hunterdon, Middlesex, and Somerset Counties within New Jersey. In addition, our three branches in Philadelphia and the surrounding markets provided an excellent opportunity to serve the community.
- Communication continued through the distribution of monthly e-mail blasts, statement stuffers and statement messages.
- Customer Appreciation week celebrated in May provided an occasion to grant an additional 0.25% on any new Certificate of Deposit opened during the allotted period.
- An invitation was extended to customers in May to participate in a survey regarding products and services offered by The Bank of Princeton/MoreBank. Much to our delight, the survey yielded exceptionally positive results. Our customer satisfaction score exceeded the industry average! Customer Service is our Strength! Customers feel Valued! We were recognized as a Bank where relationships can easily be established and expanded. Over 93% of our customers would highly recommend the Bank to others.
- The Bank continued to support many non-profit and community events in our market area. Preview the calendar of Upcoming Events on our website and join us!
- The American Bankers Association ranked The Bank of Princeton the 24th best performing community bank in the nation. This marks the third consecutive year we achieved high placement, as we continue to advance in position.

Our core focus is on providing competitive products and services, while our passion is to deliver exceptional customer service. We believe expanding relationships, strengthening philanthropic partnerships and seeking additional opportunities to support our communities is paramount. We highly value and are extremely grateful for the support from our customers, shareholders, and community partners. Our directors, management and staff genuinely thank you for your efforts. Together… we listen… we understand... and we can continue to make a difference.

Edward J. Dietzler, President | *Richard Gillespie, Chairman*

FEDERAL DEPOSIT INSURANCE CORPORATION
Washington, D.C. 20429

FORM 10-K

(Mark One)

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the Fiscal Year Ended December 31,2016

- 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	**68-0645074**
(State or other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
183 Bayard Lane, Princeton, NJ	**08540**
(Address of Principal Executive Offices)	(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 [X] 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 [X] 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. [X] 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 ☐	Accelerated filer ☐
Non-accelerated filer ☐ (Do not check if a smaller reporting company)	Smaller reporting company ☒

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

As of March 22, 2017 there were 4,743,895 shares of common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Bank's definitive proxy statement to be filed with the Federal Deposit Insurance Corporation in connection with its 2016 Annual Meeting of Stockholders to be held April 24, 2017 is incorporated by reference into Part III of this annual report on Form 10-K.

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Cautionary Note Regarding 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 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; loss of management and key personnel; failure of our controls and procedures; inability to close loans in our pipeline; operational risks, including the risk of fraud by employees, customers or outsiders; our borrowers' ability to repay their loans; changes in the real estate market that can affect real estate that serves as collateral for some of our loans; the adequacy of our allowance for loan losses and our methodology for determining such allowance; 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; changes in technology or interruptions and breaches in security of our information systems; 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.

PART I

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 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 thirteen 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 also conducts loan origination activities in select areas of New York.

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. We continue to operate the former MoreBank branches as a division of The Bank of Princeton under the "MoreBank" name. In November 2015, we opened a new branch located in Lawrenceville, New Jersey.

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.

Termination of Merger Agreement

On January 24, 2017, the Bank entered into a Mutual Termination Agreement (the "Termination Agreement") with Investors Bancorp, Inc. and Investors Bank to terminate the Agreement and Plan of Merger, dated as of May 3, 2016 ("Merger Agreement"), between the parties. The parties concluded that regulatory approval of the merger application submitted by Investors Bank to the Federal Deposit Insurance Corporation would not be obtained prior to the March 31, 2017 termination deadline set forth in the merger agreement. Each party bore its own costs and expenses in connection with the terminated transaction, without penalties. Under the Termination Agreement, the parties also mutually released each other from any claims of liability to one another relating to the merger transaction. Investors Bank also agreed that it would not engage in certain activities involving the Bank through December 31, 2017, including directly soliciting or calling on any person who, to Investors Bank's knowledge as of January 24, 2017, was a customer of the Bank, for the purpose of extending credit to such person.

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.

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, 2016, 2015, 2014, 2013 and 2012:

	As of December 31,				
(in thousands)	2016	2015	2014	2013	2012
Commercial real estate	$ 554,050	$ 490,298	$ 450,250	$ 372,273	$ 317,946
Commercial and industrial	60,886	125,072	127,469	118,274	103,627
Construction	166,719	122,297	78,822	76,477	62,702
Residential first-lien mortgage	56,712	42,409	45,383	40,242	29,127
Home equity	24,185	29,922	30,711	28,204	25,617
Consumer	577	858	2,654	132	1,480
Total loans	863,129	810,856	735,289	635,602	540,499
Deferred fees and costs	(2,803)	(2,910)	(2,150)	(1,769)	(1,351)
Allowance for loan losses	(10,822)	(10,851)	(10,008)	(8,493)	(7,033)
Loans, net	$ 849,504	$ 797,095	$ 723,131	$ 625,340	$ 532,115

The majority 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 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, 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 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 automated teller machines (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 from time to time 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.

At December 31, 2016, we had no customers whose deposit balances individually exceeded 5 percent of total 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.

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
Cashier's 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 also offer, on a limited basis, 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 and by regulatory constraints.

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 twelve 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 thirteen 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-American market. The Bank also conducts loan origination activities in select areas of New York.

Staffing

As of December 31, 2016, we had 135 total employees and approximately 134 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 levels. 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. Changes 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.

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 percent of our capital and surplus for all covered transactions with such affiliate or 20 percent 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 ours. 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 ("DIF"). No institution may pay a dividend if in default of the federal deposit insurance assessment.

Pursuant to the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"), the DIF has a minimum designated reserve ratio ("DRR") of 1.35 percent of the estimated insured deposits. The FDIC has adopted a restoration plan should the DRR fall below 1.35 percent, and dividends are required to be paid to the industry should the DRR exceed 1.50 percent. The assessment base for insured depository institutions is the average consolidated total assets during an assessment period less average tangible equity capital during that assessment period.

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.

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, 2016, averaged 0.76 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 by 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 percent 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.

Recent Regulatory Capital Regulations. In July of 2013 the respective U.S. federal banking agencies issued final rules implementing Basel III and the Dodd-Frank Act capital requirements to be fully-phased in on a global basis on January 1, 2019. The new regulations establish a new tangible common equity capital requirement, increase the minimum requirement for the current Tier 1 risk-weighted asset ("RWA") ratio, phase out certain kinds of intangibles treated as capital and certain types of instruments and change the risk weightings of certain assets used to determine required capital ratios.

The new common equity Tier 1 capital component requires capital of the highest quality – predominantly composed of retained earnings and common stock instruments. For community banks, such as the Bank, a common equity Tier 1 capital ratio of 4.5% became effective on January 1, 2015. The new capital rules also increased the current minimum Tier 1 capital ratio from 4.0% to 6.0% beginning on January 1, 2015. In addition, in order to make capital distributions and pay discretionary bonuses to executive officers without restriction, an institution must also maintain greater than 2.5% in common equity attributable to a capital conservation buffer which began January 1, 2016 and will be phased in until January 1, 2019. At December 31, 2016, the Bank's capital conversation buffer was 4.0%.

The new rules also increase the risk weights for several categories of assets, including an increase from 100% to 150% for certain acquisition, development and construction loans and more than 90-day past due exposures. The new capital rules maintain the general structure of the prompt corrective action rules (described below), but incorporate the new common equity Tier 1 capital requirement, the increased Tier 1 RWA requirement and the common equity Tier 1 capital conservation buffer into the prompt corrective action framework.

Regulatory Capital Requirements. Federally insured, state-chartered non-member banks are required to maintain minimum levels of regulatory capital. Current FDIC capital standards require these institutions to satisfy a common equity Tier 1 capital requirement, a leverage capital requirement and a risk-based capital requirement.

The common equity Tier 1 capital component generally consists of retained earnings and common stock instruments and must equal at least 4.5% of risk-weighted assets.

Leverage capital, also known as "core" capital, must equal at least 3.0% of adjusted total assets for the most highly rated state-chartered non-member banks. Core capital generally consists of common stockholders' equity (including retained earnings). An additional cushion of at least 100 basis points is required for all other banking associations, which effectively increases their minimum Tier 1 leverage ratio to 4.0% or more. Under the FDIC's regulations, the most highly-rated banks are those that the FDIC determines are strong banking organization and are rated composite 1 under the Uniform Financial Institutions Rating System.

Under the risk-based capital requirements, "total" capital (a combination of core and "supplementary" capital) must equal at least 8.0% of "risk-weighted" assets. The FDIC also is authorized to impose capital requirements in excess of these standards on individual institutions on a case-by-case basis.

The final capital rules that became effective on January 1, 2015 introduced a requirement for a common equity Tier 1 capital conservation buffer of 2.5% of risk-weighted assets which is in addition to the other minimum risk-based capital standards in the rule. Institutions that do not maintain this required capital buffer will become subject to progressively more stringent limitations on the percentage of earnings that can be paid out in dividends or used for stock repurchases and on the payment of discretionary bonuses to senior executive management. The capital buffer requirement is being phased in over three years beginning in 2016. We have included the 0.625% increase for 2016 in our minimum capital adequacy ratios in the table below. The capital buffer requirement effectively raises the minimum required common equity Tier 1 capital ratio to 7.0%, the Tier 1 capital ratio to 8.5%, and the total capital ratio to 10.5% on a fully phased-in basis on January 1, 2019. Management believes that, as of December 31, 2016, the Bank would meet all capital adequacy requirements on a fully phased-in basis as if all such requirements were currently in effect.

	Actual		**For capital adequacy purposes** (including capital buffer requirement)		**To be well capitalized under prompt corrective action provisions**	
	Amount	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
December 31, 2016:						
Total capital (to risk-weighted assets)	$ 113,191	12.000%	$ 81,034	≥ 8.625%	$ 93,952	≥ 10.000%
Tier 1 capital (to risk-weighted assets)	$ 102,369	10.900%	$ 62,243	≥ 6.625%	$ 75,162	≥ 8.000%
Common equity tier 1 capital (to risk-weighted assets)	$ 102,369	10.900%	$ 48,150	≥ 5.125%	$ 61,069	≥ 6.500%
Tier 1 leverage capital (to average assets)	$ 102,369	10.100%	$ 40,371	≥ 4.000%	$ 50,464	≥ 5.000%
December 31, 2015:						
Total capital (to risk-weighted assets)	$ 100,624	11.400%	$ 70,828	≥ 8.000%	$ 88,535	≥ 10.000%
Tier 1 capital (to risk-weighted assets)	$ 89,773	10.100%	$ 53,121	≥ 6.000%	$ 70,828	≥ 8.000%
Common equity tier 1 capital (to risk-weighted assets)	$ 89,773	10.100%	$ 39,841	≥ 4.500%	$ 57,548	≥ 6.500%
Tier 1 leverage capital (to average assets)	$ 89,773	9.000%	$ 40,131	≥ 4.000%	$ 50,163	≥ 5.000%

In determining compliance with the risk-based capital requirement, a banking organization is allowed to include both core capital and supplementary capital in its total capital, provided that the amount of supplementary capital included does not exceed the bank's core capital. Supplementary capital generally consists of general allowances for loan losses up to a maximum of 1.25% of risk-weighted assets, together with certain other items. In determining the required amount of risk-based capital, total assets, including certain off-balance sheet items, are multiplied by a risk-weight based on the risks inherent in the type of assets. At December 31, 2016, the Bank exceeded all of its regulatory capital requirements.

Any banking organization that fails any of the capital requirements is subject to possible enforcement action by the FDIC. Such action could include a capital directive, a cease and desist order, civil money penalties, the establishment of restrictions on the institution's operations, termination of federal deposit insurance and the appointment of a conservator or receiver. The FDIC's capital regulations provide that such actions, through enforcement proceedings or otherwise, could require one or more of a variety of corrective actions.

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. The following table shows the amount of capital associated with the different capital categories set forth in the prompt corrective action regulations.

Capital Category	Total Risk-Based Capital	Tier 1 Risk-Based Capital	Common Equity Tier 1 Capital	Tier 1 Leverage Capital
Well capitalized	10% or more	8% or more	6.5% or more	5% or more
Adequately capitalized	8% or more	6% or more	4.5% or more	4% or more
Undercapitalized	Less than 8%	Less than 6%	Less than 4.5%	Less than 4%
Significantly undercapitalized	Less than 6%	Less than 4%	Less than 3%	Less than 3%

In addition, a banking organization is "critically undercapitalized" if it has a ratio of tangible equity to total assets that is equal to or less than 2.0%. Under specified circumstances, a federal banking agency may reclassify a well-capitalized institution as adequately capitalized and may require an adequately capitalized institution or an undercapitalized institution to comply with supervisory actions as if it were in the next lower category (except that the FDIC may not reclassify a significantly undercapitalized institution as critically undercapitalized).

A banking organization generally must file a written capital restoration plan which meets specified requirements within 45 days of the date that the institution receives notice or is deemed to have notice that it is undercapitalized, significantly undercapitalized or critically undercapitalized. A federal banking agency must provide the institution with written notice of approval or disapproval within 60 days after receiving a capital restoration plan, subject to extensions by the agency. A banking organization which is required to submit a capital restoration plan must concurrently submit a performance guaranty by each company that controls the institution. In addition, undercapitalized organizations are subject to various regulatory restrictions, and the appropriate federal banking agency also may take any number of discretionary supervisory actions. At December 31, 2016, the Bank was not subject to the above mentioned restrictions.

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, 2016, 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.

Among other things, the Dodd-Frank Act created the Bureau of Consumer Financial Protection (the "CFPB"), 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 CFPB 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"). While the CFPB 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 CFPB 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:

- Required 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;
- Required BHCs and banks to be both well-capitalized and well-managed in order to acquire banks located outside their home state;

- 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 tangible equity; eliminated the ceiling on the size of the DIF and increased the floor on the size of the DIF;
- 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
- Eliminated 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;
- Repealed 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;
- Enhanced 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 increased the amount of time for which collateral requirements regarding covered transactions must be maintained;
- Expanded 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 were 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
- Strengthened 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 Securities Exchange Act of 1934 (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.

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 and the ability to repay a mortgage loan, many of the new requirements called for have yet to be implemented. 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.

Federal Home Loan Bank Membership. We are a member of the Federal Home Loan Bank of New York (the "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.

Loans to One Borrower. New Jersey banking law limits the total loans and extensions of credit by a bank to one borrower at one time to 15% of the capital funds of the bank, or up to 25% of the capital funds of the bank if the additional 10% is fully secured by collateral having a market value (as determined by reliable and continuously available price quotations) at least equal to the amount of the loans and extensions of credit over the 15% limit. If a bank's lending limit is less than $500,000, the bank may nevertheless have total loans and extensions of credit outstanding to one borrower at one time not to exceed $500,000. At December 31, 2016, the Bank's lending limit to one borrower was $17.0 million.

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 our 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, 2016:

Location	Leased or Owned	Date of Lease Expiration
Corporate Headquarters and Branch 183 Bayard Lane Princeton, NJ	Leased	October 31, 2018
Operations Center 403 Wall Street Princeton, NJ	Leased	August 11, 2021
Hamilton Branch 339 Route 33 Hamilton, NJ	Leased	October 31, 2020
Pennington Branch 2 Route 31 Pennington, NJ	Leased	April 30, 2022
Chambers Street Branch 21 Chambers Street Princeton, NJ	Leased	December 31, 2021

Location	Leased or Owned	Date of Lease Expiration
Montgomery Branch 1185 Route 206 North Princeton, NJ	Leased	April 30, 2020
Lambertville Branch 10-12 Bridge Street Lambertville, NJ	Owned	N/A
Lawrenceville Branch 2999 Princeton Pike Lawrenceville, NJ	Leased	November 30, 2020
Nassau Street Branch 194 Nassau Street Princeton, NJ	Leased	November 30, 2021
New Brunswick Branch 1 Spring Street, Suite 102 New Brunswick, NJ	Leased	March 31, 2022
North Wales Branch (MoreBank Division) 1222 Welsh Road North Wales, PA	Leased	September 30, 2021
Cheltenham Branch (MoreBank Division) 470 West Cheltenham Avenue Philadelphia, PA	Leased	January 25, 2021
Arch Street Branch (MoreBank Division) 921 Arch Street Philadelphia, PA	Leased	September 30, 2017

Item 3. Legal Proceedings

None.

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 22, 2017, there were approximately 684 holders 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 percent 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, 2016. See Note 13 to our audited financial statements included in this Annual Report on Form 10-K for a description of the material features of each plan.

