Bayard
Corporate HQ

183 Bayard Lane
Princeton, NJ 08540

www.thebankofprinceton.com
609.921.1700

New Jersey

Chambers
21 Chambers Street
Princeton, NJ 08542
609.921.6800

Nassau
194 Nassau Street
Princeton, NJ 08542
609.921.3311

Montgomery
1185 Route 206 North
Princeton, NJ 08540
609.497.0500

Pennington
2 Route 31 South
Pennington, NJ 08534
609.730.8500

Hamilton
339 Route 33
Hamilton, NJ 08619
609.584.0011

Monroe
1 Rossmoor Drive, Ste 120
Monroe Twp, NJ 08831
609.655.7790

Lambertville
10 Bridge Street
Lambertville, NJ 08530
609.397.0333

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

Lawrenceville
2999 Princeton Pike
Lawrenceville, NJ 08648
609.882.0500

Cream Ridge
403 Route 539
Cream Ridge, NJ 08514
609.757.1120

Operations Center
403 Wall Street
Princeton, NJ 08540
609.454.0116

Pennsylvania

Cheltenham
470 W. Cheltenham Avenue
Philadelphia, PA 19126
215.224.6400

North Wales
1222 Welsh Road
North Wales, PA 19454
215.631.9911

Chinatown
921 Arch Street
Philadelphia, PA 19107
215.923.6200

2018 Annual Report

The Bank of Princeton
Bank Wisely.

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Who We Are...109

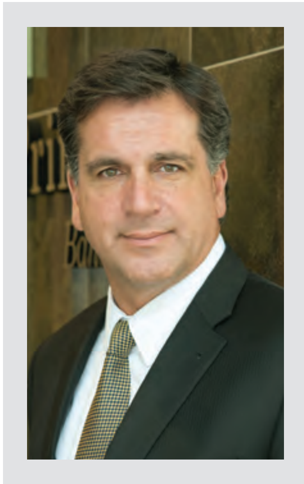
A look back with an eye towards the future.

The Bank of Princeton has experienced many changes since its opening in 2007, when it ended its first year with 3 branches and $66.4 million in assets, to its current levels of 14 branches with $1.2 billion in total assets.

With an eye towards the future, the expansion of our footprint allows for our community focus to be transported to new markets where our presence also can make a difference.

Bank Wisely.

Letter to Shareholders



Edward J. Dietzler
President
Chief Executive Officer

The Bank's capital position provides a source of strength to accomplish future organic growth and to explore other growth opportunities.

Dear Fellow Shareholders,

The Bank of Princeton (the "Bank") completed another successful year with earnings of $14.7 million, or $2.14 per diluted common share, and total assets reaching $1.2 billion. These results were a part of the Bank's strategic initiative of increasing shareholder value through controlled prudent growth of the Bank's earning assets. During 2018, the Bank increased net interest income by 4.8% or $1.9 million compared to 2017, largely due to the $136.9 million increase in the average balance of interest-earning assets such as our loans, which increased by $127.9 million from 2018.

The Bank has experienced many changes since its opening in 2007, when it ended its first year with 3 branches and $66.4 million in assets, to its current levels of 14 branches with $1.2 billion in total assets. The Bank continues its success by staying the course with its original core mission of targeting the commercial real estate and small business communities for their lending needs, and catering to the local community by offering competitive rates on deposits and getting substantially involved in the community. The Bank's capital position provides a source of strength to accomplish future organic growth and to explore other growth opportunities such as the acquisition of five Beneficial Bank branches announced in February of this year. We will continue to concentrate on our markets along the Route 95 corridor from as far north as New York City and south to the extended Philadelphia area.

Notable Highlights for 2018

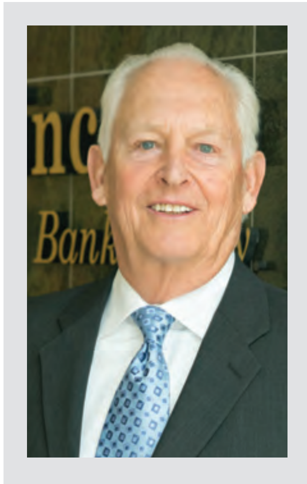
- Net loans increased $111.2 million to exceed $1.0 billion at year-end 2018 and reflected a 11.5% increase year over year.
- An exclusive invitation was extended by Nasdaq Global to participate in the closing bell ceremony on August 21, 2018. This special recognition celebrated the first anniversary of "BPRN" being listed on the Nasdaq as a publicly traded company.
- In September of 2018, The Bank of Princeton successfully launched a multimedia campaign focusing on "Brand Awareness," which featured real customers sharing unscripted, candid comments based on their genuine experiences.
- The addition of credit cards to our product line provided many new opportunities. The introduction of the mobile deposit feature to The Bank of Princeton's Mobile App offered additional convenience and flexibility fitting today's active lifestyles.

- Promotions offered throughout the year attracted new money, new customers, and expanded existing relationships. The Business Money Market promotion yielded additional opportunities that attracted business customers and non-profit organizations.
- The first ever cash dividend was paid to The Bank of Princeton shareholders on November 5, 2018.
- The Bank of Princeton opened its 14th branch location on December 10, 2018, in Cream Ridge, New Jersey. This new office extended our footprint into the Monmouth and Ocean County markets.
- Our 2019 Strategic Plan includes the addition of two new branches; one located in Princeton Junction, New Jersey and the second on Quakerbridge Road in Hamilton, New Jersey.
- The Bank entered into an agreement to purchase five bank branches from Beneficial/WSFS Bank on February 4, 2019. This acquisition expands our footprint into Burlington, Gloucester, and Camden Counties. The deal is expected to close in the middle of the 2nd quarter of 2019, subject to customary conditions such as regulatory approval.

Delivering superior customer service in harmonious, *classic style* continues to capture our attention and consideration. Providing a friendly, caring, and personalized banking experience is what differentiates us and propels our growth. The expansion of our footprint allows for our *community focus* to be transported to new markets where our presence also can make a difference.

It truly is an exciting time in the evolution of The Bank of Princeton! We remain extremely grateful for the support from our loyal customers, community partners, and shareholders.

We are dedicated to work together in collaboration with our directors and management teams enriching the personalized banking experience and maximizing shareholder value.



Richard Gillespie
Chairman
of the Board

Providing a friendly, caring, and personalized banking experience is what differentiates us and propels our growth.

2018 Annual Report
Financial Reports

The Bank of Princeton

Bank Wisely.

The Bank of Princeton

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, 2018

- 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, a smaller reporting company, or emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act (Check one):

Large accelerated filer ☐	Accelerated filer ☒
Non-accelerated filer ☐	Smaller reporting company ☒
(Do not check if a smaller reporting company)	Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) the Exchange Act. ☐

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 01, 2019 there were 6,689,249 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, no later than 120 days after December 31, 2018 in connection with its 2018 Annual Meeting of Stockholders to be held April 23, 2019 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: those listed in this report under the heading "Risk Factors", 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; the possibility that expected benefits of the Bank's pending branch acquisition described in this report may not materialize in the timeframe expected or at all, or may be more costly to achieve; that the branch acquisition may not be timely completed, if at all; that prior to the completion of the branch acquisition or thereafter, the Bank's business may not perform as expected due to transaction-related uncertainty or other factors; that Bank is unable to successfully implement integration strategies relating to the branch acquisition; that required regulatory or other approvals are not obtained or other customary closing conditions are not satisfied in a timely manner or at all; reputational risks and the reaction of the Bank's customers, employees and other constituents to the transaction; and diversion of management time on branch acquisition-related matters; and the success of the Bank at managing the risks involved in the foregoing. Although management has taken certain steps to mitigate any negative effect of the aforementioned items, significant unfavorable changes could severely impact the assumptions used and have an adverse effect on profitability. Such risks and other aspects of our business and operations are described in Item 1. "Business," Item 1A. "Risk Factors" and Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations" of this report.

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 fourteen branches, is generally an area within an approximate 100 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 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 December 2018, the Bank opened a new branch in Cream Ridge, New Jersey.

On February 2, 2019, the Bank entered into a branch purchase and assumption agreement with Beneficial Bank (and its successor in interest, WSFS Financial Corporation) (the "Branch Purchase Agreement") pursuant to which Beneficial has agreed to sell five branches, located in Bordentown, Browns Mills, Chesterfield, Deptford, and Sicklerville, New Jersey, to the Bank. As of January 31, 2019, the amount of deposits to be transferred to the Bank in this transaction was $191.4 million. Completion of this transaction is subject to a number of customary conditions. We anticipate that the transaction will occur in the second quarter of 2019. After the closing, our market area will include the additional New Jersey counties of Burlington, Camden and Gloucester.

On May 30, 2018, the Bank amended its certificate incorporation to increase the number of authorized shares of common stock from 10,000,000 to 15,000,000.

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.

The Bank has elected to prepare this Annual Report on Form 10- K and other annual and periodic reports as a "smaller reporting company" consistent with the rules of the Securities and Exchange Commission (the "SEC"). The Bank became an "accelerated filer" under such rules as of December 31, 2017, and therefore was unable to use the "smaller reporting company" rules commencing with the filing of its Current Report on Form 10-Q for the quarter ending March 31, 2018. However, on September 10, 2018, the SEC adopted amendments to the definition of "smaller reporting company." The amendments expanded the number of registrants that qualify as smaller reporting companies and were intended to reduce compliance costs for these registrants and promote capital formation, while maintaining appropriate investor protections. The definition of "smaller reporting company," which had previously include registrants with a public float of less than $75 million, now includes registrants with a public float of less than $250 million, such as the Bank.

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, (Dollars in thousands):

	2018		2017		2016		2015		2014	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
Commercial real estate[1]	$ 729,336	67.3%	$ 634,768	65.3%	$ 554,050	64.2%	$ 490,298	60.5%	$ 450,250	61.2%
Commercial and industrial	71,838	6.6	59,636	6.1	60,886	7.0	125,072	15.4	127,469	17.3
Construction	161,275	14.9	183,375	18.9	166,719	19.3	122,297	15.1	78,822	10.7
Residential first-lien mortgage	102,008	9.4	73,505	7.6	56,712	6.6	42,409	5.2	45,383	6.2
Home Equity	17,048	1.6	20,551	2.1	24,185	2.8	29,922	3.7	30,711	4.2
Consumer	1,987	0.2	447	0.0	577	0.1	858	0.1	2,654	0.4
Total Loans	1,083,492	100.%	972,282	100.0%	863,129	100.0%	810,856	100.0%	735,289	100.0%
Deferred fees and costs	(2,313)		(2,335)		(2,803)		(2,910)		(2,150)	
Allowance for loan losses	(11,944)		(11,591)		(10,822)		(10,851)		(10,008)	
Loans, net	$ 1,069,235		$ 958,356		$ 849,504		$ 797,095		$ 723,131	

[1] Includes multi-family real estate secured loans.

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

Commercial Real Estate and Multi-family. At December 31, 2018, commercial real estate and multi-family loans amounted in the aggregate to $729.3 million, or 67.3% of the total loan portfolio. Our commercial real estate portfolio has increased 279.1 million or 62.0% since December 31, 2014, when commercial real estate and multi-family loans amounted to $450.3 million, or 61.2%, of our total portfolio.

The commercial real estate and multi-family loan portfolio consist primarily of loans secured by small office buildings, strip shopping centers, small apartment buildings and other properties used for commercial and multi-family purposes located in the Bank's market area. At December 31, 2018, the average commercial and multi-family real estate loans size was approximately $1.1 million.

Although terms for commercial real estate and multi-family loans vary, our underwriting standards generally allow for terms up to 10 years with loan-to-value ratios of not more than 75%. Most of the loans are structured with balloon payments of 10 years or less and amortization periods of up to 25 years. Interest rates are either fixed or adjustable, based upon designated market indices such as the Wall Street Journal prime rate plus a margin.

Commercial real estate and multi-family real estate lending involves different risks than single-family residential lending. These risks include larger loans to individual borrowers and loan payments that are dependent upon the successful operations of the project or the borrower's business. These risks can be affected by supply and demand conditions in the projects market area of rental housing units, office and retail space and other commercial space. We attempt to minimize these risks by limiting loans to proven businesses, only considering properties with existing operating performance which can be analyzed, using conservative debt coverage ratios in our underwriting, and periodically monitoring the operation of the business or project and the physical condition of the property. A majority of the Bank's loans in this classification carry personal guarantees.