Plan Category	Number of shares of common stock to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of shares of common stock remaining available for future issuance under compensation plans
Equity Compensation Plans approved by security holders:			
The Bank of Princeton 2007 Stock Option Plan	169,036	$12.00	42,253
The Bank of Princeton 2012 Stock Option Plan	481,517	$16.29	86,296
MoreBank 2004 Incentive Equity Compensation Plan	6,000	$25.00	-
Equity compensation plan not approved by security holders:			
Organizer warrants	72,000	$10.00	-
Total	728,553	$14.74	128,549

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," our Consolidated Financial Statements and the notes thereto included in this Form 10-K, and 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, 2016 and December 31, 2015
- Comparison of Operating Results for the Years Ended December 31, 2016 and December 31, 2015
- 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 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, 2016 and December 31, 2015

General. Our total assets increased from $1.01 billion at December 31, 2015 to $1.03 billion at December 31, 2016, an increase of $12.7 million, or one percent. This increase was primarily due to increases in loans receivable, net of our allowance for loan losses of $52.4 million and bank owned life insurance of $3.2 million. Offsetting these increases, securities available-for-sale decreased $28.5 million, cash and cash equivalents decreased $9.0 million, and accrued interest receivable and other assets decreased $4.2 million. Total liabilities remained relatively flat at $922.5 million at December 31, 2016. Total deposits increased nine percent from $789.4 million to $862.5 million at December 31, 2016. Offsetting this increase, total borrowings decreased $72.7 million or 56 percent as compared to the prior year. Total stockholders' equity increased $12.0 million to $103.5 million or 13 percent primarily attributable to 2016 net income of $11.8 million. The growth of our balance sheet has been a direct result of the successful implementation of our business plan. However, this growth was somewhat constrained in 2016 by limitations set forth in the Merger Agreement described in Part I—Item 1. Business, and by the effects of being under such an agreement, which was terminated in January 2017. 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.

We manage our balance sheet based on a number of interrelated criteria, such as changes in interest rates, fluctuations in certain asset and liability categories whose changes are not totally controlled by us, such as swings in deposit account balances driven by depositors' needs, prepayments and issuer call options exercised on securities available for sale, early payoffs on loans, investment opportunities presented by market conditions, lending originations, capital provided by earnings, and active management of our overall liquidity positions. The management of these dynamic and interrelated elements of our balance sheet result in fluctuations in balance sheet items throughout the year.

Cash and due from banks. Cash and due from banks decreased from $28.6 million at December 31, 2015 to $19.6 million at December 31, 2016, a decrease of $9.0 million, or 31 percent. The decrease in cash was primarily attributable to the timing of cash payments and cash receipts.

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 accumulated other comprehensive loss.

The following table presents a summary of the amortized cost and fair value of our securities available-for-sale at December 31, 2016, 2015 and 2014.

	December 31,					
	2016		2015		2014	
(in thousands)	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
U.S. Treasury securities	$ -	$ -	$ -	$ -	$ 14,770	$ 14,551
Mortgage-backed Securities-U.S. Government-sponsored Enterprises (GSEs)	59,679	59,864	70,524	70,682	76,428	77,188
Obligations of state and political subdivisions	53,361	53,170	70,140	70,827	71,665	72,061
Total	$ 113,040	$ 113,034	$ 140,664	$ 141,509	$ 162,863	$ 163,800

Securities available-for-sale, which are carried at fair value, decreased $28.5 million, or 20 percent, to $113 million at December 31, 2016. Funds from security sales and principal repayments were utilized to supplement growth in our loan portfolio.

The following table presents a summary of the amortized cost and fair value of our HTM securities at December 31, 2016, 2015 and 2014.

	December 31,					
	2016		2015		2014	
(in thousands)	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Mortgage-backed Securities-U.S. Government-sponsored Enterprises (GSEs)	$ 340	$ 365	$ 381	$ 414	$ 420	$ 456

HTM securities decreased minimally from December 31, 2015 to December 31, 2016. The decline in HTM securities is the result of normal principal prepayments and our strategy to not purchase additional securities for the HTM portfolio as we manage our investment portfolio to allow for greater flexibility as our liquidity needs change.

The following table summarizes the maturity distribution schedule of the amortized cost of debt securities with corresponding weighted-average yields at December 31, 2016. 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.

	December 31, 2016				
(in thousands)	One year or less	After one through five years	After five through ten years	After ten years	Total
Mortgage-backed Securities-U.S. Government-sponsored Enterprises (GSEs)	$ -	$ 1,835	$ 33,965	$ 23,879	$ 59,679
Obligations of state and political subdivisions	405	2,683	39,784	10,489	53,361
Total	$ 405	$ 4,518	$ 73,749	$ 34,368	$ 113,040
Weighted average yield	0.87%	2.41%	1.00%	2.59%	1.54%

At December 31, 2016, there were no holdings of any one issuer in an amount greater than ten percent 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 receivable, net. Loans receivable, net increased from $797.1 million at December 31, 2015 to $849.5 million at December 31, 2016, an increase of $52.4 million, or six percent. The increase was attributable to our efforts to grow our loan portfolio through existing relationships and new business. This growth was largely funded by increases in deposits and a decrease in our investment securities.

The following table details our loan maturities by loan segment and interest rate type at December 31, 2016:

	December 31, 2016			
(in thousands)	Due in one year or less	Due after one through five years	Due after five years	Total
Commercial real estate	$ 35,597	$ 62,919	$ 455,534	$ 554,050
Commercial and industrial	24,736	21,017	15,133	60,886
Construction	132,623	34,096	-	166,719
Residential first-lien mortgage	-	-	56,712	56,712
Home equity	167	138	23,880	24,185
Consumer	174	403	-	577
Total loans	$ 193,297	$ 118,573	$ 551,259	$ 863,129
Type:				
Fixed rate loans	$ 56,732	$ 62,528	$ 51,707	$ 170,967
Floating rate loans	136,565	56,045	499,552	692,162
Total loans	$ 193,297	$ 118,573	$ 551,259	$ 863,129

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, 2016, 2015, 2014, 2013, and 2012.

	December 31,				
(in thousands)	2016	2015	2014	2013	2012
Nonaccrual loans:					
Commercial real estate	$ 1,389	$ 6,530	$ 6,190	$ 2,535	$ 2,690
Commercial and industrial	188	1,834	1,185	5,127	4,596
Construction	1,649	1,805	1,911	-	892
Residential first-lien mortgage	-	1,370	166	182	-
Home equity	145	450	419	394	359
Consumer	-	-	-	-	11
Total nonaccrual loans	3,371	11,989	9,871	8,238	8,548
Troubled debt restructurings (TDRs) – performing	4,943	1,171	3,797	4,858	2,412
Accrual loans 90 days or more past due	1,820	-	-	-	-
Total nonperforming loans and performing TDRs	10,134	13,160	13,668	13,096	10,960
Other real estate owned	-	300	804	927	1,550
Total nonperforming assets and performing TDRs	$ 10,134	$ 13,460	$ 14,472	$ 14,023	$ 12,510

See Note 4 - 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, 2016 and for other information on our loan ratings of special mention, substandard and doubtful, all of which contain varying degrees of 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 (the "allowance") 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, 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 segment 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 remained relatively flat at $10.9 million at December 31, 2016. The (credit) provision for loan losses decreased $1.9 million over the prior year from a provision of $1.9 million for the year ended December 31, 2015 to a credit of $41,000 for the year ended December 31, 2016. Contributing to this decrease, nonaccrual loans decreased $8.6 million or 72 percent as compared to the prior year. Specific reserves related to impaired loans decreased $0.4 million from the prior year. Net recoveries were $12,000 during 2016 as compared to net charge-offs of $1.1 million during 2015. The ratio of allowance for loan losses to total loans decreased from 1.34% to 1.26% for the period ended December 31, 2016.

The following table presents a summary of changes in our allowance for loan losses and includes information regarding charge-offs, recoveries, and net charge offs to average loans outstanding for the years ended December 31, 2016, 2015, 2014, 2013 and 2012:

	Year Ended December 31,				
(in thousands)	2016	2015	2014	2013	2012
Balance at beginning of year	$ 10,851	$ 10,008	$ 8,493	$ 7,033	$ 5,362
Charge offs:					
Commercial real estate	-	(435)	(116)	(73)	-
Commercial and industrial	-	(626)	-	(156)	(388)
Construction	-	-	-	(370)	-
Residential first-lien mortgage	-	-	-	-	-
Home equity	-	(39)	-	-	-
Consumer	-	-	(29)	-	(5)
Total charge offs	-	(1,100)	(145)	(599)	(393)
Recoveries:					
Commercial real estate	-	-	5	12	-
Commercial and industrial	12	13	70	15	95
Construction	-	-	-	-	-
Residential first-lien mortgage	-	-	-	-	-
Home equity	-	6	-	-	1
Consumer	-	20	5	-	-
Total recoveries	12	39	80	27	96
Net charge-offs	12	(1,061)	(65)	(572)	(297)
(Reductions) additions charged to operations ((credit) provision for loan losses)	(41)	1,904	1,580	2,032	1,968
Balance at end of year	$ 10,822	$ 10,851	$ 10,008	$ 8,493	$ 7,033
Net charge offs to average loans outstanding	0.00 %	0.14%	0.01%	0.10%	0.06%

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. Reductions or additions to the allowance charged to operations are the result of applying our allowance methodology to the existing loan portfolio.

The following table presents the allocation of the allowance for loan losses by portfolio segment for the years ended December 31, 2016, 2015, 2014, 2013 and 2012. 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.

	December 31,					
	2016		2015		2014	
	Amount	Allocation as a % of Loan Category	Amount	Allocation as a % of Loan Category	Amount	Allocation as a % of Loan Category
Commercial real estate	$ 5,330	64.2 %	$ 4,703	60.5 %	$ 3,621	61.2 %
Commercial and industrial	974	7.0 %	2,246	15.4 %	1,530	17.3 %
Construction	3,159	19.3 %	2,615	15.1 %	2,719	10.7 %
Residential first-lien mortgage	404	6.6 %	292	5.2 %	318	6.2 %
Home equity	155	2.8 %	225	3.7 %	307	4.2 %
Consumer	3	0.1 %	3	0.1 %	17	0.4 %
Unallocated	797	-	767	-	1,496	-
Total	$ 10,822	100.0 %	$ 10,851	100.0 %	$ 10,008	100.0 %

	December 31,			
	2013		2012	
	Amount	Allocation as a % of Loan Category	Amount	Allocation as a % of Loan Category
Commercial real estate	$ 2,994	58.6 %	$ 2,557	58.8 %
Commercial and industrial	1,419	18.6 %	1,244	19.2 %
Construction	2,638	12.0 %	2,163	11.6 %
Residential first-lien mortgage	282	6.3 %	204	5.4 %
Home equity	282	4.5 %	256	4.7 %
Consumer	1	- %	10	0.3 %
Unallocated	877	-	599	-
Total	$ 8,493	100.0 %	$ 7,033	100.0 %

See Note 4 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 decreased $0.9 million from December 31, 2015 to December 31, 2016 resulting from normal depreciation expense during the year.

Accrued interest receivable and other assets. Accrued interest receivable and other assets decreased $4.2 million, or 23 percent, from December 31, 2015 to December 31, 2016, primarily due to decreases of $3.2 million in restricted investments in bank stock. The decrease in restricted investments in bank stocks was primarily the result of a $72.7 million decrease in FHLB-NY borrowings from December 31, 2015 to December 31, 2016. We are required to own stock of the FHLB-NY based in part by the amount of our FHLB-NY borrowings outstanding. The remaining decrease was primarily due to a $0.5 million decrease in income taxes receivable as compared to the prior year-end.

Deposits. Total deposits increased from $789.4 million at December 31, 2015 to $862.5 million at December 31, 2016, an increase of $73.1 million, or nine percent. Non-interest-bearing deposits decreased $4.7 million, or five percent, to $98.2 million at December 31, 2016. Interest-bearing deposits increased $77.8 million, or 11 percent, to $764.3 million at December 31, 2016.

The following table presents our time deposit maturities as of December 31, 2016.

	December 31, 2016				
(in thousands)	Three months or less	Over three through six months	Over six through twelve months	Over twelve months	Total
Time deposits of $250,000 or more	$ 10,036	$ 2,115	$ 14,678	$ 23,724	$ 50,553
Time deposits of less than $250,000	22,770	14,371	40,588	92,207	169,936
Total	$ 32,806	$ 16,486	$ 55,266	$ 115,931	$ 220,489

The following table presents the average balance of our deposit accounts for the years ended December 31, 2016, 2015 and 2014, and the average cost of funds for each category of our deposits.

	2016			2015			2014		
(in thousands)	Average Amount	Avg. Rate Paid	% of Average Total Deposits	Average Amount	Avg. Rate Paid	% of Average Total Deposits	Average Amount	Avg. Rate Paid	% of Average Total Deposits
Demand, non-interest-bearing checking	$ 105,794	0.00%	12.6%	$ 133,970	0.00%	16.2%	$ 125,472	0.00%	15.9 %
Demand Interest-bearing	160,270	0.63	19.1	202,124	0.59	24.4	151,917	0.75	19.2
Money market	234,949	0.86	28.0	140,973	0.59	17.0	148,462	0.62	18.8
Savings deposits	83,123	0.77	9.9	76,553	0.71	9.2	89,647	0.91	11.3
Time deposits of $250,000 or more	63,608	1.48	7.6	64,065	1.23	7.7	63,196	1.02	8.0
Other time deposits	191,825	1.44	22.8	211,224	1.52	25.5	212,249	2.07	26.8
Total	$ 839,569	0.88%	100.0%	$ 828,909	0.79%	100.0%	$ 790,943	0.88%	100.0 %

Borrowings. Borrowings decreased $72.7 million or 56 percent to $56.1 million at December 31, 2016. The Bank utilizes its available capacity with FHLB-NY as an additional source of liquidity to fund increases in asset classes not funded by our deposits. Increased deposits during the year, supplemented with amounts from the sales and principal repayments of securities, available-for-sale, decreased the need for borrowings at year-end December 31, 2016.

Accrued interest payable and other liabilities. Accrued interest payable and other liabilities increased $0.3 million to $3.9 million as compared to $3.6 million in the prior year. Income taxes payable increased $0.6 million due to the timing of tax payments offset by decreases in miscellaneous other liabilities.

Stockholders' equity. Total stockholders' equity increased $12.0 million to $103.5 million or 13 percent primarily attributable to net income of $11.8 million.

Comparison of Operating Results for the Years Ended December 31, 2016 and December 31, 2015

General. Net income for the year ended December 31, 2016 was $11.8 million, an increase of approximately $0.8 million, or eight percent as compared to the year ended December 31, 2015. This increase was primarily attributable to an increase in net interest income and a decrease in the provision for loan losses partially offset by increases in non-interest expense and income tax expense.

Net interest income. Net interest income increased $1.3 million, or four percent, to $37.7 million for the year ended December 31, 2016, compared to $36.4 million for the year ended December 31, 2015. Our interest rate spread increased from 3.66 percent for the year ended December 31, 2015 to 3.69 percent for the year ended December 31, 2016, an increase of three basis points. Our average interest-earning assets increased $28.3 million, or three percent, while the average yield on those assets increased 10 basis points. The increase in average interest-earning assets was primarily the result of our ability to continue to increase the size of our loan portfolio. Our average interest-bearing liabilities increased $45.6 million, or six percent, while the average cost of those liabilities increased seven basis points.

Total interest and dividend income. Total interest and dividend income increased $2.2 million, or five percent, to $45.4 million for the year ended December 31, 2016, compared to $43.2 million for the prior year. The improvement in interest income resulted from an increase in the average balance of interest-earning assets which increased $28.3 million coupled with an increase in yield on these assets of 10 basis points as compared to the previous year.

Interest income and fees on loans increased $2.7 million, or seven percent, to $42.3 million for the year ended December 31, 2016, compared to $39.6 million for the prior year. The increase was attributable to an increase in the average balance of loans receivable of $62.5 million from $766.8 million in 2015 to $829.3 million in 2016. This increase was partially offset by a six basis point decrease in the year-over-year average yield on loans. The decrease in the average yield on loans was due to lower interest rates on new loan production caused primarily by increasing competition throughout the year ending December 31, 2016.

Interest income on securities decreased approximately $0.6 million, or 17 percent, for the year ended December 31, 2016 compared to the prior year. This decrease was primarily attributable to a $27.0 million decrease in average balances while yields increased one basis point over the prior year. Average balances decreased as cash received from principal repayments and sales of securities was utilized to fund the growth in our loan portfolio.

Interest Expense. Total interest expense increased $0.9 million, or 14 percent for the year ended December 31, 2016, compared to the prior year period. This increase was the result of a seven basis point increase in the cost of interest-bearing liabilities, coupled with a $45.6 million increase in average interest-bearing liabilities.

Interest expense on deposits increased $0.8 million for the year ended December 31, 2016 compared to the prior year due to an increase in the cost of interest-bearing deposits of five basis points during 2016, coupled with an increase in average interest-bearing deposits of $38.8 million.

Interest expense on borrowings increased approximately $0.1 million, or 51 percent, for the year ended December 31, 2016 compared to the prior year. This increase was primarily attributable to a $6.8 million increase in average balances and a 15 basis point increase in the cost of borrowings.

(Credit) Provision for Loan Losses. The (credit) provision for loan losses decreased $1.9 million over the prior year from a provision of $1.9 million for the year ended December 31, 2015 to a credit of $41,000 for the year ended December 31, 2016. Contributing to this decrease, nonaccrual loans decreased $8.6 million or 72 percent as compared to the prior year. Net charge-offs were $12,000 as compared to $1.1 million during 2015. The ratio of allowance for loan losses to total loans decreased from 1.34% to 1.26% for the period ended December 31, 2016. 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 remained relatively unchanged at $2.4 million as compared to December 31, 2015. Gain on sales of securities available-for-sale decreased $0.1 million to $0.1 million for the year ended December 31, 2016 and gain on sale of real estate owned decreased $0.2 million. Offsetting these decreases, income from bank owned life insurance increased $0.1 million and other service charges increased $0.3 million largely driven by increases in loan prepayment fees and expired commitment fees on commercial loans.