Various aspects of commercial and multi-family loan transaction are evaluated in an effort to mitigate the additional risk in these types of loans. In our underwriting procedures, consideration is given to the stability of the property's cash flow history, future operating projections, current and projected occupancy levels, location and physical condition. Generally, we impose a debt service ratio (the ratio of net cash flows from operations before the payment of debt service to debt service) of not less than 125%. We also evaluate the credit and financial condition of the borrower, and if applicable, the guarantor. With respects to loan participation interest we purchase, we underwrite the loans as if we were the originating lender. Appraisal reports prepared by independent appraisers are reviewed by an outside third party prior to closing.

Set forth below is a brief description of our three largest commercial real estate or multi-family loans:

- The largest commercial real estate loan is an $11.5 million loan, the proceeds of which were used to fund a 24-unit multi-family building located in in Ridgewood, New York.

The Bank of Princeton

- The second largest commercial real estate loan is for $11.0 million secured by a 375-apartment building located in Bronx, New York. The Bank participated in financing and holds a 26.44% interest.

- The third largest commercial real estate loan is a $9.3 million loan, the proceeds of which were used to purchase a 47-unit multi-family building located in Brooklyn, New York. The Bank is a participant in the financing of the project and holds a 30.0% interest.

Commercial and Industrial Loans. At December 31, 2018, commercial and industrial loans amounted in the aggregate to $71.8 million, or 6.6%, of the total loan portfolio. Our commercial and industrial portfolio has decreased $55.6 million, or 43.6%, since December 31, 2014, when commercial and industrial loans amounted to $127.5 million, or 17.3%, of our total loan portfolio.

Commercial business loans are made to small mid-sized businesses in our market area primarily to provide working capital. Small business loans may have adjustable or fixed rates of interest and generally have terms of three years or less but may be as long as 15 years. Our commercial business loans have historically been underwritten based on the creditworthiness of the borrower and generally require a debt service coverage ratio of at least 120%. In addition, we generally obtain personal guarantees from the principals of the borrower with respect to commercial business loans and frequently obtain real estate as additional collateral.

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. At December 31, 2018, our construction loans amounted to $161.3 million, or 14.9% of our total portfolio. The average size of a construction loan was approximately $2.4 million at December 31, 2018. Our construction loans portfolio has increased substantially since December 31, 2014, when construction loan amounted to $78.8 million, or 10.7% of our total loan portfolio, an increase of $82.5 million or 104.6%. The construction loan high was $183.4 million, or 18.9% of the Bank's total portfolio at December 31, 2017. Construction lending represents a segment of our loan portfolio and is driven primarily by market conditions. Loans to finance construction of condominiums projects or single-family homes and subdivisions are generally offered to experienced builders in our primary market area with whom we have an established relationship. Residential construction loans are offered with terms of up to 36 months. The maximum loan-to-value limit applicable to these loans is 75% of the appraised post construction value and does not require amortization of the principal during the term of the loan. We often establish interest reserves and obtain personal and corporate guarantees as additional security on the construction loans. Interest reserves are used to pay monthly payments during the construction phases of the loan and are treated as an addition to the loan balance. Interest reserves pose an additional risk to the Bank if it does not become aware of deterioration in the borrower's financial condition before the interest reserve is fully utilized. In order to mitigate risk, financial statements and tax returns are obtained from borrowers on an annual basis. Construction loan proceeds are disbursed periodically in increments as construction progresses and as inspection by approved appraisers or loan inspectors warrants. Construction loans are negotiated on an individual basis but typically have floating rates of interest based on a common index plus a stipulated margin. Additional fees may be charged as funds are disbursed. As units are completed and sold, we require that payments to reduce principal outstanding be made prior to them being released. We may permit a pre-determined limited number of model homes be constructed on an unsold or "speculative" basis. Construction loans also include loans to acquire land and loans to develop the basic infrastructure, such as roads and sewers. The majority of the construction loans are secured by properties located in our primary areas.

Set forth below is a brief description of our three largest construction loans or loan relationships:

- The largest construction loan is being used for a mixed-use property located in Lakewood, New Jersey. Total outstanding is $12.9 million, and the project is 98.0% completed.

- The second largest construction loan is $12.4 million for the renovation of an existing hotel located in Lancaster, Pennsylvania. The project is approximately 75.0% complete.

- The third largest construction loan for 33 residential condominiums and one retail space in Brooklyn, New York totaling $12.3 million. The project is 95.0% complete.

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. At December 31, 2018, our residential first-lien loans amounted to $102.0 million, or 9.4%, of our total portfolio. Our residential first-lien loans portfolio has increased $56.6 million, or 124.8%, since December 31, 2014, when residential first-lien loans amounted to $45.4 million, or 6.2%, of our total loan portfolio.

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.

Loans Receivable, Net. Loans receivable, net increased from $958.4 million at December 31, 2017 to $1.07 billion at December 31, 2018, an increase of $110.9 million, or 11.6%. 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:

	December 31, 2018			
(Dollars in thousands)	Due in one year or less	Due after one through five years	Due after five years	Total
Commercial real estate	$ 13,126	$ 63,947	$ 652,263	$ 729,336
Commercial and industrial	34,700	21,242	15,896	71,838
Construction	120,443	40,832	-	161,275
Residential first-lien mortgage	-	-	102,008	102,008
Home equity	-	404	16,644	17,048
Consumer	1,683	304	-	1,987
Total loans	$ 169,952	$ 126,729	$ 786,811	$ 1,083,492
Type:				
Fixed rate loans	$ 23,983	$ 51,530	$ 101,343	$ 176,856
Floating rate loans	145,969	75,199	685,468	906,636
Total loans	$ 169,952	$ 126,729	$ 786,811	$ 1,083,492

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.

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.

	December 31,				
(Dollars in thousands)	2018	2017	2016	2015	2014
Nonaccrual loans:					
Commercial real estate	$ 2,968	$ 7,589	$ 1,389	$ 6,530	$ 6,190
Commercial and industrial	2,196	18	188	1,834	1,185
Construction	487	1,592	1,649	1,805	1,911
Residential first-lien mortgage	-	-	-	1,370	166
Home equity	48	-	145	450	419
Consumer	-	-	-	-	-
Total nonaccrual loans	5,699	9,199	3,371	11,989	9,871
Troubled debt restructurings (TDRs) – performing	1,286	4,796	4,943	1,171	3,797
Accrual loans 90 days or more past due	-	-	1,820	-	-
Total nonperforming loans and performing TDRs	6,985	13,995	10,134	13,160	13,668
Other real estate owned	44	802	-	300	804
Total nonperforming assets and performing TDRs	$ 7,029	$ 14,797	$ 10,134	$ 13,460	$ 14,472

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, 2018 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.

As of December 31, 2018, the allowance for loan losses was $11.9 million as compared to $11.6 million as of December 31, 2017. The provision for loan losses for the year ended December 31, 2018 decreased $3.1 million over the prior year caused by a provision of $3.8 million for the year ended December 31, 2017, which was primarily due to $3.0 million in net charge-offs recorded in 2017. The ratio of allowance for loan losses to total loans as of December 31, 2018 was 1.10% compared to 1.20% as of December 31, 2017.

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:

(Dollars in thousands)	Year Ended December 31, 2018	2017	2016	2015	2014
Balance at beginning of year	$ 11,591	$ 10,822	$ 10,851	$ 10,008	$ 8,493
Charge offs:					
Commercial real estate	(216)	(2,310)	-	(435)	(116)
Commercial and industrial	(30)	(730)	-	(626)	-
Construction	(225)	-	-	-	-
Residential first-lien mortgage	-	-	-	-	-
Home equity	(3)	-	-	(39)	-
Consumer	-	-	-	-	(29)
Total charge offs	(474)	(3,040)	-	(1,100)	(145)
Recoveries:					
Commercial real estate	28	-	-	-	5
Commercial and industrial	134	40	12	13	70
Construction	-	4	-	-	-
Residential first-lien mortgage	-	-	-	-	-
Home equity	-	-	-	6	-
Consumer	-	-	-	20	5
Total recoveries	162	44	12	39	80
Net charge-offs	(312)	(2,996)	12	(1,061)	(65)
Additions (reductions) charged to operations ((credit) provision for loan losses)	665	3,765	(41)	1,904	1,580
Balance at end of year	$ 11,944	$ 11,591	$ 10,822	$ 10,851	$ 10,008
Net charge offs to average loans outstanding	0.03 %	0.33 %	0.00%	0.14%	0.01%

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. 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, 2018		2017		2016	
(Dollars in thousands)	Amount	Allocation as a % of Loan Category	Amount	Allocation as a % of Loan Category	Amount	Allocation as a % of Loan Category
Commercial real estate	$ 7,208	67.3 %	$ 6,240	65.3 %	$ 5,330	64.2 %
Commercial and industrial	1,396	6.6 %	957	6.1 %	974	7.0 %
Construction	1,859	14.9 %	3,077	18.9 %	3,159	19.3 %
Residential first-lien mortgage	568	9.4 %	461	7.6 %	404	6.6 %
Home equity	95	1.6 %	144	2.1 %	155	2.8 %
Consumer	11	.2 %	3	- %	3	0.1 %
Unallocated	807	-	709	-	797	-
Total	$ 11,944	100.0 %	$ 11,591	100.0 %	$ 10,822	100.0 %

	December 31, 2015		2014	
(Dollars in thousands)	Amount	Allocation as a % of Loan Category	Amount	Allocation as a % of Loan Category
Commercial real estate	$ 4,703	60.5 %	$ 3,621	61.2 %
Commercial and industrial	2,246	15.4 %	1,530	17.3 %
Construction	2,615	15.1 %	2,719	10.7 %
Residential first-lien mortgage	292	5.2 %	318	6.2 %
Home equity	225	3.7 %	307	4.2 %
Consumer	3	0.1 %	17	0.4 %
Unallocated	767	-	1,496	-
Total	$ 10,851	100.0 %	$ 10,008	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.

Investment Securities (available-for-sale and held-to-maturity)

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) income.

The following table presents a summary of the amortized cost and fair value of our securities available-for-sale.

	December 31,					
	2018		2017		2016	
(Dollars in thousands)	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Mortgage-backed Securities-U.S. Government-sponsored Enterprises (GSEs)	$ 46,954	$ 46,472	$ 53,943	$ 53,771	$ 59,679	$ 59,864
Obligations of state and political subdivisions	45,387	45,209	47,692	47,973	53,361	53,170
Total	$ 92,341	$ 91,681	$ 101,635	$ 101,744	$ 113,040	$ 113,034

Securities available-for-sale, which are carried at fair value, decreased $10.1 million, or 9.9%, to $91.7 million at December 31, 2018 from December 31, 2017. Funds from security calls 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.

	December 31,					
	2018		2017		2016	
(Dollars in thousands)	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Mortgage-backed Securities-U.S. Government-sponsored Enterprises (GSEs)	$ 228	$ 236	$ 264	$ 280	$ 340	$ 365

HTM securities decreased 13.6% from December 31, 2017 to December 31, 2018. 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, 2018. 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, 2018				
(Dollars 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)	$ -	$ 4,582	$ 21,333	$ 21,039	$ 46,954
Obligations of state and political subdivisions	251	7,241	29,093	8,802	45,387
Total	$ 251	$ 11,823	$ 50,426	$ 29,841	$ 92,341
Weighted average yield	4.15%	2.37%	2.52%	2.88%	2.62%

At December 31, 2018, there were no security holdings of any one issuer in an amount greater than 10.0% 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.

Cash and Due From Banks.

Cash and due from banks decreased from $82.8 million at December 31, 2017 to $26.4 million at December 31, 2018, a decrease of $56.4 million, or 68.1%. The decrease in cash was primarily attributable to redeploying cash to fund loan growth.

Premises and Equipment

Premises and equipment, net increased $322,000 from December 31, 2017 to December 31, 2018 resulting from a $638,000 depreciation expense offset by $960,000 of new purchases that occurred during the year.

Accrued Interest Receivable and Other Assets

Accrued interest receivable increased $226,000 from December 31, 2017 to December 31, 2018, primarily due to higher outstanding balances in interest earning assets as compared to the prior period. The increase in restricted investments in bank stocks was primarily the result of a $55.4 million increase in borrowings from the Federal Home Loan Bank of New York ("FHLB-NY") at December 31, 2018 compared to no borrowings at December 31, 2017. Deferred taxes increased $3.5 million from December 31, 2017 to December 31, 2018, primarily due to the Bank deferring dividend income from its real estate investment trust ("REIT") subsidiary, along with the reduction of the statutory effective tax rate from 34% to 21% resulting from H. R. 1 (the "2017 Tax Act"), originally known as the "Tax Cuts and Jobs Act of 2017" which was signed into law on December 22, 2017. Bank owned life insurance increased $4.9 million from December 31, 2017 to December 31, 2018, primarily due to the purchase of an additional $3.7 million of coverage and the earnings recorded from the existing policies. Other assets decreased $4.1 million from December 31, 2017 to December 31, 2018, primarily due to income taxes receivable that was reversed due to a payment of a cash dividend related to the Bank's REIT subsidiary.

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, 2018, there were no customers whose deposit balances individually exceeded 5% of total deposits.

The following table presents our time deposit maturities.

(Dollars in thousands)	December 31, 2018 Three months or less	Over three through six months	Over six through twelve months	Over twelve months	Total
Time deposits of $100,000 or more	$ 33,778	$ 40,809	$ 38,685	$ 87,604	$ 200,876
Time deposits of less than $100,000	27,218	18,032	35,586	90,569	171,405
Total	$ 60,996	$ 58,841	$ 74,271	$ 178,173	$ 372,281

The following table presents the average balance of our deposit accounts and the average cost of funds for each category of our deposits.

	2018			2017			2016		
(Dollars 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	$ 100,078	0.00%	9.8%	$ 102,317	0.00%	11.5%	$ 105,794	0.00%	12.6%
Demand Interest-bearing	215,379	0.86	21.0	173,761	0.71	19.6	160,270	0.63	19.1
Money market	273,373	1.42	26.6	265,055	0.99	29.9	234,949	0.86	28.0
Savings deposits	102,219	1.17	9.9	107,747	0.87	12.1	83,123	0.77	9.9
Time deposits of $250,000 or more	87,775	1.83	8.6	71,535	1.47	7.6	63,608	1.48	7.6
Other time deposits	247,005	1.79	24.1	166,853	1.48	18.8	191,825	1.44	22.8
Total	$1,025,829	1.26%	100.0%	887,268	0.94%	100.0%	$ 839,569	0.88%	100.0%

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.

Total deposits decreased from $1.03 billion at December 31, 2017 to $1.01 billion at December 31, 2018, a decrease of $21.4 million, or 2.1%. Non-interest-bearing deposits increased $2.0 million, or 2.0%, to $102.7 million at December 31, 2018. Interest-bearing deposits decreased $23.5 million, or 2.5%, to $904.6 million at December 31, 2018.

Borrowings.

At December 31, 2018, the Bank had borrowings of $55.4 million from the Federal Loan Home Bank of New York ("FHLB-NY") compared to a none at December 31, 2017. The Bank maintains its borrowing capacity with FHLB-NY as an additional source of liquidity to fund increases in asset classes not funded by our deposits.

Accrued Interest Payable and Other Liabilities

Accrued interest payable and other liabilities increased $971,000 to $4.6 million as compared to $3.6 million in the prior year. Accrued interest payable increased $607,000, or 38.2%, to $2.2 million at December 31, 2018.

Stockholders' Equity.

Total stockholders' equity increased $16.0 million to $184.3 million at December 31, 2018, an increase of approximately 9.5%. This increase is primarily attributable to net income, net of cash dividends paid, of $14.5 million and $2.1 million received from the exercise of stock options.

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. We 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.

Staffing

As of December 31, 2018, we had 151 total employees and approximately 148 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. Banking regulations permit us to engage in certain additional activities, such as insurance sales and securities underwriting, through the formation of a "financial subsidiary." In order to be eligible to establish or acquire a financial subsidiary, we must be "well capitalized" and "well managed" and may not have less than a "satisfactory" CRA rating. At this time, we do not engage in any activity which would require us to maintain a financial subsidiary. We are also subject to federal laws that limit the amount of transactions between us and any nonbank affiliates. Under these provisions, transactions, such as a loan or investment, by us with any nonbank affiliate are generally limited to 10% of our capital and surplus for all covered transactions with such affiliate or 20% 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 Wall Street Reform and Consumer Protection Act (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, ("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.

The DIF has a minimum designated reserve ratio ("DRR") of 1.35% of the estimated insured deposits. The FDIC has adopted a restoration plan should the DRR fall below 1.35%, and dividends are required to be paid to the industry should the DRR exceed 1.50%. 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 limit for federal deposit insurance is $250,000 and the cash limit of Securities Investor Protection Corporation protection is also $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, 2018, averaged 0.75 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% 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.

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 organizations 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.

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 described above. Institutions that do not maintain this required capital buffer 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 was phased in over four years. For the year ended December 31, 2017, the capital buffer requirement was 1.25%. For the year ended December 31, 2018, the capital buffer requirement increased to 1.875%. We have included these amounts in our minimum capital adequacy ratios in the table below. When fully phased-in on January 1, 2019, in order to meet the capital buffer requirements, the Bank was required to have a common equity Tier 1 capital ratio of at least 7.0%, a Tier 1 capital ratio of at least 8.5%, and a total capital ratio of at least 10.5%. At January 1, 2019, the Bank met all capital adequacy requirements on a fully phased-in basis.

	Actual		For capital adequacy purposes (including capital buffer requirement)		To be well capitalized under prompt corrective action provisions	
(Dollars in thousands)	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2018:						
Total capital (to risk-weighted assets)	$ 196,092	17.366%	$ 111,506	≥ 9.875%	$ 112,918	≥ 10.000%
Tier 1 capital (to risk-weighted assets)	$ 184,148	16.308%	$ 89,923	≥ 7.875%	$ 90,334	≥ 8.000%
Common equity tier 1 capital (to risk-weighted assets)	$ 184,148	16.308%	$ 71,985	≥ 6.375%	$ 73,396	≥ 6.500%
Tier 1 leverage capital (to average assets)	$ 184,148	14.894%	$ 72,640	≥ 5.875%	$ 61,821	≥ 5.000%
December 31, 2017[1]:						
Total capital (to risk-weighted assets)	$ 178,740	17.115%	$ 96,601	≥ 9.250%	$ 104,433	≥ 10.000%
Tier 1 capital (to risk-weighted assets)	$ 167,149	16.005%	$ 70,231	≥ 7.250%	$ 83,547	≥ 8.000%
Common equity tier 1 capital (to risk-weighted assets)	$ 167,149	16.005%	$ 60,049	≥ 5.750%	$ 67,882	≥ 6.500%
Tier 1 leverage capital (to average assets)	$ 167,149	14.643%	$ 45,661	≥ 4.000%	$ 57,076	≥ 5.000%

[1] During 2017 the Bank completed a common stock offering and issued 1,725,000 shares of common stock, receiving net proceeds of $51.8 million.

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, 2018, 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" that federal banking agencies are required to take, or 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, 2018, the Bank was not subject to the above mentioned restrictions.

Community Reinvestment Act. The Community Reinvestment Act ("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, 2018, we maintained a "satisfactory" CRA rating.

Dodd-Frank Act. The Dodd-Frank Act became law on July 21, 2010. The Dodd-Frank Act implemented far-reaching changes across the financial regulatory landscape. Among other things, the Dodd-Frank Act created the Consumer Financial Protection Bureau (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, as well as non-banks and others who are involved in the consumer finance industry. The CFPB has exclusive authority through formal rulemaking, as well as through the issuance of orders, policy statements, guidance and enforcement actions to administer and enforce federal consumer financial protection laws, to oversee non-federally regulated entities, to prevent practices that the CFPB deems unfair, deceptive or abusive. While the CFPB has these extensive powers to interpret, administer and enforce federal consumer financial protection laws, the Dodd-Frank Act provides that the FDIC continues to have examination and enforcement powers over us on matters otherwise following within the CFPB's jurisdiction 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.

Federal Home Loan Bank Membership. We are a member of 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.

The Sarbanes-Oxley Act. As a public company, the Bank is subject to the Sarbanes-Oxley Act of 2002 which addresses, among other issues, corporate governance, auditing and accounting, executive compensation, and enhanced and timely disclosure of corporate information. As directed by the Sarbanes-Oxley Act, our principal executive officer and principal financial officer are required to certify that our quarterly and annual reports do not contain any untrue statement of a material fact. The rules adopted by the SEC under the Sarbanes-Oxley Act require these officers to certify that they are responsible for establishing, maintaining and regularly evaluating the effectiveness of our internal control over financial reporting; they have made certain disclosures to our auditors and the audit committee of the Board of Directors about our internal control over financial reporting; and they have included information in our quarterly and annual reports about their evaluation and whether there have been changes in our internal control over financial reporting or in other factors that could materially affect internal control over financial reporting.

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. At December 31, 2018, the Bank's lending limit to one borrower under regulatory guidelines was $29.4 million, but our Board of Directors has set an internal lending limit of approximately 75.0% of legal lending limit or $22.0 million.

Concentration and Risk Guidance. The federal banking regulatory agencies promulgated joint interagency guidance regarding material direct and indirect asset and funding concentrations. The guidance defines a concentration as any of the following: (i) asset concentrations of 25% or more of Total Capital (loan related) or Tier 1 Capital (non-loan related) by individual borrower, small interrelated group of individuals, single repayment source or individual project; (ii) asset concentrations of 100% or more of Total Capital (loan related) or Tier 1 Capital (non-loan related) by industry, product line, type of collateral, or short-term obligations of one financial institution or affiliated group; (iii) funding concentrations from a single source representing 10% or more of Total Assets; or (iv) potentially volatile funding sources that when combined represent 25% or more of Total Assets (these sources may include brokered, large, high-rate, uninsured, internet-listing-service deposits, Federal funds purchased or other potentially volatile deposits or borrowings). If a concentration is present, management must employ heightened risk management practices including board and management oversight and strategic planning, development of underwriting standards, risk assessment and monitoring through market analysis and stress testing, third party review and increasing capital requirements. The Bank adheres to the practices recommended in this guidance.

Economic Growth, Regulatory Relief, and Consumer Protection Act. The Economic Growth, Regulatory Relief, and Consumer Protection Act (the "EGRR&CPA"), which was designed to ease certain restrictions imposed by the Dodd-Frank Act, was enacted into law on May 24, 2018. Most of the changes made by the EGRR&CPA can be grouped into five general areas: mortgage lending; certain regulatory relief for "community" banks; enhanced consumer protections in specific areas, including subjecting credit reporting agencies to additional requirements; certain regulatory relief for large financial institutions, including increasing the threshold at which institutions are classified a systemically important financial institutions (from $50 billion to $250 billion) and therefore subject to stricter oversight, and revising the rules for larger institution stress testing; and certain changes to federal securities regulations designed to promote capital formation. Some of the key provisions of the EGRR&CPA as it relates to community banks include, but are not limited to: (i) designating mortgages held in portfolio as "qualified mortgages" for banks with less than $10 billion in assets, subject to certain documentation and product limitations; (ii) exempting banks with less than $10 billion in assets from Volcker Rule requirements relating to proprietary trading; (iii) simplifying capital calculations for banks with less than $10 billion in assets by requiring federal banking agencies to establish a community bank leverage ratio of tangible equity to average consolidate assets not less than 8% or more than 10% and provide that banks that maintain tangible equity in excess of such ratio will be deemed to be in compliance with risk-based capital and leverage requirements; (iv) assisting smaller banks with obtaining stable funding by providing an exception for reciprocal deposits from FDIC restrictions on acceptance of brokered deposits; (v) raising the eligibility for use of short-form Call Reports from $1 billion to $5 billion in assets; and (vi) clarifying definitions pertaining to high volatility commercial real estate loans (HVCRE), which require higher capital allocations, so that only loans with increased risk are subject to higher risk weightings.

Proposed regulations implementing the provisions of EGRR&CPA have been issued by the Federal Reserve Board and the FDIC, but nothing has been finalized. The Bank continues to analyze the changes implemented by the EGRR&CPA and further rulemaking from federal banking regulators, but, at this time, does not believe that such changes will materially impact the Bank's business, operations, or financial results.

Changes in New Jersey Tax Laws. The income of the Bank and TBOP REIT, Inc., a wholly owned subsidiary of the Bank, in New Jersey, which is calculated based on federal taxable income, subject to certain adjustments, is subject to New Jersey tax. The Company, the Bank, and TRCB Investment Company file New Jersey corporate income tax returns. New Jersey tax law does not and

has not allowed for a taxpayer to file a tax return on a combined or consolidated basis with another member of the affiliated group where there is common ownership. However, under recent tax legislation, if the taxpayer cannot demonstrate by clear and convincing evidence that the tax filing discloses the true earnings of the taxpayer on its business carried on in the State of New Jersey, the New Jersey Director of the Division of Taxation may, at the director's discretion, require the taxpayer to file a consolidated return of the entire operations of the affiliated group or controlled group, including its own operations and income.

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 effects that such laws or any implementing regulations, would have on our business, financial condition and results of operations.