Non-Interest Expense. Non-interest expense increased approximately $1.7 million, or eight percent, to $23.7 million in 2016, compared to $22.1 million in the prior year.

Salaries and employee benefits increased $1.1 million, or nine percent, to approximately $13.4 million in 2016. The increase was primarily attributable to normal merit increases occurring at the beginning of the 2016 as well as an increase in average full time equivalent employees from 132 employees during 2015 to 134 employees during 2016. Bonus expense increased $0.1 million as compared to the prior year. Medical insurance premiums increased $0.1 million over the prior year.

Professional fees increased $0.9 million, or 66 percent, to approximately $2.1 million in 2016 compared to $1.3 million in 2015. Legal fees increased $0.2 million during the year due to increased costs related to the planned merger with Investors Bank. Consulting fees also increased $0.1 million directly related to the planned merger. Internal and external audit fees each increased $0.1 million due to increased testing related to the Bank's initial year of compliance with Section 36 of the FDI Act and FDIC Regulation Part 363 regarding internal control over financial reporting, as well as internal control related matters identified in early 2016. Board of director fees increased $0.2 million over the prior year.

Income Tax Expense. The provision for income taxes increased $0.8 million, or 21 percent, to $4.5 million in 2016 compared to $3.7 million in the prior year. The increase was due to an 11 percent increase in pre-tax income and an increase in the effective tax rate from 25.2 percent in 2015 to 27.4 percent in 2016. This was mainly attributable to increases in state taxes and from the incremental federal tax rate increase on taxable income over $10.0 million.

Average Balance Sheets. The average yields and costs 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.

	For the Year Ended December 31,					
	2016			2015		
(in thousands)	Average Balance	Interest	Average Yield/Cost	Average Balance	Interest	Average Yield/Cost
Interest-earning assets:						
Loans receivable, net	$ 829,295	$ 42,304	5.10%	$ 766,776	$ 39,579	5.16%
Investment securities:						
Available-for-sale	124,311	2,817	2.27	151,291	3,406	2.25
Held-to-maturity	369	19	5.15	399	20	5.02
Other interest-earning assets	21,184	293	1.38	28,381	216	0.76
Total interest-earning assets	975,159	45,433	4.66	946,847	43,221	4.56
Non-interest-earning assets	35,971			33,757		
Total assets	$ 1,011,130			$ 980,604		
Interest-bearing liabilities:						
Interest-bearing and savings deposits	$ 243,393	1,646	0.68	$ 278,677	1,741	0.62
Money market	234,949	2,015	0.86	140,973	837	0.59
Time deposits	255,433	3,699	1.45	275,289	3,992	1.45
Total interest-bearing deposits	733,775	7,360	1.00	694,939	6,570	0.95
Federal Home Loan Bank borrowings	69,222	403	0.58	62,465	267	0.43
Total interest-bearing liabilities	802,997	7,763	0.97%	757,404	6,837	0.90%
Non-interest-bearing liabilities	109,829			138,211		
Total liabilities	912,826			895,615		
Stockholders' equity	98,304			84,989		
Total liabilities and stockholders' equity	$ 1,011,130			$ 980,604		
Interest rate spread[1]			3.69%			3.66%
Net interest income		$ 37,670			$ 36,384	
Net yield on interest-earning assets[2]			3.86%			3.84%
Ratio of average interest-earning assets to average interest-bearing liabilities			1.21x			1.25x

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

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

(in thousands)	For the Year Ended December 31, 2014 Average Balance	Interest	Average Yield/Cost
Interest-earning assets:			
Loans receivable, net	$ 678,058	$ 36,170	5.33 %
Investment securities:			
Available-for-sale	177,073	4,206	2.38
Held-to-maturity	421	21	4.98
Other interest-earning assets	22,953	170	0.74
Total interest-earning assets	878,505	40,567	4.62
Non-interest-earning assets	32,167		
Total assets	$ 910,672		
Interest-bearing liabilities:			
Demand, interest-bearing and savings deposits	$ 241,564	1,953	0.81
Money market	148,462	918	0.62
Time deposits	275,445	4,109	1.49
Total interest-bearing deposits	665,471	6,980	1.05
Federal Home Loan Bank borrowings	42,839	177	0.41
Total interest-bearing liabilities	708,310	7,157	1.01 %
Non-interest-bearing liabilities	130,498		
Total liabilities	838,808		
Stockholders' equity	71,864		
Total liabilities and stockholders' equity	$ 910,672		
Interest rate spread(1)			3.61 %
Net interest income		$ 33,410	
Net yield on interest-earning assets(2)			3.80 %
Ratio of average interest-earning assets to average interest-bearing liabilities			1.24x

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

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

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, 2016 vs. 2015 Increase (Decrease) Due to			Year Ended December 31, 2015 vs. 2014 Increase (Decrease) Due to		
	Volume	Rate	Net	Volume	Rate	Net
Interest and dividend income:						
Loans receivable	$ 3,189	$ (464)	$ 2,725	$ 4,579	$ (1,170)	$ 3,409
Investment securities:						
Available-for-sale	(574)	(15)	(589)	(529)	(271)	(800)
Held-to-maturity	(1)	-	(1)	(1)	-	(1)
Other interest-earnings assets	(100)	177	77	42	4	46
Total interest-earning assets	$ 2,514	$ (302)	$ 2,212	$ 4,091	$ (1,437)	$ 2,654
Interest expense:						
Demand, interest-bearing and savings	$ (240)	$ 144	$ (96)	$ 232	$ (444)	$ (212)
Money market	806	372	1,178	(44)	(36)	(80)
Time deposits	(287)	(5)	(292)	(2)	(116)	(118)
Federal Home Loan Bank borrowings	40	96	136	84	6	90
Total interest-bearing liabilities	$ 319	$ 607	$ 926	$ 270	$ (590)	$ (320)
Change in net interest income	$ 2,195	$ (909)	$ 1,286	$ 3,821	$ (847)	$ 2,974

Liquidity, Commitments and Capital Resources

Liquidity. Our liquidity, represented by cash and due from banks, 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, 2016, we had $56.1 million of overnight advances outstanding from the FHLB-NY. At December 31, 2016, we had remaining available capacity with FHLB-NY, subject to certain collateral restrictions, of $457 million.

Additionally, we are a shareholder of Atlantic Community Bancshares, Inc., and as such, as of December 31, 2016, we had available capacity with its subsidiary, Atlantic Community Bankers Bank ("ACBB") of $10.0 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, 2016:

Years Ended December 31:	(in thousands)
2017	$ 1,520
2018	1,430
2019	1,183
2020	1,121
2021	738
Thereafter	38
Total minimum payments required	$ 6,030

Capital Resources. Consistent with our goals to operate as a sound and profitable financial institution, we actively seek to maintain our status as a well-capitalized institution in accordance with regulatory standards. As of December 31, 2016, we met the capital requirements to be considered "well capitalized". See Note 14 - Regulatory Matters 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 our 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 counterparty 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)	2016	2015
Performance and standby letters of credit	$ 3,720	$ 9,015
Commitments to fund loans	138,925	121,015
Unfunded commitments under lines of credit	10,765	11,611
Total	$ 153,410	$ 141,641

For additional information regarding our outstanding lending commitments at December 31, 2016, see Note 10 – 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, 2016, 2015 and 2014.

	2016	2015	2014
Return on Average Assets (ROA)	1.17%	1.12%	0.99%
Return on Average Equity (ROE)	12.05%	12.95%	12.53%
Average Equity to Average Assets	9.72%	8.67%	7.89%

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, 2016, 2015 and 2014.

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-off 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."

Other Than Temporary Impairment. 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 Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 320, *Investments – Debt and Equity Securities,* 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 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.

Income Taxes. We account for income taxes in accordance with income tax accounting guidance contained in Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("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, 2016 and 2015. 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 our 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, we are 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, 2016 AND 2015

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Report of Independent Registered Public Accounting Firm

Board of Directors and Stockholders
The Bank of Princeton
Princeton, New Jersey

We have audited the accompanying consolidated statements of financial condition of The Bank of Princeton and subsidiaries (the "Company") as of December 31, 2016 and 2015 and the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these 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. An audit 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 at December 31, 2016 and 2015, 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.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2016, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated April 3, 2017 expressed an unqualified opinion thereon.

BDO USA, LLP

Philadelphia, Pennsylvania
April 3, 2017

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Report of Independent Registered Public Accounting Firm

Board of Directors and Stockholders
The Bank of Princeton
Princeton, New Jersey

We have audited The Bank of Princeton and subsidiaries' (the "Company") internal control over financial reporting, including controls over the preparation of regulatory financial statements in accordance with the Federal Financial Institutions Examination Council instructions for Consolidated Reports of Condition and Income ("call report instructions"), as of December 31, 2016, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying *Internal Control Over Financial Reporting*. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's 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 for external purposes in accordance with both generally accepted accounting principles and regulatory reporting instructions. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with both generally accepted accounting principles and regulatory reporting instructions, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

BDO

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on the COSO criteria.

We have not examined and, accordingly, we do not express an opinion or any other form of assurance on management's statement included in *Internal Control Over Financial Reporting* referring to compliance with laws and regulations.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated statements of financial condition of The Bank of Princeton and subsidiaries as of December 31, 2016 and 2015 and the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for the years then ended and our report dated April 3, 2017 expressed an unqualified opinion thereon.

BDO USA, LLP

Philadelphia, Pennsylvania
April 3, 2017

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

	December 31, 2016	December 31, 2015
ASSETS		
Cash and due from banks	$ 19,605	$ 28,589
Securities available-for-sale	113,034	141,509
Securities held-to-maturity (fair value of $365 and $414, respectively)	340	381
Loans receivable, net of allowance for loan losses of $10,822 and $10,851 at December 31, 2016 and 2015, respectively	849,504	797,095
Bank-owned life insurance	25,411	22,258
Other real estate owned (OREO)	-	300
Premises and equipment, net	4,519	5,450
Accrued interest receivable and other assets	13,583	17,740
TOTAL ASSETS	$ 1,025,996	$ 1,013,322
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES:		
Deposits:		
Non-interest-bearing	$ 98,204	$ 102,944
Interest-bearing	764,317	686,489
Total deposits	862,521	789,433
Borrowings	56,100	128,800
Accrued interest payable and other liabilities	3,913	3,645
TOTAL LIABILITIES	922,534	921,878
STOCKHOLDERS' EQUITY:		
Common stock, $5.00 par value, 10,000,000 authorized, 4,700,395 and 4,687,457 shares issued and outstanding at December 31, 2016 and 2015, respectively	23,502	23,437
Paid-in capital	31,856	31,223
Retained earnings	48,108	36,265
Accumulated other comprehensive (loss) income	(4)	519
TOTAL STOCKHOLDERS' EQUITY	103,462	91,444
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 1,025,996	$ 1,013,322

See notes to consolidated financial statements.

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

	For the Years Ended December 31, 2016	2015
INTEREST AND DIVIDEND INCOME		
Loans receivable, including fees	$ 42,304	$ 39,579
Securities available-for-sale:		
Taxable	1,154	1,465
Tax-exempt	1,663	1,941
Securities held-to-maturity	19	20
Other interest and dividend income	293	216
TOTAL INTEREST AND DIVIDEND INCOME	45,433	43,221
INTEREST EXPENSE		
Deposits	7,360	6,570
Borrowings	403	267
TOTAL INTEREST EXPENSE	7,763	6,837
NET INTEREST INCOME	37,670	36,384
(Credit) provision for loan losses	(41)	1,904
NET INTEREST INCOME AFTER (CREDIT) PROVISION FOR LOAN LOSSES	37,711	34,480
NON-INTEREST INCOME		
Gain on sale of securities available-for-sale, net	136	226
Income from bank-owned life insurance	653	579
Fees and service charges	1,540	1,248
(Loss) gain on sale of other real estate owned	(42)	125
Other	67	109
TOTAL NON-INTEREST INCOME	2,354	2,287
NON-INTEREST EXPENSE		
Salaries and employee benefits	13,350	12,246
Occupancy and equipment	3,483	3,647
Professional fees	2,147	1,295
Data processing and communications	1,904	1,844
Federal deposit insurance assessment	705	795
Advertising and promotion	225	197
Office expense	308	290
Other real estate owned, net	18	160
Other	1,621	1,585
TOTAL NON-INTEREST EXPENSE	23,761	22,059
INCOME BEFORE INCOME TAX EXPENSE	16,304	14,708
INCOME TAX EXPENSE	4,461	3,702
NET INCOME	$ 11,843	$ 11,006
Earnings per common share-basic	$ 2.52	$ 2.38
Earnings per common share-diluted	$ 2.36	$ 2.30

See notes to consolidated financial statements.

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

	For the Years ended December 31, 2016	2015
NET INCOME	$ 11,843	$ 11,006
Other comprehensive (loss) income		
Unrealized holding (losses) gains arising during period on securities available-for-sale	(715)	134
Income tax effect on unrealized holding losses (gains)	276	(52)
Less: reclassification adjustment for gains on sales of securities available-for-sale[1]	(136)	(226)
Income tax effect on reclassification adjustment for gains on sales of securities available-for-sale[2]	52	87
Total other comprehensive loss	(523)	(57)
COMPREHENSIVE INCOME	$ 11,320	$ 10,949

[1] Amounts are included in Gain on sale of securities available-for-sale, net on the Consolidated Statements of Income as a separate element within total non-interest income.

[2] Amounts are included in Income Tax Expense on the Consolidated Statements of Income.

See notes to consolidated financial statements.

THE BANK OF PRINCETON
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
For the Years Ended December 31, 2016 and 2015
(in thousands, except share data)

	Common stock	Paid-in capital	Retained earnings	Accumulated other comprehensive (loss) income	Total
Balance, January 1, 2015	$ 22,912	$ 29,755	$ 25,259	$ 576	$ 78,502
Net income	-	-	11,006	-	11,006
Other comprehensive loss	-	-	-	(57)	(57)
Stock options and warrants exercised (105,142 shares)	525	703	-	-	1,228
Non-qualified stock options exercised		76			76
Stock-based compensation expense	-	689	-	-	689
Balance, December 31, 2015	$ 23,437	$ 31,223	$ 36,265	$ 519	$ 91,444
Net income	-	-	11,843	-	11,843
Other comprehensive loss	-	-	-	(523)	(523)
Stock options and warrants exercised (12,938 shares)	65	87	-	-	152
Stock-based compensation expense	-	546	-	-	546
Balance, December 31, 2016	$ 23,502	$ 31,856	$ 48,108	$ (4)	$ 103,462

See notes to consolidated financial statements.

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

	For the Years Ended December 31, 2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 11,843	$ 11,006
Adjustments to reconcile net income to net cash provided by operating activities:		
(Credit) provision for loan losses	(41)	1,904
Depreciation and amortization	940	1,003
Stock-based compensation	546	765
Amortization of premiums and accretion of discounts on securities	614	688
Accretion of net deferred loan fees and costs	(1,112)	(1,297)
Net realized gains on sale of securities available-for-sale	(136)	(226)
Increase in cash surrender value of bank-owned life insurance	(653)	(579)
Deferred income tax expense	20	12
Net loss (gain) on sale of other real estate owned	42	(125)
Amortization of core deposit intangible	9	65
Decrease (increase) in accrued interest receivable and other assets	1,241	(1,452)
Increase (decrease) in accrued interest payable and other liabilities	268	(958)
NET CASH PROVIDED BY OPERATING ACTIVITIES	13,581	10,806
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of securities available-for-sale	(7,052)	(17,516)
Proceeds from sale of securities available-for-sale	10,274	21,742
Maturities, calls and principal repayments of securities available for-sale	23,924	17,511
Maturities, calls and principal repayments of securities held-to-maturity	41	39
Net increase in loans	(51,256)	(74,871)
Purchases of bank-owned life insurance	(2,500)	(3,750)
Proceeds on sale of other real estate owned	258	929
Purchases of premises and equipment	(9)	(637)
Redemptions (purchases) of restricted bank stock	3,215	(4,840)
NET CASH USED IN INVESTING ACTIVITIES	(23,105)	(61,393)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase (decrease) in deposits	73,088	(58,424)
Net proceeds of borrowings	17,300	104,500
Repayments of term borrowings	(90,000)	-
Proceeds from exercise of stock options	152	1,228
NET CASH PROVIDED BY FINANCING ACTIVITIES	540	47,304
NET DECREASE IN CASH AND CASH EQUIVALENTS	(8,984)	(3,283)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	28,589	31,872
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 19,605	$ 28,589

See notes to consolidated financial statements.

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

	For the Years Ended December 31, 2016	2015
SUPPLEMENTARY CASH FLOWS INFORMATION:		
Interest paid	$ 7,837	$ 7,000
Income taxes paid	$ 3,510	$ 5,102
SUPPLEMENTARY SCHEDULE OF NONCASH ACTIVITIES:		
Transfers from loans receivable, net of OREO	$ -	$ 300

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 ("FDIC"). The area served by the Bank, through its thirteen 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 also conducts loan origination activities in select areas of New York.

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, 2016, the Bank had 135 total employees and 134 full-time equivalent employees. The Bank maintains a website at www.thebankofprinceton.com.