Item 1A. Risk Factors

In analyzing whether to make or to continue on investment in our common stock, investors should consider, among other factors, the following risk factors.

RISKS RELATED TO THE BANK'S PENDING BRANCH ACQUISITION

Regulatory approvals may not be received, may take longer than expected or may impose conditions that are not presently anticipated or that could have an adverse effect on the Bank following the transaction.

In connection with the Bank's pending branch acquisition from WSFS (See Item 1. Business – General), before the acquisition can be completed, the Bank must obtain approval of the acquisition from the FDIC and the Department. In determining whether to grant these approvals, the regulators consider a variety of factors, including the regulatory standing of each party to the Branch Purchase Agreement and other factors. An adverse development in either party's regulatory standing or these factors could result in an inability to obtain approval or a delay in their receipt. These regulators may impose conditions on the completion of the acquisition or require changes to the terms of the Branch Purchase Agreement. Such conditions or changes could have the effect of delaying or preventing completion of the acquisition or imposing additional costs on or limiting the revenues of the Bank following the completion of the acquisition, any of which might have an adverse effect on the Bank following the acquisition.

The branch acquisition may be more difficult, costly or time consuming than expected and the anticipated benefits of the transaction may not be realized.

The success of the acquisition, including anticipated benefits, will depend, in part, on the Bank's ability to successfully combine and integrate the branches into the Bank in a manner that permits growth opportunities and does not materially disrupt the existing customer relations nor result in decreased revenues due to loss of customers. It is possible that the integration process could result in the loss of key branch employees, the disruption of the Bank's ongoing businesses or inconsistencies in standards, controls, procedures and policies that adversely affect the Bank's ability to maintain relationships with clients, customers, depositors, employees and other constituents or to achieve the anticipated benefits of the transaction. The loss of key branch employees could adversely affect the Bank's ability to successfully conduct its business, which could have an adverse effect on the Bank's financial results and the value of its common stock. If the Bank experiences difficulties with the integration process, the anticipated benefits of the acquisition may not be realized fully or at all, or may take longer to realize than expected. As with any branch acquisition, there also may be business disruptions that cause the Bank to lose customers or cause customers to remove their accounts from the Bank and move their business to competing financial institutions. Integration efforts by the Bank will also divert management attention and resources. These integration matters could have an adverse effect on the Bank during the transition period and for an undetermined period after completion of the acquisition.

The Branch Purchase Agreement may be terminated in accordance with its terms, and the branch acquisition may not be completed.

The Branch Purchase Agreement is subject to a number of customary closing conditions that must be satisfied or waived in order to complete the acquisition, including the receipt of the requisite regulatory approvals. These conditions to the closing of the acquisition may not be satisfied or waived in a timely manner or at all, and, accordingly, the acquisition may be delayed or may not be completed. In addition, WSFS or the Bank may elect to terminate the Branch Purchase Agreement in certain other circumstances.

Termination of the Branch Purchase Agreement could negatively impact the Bank.

If the Branch Purchase Agreement is terminated, there may be various consequences. For example, the Bank's businesses may have been impacted adversely by the failure to pursue other opportunities due to management's focus on the acquisition, without realizing any of the anticipated benefits of completing the acquisition. Additionally, if the Branch Purchase Agreement is terminated, the market price of the Bank's common stock could decline to the extent that the current market prices reflect a market assumption that the branch acquisition will be completed.

Furthermore, the Bank has incurred and will incur substantial expenses in connection with the completion of the transactions contemplated by the Branch Purchase Agreement. If the acquisition is not completed, the Bank would have to recognize these expenses without realizing the expected benefits of the branch acquisition.

RISKS RELATED TO OUR BUSINESS

Competition from other financial institutions in originating loans and attracting deposits may adversely affect our profitability.

We face substantial competition in originating loans. This competition comes principally from other banks, savings institutions, mortgage banking companies, credit unions and other lenders in our market area, which is generally an area within an approximate 50 mile radius of Princeton and dominated by large statewide, regional and interstate banking institutions. Many of our competitors enjoy advantages, such as 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. This competition could reduce our net income by decreasing the number and size of loans that we originate and the interest rates we may charge on these loans.

These competitors may offer higher interest rates on deposits than we do, which could decrease the deposits that we attract or require us to increase our interest rates on deposit accounts to retain existing deposits or attract new deposits. Increased deposit competition could adversely affect our ability to generate the funds necessary for lending operations and may increase our cost of funds. Additionally, these competitors may offer lower interest rates on loans than we do, which could decrease the amount of loans that we attract or require us to decrease our interest rates on loans to attract new loans. Increased loan competition could adversely affect our net interest margin.

We also compete with non-bank providers of financial services, such as brokerage firms, consumer finance companies, insurance companies and governmental organizations which may offer more favorable terms. Some of our non-bank competitors are not subject to the same extensive regulations that govern our operations. As a result, such non-bank competitors may have advantages over us in providing certain products and services. This competition may reduce or limit our margins on banking services, reduce our market share and adversely affect our results of operations and financial condition.

Our growth has substantially increased our expenses and impacted our results of operations.

Although we believe that our growth-oriented business strategy will support our long-term profitability and franchise value, the expense associated with our growth, including compensation expense for the employees needed to support this growth and leasehold and other expenses associated with our locations, has and may continue to negatively affect our results. In addition, in order for our existing branches to contribute to our long-term profitability, we will need to be successful in attracting and maintaining cost-efficient deposits at these locations. In order to successfully manage our growth, we need to effectively execute policies, procedures and controls to maintain our credit quality and oversee our operations. We can provide no assurance that we will be successful in this strategy.

Our growth-oriented business strategy could be adversely affected if we are not able to attract and retain skilled employees.

We may not be able to successfully manage our business as a result of the strain on our management and operations that may result from growth. Our ability to manage growth will depend upon our ability to continue to attract, hire and retain skilled employees, and we may need to adopt additional equity plans in order to do so. Our success will also depend on the ability of our officers and key

employees to continue to implement and improve our operational and other systems, to manage multiple, concurrent customer relationships and to hire, train and manage our employees.

If deposit growth slows, it may be more expensive to fund loan originations.

Our deposit growth has been a primary funding source. In current market conditions, depositors may choose to redeploy their funds into the stock market, regardless of our effort to retain such depositors. If this occurs, it would hamper our ability to grow deposits and could result in a net outflow of deposits. We will continue to focus on deposit growth, which we use to fund loan originations. However, if we are unable to continue to sufficiently increase our deposit balances, we may be required to utilize alternative sources of funding, including Federal Home Loan Bank advances, or to increase our deposit rates in order to attract additional deposits, each of which would increase our cost of funds.

There is no guaranty that the Bank will be able to continue to pay a dividend or, if continued, will be able to pay a dividend at the current rate.

The Board of Directors of the Bank determines at its discretion if, when and the amount of dividends that may be paid on the common stock. In making such determination, the Board of Directors takes into account various factors including economic conditions, earnings, liquidity needs, the financial condition of the Bank, applicable state law, regulatory requirements and other factors deemed relevant by the Board of Directors. Although the Bank just recently commenced paying a quarterly dividend on its common stock in November 2018, there is no guaranty that such dividends will continue to be paid in the future or at what rate.

Our loan portfolio has a significant concentration in commercial real estate and commercial construction loans.

Our loan portfolio is made up largely of commercial real estate loans and commercial construction loans. At December 31, 2018, we had approximately $729.3 million of commercial real estate loans, which represented 67.3% of our total loan portfolio. Our commercial real estate loans include loans secured by owner-occupied and non-owner-occupied tenanted properties for commercial uses and multi-family loans. The portfolio also consists of construction loans of approximately $161.3 million, or 14.9%, of our total loan portfolio as of December 31, 2018. In addition, we make both secured and unsecured commercial and industrial loans. At December 31, 2018, we had $71.8 million of commercial and industrial loans, which represented 6.6% of our total loan portfolio.

Commercial real estate loans generally expose a lender to a higher degree of credit risk of nonpayment and loss than other loans because of several factors, including dependence on the successful operation of a business or a project for repayment, the collateral securing these loans may not be sold as easily as for other loans, and loan terms may include a balloon payment rather than full amortization over the loan term. In addition, commercial real estate loans typically involve larger loan balances to single borrowers or groups of related borrowers. Underwriting and portfolio management activities cannot completely eliminate all risks related to these loans. Any significant failure to pay on time by our customers or a significant default by our customers could materially and adversely affect us.

Loans secured by owner-occupied real estate are reliant on the underlying operating businesses to provide cash flow to meet debt service obligations, and as a result they are more susceptible to the general impact on the economic environment affecting those operating companies as well as the real estate market. In general, construction and land lending involves additional risks because of the inherent difficulty in estimating a property's value both before and at completion of the project as well as the estimated cost of the project and the time needed to sell the property at completion. Construction costs may exceed original estimates as a result of increased materials, labor or other costs. Because of the uncertainties inherent in estimating construction costs, as well as the market value of the completed project and the effects of governmental regulation on real property, it is relatively difficult to evaluate accurately the total funds required to complete a project and the related loan-to-value ratio. Changes in the demand, such as for new housing and higher than anticipated building costs may cause actual results to vary significantly from those estimated. For these reasons, this type of lending also typically involves higher loan principal amounts and is often concentrated with a small number of builders. A downturn in housing, or the real estate market, could increase loan delinquencies, defaults and foreclosures, and significantly impair the value of our collateral and our ability to sell the collateral upon foreclosure. Some of our builders have more than one loan outstanding with us and also have residential mortgage loans for rental properties with us. Consequently, an adverse development with respect to one loan or one credit relationship can expose us to a significantly greater risk of loss.

In addition, no payment from the borrower is required during the term of most of our construction loans since the accumulated interest is added to the principal of the loan through an interest reserve. As a result, construction loans often involve the disbursement of substantial funds with repayment dependent on the success of the ultimate project and the ability of the borrower to sell or lease the property or refinance the indebtedness, rather than the ability of the borrower or guarantor to repay principal and interest. If the appraisal of the value of the completed project proves to be overstated, we may have inadequate security for the repayment of the loan upon completion of construction of the project and may incur a loss. Because construction loans require active monitoring of the building process, including cost comparisons and on-site inspections, these loans are more difficult and costlier to monitor. Increases in market

rates of interest may have a more pronounced effect on construction loans by rapidly increasing the end-purchasers' borrowing costs, thereby reducing the overall demand for the project. Properties under construction are often difficult to sell and typically must be completed in order to be successfully sold which also complicates the process of working out problem construction loans. This may require us to advance additional funds and/or contract with another builder to complete construction. Further, in the case of speculative construction loans, there is added risk associated with identifying an end-purchaser for the finished project which poses a greater potential risk to us than construction loans to individuals on their personal residences. Loans on land under development or held for future construction as well as lot loans made to individuals for the future construction of a residence also pose additional risk because of the lack of income being produced by the property and the potential illiquid nature of the collateral. These risks can also be significantly impacted by supply and demand conditions.

Although the economy in our market areas generally, and the real estate market in particular, is improving, we can give you no assurance that it will continue to grow. Many factors, including continuing global economic difficulties could reduce or halt growth in our local economy and real estate market. Accordingly, it may be more difficult for commercial real estate borrowers to repay their loans in a timely manner in the current economic climate, as commercial real estate borrowers' ability to repay their loans frequently depends on the successful development of their properties. The deterioration of one or a few of our commercial real estate loans could cause a material increase in our level of nonperforming loans, which would result in a loss of revenue from these loans and could result in an increase in the provision for loan losses and/or an increase in charge offs, all of which could have a material adverse impact on our net income. We also may incur losses on commercial real estate loans due to declines in occupancy rates and rental rates, which may decrease property values and may decrease the likelihood that a borrower may find permanent financing alternatives. Any weakening of the commercial real estate market may increase the likelihood of default on these loans, which could negatively impact our loan portfolio's performance and asset quality. If we are required to liquidate the collateral securing a loan to satisfy the debt during a period of reduced real estate values, we could incur material losses. Any of these events could increase our costs, require management time and attention, and materially and adversely affect us.

Federal banking agencies have issued guidance regarding high concentrations of commercial real estate loans within bank loan portfolios. The guidance requires financial institutions that exceed certain levels of commercial real estate lending compared with their total capital to maintain heightened risk management practices that address the following key elements: board and management oversight and strategic planning, portfolio management, development of underwriting standards, risk assessment and monitoring through market analysis and stress testing, and maintenance of increased capital levels as needed to support the level of commercial real estate lending. If there is any deterioration in our commercial real estate portfolio or if our regulators conclude that we have not implemented appropriate risk management practices, it could adversely affect our business, and could result in the requirement to maintain increased capital levels or restrict our ability to originate new loans secured by commercial real estate. We can provide no assurance that capital would be available at that time.

The nature of our commercial loan portfolio may expose us to increased lending risks.

Given the recent growth in our loan portfolio, a portion of our commercial loans are unseasoned, meaning that they were originated relatively recently. Our limited time with these loans does not provide us with a significant payment history pattern with which to judge future collectability. As a result, it may be difficult to predict the future performance of our loan portfolio. These loans may have delinquency or charge off levels above our expectations, which could negatively affect our performance.

The small to mid-sized businesses that we lend to may have fewer resources to weather a downturn in the economy, which may impair a borrower's ability to repay a loan to us that could materially harm our operating results.

We target our business development and marketing strategy primarily to serve the banking and financial services needs of small to mid-sized businesses. These small to mid-sized businesses frequently have smaller market share than their competition, may be more vulnerable to economic downturns, often need substantial additional capital to expand or compete and may experience significant volatility in operating results. Any one or more of these factors may impair the borrower's ability to repay a loan. In addition, the success of a small to midsized business often depends on the management talents and efforts of one or two persons or a small group of persons, and the death, disability or resignation of one or more of these persons could have a material adverse impact on the business and its ability to repay a loan. Economic downturns and other events that negatively impact our market areas could cause us to incur substantial credit losses that could negatively affect our results of operations and financial condition.

Our lending limit may restrict our growth.

We are limited in the amount we can loan to a single borrower by the amount of our capital. Generally, under current law, we may lend up to 15% of our unimpaired capital and surplus, including capital notes, to any one borrower. Based upon our current capital levels, the amount we may lend is less than that of many of our larger competitors and may discourage potential borrowers who have credit needs in excess of our lending limit from doing business with us. We may accommodate larger loans by selling participations in those loans to other financial institutions, but this ability may not always be available.

We must maintain and follow high underwriting standards to grow safely.

Our ability to grow our assets safely depends on maintaining disciplined and prudent underwriting standards and ensuring that our relationship managers and lending personnel follow those standards. The weakening of these standards for any reason, such as to seek higher yielding loans, or a lack of discipline or diligence by our employees in underwriting and monitoring loans, may result in loan defaults, foreclosures and additional charge offs and may necessitate that we significantly increase our allowance for loan losses. As a result, our business, results of operations, financial condition or prospects could be adversely affected.

Our allowance for loan losses may not be adequate to cover actual losses.

Like all financial institutions, we maintain an allowance for loan losses to provide for loan defaults and nonperformance. The process for determining the amount of the allowance is critical to our financial results and condition. It requires difficult, subjective and complex judgments about external factors, including the impact of national and regional economic conditions on the ability of our borrowers to repay their loans. If our judgment proves to be incorrect, our allowance for loan losses may not be sufficient to cover losses inherent in our loan portfolio. Further, state and federal regulatory agencies, as an integral part of their examination process, review our loans and allowance for loan losses and may require an increase in our allowance for loan losses. Although we believe that our allowance for loan losses at December 31, 2017 is adequate to cover known and probable incurred losses included in the portfolio, we cannot provide assurances that we will not further increase the allowance for loan losses or that our regulators will not require us to increase this allowance. Either of these occurrences could adversely affect our earnings.

We are a community bank and our ability to maintain our reputation is critical to the success of our business and the failure to do so may materially adversely affect our performance.

We are a community bank, and our reputation is one of the most valuable components of our business. As such, we strive to conduct our business in a manner that enhances our reputation. This is done, in part, by recruiting, hiring and retaining employees who share our core values of being an integral part of the communities we serve, delivering superior service to our customers and caring about our customers and associates. If our reputation is negatively affected, by the actions of our employees or otherwise, our business and, therefore, our operating results may be materially adversely affected. Additionally, damage to our reputation could undermine the confidence of our current and potential clients in our ability to provide financial services. Such damage could also impair the confidence of our counterparties and business partners, and ultimately affect our ability to effect transactions. Maintenance of our reputation depends not only on our success in maintaining our service-focused culture and controlling and mitigating the various risks described herein, but also on our success in identifying and appropriately addressing issues that may arise in areas such as potential conflicts of interest, anti-money laundering, client personal information and privacy issues, record-keeping, regulatory investigations and any litigation that may arise from the failure or perceived failure of us to comply with legal and regulatory requirements. Maintaining our reputation also depends on our ability to successfully prevent third-parties from infringing on the "The Bank of Princeton" brand and associated trademarks. Defense of our reputation, including through litigation, could result in costs adversely affecting our business, results of operations, financial condition or prospects.

Our internal control systems could fail to detect certain events.

We are subject to certain operational risks, including but not limited to data processing system failures and errors and customer or employee fraud. We maintain a system of internal controls to mitigate such occurrences and maintain insurance coverage for such risks. However, should such an event occur that is not prevented or detected by our internal controls, is uninsured or in excess of applicable insurance limits, it could have a significant adverse effect on our business, results of operations, financial condition or prospects.

If we cannot favorably assess the effectiveness of its internal controls over financial reporting or if our independent registered public accounting firm is unable to provide an unqualified attestation report on our internal controls, we may be subject to additional regulatory scrutiny.

Since January 1, 2016, our total assets have exceeded $1.0 billion. Therefore, we are subject to further reporting requirements under the rules of the FDIC as of and for the fiscal year ending December 31, 2018. Pursuant to these rules, management is required to prepare a report that contains an assessment by management of the effectiveness of our internal control structure and procedures for financial reporting (including the Call Report that is submitted to the FDIC) as of the end of such fiscal year. Our independent registered public accounting firm is also required to examine, attest to and report on the assessment of our management concerning the effectiveness of our internal control structure and procedures for financial reporting. The rules that must be met for management to assess our internal controls over financial reporting are complex and require significant documentation and testing and possible remediation of internal control weaknesses. The effort to comply with regulatory requirements relating to internal controls will likely cause us to incur increased

expenses and will cause a diversion of management's time and other internal resources. We also may encounter problems or delays in completing the implementation of any changes necessary to make a favorable assessment of our internal control over financial reporting. In addition, in connection with the attestation process, we may encounter problems or delays in completing the implementation of any requested improvements or receiving a favorable attestation from its independent registered public accounting firm. If we cannot favorably assess the effectiveness of our internal control over financial reporting, or if our independent registered public accounting firm is unable to provide an unqualified attestation report on our internal controls, investor confidence and the price of our common stock could be adversely affected and we may be subject to additional regulatory scrutiny.

We rely on third parties to provide key components of our business infrastructure, and a failure of these parties to perform for any reason could disrupt our operations.

Third parties provide key components of our business infrastructure such as data processing, Internet connections, network access, core application processing, statement production and account analysis. Our business depends on the successful and uninterrupted functioning of our information technology and telecommunications systems and third- party servicers. The failure of these systems, or the termination of a third-party software license or service agreement on which any of these systems is based, could interrupt our operations. Because our information technology and telecommunications systems interface with and depend on third-party systems, we could experience service denials if demand for such services exceeds capacity or such third-party systems fail or experience interruptions. Replacing vendors or addressing other issues with our third-party service providers could entail significant delay and expense. If we are unable to efficiently replace ineffective service providers, or if we experience a significant, sustained or repeated, system failure or service denial, it could compromise our ability to operate effectively, damage our reputation, result in a loss of customer business, and subject us to additional regulatory scrutiny and possible financial liability, any of which could have a material adverse effect on our business, financial condition, results of operations and future prospects.

RISK RELATED TO THE BANKING INDUSTRY GENERALLY

Changes in tax laws could have an adverse effect on the Bank, the banking industry, the Bank's customers, the value of collateral securing loans and demand for loans.

Changes in tax laws contained in the 2017 Tax Act could have an impact on the banking industry, borrowers and the market for single family residential and commercial real estate. Among the changes are: lower limits on the deductibility of mortgage interest on single family residential mortgages; a broad limitation on deductibility of business interest expense which will affect commercial borrowers; and limitations on the deductibility of property taxes and state and local income taxes. We cannot predict the ultimate impact of these changes. However, such changes may have an adverse effect on the market for and valuation of single-family residential properties and commercial real estate, the economics of borrowing by businesses, and on the demand for residential and commercial mortgage and business loans in the future. If home ownership or business borrowing become less attractive, demand for our loans would decrease. The value of the properties securing loans in our portfolio may be adversely impacted as a result of the changing economics of home ownership and borrowing, which could require an increase in our provision for loan losses, which would reduce our profitability and could materially adversely affect our business, financial condition and results of operations. Additionally, certain borrowers could become less able to service their debts if these changes become effective. These changes could adversely affect our business, financial condition and results of operations.

The FASB has recently issued an accounting standard update that will result in a significant change in how we recognize credit losses and may have a material impact on our financial condition or results of operations.

In June 2016, the Financial Accounting Standards Board ("FASB") issued an accounting standard update, "Financial Instruments-Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments," which replaces the current "incurred loss" model for recognizing credit losses with an "expected loss" model referred to as the Current Expected Credit Loss ("CECL") model. Under the CECL model, banks will be required to present certain financial assets carried at amortized cost, such as loans held for investment and held-to-maturity debt securities, at the net amount expected to be collected. The measurement of expected credit losses is to be based on information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount. This measurement will take place at the time the financial asset is first added to the balance sheet and periodically thereafter. This differs significantly from the "incurred loss" model required under current generally accepted accounting principles ("GAAP"), which delays recognition until it is probable a loss has been incurred. Accordingly, we expect that the adoption of the CECL model will materially affect how we determine our allowance for loan losses, and could require us to significantly increase our allowance. Moreover, the CECL model may create more volatility in the level of the allowance for loan losses. If we are required to materially increase the level of its allowance for loan losses for any reason, such increase could adversely affect our business, financial condition and results of operations.

The new CECL standard will become effective for the Bank for fiscal years beginning after December 15, 2019 and for interim periods within those fiscal years. We are evaluating the impact the CECL model will have on our accounting, but we expect to recognize

a one-time cumulative-effect adjustment to the allowance for loan losses as of the beginning of the first reporting period in which the new standard is effective, consistent with regulatory expectations set forth in interagency guidance issued at the end of 2016. We cannot yet determine the magnitude of any such one-time cumulative adjustment or of the overall impact of the new standard on its financial condition or results of operations.

The financial services industry is undergoing a period of great volatility and disruption.

Changes in interest rates, in the shape of the yield curve, or in valuations in the debt or equity markets or disruptions in the liquidity or other functioning of financial markets, most of which have occurred, could directly impact us in one or more of the following ways:

- Net interest income, the difference between interest earned on interest earning assets and interest paid on interest- bearing liabilities, represents a significant portion of our earnings. Both increases and decreases in the interest rate environment may reduce our profits. We expect that we will continue to realize income from the spread between the interest we earn on loans, securities and other interest earning assets, and the interest we pay on deposits, borrowings and other interest-bearing liabilities. The net interest spread is affected by the differences between the maturity and repricing characteristics of our interest earning assets and interest-bearing liabilities. Our interest earning assets may not reprice as slowly or rapidly as our interest-bearing liabilities.

- The market value of our securities portfolio may decline and result in other than temporary impairment charges. The value of the securities in our portfolio is affected by factors that impact the U.S. securities markets in general as well as specific financial sector factors and entities. Uncertainty in the market regarding the financial sector has at times negatively impacted the value of securities within our portfolio. Further declines in these sectors may result in future other than temporary impairment charges.

- Asset quality may deteriorate as borrowers become unable to repay their loans.

Changes in interest rates may adversely affect our earnings and financial condition.

Our net income depends primarily upon our net interest income. The level of net interest income is primarily a function of the average balance of our interest earning assets, the average balance of our interest-bearing liabilities, and the spread between the yield on such assets and the cost of such liabilities. These factors are influenced by both the pricing and mix of our interest earning assets and our interest-bearing liabilities which, in turn, are impacted by such external factors as the local economy, competition for loans and deposits, the monetary policy of the Federal Open Market Committee of the Federal Reserve, and market interest rates.

A sustained increase in market interest rates could adversely affect our earnings if our cost of funds increases more rapidly than our yield on our interest earning assets and compresses our net interest margin. In addition, the economic value of equity could decline if interest rates increase. Different types of assets and liabilities may react differently, and at different times, to changes in market interest rates. We expect that we will periodically experience gaps in the interest rate sensitivities of our assets and liabilities. That means either our interest-bearing liabilities will be more sensitive to changes in market interest rates than our interest earning assets, or vice versa. When interest-bearing liabilities mature or re-price more quickly than interest earning assets, an increase in market rates of interest could reduce our net interest income.