Termination of Merger Agreement

On January 24, 2017, the Bank entered into a Mutual Termination Agreement (the "Termination Agreement") with Investors Bancorp, Inc. and Investors Bank to terminate the Agreement and Plan of Merger, dated as of May 3, 2016 ("Merger Agreement"), between the parties. The parties concluded that regulatory approval of the merger application submitted by Investors Bank to the Federal Deposit Insurance Corporation would not be obtained prior to the March 31, 2017 termination deadline set forth in the merger agreement. Each party bore its own costs and expenses in connection with the terminated transaction, without penalties. Under the Termination Agreement, the parties also mutually released each other from any claims of liability to one another relating to the merger transaction. Investors Bank also agreed that it would not engage in certain activities involving the Bank through December 31, 2017, including directly soliciting or calling on any person who, to Investors Bank's knowledge as of January 24, 2017, was a customer of the Bank, for the purpose of extending credit to such person.

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, TBOP Delaware Investment Company and TBOP REIT, Inc. 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, 2016 and 2015. 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.

THE BANK OF PRINCETON
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 – Summary of Significant Accounting Policies (Continued)

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.

Significant group concentrations of credit risk

Most of the Bank's activities are with customers located within the Mercer County, New Jersey, and surrounding areas as well as select areas in New York 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 commercial 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 due from banks

Cash and due from banks 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

The Bank's investment portfolio includes both held-to-maturity and available-for-sale securities:

Held-to-Maturity - Investment securities that management has the positive intent and ability to hold until maturity are classified as held-to-maturity and carried at their remaining unpaid principal balance, net of unamortized premiums or unaccreted discounts. Premiums are amortized and discounts are accreted using the interest method over the estimated remaining term of the underlying security.

Available-for-Sale - Investment securities that will be held for indefinite periods of time, including securities that may be sold in response to changes in market interest or prepayment rates, needs for liquidity, and changes in the availability and the yield of alternative investments, are classified as available-for-sale. These assets are carried at their estimated fair value. Fair values are based on quoted prices for identical assets in active markets, quoted prices for similar assets in markets that are either actively or not actively traded, or in some cases where there is limited activity or less transparency around inputs, internally developed discounted cash flow models. Unrealized gains and losses are excluded from earnings and are reported net of tax in accumulated other comprehensive income (loss) on the consolidated statements of financial condition until realized, including those recognized through the non-credit component of an OTTI charge.

THE BANK OF PRINCETON
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 – Summary of Significant Accounting Policies (Continued)

The Bank evaluates its securities portfolio for OTTI throughout the year. Each investment, which has a fair value less than the book value, is reviewed on a quarterly basis by management. Management considers, at a minimum, whether the following factors exist that, both individually or in combination, could indicate that the decline is other-than-temporary: (a) the Bank has the intent to sell the security; (b) it is more likely than not that it will be required to sell the security before recovery; and (c) the Bank does not expect to recover the entire amortized cost basis of the security. Among the factors that are considered in determining the Bank's intent is a review of capital adequacy, interest rate risk profile and liquidity at the Bank. An impairment charge is recorded against individual securities if the review described above concludes that the decline in value is other-than-temporary. During 2016 and 2015, it was determined that there were no other-than-temporarily impaired investments. As a result, the Bank did not record credit related OTTI charges through earnings during the years ended December 31, 2016 and 2015.

Loans Receivable

Loans receivable that management has the intent and ability to hold until maturity or payoff are reported at their outstanding unpaid principal balances, net of an allowance for loan losses, and deferred fees and costs. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized as an adjustment of the yield 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 segments.

For all segments 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 segments 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 Consolidated Statements of Financial Condition. The allowance for loan losses is increased by the provision for loan losses, and decreased by charge-offs, net of recoveries. Loans deemed to be uncollectible are charged against the allowance for loan losses, and subsequent recoveries, if any, are credited to the allowance. All, or part, of the principal balance of loans receivable are charged off to the allowance as soon as it is determined that the repayment of all, or part, of the principal balance is highly unlikely.

The allowance for loan losses is maintained at a level considered adequate to provide for probable losses. The 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 BANK OF PRINCETON
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 – Summary of Significant Accounting Policies (Continued)

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 segment, including loans not considered impaired, as well as smaller balance homogeneous loans, such as residential mortgage, home equity and consumer loans. These pools of loans are evaluated for loss exposure based upon historical loss rates for each of these loan segments, 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. Changes in the value of underlying collateral for collateral-dependent loans; and

9. Effect of external factors, such as competition and legal and regulatory requirements.

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

THE BANK OF PRINCETON
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 – Summary of Significant Accounting Policies (Continued)

Commercial real estate lending entails significant additional risks as compared with single-family residential real estate 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 balance.

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.

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'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.

THE BANK OF PRINCETON
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 – Summary of Significant Accounting Policies (Continued)

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, 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 segments 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. Loans not classified are rated pass.

Based on management's comprehensive analysis of the loan portfolio, management believes the allowance for loan losses is adequate at the reported dates.

Bank-owned life insurance

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

Other real estate owned

Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value less cost to sell at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are then recorded at the lower of carrying amount or fair value less cost to sell. Revenue and expenses from operations and write-downs 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 include accrued interest receivable, deferred tax asset, net, restricted investments in bank stocks, prepaid assets and other assets.

THE BANK OF PRINCETON
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 – Summary of Significant Accounting Policies (Continued)

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 $3.5 million and $6.8 million is carried at cost at December 31, 2016 and 2015, 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 Community Bankers Bank ("ACBB") at December 31, 2016 and 2015.

Management believes no impairment charge is necessary related to the FHLB restricted stock or the ACBB restricted stock as of December 31, 2016 or 2015.

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 and for the year ended December 31, 2016 and 2015. 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, 2016, tax years after 2013 are subject to federal examination and tax years after 2012 to state examination. 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 statement of financial condition 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. The Bank made

THE BANK OF PRINCETON
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 – Summary of Significant Accounting Policies (Continued)

matching contributions to employees of $117,000 and $101,000, respectively during the years ended December 31, 2016 and 2015.

Stock compensation plans

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

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

Earnings per share

Basic earnings per share amounts are calculated by dividing income available to common stockholders by the weighted average common shares outstanding during the period, and exclude any dilutive effects of 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 consolidated statements of financial condition, such items, along with net income, are components of comprehensive income. Accumulated other comprehensive income is comprised of net unrealized holding gains and losses, net of taxes, on available-for-sale securities. Realized gains or losses are reclassified out of accumulated other comprehensive income when the underlying security is sold, based upon the specific identification method.

Recently issued accounting standards

In November, 2016, the FASB issued Accounting Standards Update (ASU) 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash. ASU 2016-18 was issued to address divergence in the way restricted cash is classified and presented. The amendments in the update require that a statement of cash flows explain the change during a reporting period in the total of cash, cash equivalents, and amounts generally described as restricted cash and restricted cash equivalents. The amendments in this update apply to entities that have restricted cash or restricted cash equivalents and are required to present a statement of cash flows under Topic 230. The amendment says that transfers between cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents are not part of the entity's operating, investing, and financing activities. For public business entities, ASU 2016-18 is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. At December 31, 2016 the Bank does not have restricted cash and therefore does not anticipate a material impact to the consolidated financial statements at this time.

THE BANK OF PRINCETON
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 – Summary of Significant Accounting Policies (Continued)

In August, 2016, the FASB issued ASU 2016-15: Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments. Stakeholders indicated that there is diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows under Topic 230, Statement of Cash Flows, and other Topics. This update addresses the following eight cash flow issues: Debt prepayment or debt extinguishment costs; settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing; contingent consideration payments made after a business combination; proceeds from the settlement of insurance claims; proceeds from the settlement of corporate-owned life insurance policies (COLIs) (including bank-owned life insurance policies (BOLIs)); distributions received from equity method investees; beneficial interests in securitization transactions; and separately identifiable cash flows and application of the predominance principle. The amendments in this update apply to all entities, including both business entities and not-for-profit entities that are required to present a statement of cash flows under Topic 230. The amendments in this update are effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Historically, the cash flows from these items has been infrequent and immaterial. The Bank does not anticipate a material impact to the consolidated financial statements at this time.

In June, 2016 the FASB has issued ASU 2016-13: Financial Instruments - Credit Losses, which amends the Board's guidance on the impairment of financial instruments. The amended guidance requires financial assets measured at amortized cost to be presented at the net amount expected to be collected. The allowance for credit losses will represent a valuation account that is deducted from the amortized cost basis of the financial assets to present their net carrying value at the amount expected to be collected. The income statement will reflect the measurement of credit losses for newly recognized financial assets as well as expected increases or decreases of expected credit losses that have taken place during the period. When determining the allowance, expected credit losses over the contractual term of the financial asset(s) (taking into account prepayments) will be estimated considering relevant information about past events, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount. The amended guidance also requires recording an allowance for credit losses for purchased financial assets with a more-than-insignificant amount of credit deterioration since origination. The initial allowance for these assets will be added to the purchase price at acquisition rather than being reported as an expense. Subsequent changes in the allowance will be recorded through the income statement as an expense adjustment. In addition, the amended guidance requires credit losses relating to available-for-sale debt securities to be recorded through an allowance for credit losses. The calculation of credit losses for available-for-sale securities will be similar to how it is determined under existing guidance. The guidance is effective for annual periods and interim periods within those annual periods beginning after December 15, 2019. The Bank is assessing the new guidance to determine what modifications to existing credit estimation processes may be required. The Bank expects that the new guidance will result in an increase in its allowance for credit losses as a result of considering credit losses over the expected life of its loan portfolios. Increases in the level of the allowance for credit losses will also reflect new requirements to include the nonaccretable principal difference on purchased credit impaired loans and estimated credit losses on investment securities classified as held-to-maturity, if any. The Bank is reviewing our systems and data collection to determine the necessary changes to our current process. The Bank is in the initial stages of evaluating the effect of this standard on our financial statements.

In March, 2016, the FASB issued ASU 2016-09: Compensation —Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. The Board is issuing this update as part of its initiative to reduce complexity in accounting standards. The areas for simplification in this update involve several aspects of the accounting for employee share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. Some of the areas for simplification apply only to nonpublic entities. In addition, the amendments in this update eliminate the guidance in Topic 718 that was indefinitely deferred shortly after the issuance of FASB Statement No. 123 (revised 2004), Share-Based Payment. For public business entities, the amendments in this update are effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. The Bank evaluated the impact of this guidance and does not anticipate a material impact to the consolidated financial statements at this time.

THE BANK OF PRINCETON
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 – Summary of Significant Accounting Policies (Continued)

In February, 2016, the FASB issued ASU No. 2016-02, "Leases (Topic 842)". This standard requires the recognition of a right of use asset and related lease liability by lessees for leases classified as operating leases under current GAAP. Topic 842, which replaces the current guidance under Topic 840, retains a distinction between finance leases and operating leases. The recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee also will not significantly change from current GAAP. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election by class of underlying asset not to recognize right of use assets and lease liabilities. Topic 842 will be effective for reporting periods beginning January 1, 2019, with an early adoption permitted. The Bank must apply a modified retrospective transition approach for the applicable leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The modified retrospective approach would not require any transition accounting for leases that expired before the earliest comparative period presented. Our leases are operating leases and ASU 2016-02 will require us to recognize them in our consolidated statement of financial condition. Our operating leases are predominantly related to real estate. The Bank is in the initial stages of evaluating the effect of this standard on our financial statements and continues to evaluate the available transition methods.

In January, 2016, the FASB issued ASU 2016-01, "Financial Instruments- Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities." This amendment supersedes the guidance to classify equity securities with readily determinable fair values into different categories, requires equity securities to be measured at fair value with changes in the fair value recognized through net income, and simplifies the impairment assessment of equity investments without readily determinable fair values. The amendment requires public business entities that are required to disclose the fair value of financial instruments measured at amortized cost on the balance sheet to measure that fair value using the exit price notion. The amendment requires an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option. The amendment requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset on the balance sheet or in the accompanying notes to the financial statements. The amendment reduces diversity in current practice by clarifying that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available for sale securities in combination with the entity's other deferred tax assets. This amendment is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Entities should apply the amendment by means of a cumulative-effect adjustment as of the beginning of the fiscal year of adoption, with the exception of the amendment related to equity securities without readily determinable fair values, which should be applied prospectively to equity investments that exist as of the date of adoption. The Bank intends to adopt the accounting standard during the first quarter of 2018, as required, and is currently evaluating the impact that this guidance will have on its consolidated financial statements, but does not expect the guidance to have a material impact on the consolidated financial statements.

In May, 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 660): Summary and Amendments that Create Revenue from Contracts with Customers (Topic 606) and Other Assets and Deferred Costs—Contracts with Customers (Subtopic 340-40). The guidance in this update supersedes the revenue recognition requirements in ASC Topic 605, Revenue Recognition, and most industry-specific guidance throughout the industry topics of the Accounting Standards Codification. In August, 2015, the FASB issued ASU 2015-14, Revenue From Contracts With Customers (Topic 606): Deferral of the Effective Date, that defers the effective date of the new revenue standard by one year (January 1, 2018 effective date). Reporting entities have the option to adopt the standard as early as the original January 1, 2017 effective date. Our revenue is comprised of net interest income on financial assets and financial liabilities, which is explicitly excluded from the scope of ASU 2014-09, and non-interest income. We are currently evaluating the impact of ASU 2014-09 on the components of our non-interest income. However, our preliminary analysis suggests that the adoption of this amended guidance is not expected to have a material impact on the Bank's consolidated financial statements. We expect to adopt the standard in the first quarter of 2018.

THE BANK OF PRINCETON
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2 – Earnings Per Share

The following schedule presents earnings per share data for the years ended December 31, 2016 and 2015:

	Years ended December 31, 2016	Years ended December 31, 2015
	(in thousands, except per share data)	
Net income applicable to common stockholders	$ 11,843	$ 11,006
Weighted average number of common shares outstanding	4,696	4,623
Basic earnings per share	$ 2.52	$ 2.38
Net income applicable to common stockholders	$ 11,843	$ 11,006
Weighted average number of common shares outstanding	4,696	4,623
Dilutive effect of potential common shares	323	161
Weighted average number of diluted common shares outstanding	5,019	4,784
Diluted earnings per share	$ 2.36	$ 2.30

Options and warrants to purchase 728,553 shares of common stock at a weighted average exercise price of $14.74 were included in the computation of diluted earnings per share for the year ended December 31, 2016. There were no non-dilutive options or warrants at December 31, 2016.

Options and warrants to purchase 611,491 shares of common stock at a weighted average exercise price of $13.30 were included in the computation of diluted earnings per share for the year ended December 31, 2015. Options to purchase 131,200 shares of common stock at a weighted average exercise price of $20.94 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 at December 31, 2015

Note 3 – Investment Securities

The following summarizes the amortized cost and estimated fair value of securities available-for-sale at December 31, 2016 and 2015 with gross unrealized gains and losses therein:

	December 31, 2016			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in thousands)			
Available-for-sale:				
Mortgage-backed securities-U.S. Government Sponsored Enterprises (GSEs)	$ 59,679	$ 578	$ (393)	$ 59,864
Obligations of state and political subdivisions	53,361	214	(405)	53,170
Total	$ 113,040	$ 792	$ (798)	$ 113,034

THE BANK OF PRINCETON
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 3 – Investment Securities (Continued)

	December 31, 2015			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in thousands)			
Available-for-sale:				
Mortgage-backed securities-U.S. Government Sponsored Enterprises (GSEs)	$ 70,524	$ 564	$ (406)	$ 70,682
Obligations of state and political subdivisions	70,140	780	(93)	70,827
Total	$ 140,664	$ 1,344	$ (499)	$ 141,509

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, 2016 are as follows:

	Less than 12 Months		More than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(in thousands)					
December 31, 2016:						
Mortgage-backed securities-U.S. Government Sponsored Enterprises (GSEs)	$ 19,417	$ (349)	$ 1,289	$ (44)	$ 20,706	$ (393)
Obligations of state and political subdivisions	25,176	(402)	904	(3)	26,080	(405)
Total	$ 44,593	$ (751)	$ 2,193	$ (47)	$ 46,786	$ (798)

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, 2015 are as follows:

	Less than 12 Months		More than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(in thousands)					
December 31, 2015:						
Mortgage-backed securities-U.S. Government Sponsored Enterprises (GSEs)	$ 30,098	$ (306)	$ 2,807	$ (100)	$ 32,905	$ (406)
Obligations of state and political subdivisions	9,974	(64)	2,631	(29)	12,605	(93)
Total	$ 40,072	$ (370)	$ 5,438	$ (129)	$ 45,510	$ (499)

THE BANK OF PRINCETON
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 3 – Investment Securities (Continued)

At December 31, 2016, there were four securities in the more-than-twelve-months category and 79 securities in the less-than twelve-month category for the securities available-for-sale portfolio. Included in the four securities in the twelve-months-or-more category are (a) two collateralized mortgage obligations; and (b) two municipal debt obligations. Included in the 79 securities in the less-than twelve-month category are (a) ten mortgage-backed securities; (b) eight collateralized mortgage obligation; and (c) 61 municipal debt obligations.

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-related criteria. No OTTI charges were recorded for the years ended December 31, 2016 and 2015.

At December 31, 2015, there were nine securities in the more-than-twelve-months category and 44 securities in the less-than twelve-month category for the securities available-for-sale portfolio. Included in the nine securities in the twelve-months-or-more category are (a) one mortgage-backed securities; (b) two collateralized mortgage obligations; and (c) six municipal debt obligations. Included in the 44 securities in the less-than twelve-month category are (a) 17 mortgage-backed securities; (b) seven collateralized mortgage obligation; and (c) 20 municipal debt obligations.

The amortized cost and estimated fair value of securities available-for-sale at December 31, 2016 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	$ 405	$ 404
Due after one year through five years	4,518	4,531
Due after five years through ten years	73,749	73,964
Due after ten years	34,368	34,135
Total	$ 113,040	$ 113,034

The following summarizes the amortized cost and estimated fair value of securities held-to-maturity at December 31, 2016 with gross unrealized gains and losses therein:

	December 31, 2016			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in thousands)			
Held-to-maturity:				
Mortgage-backed securities-U.S. Government Sponsored Enterprises (GSEs)	$ 340	$ 25	$ -	$ 365

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

THE BANK OF PRINCETON
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 3 – Investment Securities (Continued)

The following summarizes the amortized cost and estimated fair value of securities held-to-maturity at December 31, 2015 with gross unrealized gains and losses therein:

	December 31, 2015			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in thousands)			
Held-to-maturity:				
Mortgage-backed securities-U.S. Government Sponsored Enterprises (GSEs)	$ 381	$ 33	$ -	$ 414

Proceeds from the sale of securities available-for-sale amounted to $10.3 million for the year ended December 31, 2016, which included gross realized gains of approximately $0.1 million. Proceeds from the sale of securities available-for-sale amounted to $21.7 million for the year ended December 31, 2015, which included gross realized gains of approximately $0.2 million and no realized losses.

Securities available-for-sale with fair values of approximately $69.9 million and securities held-to-maturity with fair values of approximately $0.4 million were pledged as collateral for NJ Governmental Unit Deposit Protection Act ("GUDPA") deposits at December 31, 2016.

Note 4 – Loans Receivable

Loans receivable, net at December 31, 2016 and 2015 were comprised of the following:

	December 31, 2016	December 31, 2015
	(in thousands)	
Commercial real estate	$ 554,050	$ 490,298
Commercial and industrial	60,886	125,072
Construction	166,719	122,297
Residential first-lien mortgage	56,712	42,409
Home equity	24,185	29,922
Consumer	577	858
Total loans	863,129	810,856
Deferred fees and costs	(2,803)	(2,910)
Allowance for loan losses	(10,822)	(10,851)
Loans, net	$ 849,504	$ 797,095

THE BANK OF PRINCETON
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4 – Loans Receivable (Continued)

The following table presents nonaccrual loans by segment of the loan portfolio as of December 31, 2016 and 2015:

	December 31, 2016	December 31, 2015
	(in thousands)	
Commercial real estate	$ 1,389	$ 6,530
Commercial and industrial	188	1,834
Construction	1,649	1,805
Residential first-lien mortgage	-	1,370
Home equity	145	450
Consumer	-	-
Total	$ 3,371	$ 11,989

The following table summarizes information in regards to impaired loans by loan portfolio segment segregated by those for which a related allowance was required and those for which a related allowance was not necessary, as of December 31, 2016 and the year then ended:

	Unpaid Principal Balance	Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized
			(in thousands)		
With no related allowance recorded:					
Commercial real estate	$ 5,131	4,472	$ -	$ 5,696	$ 309
Commercial and industrial	824	762	-	1,203	22
Construction	-	-	-	25	9
Residential first-lien mortgage	658	660	-	668	14
Home equity	505	499	-	511	26
Consumer	-	-	-	-	-
Total	7,118	6,393	-	8,103	380
With an allowance recorded:					
Commercial real estate	478	442	111	352	7
Commercial and industrial	1,911	1,920	269	1,920	97
Construction	1,668	1,649	302	1,750	-
Residential first-lien mortgage	-	-	-	-	-
Home equity	-	-	-	-	-
Consumer	-	-	-	-	-
Total	4,057	4,011	682	4,022	104
Total:					
Commercial real estate	5,609	4,914	111	6,048	316
Commercial and industrial	2,735	2,682	269	3,123	119
Construction	1,668	1,649	302	1,775	9
Residential first-lien mortgage	658	660	-	668	14
Home equity	505	499	-	511	26
Consumer	-	-	-	-	-
Total	$ 11,175	$ 10,404	$ 682	$ 12,125	$ 484

THE BANK OF PRINCETON
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4 – Loans Receivable (Continued)

The following table summarizes information in regards to impaired loans by loan portfolio segment segregated by those for which a related allowance was required and those for which a related allowance was not necessary, as of December 31, 2015 and the year then ended:

	Unpaid Principal Balance	Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized
			(in thousands)		
With no related allowance recorded:					
Commercial real estate	$ 2,658	2,612	$ -	$ 3,111	$ 11
Commercial and industrial	721	455	-	1,369	19
Construction	-	-	-	-	-
Residential first-lien mortgage	2,044	2,047	-	1,255	43
Home equity	830	828	-	637	31
Consumer	-	-	-	-	-
Total	6,253	5,942	-	6,372	104
With an allowance recorded:					
Commercial real estate	4,679	4,043	34	5,151	58
Commercial and industrial	3,579	3,443	798	3,499	144
Construction	2,102	2,084	201	1,943	10
Residential first-lien mortgage	-	-	-	114	-
Home equity	-	-	-	-	-
Consumer	-	-	-	-	-
Total	10,360	9,570	1,033	10,707	212
Total:					
Commercial real estate	7,337	6,655	34	8,262	69
Commercial and industrial	4,300	3,898	798	4,868	163
Construction	2,102	2,084	201	1,943	10
Residential first-lien mortgage	2,044	2,047	-	1,369	43
Home equity	830	828	-	637	31
Consumer	-	-	-	-	-
Total	$ 16,613	$ 15,512	$ 1,033	$ 17,079	$ 316

THE BANK OF PRINCETON
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4 – 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 segments of the loan portfolio summarized by the past due status as of December 31, 2016:

	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 days	Total Past Due	Current	Total Loans Receivable	Loans Receivable >90 Days and Accruing
				(in thousands)			
Commercial real estate	$ 560	$ 4,556	$ 3,209	$ 8,325	$ 545,725	$ 554,050	$ 1,820
Commercial and industrial	597	58	188	843	60,043	60,886	-
Construction	-	-	1,649	1,649	165,070	166,719	-
Residential first-lien mortgage	654	-	-	654	56,058	56,712	-
Home equity	-	-	145	145	24,040	24,185	-
Consumer	-	-	-	-	577	577	-
Total	$ 1,811	$ 4,614	$ 5,191	$ 11,616	$ 851,513	$ 863,129	$ 1,820

The following table presents the segments of the loan portfolio summarized by the past due status as of December 31, 2015:

	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 days	Total Past Due	Current	Total Loans Receivable	Loans Receivable >90 Days and Accruing
				(in thousands)			
Commercial real estate	$ 867	$ 5,778	$ 6,530	$ 13,175	$ 477,123	$ 490,298	$ -
Commercial and industrial	-	-	1,834	1,834	123,238	125,072	-
Construction	24	-	1,805	1,829	120,468	122,297	-
Residential first-lien mortgage	-	-	1,370	1,370	41,039	42,409	-
Home equity	350	-	450	800	29,122	29,922	-
Consumer	-	-	-	-	858	858	-
Total	$ 1,241	$ 5,778	$ 11,989	$ 19,008	$ 791,848	$ 810,856	$ -

The following table presents the segments 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, 2016:

	Pass	Special Mention	Substandard	Doubtful	Total
			(in thousands)		
Commercial real estate	$ 540,445	$ 12,216	$ 1,389	$ -	$ 554,050
Commercial and industrial	57,675	1,112	2,099	-	60,886
Construction	165,070	-	1,649	-	166,719
Residential first-lien mortgage	56,542	-	170	-	56,712
Home equity	24,040	-	145	-	24,185
Consumer	577	-	-	-	577
Total	$ 844,349	$ 13,328	$ 5,452	$ -	$ 863,129

THE BANK OF PRINCETON
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4 – Loans Receivable (Continued)

The following table presents the segments 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, 2015:

	Pass	Special Mention	Substandard	Doubtful	Total
			(in thousands)		
Commercial real estate	$ 477,148	$ 6,620	$ 5,975	$ 555	$ 490,298
Commercial and industrial	120,176	1,151	3,745	-	125,072
Construction	120,215	-	2,082	-	122,297
Residential first-lien mortgage	40,863	-	1,546	-	42,409
Home equity	29,222	250	450	-	29,922
Consumer	858	-	-	-	858
Total	$ 788,482	$ 8,021	$ 13,798	$ 555	$ 810,856

Allowance for loan losses on loans receivables at and for the year ended December 31, 2016:

	Commercial real estate	Commercial and industrial	Construction	Residential first-lien mortgage	Home equity	Consumer	Unallocated	Total
				(in thousands)				
Allowance for loan losses:								
Beginning balance	$ 4,703	$ 2,246	$ 2,615	$ 292	$ 225	$ 3	$ 767	$ 10,851
Provisions	627	(1,284)	544	112	(70)	-	30	(41)
Charge-offs	-	-	-	-	-	-	-	-
Recoveries	-	12	-	-	-	-	-	12
Ending Balance	$ 5,330	$ 974	$ 3,159	$ 404	$ 155	$ 3	$ 797	$ 10,822
Ending Balance: Individually evaluated for impairment	$ 111	$ 269	$ 302	$ -	$ -	$ -	$ -	$ 682
Collectively evaluated for impairment	$ 5,219	$ 705	$ 2,857	$ 404	$ 155	$ 3	$ 797	$ 10,140

Recorded investment in loans receivables at December 31, 2016:

	Commercial real estate	Commercial and industrial	Construction	Residential first-lien mortgage	Home equity	Consumer	Unallocated	Total
Loans:								
Ending Balance: Individually evaluated for impairment	$ 4,914	$ 2,683	$ 1,649	$ 660	$ 499	$ -	$ -	$ 10,405
Collectively evaluated for impairment	549,136	58,203	165,070	56,052	23,686	577	-	852,724
Ending Balance	$ 554,050	$ 60,886	$ 166,719	$ 56,712	$ 24,185	$ 577	$ -	$ 863,129

THE BANK OF PRINCETON
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4 – Loans Receivable (Continued)

Allowance for loan losses on loans receivables at and for the year ended December 31, 2015:

	Commercial real estate	Commercial and industrial	Construction	Residential first-lien mortgage	Home equity	Consumer	Unallocated	Total
				(in thousands)				
Allowance for loan losses:								
Beginning balance	$ 3,621	$ 1,530	$ 2,719	$ 318	$ 307	$ 17	$ 1,496	$ 10,008
Provisions	1,517	1,329	(104)	(26)	(49)	(34)	(729)	1,904
Charge-offs	(435)	(626)	-	-	(39)	-	-	(1,100)
Recoveries	-	13	-	-	6	20	-	39
Ending Balance	$ 4,703	$ 2,246	$ 2,615	$ 292	$ 225	$ 3	$ 767	$ 10,851
Ending Balance:								
Individually evaluated for impairment	$ 34	$ 798	$ 201	$ -	$ -	$ -	$ -	$ 1,033
Collectively evaluated for impairment	$ 4,669	$ 1,448	$ 2,414	$ 292	$ 225	$ 3	$ 767	$ 9,818

Recorded investment in loans receivables at December 31, 2015:

	Commercial real estate	Commercial and industrial	Construction	Residential first-lien mortgage	Home equity	Consumer	Unallocated	Total
Loans:								
Ending Balance:								
Individually evaluated for impairment	$ 6,655	$ 3,898	$ 2,084	$ 2,047	$ 828	$ -	$ -	$ 15,512
Collectively evaluated for impairment	483,643	121,174	120,213	40,362	29,094	858	-	795,344
Ending Balance	$ 490,298	$ 125,072	$ 122,297	$ 42,409	$ 29,922	$ 858	$ -	$ 810,856

At December 31, 2016, twelve loans totaling $6.8 million were considered troubled debt restructurings and classified as impaired. Troubled debt restructurings of $4.9 million were performing in accordance with their modified terms at December 31, 2016. The remaining $1.9 million of troubled debt restructurings were on non-accrual status at December 31, 2016.

At December 31, 2015, thirteen loans totaling $3.8 million were considered troubled debt restructurings and classified as impaired. Troubled debt restructurings of $1.2 million were performing in accordance with their modified terms at December 31, 2015. The remaining $2.6 million of troubled debt restructurings were on non-accrual status at December 31, 2015.

The following table summarizes information in regards to new troubled debt restructurings for the year ended December 31, 2016 (dollars in thousands):

	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Troubled debt restructurings:			
Commercial real estate	1	$ 3,386	$ 3,386
Commercial and industrial	1	$ 271	$ 271

THE BANK OF PRINCETON
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4 – Loans Receivable (Continued)

As indicated above, the Bank modified two loans during the year ended December 31, 2016 that constituted troubled debt restructuring. In modifying both a commercial real estate loan and a commercial and industrial loan to the same borrower, the Bank entered into a forbearance agreement with the borrower that resulted in reduced monthly payments during the forbearance period and an increase in the undrawn balance of the commercial and industrial term loan. 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, 2016 there was no specific allowance on these modified loans.

There were two loans classified as troubled debt restructurings with a payment default occurring during 2016 whereby the default occurred within 12 months of the restructure.

	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Troubled debt restructurings:			
Commercial real estate	1	$ 3,386	$ 3,386
Commercial and industrial	1	$ 271	$ 271

The following table summarizes information in regards to new troubled debt restructurings for the year ended December 31, 2015 (dollars in thousands):

	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Troubled debt restructurings:			
Commercial real estate	3	$ 154	$ 154
Commercial and industrial	2	$ 187	$ 187

As indicated above, the Bank modified five loans during the year ended December 31, 2015 that were categorized as a troubled debt restructuring In modifying the commercial real estate loans, the Bank entered into modification agreements with the borrowers that lowered the interest rate on the loans, provided for an interim interest-only period, and extended the maturity date of the loans. In modifying the commercial and industrial loans, the Bank entered into modification agreements with the borrowers that lowered the interest rate on the loans and extended the maturity date. Troubled debt restructurings are impaired loans and are individually evaluated for impairment in accordance with the Bank's policy. There was a $1,094 allowance related to the modified commercial real estate loans at December 31, 2015.

There were four loans classified as troubled debt restructurings with a payment default occurring during 2015 whereby the default occurred within 12 months of the restructure.

	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Troubled debt restructurings:			
Commercial real estate	3	$ 154	$ 154
Commercial and industrial	1	$ 98	$ 98

THE BANK OF PRINCETON
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4 – Loans Receivable (Continued)

Loans to Related Party. Included in total loans are loans due from directors and other related parties of $5.5 million and $5.7 million at December 31, 2016 and 2015. All loans made to directors have substantially the same terms and interest rates as other bank borrowers at their origination date. The Board of Directors approves loans to individual directors to confirm that collateral requirements, terms and rates are comparable to other borrowers and are in compliance with underwriting policies. The following presents the activity in amount due from directors and other related parties for the years ended December 31, 2016 and 2015.

(in thousands)	2016	2015
Outstanding related party loans at January 1,	$ 5,653	$ 3,820
New loans	2,978	3,845
Repayments	(3,115)	(2,012)
Outstanding related party loans at December 31,	$ 5,516	$ 5,653

No loans to related parties were nonaccrual, past due, restructured or potential problems at December 31, 2016 and 2015.

Note 5 – Premises and Equipment

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

	Estimated useful lives	2016	2015
Land	N/A	$ 410	$ 410
Buildings	40 Yrs.	1,714	1,741
Leasehold improvements	10 Yrs.	5,488	5,480
Furniture, fixtures and equipment	3-7 Yrs.	4,041	4,014
Total before accumulated depreciation and amortization		11,653	11,645
Accumulated depreciation and amortization		(7,134)	(6,195)
Total		$ 4,519	$ 5,450

Note 6 – Accrued Interest Receivable and Other Assets

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

	2016	2015
Accrued interest receivable	$ 3,186	$ 3,084
Deferred tax asset, net	5,590	5,282
Restricted investments in bank stocks	3,648	6,863
Prepaid assets and other assets	1,159	2,511
Total	$ 13,583	$ 17,740

THE BANK OF PRINCETON
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 7 – Deposits

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

	2016	2015
Demand, non-interest-bearing checking	$ 98,204	$ 102,944
Demand, interest-bearing and savings	259,282	277,603
Money market	284,546	151,607
Time deposits, $250,000 and over	50,553	155,018
Time deposits, other	169,936	102,261
Total	$ 862,521	$ 789,433

At December 31, 2016, the scheduled maturities of certificates of deposit were as follows (in thousands):

	Amounts
2017	$ 104,558
2018	47,703
2019	25,925
2020	20,841
2021	21,462
Total	$ 220,489

Note 8 – Borrowings

The Bank's borrowings consist of FHLB-NY overnight and short-term 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 FHLB-NY. The terms of the security agreement with the FHLB-NY 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 following table presents the Bank's borrowings at December 31 (in thousands):

	2016	2015
FHLB-NY overnight advances (rate of 0.74% and 0.52% at December 31, 2016 and 2015, respectively)	$ 56,100	$ 38,800
FHLB-NY short-term advances (weighted avg. rate of 0.5% at December 31, 2015)	-	90,000
Total borrowings	$ 56,100	$ 128,800

At December 31, 2016, the Bank has a total borrowing capacity with the FHLB-NY, subject to certain collateral restrictions, of $456.9 million. The Bank is also a shareholder in Atlantic Community Bancshares, Inc., the holding company of Atlantic Community Bankers Bank ("ACBB"). As of December 31, 2016, the Bank has available borrowing capacity with ACBB of $10.0 million to provide short-term liquidity generally for a period of not more than fourteen days. No amounts are outstanding with the ACBB at December 31, 2016.