Likewise, when interest earning assets mature or re-price more quickly than interest bearing liabilities, falling interest rates could reduce our net interest income. We are unable to predict changes in market interest rates, which are affected by many factors beyond our control, including inflation, deflation, recession, unemployment, money supply, domestic and international events and changes in the United States and other financial markets.

We also attempt to manage risk from changes in market interest rates, in part, by controlling the mix of interest rate sensitive assets and liabilities. However, interest rate risk management techniques are not exact. A rapid increase or decrease in interest rates could adversely affect our results of operations and financial performance.

We are subject to significant government regulation, which could affect our business, financial condition and results of operations.

We are subject to extensive governmental supervision, regulation and control. These laws and regulations are subject to change and may require substantial modifications to our operations or may cause us to incur substantial additional compliance costs. In addition, future legislation and government policy could adversely affect the commercial banking industry and our operations. Such governing laws can be anticipated to continue to be the subject of future modification. Our management cannot predict what effect any such future modifications will have on our operations.

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Changes to laws and regulation applicable to the financial industry, may impact the profitability of our business activities and may change certain of our business practices, including the ability to offer new products, obtain financing, attract deposits, make loans, and achieve satisfactory interest spreads, and could expose us to additional costs, including increased compliance costs. These changes also may require us to invest significant management attention and resources to make any necessary changes to operations in order to comply and could therefore also materially and adversely affect our business, financial condition and results of operations.

The federal and state laws and regulations applicable to our operations give regulatory authorities extensive discretion in connection with their supervisory and enforcement responsibilities, and generally have been promulgated to protect depositors and the Deposit Insurance Fund and not for the purpose of protecting stockholders. Laws and regulations now affecting us may be changed at any time, and the interpretation of such laws and regulations by bank regulatory authorities is also subject to change.

We can give no assurance that future changes in laws and regulations or changes in their interpretation will not adversely affect our business. Legislative and regulatory changes may increase our cost of doing business or otherwise adversely affect us and create competitive advantage for non-bank competitors.

We cannot predict how changes in technology will impact our business; increased use of technology may expose us to service interruptions.

The financial services market, including banking services, is increasingly affected by advances in technology, including developments in:

- telecommunications;
- data processing;
- automation;
- Internet banking, including mobile banking;
- social media;
- debit cards and so-called "smart cards"; and
- remote deposit capture.

Our ability to compete successfully in the future will depend, to a certain extent, on whether we can anticipate and respond to technological changes. We offer electronic banking services for our consumer and business customers including Internet banking, mobile banking and electronic bill payment, as well as banking by phone. We also offer ATM and debit cards, wire transfers, and ACH transfers. The successful operation and further development of these and other new technologies will likely require additional capital investment in the future. In addition, increased use of electronic banking creates opportunities for interruptions in service which could expose us to claims by customers or other third parties. We can provide no assurance that we will have sufficient resources or access to the necessary technology to remain competitive in the future.

We may be vulnerable to cyberattacks or other security breaches affecting our electronic data and product delivery systems.

The financial services industry has experienced an increase in both the number and severity of reported cyberattacks aimed at gaining unauthorized systems access as a way to misappropriate assets and sensitive information, corrupt and destroy data, or cause operational disruptions. We are increasingly dependent on technology systems to run our core operations and to be a delivery channel to provide products and services to our customers. We also rely on the integrity and security of a variety of third-party processors, payment, clearing and settlement systems, as well as the various participants involved in these systems, many of which have no direct relationship with us. Failure by these participants or their systems to protect our customers' transaction data may put us at risk for possible losses due to fraud or operational disruption. In many cases, in order for these systems to function, they must be connected to the Internet, directly or indirectly. These connections open our systems to potential attacks by third parties seeking to steal our data, our customers' information or to disable our systems. A successful attack on our systems could adversely affect our results of operations by, among other things, harming our reputation among current and potential customers if their information is stolen, disrupting our operations if our systems are impaired, the loss of assets which could be stolen in an attack and the costs of remediating our systems after an attack. Although we have security safeguards and take numerous steps to protect our systems from a potential attack, we can provide no assurance that these measures will be successful in preventing intrusions into our systems. The occurrence of a breach of security involving our customers could damage our reputation and result in a loss of customers and business, subject us to additional regulatory scrutiny and could expose us to litigation and possible financial liability. Any of these events could have a material adverse effect on our financial condition and results of operations.

The increasing use of social media platforms presents new risks and challenges and the inability or failure to recognize, respond to, and effectively manage the accelerated impact of social media could materially adversely impact the Bank's business.

There has been a marked increase in the use of social media platforms, including weblogs (blogs), social media websites, and other forms of Internet-based communications which allow individuals' access to a broad audience of consumers and other interested persons. Social media practices in the banking industry are evolving, which creates uncertainty and risk of noncompliance with regulations applicable to the Bank's business. Consumers value readily available information concerning businesses and their goods and services and often act on such information without further investigation and without regard to its accuracy. Many social media platforms immediately publish the content their subscribers and participants' post, often without filters or checks on accuracy of the content posted. Information posted on such platforms at any time may be adverse to the Bank's interests and/or may be inaccurate. The dissemination of information online could harm the Bank's business, prospects, financial condition, and results of operations, regardless of the information's accuracy. The harm may be immediate without affording the Bank an opportunity for redress or correction.

Other risks associated with the use of social media include improper disclosure of proprietary information, negative comments about the Bank's business, exposure of personally identifiable information, fraud, out-of-date information, and improper use by employees, directors and customers. The inappropriate use of social media by the Bank's customers, directors or employees could result in negative consequences such as remediation costs including training for employees, additional regulatory scrutiny and possible regulatory penalties, litigation, or negative publicity that could damage the Bank's reputation adversely affecting customer or investor confidence.

Uncertainty about the future of the London Interbank Offer Rate (LIBOR) may adversely affect our business and financial results.

LIBOR meaningfully influences market interest rates around the globe. In July 2017, the Chief Executive of the United Kingdom Financial Conduct Authority, which regulates LIBOR, announced its intent to stop persuading or compelling banks to submit rates for the calculation of LIBOR to the administrator of LIBOR after 2021. This announcement indicates that the continuation of LIBOR as currently constructed is not guaranteed after 2021. It is impossible to predict whether and to what extent banks will continue to provide LIBOR submissions to the administrator of LIBOR, whether any additional reforms to LIBOR may be enacted in the United Kingdom or elsewhere, and whether other rate or rate may become accepted alternatives to LIBOR.

In 2014, the FRB and the Federal Reserve Bank of New York convened the Alternative Reference Rates Committee ("ARRC") to identify best practices for alternative reference rates, identify best practices for contract robustness, develop an adoption plan, and create an implementation plan with metrics of success and a timeline. The ARRC accomplished its first set of objectives and has identified the Secured Overnight Financing Rate ("SOFR") as the rate that represents best practice for use in certain new U.S. dollar derivatives and other financial contracts. The ARRC also published it Paced Transition Plan, with specific steps and timelines designed to encourage adoption of the SOFR. The ARRC was reconstituted in 2018 to help to ensure successful implementation of the Paced Transition Plan and serve as a forum to coordinate and track planning across cash and derivatives products and market participants currently using LIBOR.

No assurance can be provided that the uncertainties around LIBOR or their resolution will not adversely affect the use, level and volatility of LIBOR or other interest rates or the value of LIBOR-based securities or other securities or financial arrangements. Further, the viability of SOFR as an alternative reference rate and the availability and acceptance of other alternative reference rates are unclear and also may have adverse effects on market rates of interest and the values of securities and other financial arrangements. These uncertainties, proposals and actions to resolve them, and their ultimate resolution also could negatively impact our funding costs, loan and other asset values, asset-liability management strategies, and other aspects of our business and financial results.

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 thirteen other branch locations in New Jersey and Pennsylvania. The following table sets forth certain information regarding the Bank's properties as of December 31, 2018:

Location	Leased or Owned	Date of Lease Expiration
Corporate Headquarters and Branch 183 Bayard Lane Princeton, NJ	Leased	October 31, 2023
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
Montgomery Branch 1185 Route 206 North Princeton, NJ	Leased	April 30, 2020
Monroe Branch 1 Rossmoor Drive Monroe Twp, NJ	Leased	July 31, 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
Cream Ridge Branch 403 Rt 539 Cream Ridge, NJ	Leased	October 28, 2028
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, 2022

Item 3. Legal Proceedings

From time to time the Bank is a defendant in various legal proceedings arising in the ordinary course of our business. However, in the opinion of management of the Bank, there are no proceedings pending to which the Bank is a party or to which their property is subject, which, if determined adversely to the Bank, would be material in relation to the Bank's individual profits or financial condition, nor are there any proceedings pending other than ordinary routine litigation incident to the business of the Bank. In addition, no material proceedings are pending or are known to be threatened or contemplated against the Bank by government authorities or others.

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 was no established public trading market for our common stock up to and including August 3, 2017. Although shares of our common stock were transferable, our common stock was not listed on any stock exchange or quoted in any over-the-counter securities market.

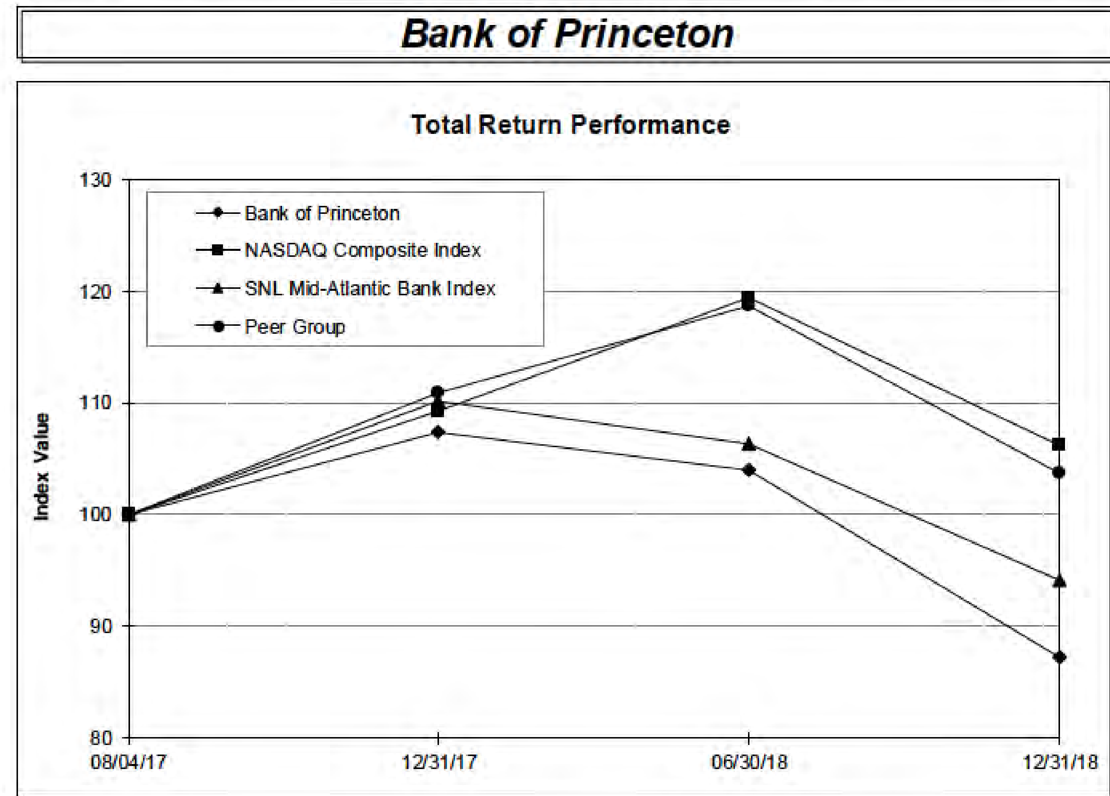
On August 4, 2017, the Bank's common stock began trading on the "NASDAQ Global Select Market" under the ticker symbol "BPRN." As of March 6, 2019, there were approximately 626 holders of our common stock.

The following table shows the quarterly high and low trading prices of our common stock since trading on NASDAQ began on August 4, 2017. The Bank paid an initial cash dividend on November 30, 2018, of $0.03 per share of common stock.