THE BANK OF PRINCETON
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 9 – Accrued Interest Payable and Other Liabilities

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

	2016	2015
Accrued interest payable	$ 1,336	$ 1,410
Accrued salary expense	253	214
Accrued expenses and other liabilities	2,324	2,021
Total	$ 3,913	$ 3,645

Note 10 – Commitments and Contingencies

Operating leases

The Bank has operating leases for twelve of its branch locations, as well as its operations center. Future minimum lease payments by year under the non-cancellable lease agreements for the Bank's facilities were as follows (in thousands):

2017	$ 1,520
2018	1,430
2019	1,183
2020	1,121
2021	738
Thereafter	38
Total	$ 6,030

Rental expense for of the years ended December 31, 2016 and 2015 was $1.6 million and $1.6 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 branch, which is included in the above lease schedule. At the lease initiation date, the lease terms were comparable to similarly outfitted office space in the Bank's market. Base rental payments of $312,000 and $284,000 were made to this related party in each of the years ended December 31, 2016 and 2015, respectively. Certain operating expenses, including real estate taxes, insurance, utilities, maintenance and repairs, related to this property are paid directly to the various service providers.

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 these 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 OF PRINCETON
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 10 – Commitments and Contingencies (Continued)

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, 2016 and 2015 for guarantees under standby letters of credit issued is not material.

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

	2016	2015
Performance and standby letters of credit	$ 3,720	$ 9,015
Commitments to fund loans	138,925	121,015
Unfunded commitments under lines of credit	10,765	11,611
Total	$ 153,410	$ 141,641

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.

THE BANK OF PRINCETON
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 11 – Income Taxes

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

	2016	2015
	(in thousands)	
Current tax expense:		
Federal	$ 4,162	$ 3,686
State	279	4
Total current	4,441	3,690
Deferred income tax benefit:		
Federal	(66)	71
State	86	(59)
Total deferred	20	12
Total income tax expense	$ 4,461	$ 3,702

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:

	2016	2015
	(in thousands)	
Deferred tax assets:		
Allowance for loan losses	$ 4,169	$ 4,225
Net operating loss carry-forwards	1,060	1,146
Organizational costs	214	262
Unrealized loss on securities	2	-
Other	663	637
Total deferred tax assets	6,108	6,270
Deferred tax liabilities:		
Deferred loan costs	(338)	(376)
Unrealized gains on securities	-	(326)
Premises and equipment	(156)	(258)
Acquisition accounting adjustments	(24)	(28)
Total deferred tax liabilities	(518)	(988)
Net deferred tax asset	$ 5,590	$ 5,282

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

	2016	2015
	(in thousands)	
Federal income tax expense at statutory rate	$ 5,543	$ 5,000
Increases (reductions) in taxes resulting from:		
State income taxes, net of federal benefit	241	(36)
Tax-exempt income, net	(1,515)	(1,418)
Non-deductible expenses	213	18
Other	(21)	138
Total income taxes applicable to pre-tax income	$ 4,461	$ 3,702

THE BANK OF PRINCETON
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 11 – Income Taxes (Continued)

At December 31, 2016, the Bank had available federal net operating loss carry-forwards of approximately $3.3 million, which expire between 2028 and 2030. The federal net operating loss carry-forwards 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. There are currently $180,000 of state net operating loss carry-forwards available that will expire in 2035.

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 12 – Fair Value Measurements and Disclosure

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

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

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

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

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

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.

THE BANK OF PRINCETON
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 12 – 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, 2016 were as follows:

Description	(Level 1) Quoted Prices in Active Markets for Identical Assets	(Level 2) Significant Other Observable Inputs	(Level 3) Significant Unobservable Inputs	Total Fair Value December 31, 2016
		(in thousands)		
Mortgage-backed securities-U.S. Government Sponsored Enterprises (GSE's)	$ -	$ 59,864	$ -	$ 59,864
Obligations of state and political subdivisions	-	53,170	-	53,170
Securities available-for-sale at fair value	$ -	$ 113,034	$ -	$ 113,034

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, 2015 were as follows:

Description	(Level 1) Quoted Prices in Active Markets for Identical Assets	(Level 2) Significant Other Observable Inputs	(Level 3) Significant Unobservable Inputs	Total Fair Value December 31, 2015
		(in thousands)		
Mortgage-backed securities-U.S. Government Sponsored Enterprises (GSE's)	$ -	$ 70,682	$ -	$ 70,682
Obligations of state and political subdivisions	-	70,827	-	70,827
Securities available-for-sale at fair value	$ -	$ 141,509	$ -	$ 141,509

THE BANK OF PRINCETON
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 12 – 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, 2016, were as follows:

Description	(Level 1) Quoted Prices in Active Markets for Identical Assets	(Level 2) Significant Other Observable Inputs	(Level 3) Significant Unobservable Inputs	Total Fair Value December 31, 2016
		(in thousands)		
Impaired loans	$ -	$ -	$ 3,329	$ 3,329
	$ -	$ -	$ 3,329	$ 3,329

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, 2015, were as follows:

Description	(Level 1) Quoted Prices in Active Markets for Identical Assets	(Level 2) Significant Other Observable Inputs	(Level 3) Significant Unobservable Inputs	Total Fair Value December 31, 2015
		(in thousands)		
Impaired loans	$ -	$ -	$ 8,740	$ 8,740
Other real estate owned	-	-	300	300
	$ -	$ -	$ 9,040	$ 9,040

The following table presents quantitative information with regards to Level 3 fair value measurements at December 31, 2016.

Description	Fair Value at December 31, 2016	Valuation Technique	Unobservable Input	Range (Weighted Average)
	(in thousands)			
Impaired loans	$ 3,329	Appraisal of collateral[1]	Discount adjustment[2]	38.0%-65.0% (52.8%)

[1] Fair value is generally determined through independent appraisal of the underlying collateral, primarily using comparable sales.

[2] Appraisals may be adjusted by management for qualitative factors, such as economic conditions and estimated liquidation expense.

THE BANK OF PRINCETON
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 12 – Fair Value Measurements and Disclosure (Continued)

The following table presents quantitative information with regards to Level 3 fair value measurements at December 31, 2015.

Description	Fair Value at December 31, 2015 (in thousands)	Valuation Technique	Unobservable Input	Range (Weighted Average)
Impaired loans	$ 8,740	Appraisal of collateral[1]	Discount adjustment[2]	7.0%-13.39% (8.5%)
Other real estate owned	$ 300	Agreement of sale	Estimated selling costs[3]	0.5%

[1] Fair value is generally determined through independent appraisal of the underlying collateral, primarily using comparable sales.

[2] Appraisals may be adjusted by management for qualitative factors, such as economic conditions and estimated liquidation expense.

[3] Selling costs include sales commissions and other costs incidental to the sale.

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

Cash and due from banks (carried at cost)

The carrying amounts reported in the statement of financial condition 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. Level 2 debt securities are valued by a third-party pricing service commonly used in the banking industry. Level 2 fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. treasury yield curve, live trading levels, trade execution date, market consensus prepayment speeds, credit information and the security's terms and conditions, among other things.

Loans receivable (carried at cost)

The fair value of loans receivable are estimated using discounted cash flow analyses, using market rates at the balance sheet date that reflect the credit and interest rate-risk inherent in the loans, which is characterized as Level 3 in the fair value hierarchy. 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.

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, discounted for estimated selling costs or other factors the Bank determines will impact collection of 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.

THE BANK OF PRINCETON
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 12 – Fair Value Measurements and Disclosure (Continued)

Other real estate owned (generally 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 cost 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. The discount adjustment from the appraised value is a significant unobservable input in the determination of the fair value for other real estate owned. 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 (carried at cost)

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, which is characterized as Level 3 in the fair value hierarchy.

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, 2016 and December 31, 2015.

THE BANK OF PRINCETON
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 12 – Fair Value Measurements and Disclosure (Continued)

The carrying amounts and estimated fair value of financial instruments at December 31, 2016, are as follows:

	December 31, 2016				
	Carrying Amount	Estimated Fair Value	Level 1	Level 2	Level 3
	(in thousands)				
Financial assets:					
Cash and cash equivalents	$ 19,605	$ 19,605	$ 19,605	$ -	$ -
Securities available-for-sale at fair value	113,034	113,034	-	113,034	-
Securities held-to-maturity	340	365	-	365	-
Loans receivable, net	849,504	859,789	-	-	859,789
Restricted investments in bank stocks	3,648	3,648	-	3,648	-
Accrued interest receivable	3,186	3,186	-	3,186	-
Financial liabilities:					
Deposits	862,521	856,734	-	856,734	-
Borrowings	56,100	56,100	-	-	56,100
Accrued interest payable	1,336	1,336	-	1,336	-

The carrying amounts and estimated fair value of financial instruments at December 31, 2015, are as follows:

	December 31, 2015				
	Carrying Amount	Estimated Fair Value	Level 1	Level 2	Level 3
	(in thousands)				
Financial assets:					
Cash and cash equivalents	$ 28,589	$ 28,589	$ 28,589	$ -	$ -
Securities available-for-sale at fair value	141,509	141,509	-	141,509	-
Securities held-to-maturity	381	414	-	414	-
Loans receivable, net	797,095	820,282	-	-	820,282
Restricted investments in bank stocks	6,863	6,863	-	6,863	-
Accrued interest receivable	3,084	3,084	-	3,084	-
Financial liabilities:					
Deposits	789,433	786,527	-	786,527	-
Borrowings	128,800	128,800	-	-	128,800
Accrued interest payable	1,410	1,410	-	1,410	-

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.

THE BANK OF PRINCETON
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 12 – 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 13 – 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. At December 31, 2016, 72,000 Organizer warrants were outstanding. All Organizer warrants 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. At December 31, 2016 there were 42,253 shares remaining available for future issuance under the 2007 plan. No incentive stock options may be granted under the 2007 Plan after October 2, 2017.

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. At December 31, 2016, under the MoreBank 2004 Incentive Equity Compensation Plan (the “MoreBank Plan”), 6,000 options remained outstanding. These options are immediately exercisable, expire in December 2017, and enable the option holder to purchase one (1) share of the Bank’s common stock at $25.00 per share. The MoreBank Plan was adopted by MoreBank to provide stock options and stock awards to MoreBank’s directors and employees.

In 2012, the Bank adopted The Bank of Princeton 2012 Equity Incentive 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 enabled 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. In 2013, the Bank’s board of directors and stockholders approved an amendment to the 2012 Plan that increased the maximum number of shares that may be subject to options under the 2012 Plan from 100,000 to 600,000, 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. At December 31, 2016 there were 86,296 shares remaining available for future issuance under the 2012 plan. No incentive stock options may be granted under the 2012 Plan after April 30, 2023.

In 2014, the Bank adopted an amendment to each of the 2007 Plan and to the 2012 Plan, which amendments were approved by our board of directors, to provide that all outstanding options under the 2007 Plan and the 2012 Plan will become fully vested and exercisable upon a change in control of the Bank and to further specify the consideration that may be exchanged with respect to outstanding awards upon any such change in control.

THE BANK OF PRINCETON
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 13 – 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, 2016:

	Number of Stock Options / Warrants	Weighted Avg. Exercise Price	Weighted Avg. Remaining Contractual Life	Aggregate Intrinsic Value
Balance at January 1, 2016	730,941	$ 14.68		
Granted	68,900	$ 22.00		
Exercised	(12,938)	$ 11.69		
Forfeited	(3,533)	$ 20.16		
Expired	(54,817)	$ 23.33		
Balance at December 31, 2016	728,553	$ 14.74	5.9 years	$ 9,892,382
Exercisable at December 31, 2016	576,783	$ 13.75	5.2 years	$ 8,401,190

The fair value of the 2016 option grants were estimated on the date of the grants using the Black-Scholes option-pricing model with the following weighted-average assumptions:

Expected life	6.0 years
Expected volatility	32.98%
Forfeiture rate	2.75%
Dividend yield	0.00%
Risk-free interest rate	1.32%
Fair value	$ 7.50

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, 2015:

	Number of Stock Options / Warrants	Weighted Avg. Exercise Price	Weighted Avg. Remaining Contractual Life	Aggregate Intrinsic Value
Balance at January 1, 2015	674,234	$ 13.51		
Granted	168,700	$ 17.66		
Exercised	(105,142)	$ 11.68		
Forfeited	(3,766)	$ 15.00		
Expired	(3,085)	$ 13.32		
Balance at December 31, 2015	730,941	$ 14.68	6.1 years	$ 3,532,445
Exercisable at December 31, 2015	553,738	$ 14.16	5.2 years	$ 2,774,016

THE BANK OF PRINCETON
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 13 – Stock-Based Compensation (Continued)

The fair value of the 2015 option grants was estimated on the date of the grants using the Black-Scholes option-pricing model with the following weighted-average assumptions:

Expected life	5.84 years
Expected volatility	38.72%
Forfeiture rate	1.56%
Dividend yield	0.00%
Risk-free interest rate	1.70 %
Fair value	$ 6.93

Stock option expenses included in salaries and employee benefits expense in the consolidated statements of income were $469,000 and $481,000 for the years ended December 31, 2016 and 2015, respectively. Stock option expenses recorded within other expenses were $77,000 and $207,000 for the years ended December 31, 2016 and 2015, respectively. At December 31, 2016, there was approximately $761,000 of unrecognized expense related to outstanding stock options, which will be recognized over a period of approximately 1.29 years.

Note 14 – Regulatory Matters

Regulatory Capital

Current FDIC capital standards require these institutions to satisfy a common equity Tier 1 capital requirement, a leverage capital requirement and a risk-based capital requirement. The common equity Tier 1 capital component generally consists of retained earnings and common stock instruments and must equal at least 4.5% of risk-weighted assets. Leverage capital, also known as “core” capital, must equal at least 3.0% of adjusted total assets for the most highly rated state-chartered non-member banks. Core capital generally consists of common stockholders’ equity (including retained earnings). An additional cushion of at least 100 basis points is required for all other banking associations, which effectively increases their minimum Tier 1 leverage ratio to 4.0% or more. Under the FDIC’s regulations, the most highly-rated banks are those that the FDIC determines are strong banking organization and are rated composite 1 under the Uniform Financial Institutions Rating System. Under the risk-based capital requirements, as of January 1, 2015, Tier 1 Capital to risk-weighted assets ratio must equal at least 6.0%, increased from 4.0% (and increased from 6.0% to 8.0% for the Bank to be considered “well capitalized”) and total capital to risk-weighted assets ratio must equal at least 8.0% (10.0% to be considered “well capitalized”). The FDIC also is authorized to impose capital requirements in excess of these standards on individual institutions on a case-by-case basis.

The final capital rules that became effective on January 1, 2015 introduced a requirement for a common equity Tier 1 capital conservation buffer of 2.5% of risk-weighted assets which is in addition to the other minimum risk-based capital standards in the rule. Institutions that do not maintain this required capital buffer will become subject to progressively more stringent limitations on the percentage of earnings that can be paid out in dividends or used for stock repurchases and on the payment of discretionary bonuses to senior executive management. The capital buffer requirement is being phased in over three years beginning in 2016. We have included the 0.625% increase for 2016 in our minimum capital adequacy ratios in the table below. The capital buffer requirement effectively raises the minimum required common equity Tier 1 capital ratio to 7.0%, the Tier 1 capital ratio to 8.5%, and the total capital ratio to 10.5% on a fully phased-in basis on January 1, 2019. Management believes that, as of December 31, 2016, the Bank would meet all capital adequacy requirements on a fully phased-in basis as if all such requirements were currently in effect.

Any banking organization that fails any of the capital requirements is subject to possible enforcement action by the FDIC. Such action could include a capital directive, a cease and desist order, civil money penalties, the establishment of restrictions on the institution’s operations, termination of federal deposit insurance and the appointment of a conservator or receiver. The FDIC’s capital regulations provide that such actions, through enforcement proceedings or otherwise, could require one or more of a variety of corrective actions.