	Stock Price		Cash Dividend
Quarter ended:	High	Low	Per Share
December 31, 2018	$31.44	$26.77	$0.03
September 30, 2018	$35.45	$30.03	$0.00
June 30, 2018	$34.90	$32.21	$0.00
March 31, 2018	$34.69	$31.50	$0.00
December 31, 2017	$34.95	$31.15	$0.00
September 30, 2017	$32.99	$30.08	$0.00

Performance Graph

The following graph demonstrates comparison of the cumulative total returns for the common stock of the Bank, NASDAQ Composite Index, SNL Mid-Atlantic Bank Index, and Peer Group made up of banks and thrifts with total assets between $750.0 million and $1.25 billion for the periods indicated. The graph below represents $100 invested in our common stock at its closing price on August 4, 2017, the date the common stock commenced trading on the NASDAQ Global Select Market.



Index	*Period Ending* 08/04/17	12/31/17	06/30/18	12/31/18
Bank of Princeton	100.00	107.31	103.91	87.28
NASDAQ Composite Index	100.00	109.19	119.42	106.09
SNL Mid-Atlantic Bank Index	100.00	110.06	106.29	94.04
Peer Group	100.00	110.82	118.67	103.72

Source: S&P Global Market Intelligence
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Securities Authorized for Issuance under Equity Compensation Plans

The following table summarizes our equity compensation plan information as of December 31, 2018. See Note 12 "Stock-Based Compensation" in the Notes to Consolidated 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	578,152	$18.52	365,248
Equity Compensation Plans not approved by security holders	--	--	--
Total	578,152	$18.52	365,248

Item 6. Selected Financial Data

Set forth below is selected financial and other data of the Bank. Reference is made to the consolidated financial statements and related notes contained in Item 8 – "Financial Statements and Supplementary Data" which provide additional information.

	At December 31,				
	2018	2017	2016	2015	2014
SELECTED FINANCIAL AND OTHER DATA:	(Dollars in thousands)				
Total Assets	$ 1,251,564	$ 1,200,591	$ 1,025,996	$ 1,013,322	$ 955,262
Cash and cash equivalents	26,384	82,822	19,605	28,589	31,872
Investments securities					
Held-to-maturity	228	264	340	381	420
Available-for-sale	91,681	101,744	113,034	141,509	163,800
Loans receivable, net	1,069,235	958,356	849,504	797,095	723,131
Deposits	1,007,247	1,028,668	862,521	789,433	847,857
FHLB advances	55,400	-	56,100	128,800	24,300
Total stockholders' equity	184,318	168,295	103,462	91,444	78,502
Non-performing loans	5,699	9,199	3,371	11,989	9,871
Non-performing assets	5,743	10,001	-	12,289	10,675
Banking offices	15	14	14	14	13

	Year end December 31,				
	2018	2017	2016	2015	2014
SELECTED OPERATING DATA:	(In Thousands, except per share data)				
Total interest income	$ 54,365	$ 47,972	$ 45,433	$ 43,221	$ 40,567
Total interest expense	13,356	8,840	7,763	6,837	7,157
Net interest income	41,009	39,132	37,670	36,384	33,410
Provision for loan losses	665	3,765	(41)	1,904	1,580
Net interest income after provision for loans losses	40,344	35,367	37,711	34,480	31,830
Total non-interest income	2,662	2,830	2,354	2,287	2,746
Total non-interest expense	25,298	23,334	23,761	22,059	22,407
Income before income taxes	17,708	14,863	16,304	14,708	12,169
Income taxes	3,000	3,849	4,461	3,702	3,168
Net income	14,708	11,014	11,843	11,006	9,001
Basic earnings per share	$ 2.22	$ 2.00	$ 2.52	$ 2.38	$ 1.97
Diluted earnings per share	$ 2.14	$ 1.90	$ 2.36	$ 2.30	$ 1.92
Dividends paid per common share	$ 0.03	$ -	$ -	$ -	$ -

	Year end December 31,				
SELECTED OPERATING RATIOS:	2018	2017	2016	2015	2014
Average yield on earnings assets	4.66 %	4.66 %	4.66 %	4.56 %	4.62 %
Average rate paid on interest-bearing liabilities	1.42	1.06	0.97	0.90	1.01
Average rate spread	3.25	3.60	3.69	3.66	3.61
Net interest margin	3.52	3.80	3.86	3.84	3.80
Average interest-earning assets to average interest-bearing liabilities	1.24	1.23	1.21	1.25	1.24
Net interest income after provision for loan losses to non-interest expense	1.59	1.52	1.59	1.56	1.42
Total non-interest expense to average assets					
Efficiency ratio	57.94	55.63	59.57	57.04	61.97
Return on average assets	1.22	1.02	1.17	1.12	0.99
Return on average equity	8.30	8.30	12.05	12.95	12.53
Average equity to average assets	14.37	12.35	9.72	8.67	7.83
Book value per share	$ 27.69	$ 25.69	$ 22.01	$ 19.51	$ 17.13

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

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, 2018 and December 31, 2017
- Comparison of Operating Results for the Years Ended December 31, 2018, 2017 and 2016
- 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, to 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, differentiates 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, 2018 and December 31, 2017

General. Total assets were $1.25 billion at December 31, 2018, an increase of $51.0 million, or 4.3%, when compared to $1.20 billion at the end of 2017. The primary reason for the increase in total assets was due to an increase in net loans of approximately $110.9 million, primarily consisting of commercial and residential real estate loans, partially offset by a reduction of $56.4 million in cash and cash equivalents, used to fund loan growth.

Total liabilities increased by $35.0 million to $1.07 billion at December 31, 2018 from $1.03 billion at December 31, 2017. Total deposits at December 31, 2018 decreased by $21.4 million, or 2.1%, when compared to December 31, 2017. Since December 31, 2017, we experienced deposit increases of $78.7 million in time deposits, and $39.6 million in money market deposits, which were more than offset by a $131.0 million decrease in interest-bearing demand accounts (primarily related to municipal deposits). At December 31, 2018, the Bank had borrowings of $55.4 million in short-term advances to fund its loan growth, while having no such borrowings outstanding at December 31, 2017.

Total stockholders' equity increased $16.0 million, or 9.5%, when compared to the end of 2017. This increase was primarily due to earnings reported during the first twelve months of 2018 and the exercising of options to purchase common stock granted through the Bank's Stock Option Plans. In October 2018, the Bank declared its first cash dividend of approximately $0.03 per share of common stock. The ratio of equity to total assets was 14.7%, 0.7% higher than year-end 2017.

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 results in fluctuations in balance sheet items throughout the year.

Comparison of Operating Results for the Years Ended December 31, 2018, 2017 and 2016

General.

2018 vs 2017. Net income for the year ended December 31, 2018 was $14.7 million, an increase of approximately $3.7 million, or 33.5%, as compared to the year ended December 31, 2017. This increase was primarily attributable to an increase in net interest income, reduction in the provision for loan losses and a reduction in income tax expenses, offset by a decrease in non-interest income and an increase in non-interest expenses.

2017 vs 2016. Net income for the year ended December 31, 2017 was $11.0 million, a decrease of approximately $829,000, or 7.0%, as compared to the year ended December 31, 2016. This decrease was primarily attributable to an increase the provision for loan losses, offset by increases in net-interest income and non-interest income along with a decline in non-interest expenses and income tax expense.

Net interest income.

2018 vs 2017. Net interest income for the twelve months of 2018 was $41.0 million, an increase of $1.9 million, or 4.8% when compared to the twelve months of 2017. The increase was due to significant growth of average earning assets of $136.9 million, while maintaining an average yield of 4.66% for both periods, generating an increase in interest income of $6.4 million. This increase was partially offset by an increase in interest expense of approximately $4.5 million resulting from a $106.4 million increase of the average outstanding balance of interest-bearing liabilities, along with a 36 basis point increase in the rate.

2017 vs 2016. Net interest income for the twelve months of 2017 was $39.1 million, an increase of $1.5 million, or 3.9% when compared to the twelve months of 2016. The increase was due to significant growth of average earning assets of $53.8 million, while maintaining an average yield of 4.66% for both periods, generating an increase in interest income of $2.5 million. This increase was partially offset by an increase in interest expense of approximately $1.1 million resulting from a $33.6 million increase of the average outstanding balance of interest-bearing liabilities, along with a nine basis point increase in the rate.

Total interest and dividend income.

2018 vs 2017. Total interest and dividend income increased $6.4 million, or 13.3%, to $54.4 million for the year ended December 31, 2018, compared to $48.0 million for the prior year. The improvement in interest income resulted from a $136.9 million increase in the average balance of interest-earning assets. The yield on earning assets remained flat for both periods at 4.66%.

Interest income and fees on loans increased $6.0 million, or 13.2%, to $51.1 million for the year ended December 31, 2018, compared to $45.1 million for the prior year. The increase was attributable to an increase in the average balance of loans receivable of $127.9 million from $899.8 million in 2017 to $1.03 billion in 2018. This increase was partially offset by a four 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 ended December 31, 2018.

Interest income on securities increased approximately $83,000, or 3.4%, for the year ended December 31, 2018 compared to the prior year. This increase was primarily attributable to a 19 basis point increase in yield over the prior year, which offset a $4.8 million decrease in average balances. Average balances decreased because cash received from principal repayments and maturities/calls was utilized to fund the growth in our loan portfolio.

Other interest and dividends increased $344,000, or 78.0%, to $785,000 for the year ended December 31, 2018, compared to $441,000 for the prior year. This increase was primarily due to an approximately $13.8 million increase in the average outstanding balances and a higher yield of approximately 26 basis points earned. This yield increase was a result of the three 25 basis point increases in the federal funds rate throughout 2018.

2017 vs 2016. Total interest and dividend income increased $2.5 million, or 5.6%, to $48.0 million for the year ended December 31, 2017, compared to $45.4 million for the prior year. The improvement in interest income resulted from a $53.8 million increase in the average balance of interest-earning assets. The yield on earning assets remained flat for both periods at 4.66%.

Interest income and fees on loans increased $2.8 million, or 6.7%, to $45.1 million for the year ended December 31, 2017, compared to $42.3 million for the prior year. The increase was attributable to an increase in the average balance of loans receivable of $70.5 million from $829.3 million in 2016 to $899.8 million in 2017. This increase was partially offset by a nine 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 ended December 31, 2017.

Interest income on securities decreased approximately $441,000, or 15.0%, for the year ended December 31, 2017 compared to the prior year. This decrease was primarily attributable to a $20.9 million decrease in average balances while yields increased five basis points over the prior year. Average balances decreased because cash received from principal repayments and maturities/calls was utilized to fund the growth in our loan portfolio.

Other interest and dividends increased $148,000, or 50.5%, to $421,000 for the year ended December 31, 2017, compared to $293,000 for the prior year. This increase was primarily due to an increase in the average outstanding balance and a higher yield of approximately 36 basis points earned. This yield increase was a result of the three 25 basis point increases in the federal funds rate throughout 2017.

Interest Expense.

2018 vs 2017. Total interest expense increased $4.5 million, or 51.1%, for the year ended December 31, 2018 compared to the prior year. This increase was the result of a 36 basis point increase in the cost of interest-bearing liabilities, coupled with a $106.4 million increase in average interest-bearing liabilities.

Interest expense on deposits increased $4.7 million for the year ended December 31, 2018 compared to the prior year due to an increase in the cost of interest-bearing deposits of 34 basis points during 2017, coupled with an increase in average interest-bearing deposits of $140.8 million.

Interest expense on borrowings decreased approximately $149,000, or 27.4%, for the year ended December 31, 2018 compared to the prior year. This decrease was primarily attributable to a $34.4 million decrease in the average balances offset by an increase of 124 basis points in the cost of borrowings.

2017 vs 2016. Total interest expense increased $1.1 million, or 14.0%, for the year ended December 31, 2017 compared to the prior year. This increase was the result of a nine basis point increase in the cost of interest-bearing liabilities, coupled with a $33.6 million increase in average interest-bearing liabilities.

Interest expense on deposits increased $0.9 million for the year ended December 31, 2017 compared to the prior year due to an increase in the cost of interest-bearing deposits of five basis points during 2017, coupled with an increase in average interest-bearing deposits of $51.2 million.

Interest expense on borrowings increased approximately $141,000, or 37.7%, for the year ended December 31, 2017 compared to the prior year. This increase was primarily attributable to a 47 basis point increase in the cost of borrowing, partially offset by a decrease in the average balances of $17.6 million.

Provision (Credit) for Loan Losses.

2018 vs 2017. The provision for credit losses for the twelve months ended December 31, 2018 was $665,000 compared with a provision of $3.8 million for the 2017 period. The decrease in the provision was due to a decline in net charge-offs of $312,000 recorded in 2018 compared to the $3.0 million recorded in 2017. The ratio of allowance for loan losses to total loans decreased from 1.20% to 1.10% for the period ended December 31, 2018, primarily due to a shift from construction loans which have a higher risk profile to commercial real estate and residential loans that carry a lower risk profile. 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.