THE BANK OF PRINCETON
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 14 – Regulatory Matters (Continued)

The Bank's actual capital amounts and ratios at December 31, 2016 and 2015 are presented below:

	Actual		For capital adequacy purposes (including capital buffer requirement)		To be well capitalized under prompt corrective action provisions	
	Amount	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
December 31, 2016:						
Total capital (to risk-weighted assets)	$ 113,191	12.000%	$ 81,034	≥ 8.625%	$ 93,952	≥ 10.000%
Tier 1 capital (to risk-weighted assets)	$ 102,369	10.900%	$ 62,243	≥ 6.625%	$ 75,162	≥ 8.000%
Common equity tier 1 capital (to risk-weighted assets)	$ 102,369	10.900%	$ 48,150	≥ 5.125%	$ 61,069	≥ 6.500%
Tier 1 leverage capital (to average assets)	$ 102,369	10.100%	$ 40,371	≥ 4.000%	$ 50,464	≥ 5.000%
December 31, 2015:						
Total capital (to risk-weighted assets)	$ 100,624	11.400%	$ 70,828	≥ 8.000%	$ 88,535	≥ 10.000%
Tier 1 capital (to risk-weighted assets)	$ 89,773	10.100%	$ 53,121	≥ 6.000%	$ 70,828	≥ 8.000%
Common equity tier 1 capital (to risk-weighted assets)	$ 89,773	10.100%	$ 39,841	≥ 4.500%	$ 57,548	≥ 6.500%
Tier 1 leverage capital (to average assets)	$ 89,773	9.000%	$ 40,131	≥ 4.000%	$ 50,163	≥ 5.000%

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

Note 15 – Quarterly Financial Data (unaudited)

	Year Ended December 31, 2016			
	First Quarter	**Second Quarter**	**Third Quarter**	**Fourth Quarter**
	(In thousands, except for per share data)			
Interest and dividend income	$ 11,348	$ 11,454	$ 11,255	$ 11,376
Interest expense	1,786	1,944	2,009	2,024
Net Interest Income	9,562	9,510	9,246	9,352
Provision for loan losses	422	(321)	(142)	-
Net Interest Income after Provision for Loan Losses	9,140	9,831	9,388	9,352
Non-interest income	549	683	468	654
Non-interest expense	5,870	6,443	5,724	5,724
Income before Income Tax Expense	3,819	4,071	4,132	4,282
Income tax expense	1,049	1,049	1,099	1,264
Net Income	$ 2,770	$ 3,022	$ 3,033	$ 3,018
Earnings per common share				
Basic	$ 0.59	$ 0.64	$ 0.65	$ 0.64
Diluted	$ 0.56	$ 0.60	$ 0.60	$ 0.59

THE BANK OF PRINCETON
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 15 – Quarterly Financial Data (unaudited) (Continued)

	Year Ended December 31, 2015			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	(In thousands, except for per share data)			
Interest and dividend income	$ 10,532	$ 10,614	$ 10,857	$ 11,218
Interest expense	1,742	1,712	1,685	1,698
Net Interest Income	8,790	8,902	9,172	9,520
Provision for loan losses	233	502	298	871
Net Interest Income after Provision for Loan Losses	8,557	8,400	8,874	8,649
Non-interest income	476	590	482	739
Non-interest expenses	5,649	5,359	5,336	5,715
Income before Income Tax Expense	3,384	3,631	4,020	3,673
Income tax expense	880	866	1,018	938
Net Income	$ 2,504	$ 2,765	$ 3,002	$ 2,735
Earnings per common share				
Basic	$ 0.55	$ 0.60	$ 0.65	$ 0.58
Diluted	$ 0.53	$ 0.58	$ 0.63	$ 0.56

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

Not applicable.

Item 9A. Controls and Procedures

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, 2016 using the criteria in "Internal Control—Integrated Framework (2013)" issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO 2013"). Based on this assessment, management determined that, as of December 31, 2016, the Bank's internal control over financial reporting was effective to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U. S. generally accepted accounting principles

Disclosure Controls and Procedures

Management, with the participation of the Bank's President and Chief Financial Officer, evaluated the effectiveness of the design and operation of the Bank's disclosure controls and procedures (as defined in Rule l3a-l5(e) promulgated under the Exchange Act) as of December 31, 2016. Based on this 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, 2016 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.

BDO USA, LLP, an independent registered public accounting firm, has audited the Bank's consolidated financial statements as of and for the year ended December 31, 2016 and the effectiveness of the Bank's internal control over financial reporting as of December 31, 2016, as stated in their reports, which are included herein.

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, 2016 that has materially affected, or is reasonably likely to materially affect, the Bank's internal control over financial reporting.

[**Insert Report of Independent Registered Public Accounting Firm internal control over financial reporting as of December 31, 2016]**

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 2017 Annual Meeting of Stockholders to be held April 24, 2017.

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 2017 Annual Meeting of Stockholders to be held April 24, 2017.

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 2017 Annual Meeting of Stockholders to be held April 24, 2017.

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 2017 Annual Meeting of Stockholders to be held April 24, 2017.

Item 14. Principal Accounting 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 2017 Annual Meeting of Stockholders to be held April 24, 2017.

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, 2016 and 2015

ii. Consolidated Statements of Income for the years ended December 31, 2016 and 2015

iii. Consolidated Statements of Comprehensive Income for the years ended December 31, 2016 and 2015

iv. Consolidated Statements of Changes in Stockholders' Equity for the years ended December 31, 2016 and 2015

v. Consolidated Statements of Cash Flows for the years ended December 31, 2016 and 2015

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 No.		Description
2.1	(A)	Agreement and Plan of Merger dated as of May 5, 2010 by and between The Bank of Princeton and MoreBank.
3.1	(A)	Certificate of Incorporation, as amended.
3.2	(C)	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 with respect to the Bank's long-term debt.
10.1	(B)	The Bank of Princeton Amended and Restated 2007 Stock Option Plan*
10.2	(B)	The Bank of Princeton Amended and Restated 2012 Equity Incentive Plan*
10.3	(A)	Form of Incentive Stock Option Agreement*
10.4		Form of Incentive Stock Option Agreement*
10.5	(A)	Form of Nonqualified Stock Option Agreement*
10.6		Form of Nonqualified Stock Option Agreement*
10.7	(A)	Warrant Agreement for Organizers*
10.8	(A)	Form of Warrant Certificate*
10.9	(A)	MoreBank 2004 Incentive Equity Compensation Plan*
10.10	(A)	Form of Incentive Stock Option Agreement*
10.11	(A)	Form of Nonqualified Stock Option*
10.12	(A)	Form of Option for the Purchase of Shares of the Par Value of $1.00 Per Share of MoreBank*
10.13	(D)	Mutual Termination Agreement by and among Investors Bancorp, Inc., Investors Bank and the Bank, dated as of January 24, 2017
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 Exhibits 10.1 or 10.2, as applicable, of registrant's Current Report on Form 8-K, filed with the Federal Deposit Insurance Corporation on October 20, 2014.

(C) Incorporated by reference to the exhibit to registrant's Current Report on Form 8-K, filed with the Federal Deposit Insurance Corporation on April 28, 2016.

(D) Incorporated by reference to the exhibit to registrant's Current Report on Form 8-K, filed with the Federal Deposit Insurance Corporation on January 24, 2017.

Item 16. Form 10-K Summary

None.

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 April 3, 2017.

The Bank of Princeton

/s/Edward Dietzler

By: Edward Dietzler
President
(Principal Executive Officer)

The Bank of Princeton

/s/George S. Rapp

By: George S. Rapp
Executive Vice President and Chief Financial Officer
(Principal Financial and Accounting Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Capacity	Date
/s/ Richard Gillespie Richard Gillespie	Chairman of the Board	March 29, 2017
/s/ Stephen Distler Stephen Distler	Vice Chairman of the Board	March 29, 2017
/s/ Stephen Shueh Stephen Shueh	Director	March 29, 2017
/s/ Robert N. Ridolfi, Esq Robert N. Ridolfi, Esq	Director	March 29, 2017
/s/ Judith A. Giacin Judith A. Giacin	Director	March 29, 2017
Ross Wishnick	Director	
/s/Edward Dietzler Edward Dietzler	President, Director (Principal Executive Officer)	April 3, 2017
/s/ George S. Rapp George S. Rapp	Executive Vice President, Chief Financial Officer (Principal Financial and Accounting Officer)	April 3, 2017

EXHIBIT INDEX

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10.6		Form of Nonqualified Stock Option Agreement*
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10.8	(A)	Form of Warrant Certificate*
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10.11	(A)	Form of Nonqualified Stock Option*
10.12	(A)	Form of Option for the Purchase of Shares of the Par Value of $1.00 Per Share of MoreBank*
10.13	(D)	Mutual Termination Agreement by and among Investors Bancorp, Inc., Investors Bank and the Bank, dated as of January 24, 2017
21.1		Subsidiaries of the Registrant
31.1		Rule 13a-14(a) Certification of the Principal Executive Officer
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32.1		Section 1350 Certifications

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Exhibit 10.4

Exhibit 21.1

SUBSIDIARIES OF REGISTRANT

Name of Subsidiary	Jurisdiction of Incorporation or Formation
Bayard Lane, LLC	NJ
112 Fifth Avenue, LLC	NJ
Bayard Properties, LLC	NJ
TBOP REIT, Inc.	NJ
TBOP Delaware Investment Company	DE

Exhibit 31.1

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: April 3, 2017

/s/Edward Dietzler

Edward Dietzler
President
(Principal Executive Officer)

Exhibit 31.2

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

I, George S. Rapp, 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: April 3, 2017

/s/George S. Rapp
George S. Rapp
Executive Vice President and Chief Financial Officer
(Principal Financial and Accounting Officer)

Exhibit 32.1

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, 2016 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
(Principal Executive Officer)

/s/ George S. Rapp
George S. Rapp
Executive Vice President and Chief Financial Officer
(Principal Financial and Accounting Officer)

April 3, 2017

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NOTES:

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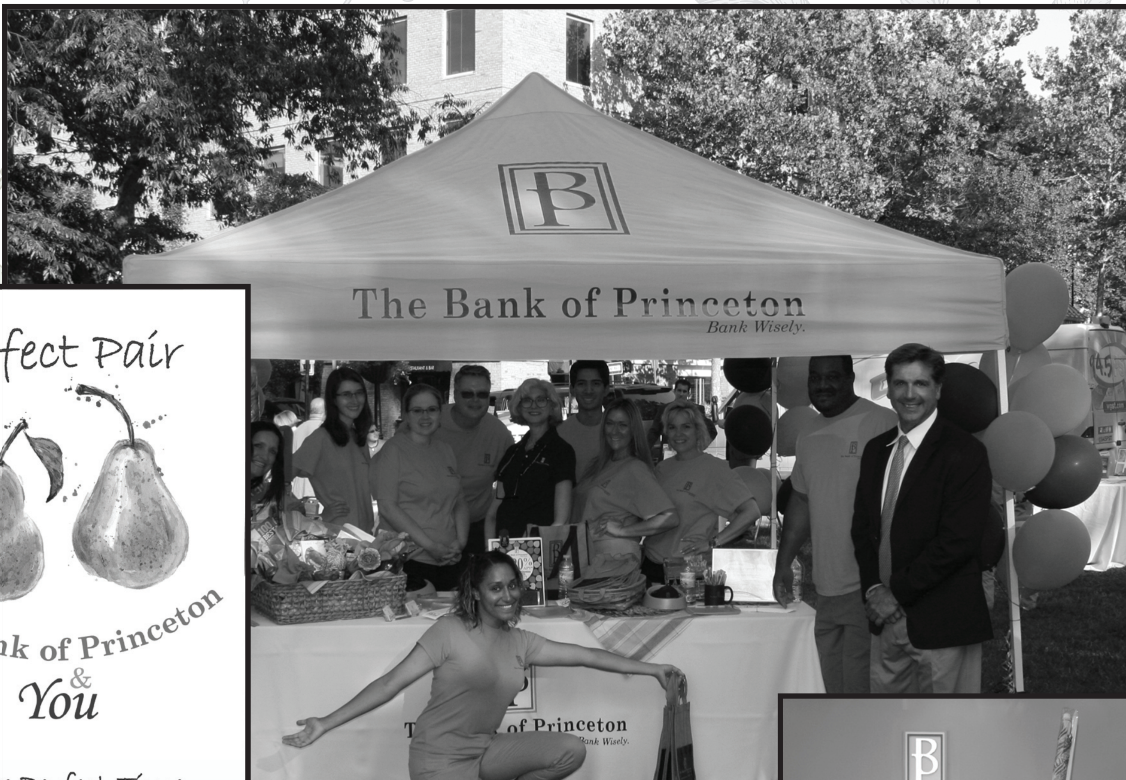
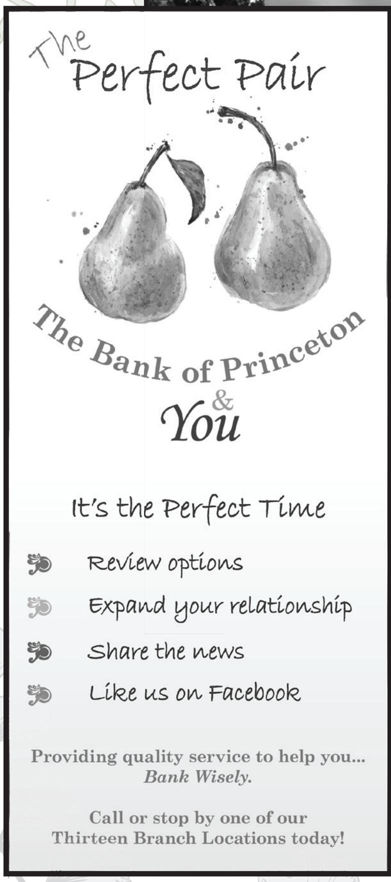
A Special Community • A Special Bank





Who We Are

Board of Directors

Richard Gillespie, *Chairman*

Stephen Distler, *Vice Chairman*
Ross E. Wishnick, *Vice Chairman*
Edward J. Dietzler, *President*

Judith Giacin
Robert N. Ridolfi, Esq.
Stephen K. Shueh

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
Jeffrey H. Sands
Eric L. Steinfeldt
Ross E. Wishnick

Relationship Management • Management & Support

Commercial Lenders

Stephanie M. Williams, *Chambers*
Michele Lewis-Fleming, *Chambers*
Kris Muse, *Nassau*
William McDowell, *Pennington/ Lambertville*
Paul M. Bencivengo, *Hamilton*
William McCoy, *New Brunswick*
Jennifer Yoo, *Cheltenham*

Market Managers

Rose Russo, *Bayard*
Darshana Jadav, *Chambers*
Paul Sabol, *Nassau*
Roseanne Maresma, *Montgomery*
Rhoda Sundhar, *Pennington*
Trinace Johnson, *Hamilton*
John Thompson, *Monroe*
Amy Lavery, *Lambertville*
Miriam Colón, *New Brunswick*
Karin Broadway, *Lawrenceville*
Esther Youngsoon Sim, *Cheltenham*
Hae Ran Hwangbo, *North Wales*
Sokha Eng, *Arch Street*

Executive Management

Edward J. Dietzler, *President*
Daniel J. O'Donnell, *Chief Risk Officer & General Council*
Carol R. Coles, *Chief Credit Officer*
Paul Y. Hyon, *Regional President of MoreBank*
George S. Rapp, *Chief Financial Officer*

Marketing

Barbara A. Cromwell

Human Resources

Anna Maria Miller

Information Technology

Kelly Tarity

Operations & Compliance

Karen D. Pfeifer, *CRCM*
Vincent Auletta, *BSA*
Angela Bancroft, *Deposit Operations*

Loan Administration

Mary Beth Gorecki, *Consumer Credit*
Christopher Tonkovich, *Commercial Lending*
Karen A. Collier, *Loan Compliance*
Sharon Litchman, *Loan Operations*
David Geyer, *Real Estate*

Finance

Michael LaPlante
Edward P. Hassenkamp

Our Executive Team

Pictured above (left to right)

Edward J. Dietzler, *President of The Bank of Princeton*; Paul Y. Hyon, *Regional President of MoreBank*; Daniel J. O'Donnell, *EVP General Counsel & Chief Risk Officer*; Carol R. Coles, *EVP Chief Credit Officer*

Establish in 2007, The Bank of Princeton opened its Chambers Street doors for business on the 23rd of April. Since then, the Bank has grown to include ten branch locations in New Jersey that serve the Mercer, Hunterdon, Middlesex and Somerset markets. Through the acquisition of MoreBank in 2010, the Bank extended its footprint with three branches in nearby Pennsylvania. Together, The Bank of Princeton and MoreBank branch network consists of thirteen locations and a comprehensive Operations Center.

Keeping in Touch

Delivering Informative

- E-mail blasts
- Monthly statement inserts & messages
- Facebook posts

The Bank of Princeton®
Bank Wisely.

Thanksgiving Food Drive

Together we can make a difference!

The Bank of Princeton and MoreBank will be accepting *Food Drive* contributions beginning November 1st, 2016 to support:

- Students Change Hunger *(through December 9th)* - at our Bayard Lane, Chambers Street, and Nassau Street locations
- Womanspace *(through November 15th)* - at our Lamber Lawrenceville, Monroe, New Brunswick, and Penningtor
- Inter-Faith Housing Alliance *(through November 18th)* - Wales MoreBank Location
- The Lamb Foundation *(through November 18th)* - at our MoreBank Location
- Philadelphia Holy Redeemer Chinese Catholic Church *(November 18th)* - at our Arch Street MoreBank location

Examples of non-perishable food items include:

- canned vegetables
- canned fruits
- pasta
- pasta sauce (no glass please)
- canned or dried beans & lentils
- canned soup
- canned gravy
- boxed mac & cheese
- cake mix & ic
- canned pie fil
- pie crust
- canned fish &
- boxed meals
- granola snack
- cereal
- shelf stable ju

*Food items are not limited to those above. Gluten free, vege items are also appreciated.

The Bank of Princeton Locations | MoreBank

Thank You!
Together we **CAN** make a difference.

CELEBRATE!

Customer Appreciation Week

Earn an additional .25% APY* on CDs of Any Term

Present this flyer to your local Branch

May 16th *through* May 21st, 2016

Earn an additional .25% APY* on CDs of any term

See below for details on this exciting offer!

The Bank of Princeton®
Bank Wisely.

Owl go out on a limb here...

sure about making the switch to eStatements?

easons to Consider Enrolling Today

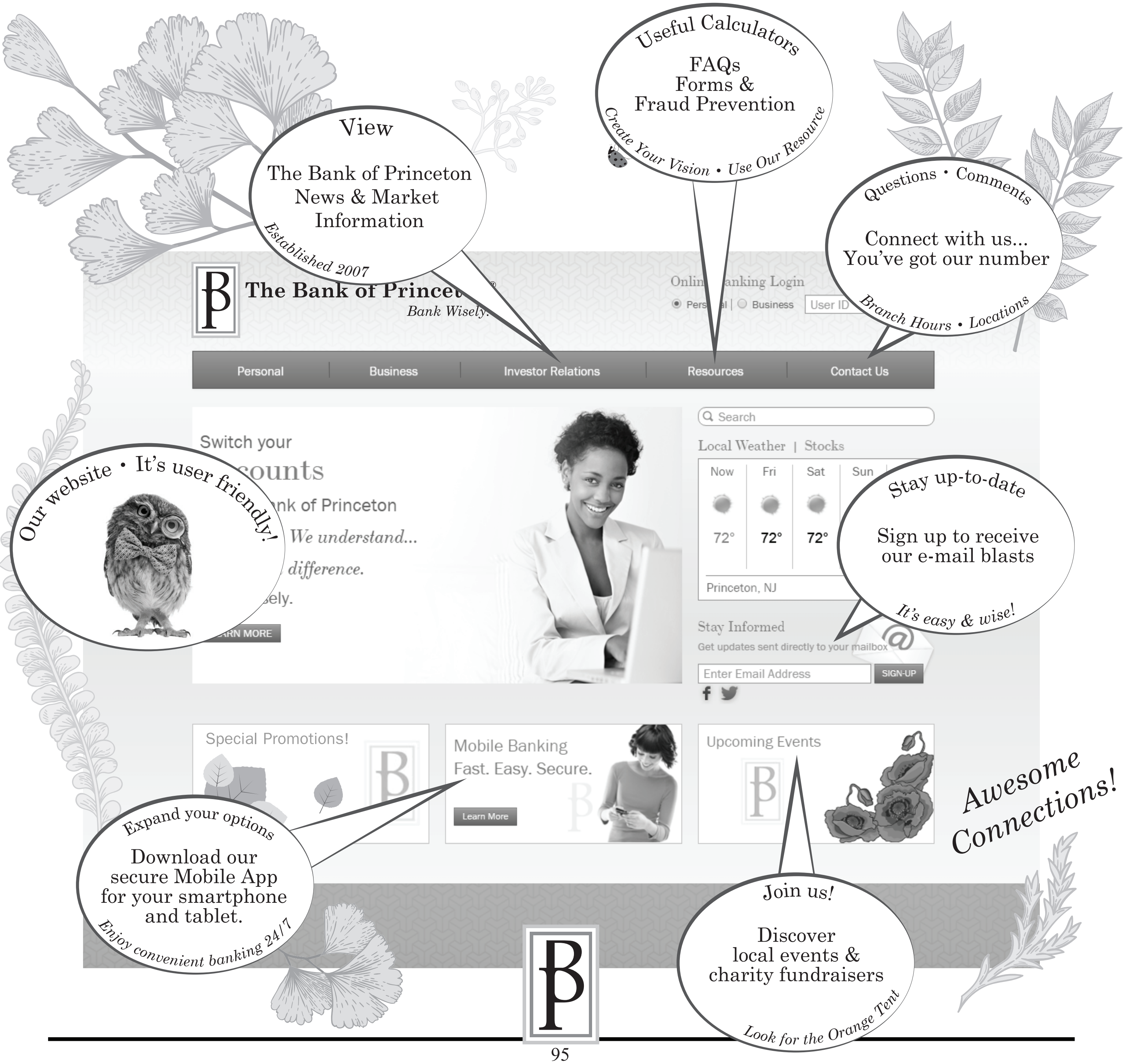
- ments are conveniently available to anywhere, at any time
- ate the worry of paper statements g lost or stolen
- ce the risk of Identity Theft ugh mail fraud
- nail to sort, store or shred
- reen... Save Our Trees!

fast & easy! Simply log in to your Online ccount, click the eStatement Enrollment follow the prompts.

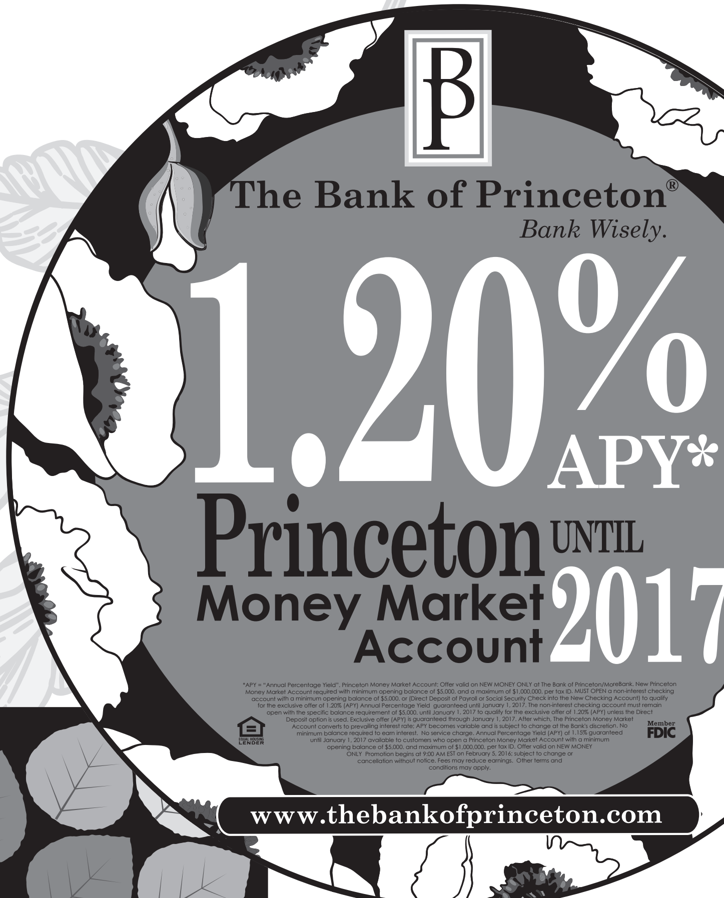
tance or have a Business Account? Stop ur thirteen convenient branch locations or all!

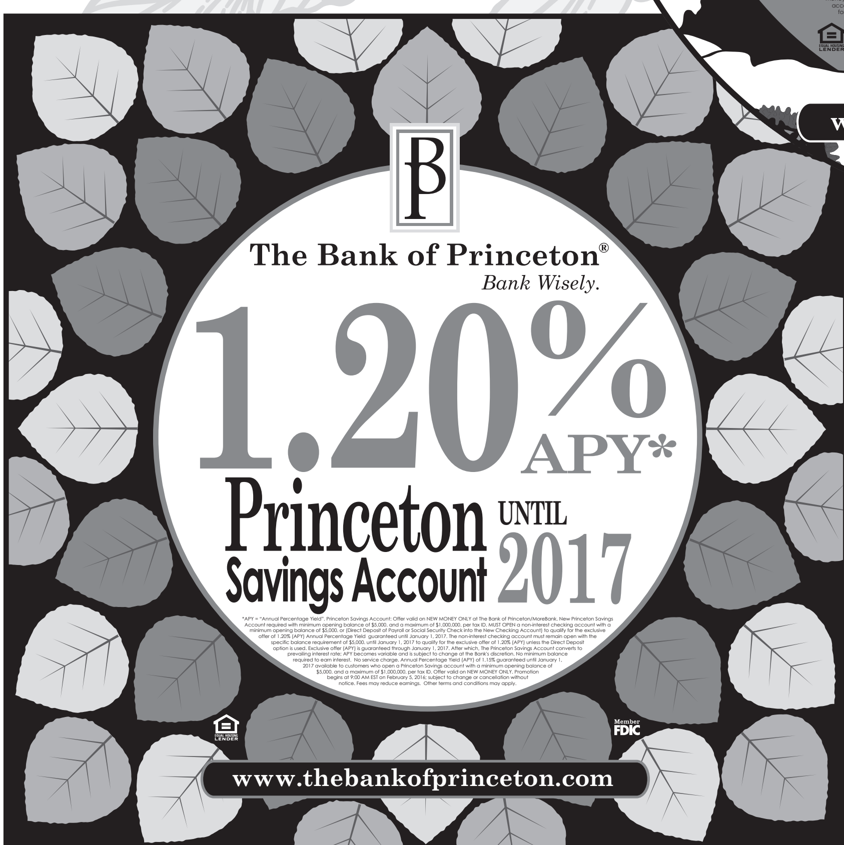
Our Website • Your Resource

Discover an array of useful information... Research Product and Loan Options... Find convenient Branch Locations and Hours of Operation... Our easy to use Mobile App expands your banking day to include 24/7 access... Browse our Calendar of Events and join us at a community affair! Plan for the future by utilizing the many calculators found under the Resources Tab. The Bank of Princeton & MoreBank... finding new ways to help you, your family and friends... *Bank Wisely*!



Two New Products • One Great Promotion





Announcing

- **The Princeton Money Market Account**
- **The Princeton Savings Account**
  - **Launched February 5, 2016 at The Bank of Princeton & MoreBank**
  - **Exclusive introductory rate of 1.20%APY guaranteed until January 1, 2017**

The Bank of Princeton®

Bank Wisely.

ACME Screening Room
Alzheimer's New Jersey
American Heart Association
American Legion, Hopewell Valley Post 339
American Red Cross
Anchor House
Arc of Hunterdon County, The
Arm in Arm
Arts Council of Princeton
Autism Speaks
Ben Franklin Elementary School
Big Brothers Big Sisters of Mercer County
Boy Scout Troop 29
Bridge Academy of New Jersey, The
Building One New Jersey
Capital Health Foundation
Carrier Clinic
Catholic Charities, Diocese of Trenton
Center for Educational Advancement
Center for Great Expectations, The
Center for Literacy
Children's Home Society of New Jersey, The
Christine's Hope for Kids Foundation
Community Justice Center
Community Options, Inc.
Communiversity
CONTACT of Mercer County
Corner House Foundation
D&R Greenway Land Trust
Delaware River Towns Chamber of Commerce & Visitors Bureau, The
Delaware Township Schools, Partners in Education
Dress for Success Mercer County
Eden Autism Services Foundation
Elijah's Promise
Family Guidance Center
Food Cupboard of the Inter-Faith Housing Alliance
Friendly Sons & Daughters of St. Patrick of Mercer County
Friends of Ely Park
Friends of Hopewell Public Library
Girl Scout Daisy Troop 60195
Good Grief
Greater Lambertville-New Hope Chamber of Commerce
Greater Philadelphia Asian Social Services Center
Greener New Jersey Productions
Hamilton Area YMCA
Hamilton Educational Foundation
Hibernia Fire Company
HiTOPS, Inc.
HomeFront
HomeSharing, Inc.
Hopewell Elementary School
Hopewell Harvest Fair
Hopewell Valley Arts Council
Hopewell Valley Education Foundation
Hopewell Valley Historical Society
Hopewell Valley Senior Foundation
Hopewell Valley Veterans Association
Hopewell Valley YMCA
Hopewell Valley Youth Football and Cheer Association, The
Hunterdon County Chamber of Commerce
Hunterdon County YMCA
Hyacinth AIDS Foundation
Isles, Inc.
Jack & Jill of America, Inc.
Jason Fuhr Memorial Charity Golf Tournament
Jewish Family & Children's Service of Greater Mercer County
John Warms Montgomery High School Alumni Association
John Witherspoon Middle School
Joint Effort - Princeton Safe Streets Weekend
Kalmia Club, The
Korean American Broadcasting Co.
Korean American Institute of Princeton
Korean Community Center of Greater Princeton
Lambertville Animal Welfare
Lambertville Area Education Foundation
Lambertville Historical Society
Lambertville / New Hope Winter Festival
Lambertville Rescue Squad
Lambertville Shad Fest
Lambertville - West Amwell Youth Baseball & Softball Association
Lamb Foundation, The
Lawrence Township Education Foundation
Lawrenceville Fire Company
Lawrenceville Main Street
Leukemia & Lymphoma Society
LifeTies, Inc.
March of Dimes
Mary Jacobs Library Foundation
Meals on Wheels of Greater New Brunswick

"One man can make a difference and every man should try."

~ Jacqueline Kennedy Onassis

The Bank of Princeton®

Bank Wisely.

Meals on Wheels of Mercer County
Mercer County Bar Association
Mercer County Community College Foundation
Mercer County Turkey Trot
Mercer Street Friends
Mercerville Fire Company
MidJersey Chamber of Commerce
Mid-Summer Marketing Showcase
Mil Al Mission
Montgomery Baseball League
Montgomery Basketball Association
Montgomery High School - Cougar Football Club
Montgomery / Rocky Hill Rotary Club
Montgomery Township Education Foundation
Montgomery Township Fireworks Committee
Montgomery Township Volunteer Fire Company No. 1 & No. 2
Montgomery Woman's Club
Nassau Hockey League
National Kidney Foundation
New Hope Film Festival
New Hope Historical Society
New Jersey Business & Industry Association
New Jersey Bankers Association
New Jersey Foundation for Aging
Notre Dame High School
One Simple Wish
Parkinson Alliance, The
Penn Asian Senior Services
Pennington Business & Professional Association
Pennington Day, Inc.
Pennington Volunteer Fire Company
People & Stories / Gente y Cuentos
Philadelphia Chinatown Development Corporation
Philadelphia Holy Redeemer Chinese Catholic Church
Philadelphia Korean Christian Broadcasting Company
Philadelphia Korean Senior Golf Assn
PlanSmart NJ
Princeton Area Alumni Association
Princeton Education Foundation
Princeton First Aid Ladies Auxiliary
Princeton Historical Society
Princeton in Africa
Princeton Little League
Princeton Pro Musica
Princeton Public Library
Princeton Recreation Department
Princeton Regional Chamber of Commerce
Princeton Senior Resource Center
Princeton Symphony Orchestra
Princeton University Summer Chamber Concerts
Raritan Valley Habitat for Humanity
Riverside Symphonia
Robert Wood Johnson Hamilton Foundation
Rocky Hill Fire Department
Ronald McDonald House of New Brunswick
Rotary Club of Princeton
Rutgers University Dance Marathon
Ryan's Quest
Saint Ann School
Saint John the Evangelist Roman Catholic Church
Saint Peter the Apostle Church
San Felese Lodge
Science Mentors 1 to 1
Send Hunger Packing Princeton
SERV Behavioral Health Systems
Shad Run
Sixth Man Club
SPLASH Steamboat Floating Classroom
Solebury Township Historical Society
South Hunterdon Cross Country Track & Field Booster Club
Special Olympics New Jersey
Special Strides
Students Change Hunger
Sustainable Princeton
Thomas Edison State University Foundation
Together 4 Kids
Trenton Area Soup Kitchen, The
Trenton Catholic Academy
Trenton Public Education Foundation
Trinity Church
UIH Family Partners
United Way of Hunterdon County
Unity Square Trunk or Treat
Waldorf School of Princeton
West Amwell Golf Day
WHAM / Hightstown CROP Hunger Walk
Widener University
Womanspace
YMCA Camp Mason
Young Audiences New Jersey & Eastern Pennsylvania
YWCA Princeton

MoreBank
A Division of The Bank of Princeton

Thank you to our community partners for helping *Make a Difference.*

Bayard / Corporate HQ
183 Bayard Lane
Princeton, NJ 08540

Chambers
21 Chambers Street
Princeton, NJ 08542

Nassau
194 Nassau Street
Princeton, NJ 08542

Montgomery
1185 Route 206 North
Princeton, NJ 08540

Pennington
2 Route 31 South
Pennington, NJ 08534

Hamilton
339 Route 33
Hamilton, NJ 08619

Monroe
1 Rossmoor Drive, Ste 120
Monroe Twp, NJ 08831

Lambertville
10 Bridge Street
Lambertville, NJ 08530

New Brunswick
1 Spring Street, Ste 102
New Brunswick, NJ 08901

Lawrenceville
2999 Princeton Pike
Lawrenceville, NJ 08648

Operations Center
403 Wall Street
Princeton, NJ 08540

Cheltenham
470 W. Cheltenham Avenue
Philadelphia, PA 19126

North Wales
1222 Welsh Road
North Wales, PA 19454

Chinatown
921 Arch Street
Philadelphia, PA 19107

www.thebankofprinceton.com | 609.921.1700
www.morebankusa.com | 215.224.6400