2017 vs 2016. The provision for credit losses for the twelve months ended December 31, 2017 was $3.8 million compared with a credit of $41 thousand for the 2016 period. The increase in the provision was due to the recording of charge-offs on ten loans in the aggregate amount of $3.0 million, consisting of seven commercial real estate loans in the aggregate amount of $2.5 million and three commercial and industrial loans in the aggregate amount of $517 thousand, along with growth in loans outstanding. Of the ten loans that where a charge-off was recorded, two loans had a prior specific reserve totaling $109,000 and five loans totaling $493,000 where classified non-performing in 2016. The ratio of allowance for loan losses to total loans decreased from 1.26% to 1.20% for the period ended December 31, 2017. 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.

2018 vs 2017. Total non-interest income for the twelve months ended December 31, 2018 decreased $168 thousand or 5.9% when compared to the same period in 2017. This decrease was primarily due to a reduction in loan fee income earned partially offset by an increase in income from bank-owned life insurance.

2017 vs 2016. Total non-interest income for the twelve months ended December 31, 2017 increased $476 thousand or 20.2% when compared to the same period in 2016. This increase was primarily due to an increase in income from bank-owned life insurance, as well as increased prepayment fees paid by borrowers.

Non-Interest Expense.

2018 vs 2017. Total non-interest expense for the twelve months ended December 31, 2018 increased $2.0 million or 8.4% when compared to the same period of 2017. This increase was primarily due to increase in salary and benefit cost, data processing and communications expense, advertising expense and a one-time loss recorded against other real estate owned held by the Bank. Salaries and benefit cost increased $1.5 million, or 11.4%, as result primarily due to an increase number of employees, an increase in performance increases and increase cost of benefit related expenses. Small increases in data processing and communications expenses and advertising expenses were impacted by management growth strategy. Also, during 2018, the Bank had declines in professional fees expenses, occupancy and equipment expenses and FDIC insurance premiums was reduced primarily as a result of the Bank's capital levels maintained throughout 2018.

2017 vs 2016. Total non-interest expense for the twelve months ended December 31, 2017 decreased $427,000 or 1.8% when compared to the same period of 2016. This decrease was primarily due to decrease in salary and benefit cost due to a reduction of full time employees. Most of this reduction occurred while the Bank's merger agreement with Investors Bank was pending from May 3, 2016 until January 24, 2017 when it was terminated by mutual agreement. In addition, FDIC insurance premium expense was reduced as a result of increased capital levels for the third and fourth quarters from the common stock offering that occurred in August 2017.

Income Tax Expense.

2018 vs 2017. For the year ended the December 31, 2018, the Bank recorded income tax expense of $3.0 million resulting in an effective tax rate of 16.9%, compared to a $3.8 million expense resulting in an effective tax rate of 25.9% for the same period in 2017. The positive impact to the current periods tax expense was primarily due to the 2017 Tax Act reduction of the corporate federal tax rate to 21.0% from 35.0%.

2017 vs 2016. For the year ended the December 31, 2017, the Bank recorded income tax expense of $3.8 million resulting in an effective tax rate of 25.9%, compared to a $4.5 million expense resulting in an effective tax rate of 27.4% for the same period in 2016. During 2017, as a result of adopting ASU 2016-09, the recorded a tax benefit of $320,000 for warrants exercised and the Bank recorded a $40 thousand tax benefit as a result of evaluating the impact of the 2017 Tax Act. In addition, the Bank recorded a tax expense of approximately $500 thousand for an excise tax related to the deferral of the distribution of REIT earnings until 2018.

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.

(Dollars in thousands)	2018 Average Balance	2018 Interest	2018 Average Yield/Cost	2017 Average Balance	2017 Interest	2017 Average Yield/Cost
Interest-earning assets:						
Loans receivable, net	$ 1,027,701	$ 51,085	4.97%	$ 899,822	$ 45,119	5.01%
Investment securities:						
Available-for-sale	98,727	2,482	2.51	103,482	2,397	2.32
Held-to-maturity	251	13	5.18	302	15	5.09
Other interest-earning assets	39,214	785	2.00	25,371	441	1.74
Total interest-earning assets	1,165,893	54,365	4.66	1,028,977	47,972	4.66
Non-interest-earning assets	57,456			45,858		
Total assets	$ 1,223,349			$ 1,074,835		
Interest-bearing liabilities:						
Interest-bearing and savings deposits	$ 317,598	3,051	0.96	$ 281,508	2,164	0.77
Money market	273,373	3,888	1.42	265,055	2,612	0.99
Time deposits	334,780	6,023	1.80	238,389	3,521	1.48
Total interest-bearing deposits	925,751	12,962	1.40	784,952	8,297	1.06
Federal Home Loan Bank borrowings	17,196	394	2.29	51,618	543	1.05
Total interest-bearing liabilities	942,947	13,356	1.42%	836,570	8,840	1.06%
Non-interest-bearing liabilities	104,611			105,506		
Total liabilities	1,047,558			942,076		
Stockholders' equity	175,791			132,759		
Total liabilities and stockholders' equity	$ 1,223,349			$ 1,074,835		
Interest rate spread[(1)]			3.25%			3.60%
Net interest income		$ 41,009			$ 39,132	
Net yield on interest-earning assets[(2)]			3.52%			3.80%
Ratio of average interest-earning assets to average interest-bearing liabilities			1.24x			1.23x

[(1)] Interest rate spread represents the difference between the average yield on interest-earning assets and the average cost of interest-bearing liabilities.
[(2)] Net yield on interest-earning assets represents net interest income as a percentage of average interest-earning assets.

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(Dollars in thousands)	2016 Average Balance	2016 Interest	2016 Average Yield/Cost
Interest-earning assets:			
Loans receivable, net	$ 829,295	$ 42,304	5.10%
Investment securities:			
Available-for-sale	124,311	2,817	2.27
Held-to-maturity	369	19	5.15
Other interest-earning assets	21,184	293	1.38
Total interest-earning assets	975,159	45,433	4.66
Non-interest-earning assets	35,971		
Total assets	$ 1,011,130		
Interest-bearing liabilities:			
Demand, interest-bearing and savings deposits	$ 243,393	1,646	0.68
Money market	234,949	2,015	0.86
Time deposits	255,433	3,699	1.45
Total interest-bearing deposits	733,755	7,360	1.00
Federal Home Loan Bank borrowings	69,222	403	0.58
Total interest-bearing liabilities	802,997	7,763	0.97%
Non-interest-bearing liabilities	109,829		
Total liabilities	912,826		
Stockholders' equity	98,304		
Total liabilities and stockholders' equity	$ 1,011,130		
Interest rate spread[(1)]			3.69%
Net interest income		$ 37,670	
Net yield on interest-earning assets[(2)]			3.86%
Ratio of average interest-earning assets to average interest-bearing liabilities			1.21x

[(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, 2018 vs. 2017 Increase (Decrease) Due to			Year Ended December 31, 2017 vs. 2016 Increase (Decrease) Due to		
	Volume	Rate	Net	Volume	Rate	Net
Interest and dividend income:						
Loans receivable	$ 6,356	$ (390)	$ 5,966	$ 3,536	$ (721)	$ 2,815
Investment securities:						
Available-for-sale	(103)	188	85	(518)	97	(420)
Held-to-maturity	(2)	-	(2)	(4)	-	(4)
Other interest-earnings assets	277	67	344	73	76	148
Total interest-earning assets	$ 6,528	$ (135)	$ 6,393	$ 3,087	$ (548)	$ 2,539
Interest expense:						
Demand, interest-bearing and savings	$ 347	$ 540	$ 887	$ 293	$ 225	$ 518
Money market	118	1,158	1,276	297	300	597
Time deposits	1,734	768	2,502	(252)	74	(178)
Federal Home Loan Bank borrowings	(787)	638	(149)	(186)	326	140
Total interest-bearing liabilities	$ 1,412	$ 3,104	$ 4,516	$ 152	$ 925	$ 1,077
Change in net interest income	$ 5,169	$ (3,292)	$ 1,877	$ 2,935	$ (1,473)	$ 1,462

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, when needed we are also able to generate cash through borrowings from the FHLB-NY. At December 31, 2018, we had remaining available capacity with FHLB-NY, subject to certain collateral restrictions, of $180 million.

In connection with the Bank's pending branch acquisition from WSFS (See Item 1. Business – General), the Bank would acquire a significant amount of deposits providing additional liquidity. As of January 31, 2019, the amount of deposits to be transferred to the Bank in this transaction was $191.4 million.

Additionally, we are a shareholder of Atlantic Community Bancshares, Inc., and as such, as of December 31, 2018, we had available capacity with its subsidiary, Atlantic Community Bankers Bank 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, 2018:

Years Ended December 31:	(in thousands)
2019	$ 1,804
2020	1,817
2021	1,471
2022	730
2023	554
Thereafter	77
Total minimum payments required	$ 6,453

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, 2018, we met the capital requirements to be considered "well capitalized." See Note 12 – "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)	2018	2017
Performance and standby letters of credit	$ 2,342	$ 2,377
Undisbursed loans-in-process	74,086	99,676
Commitments to fund loans	16,085	18,920
Unfunded commitments under lines of credit	6,011	8,165
Total	$ 98,524	$ 129,138

For additional information regarding our outstanding lending commitments at December 31, 2018, see Note 8 – "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.

Exposure to changes in Interest Rates

Gap Analysis. The matching of assets and liabilities may be analyzed by examining the extent to which such assets and liabilities are "interest rate sensitive" and by monitoring the Bank's interest rate sensitivity "gap." An asset or liability is said to be interest rate sensitive within a specific time period if it will mature or reprice within that time period. The interest rate sensitivity gap is defined as the difference between the amount of interest-earning assets maturing or repricing within a specific time period and the amount of interest-bearing liabilities maturing or repricing within that same time period. A gap is considered positive when the amount of interest rate sensitive assets exceeds the amount of interest rate-sensitive liabilities. A gap is considered negative when the amount of interest rate sensitive liabilities exceeds the amount of interest rate sensitive assets. During a period of rising interest rates, a negative gap would tend to affect adversely net interest income while a positive gap would tend to result in an increase in net interest income. Conversely, during a period of falling interest rates, a negative gap would tend to result in an increase in net interest income while a positive gap would tend to affect adversely net interest income.

The table on the next page sets forth the amounts of our interest-earning assets and interest-bearing liabilities outstanding at December 31, 2018, which we expect, based upon certain assumptions, to reprice or mature in each of the future time periods shown (the "GAP Table"). Except as stated below, the amounts of assets and liabilities shown which reprice or mature during a particular period were determined in accordance with the earlier of term to repricing or the contractual maturity of the asset or liability. The table sets forth an approximation of the projected repricing of assets and liabilities at December 31, 2018, on the basis of contractual maturities, anticipated prepayments, and scheduled rate adjustments within a three-month period and subsequent selected time intervals. The loan amounts in the table reflect principal balances expected to be redeployed and/or repriced as a result of contractual amortization and anticipated prepayments of adjustable-rate loans and fixed-rate loans, and as a result of contractual rate adjustments on adjustable-rate loans.

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(Dollars in thousands)	3 Months or less	More than 3 Months to 1 Year	More than 1 Year to 3 Years	More than 3 Years to 5 Years	More than 5 Years	Total Amount
Interest-earning assets: (1)						
Investment securities	$ 22,442	$ 11,654	$ 18,647	$ 15,779	$ 23,382	$ 91,904
Loans receivable	277,424	157,536	317,040	239,846	84,528	1,076,374
Other interest-earnings assets (2)	22,036	-	-	-	-	22,036
Total interest-earning assets	$ 321,902	$ 169,190	$ 335,687	$ 255,625	$ 107,910	$ 1,190,314
Interest-bearing liabilities:						
Checking and savings accounts	$ 5,898	$ 239,933	$ -	$ -	$ -	$ 245,831
Checking and money market accounts	15,543	270,914	-	-	-	286,457
Certificate accounts	64,796	138,206	152,009	31,622	-	386,633
Advances from Federal Home Loan Bank	55,400	-	-	-	-	55,400
Total interest-bearing liabilities	$ 141,637	$ 649,053	$ 152,009	$ 31,622	$ -	$ 974,321
Interest-earning assets less interest-bearing liabilities	$ 180,265	$ (479,863)	$ 183,678	$ 224,003	$ 107,910	$ 215,993
Cumulative interest-rate sensitivity gap (3)	$ 180,265	$ (299,598)	$ (115,920)	$ 108,083	$ 215,993	
Cumulative interest-rate gap as a percentage of total assets at December 31, 2018	14.40%	-23.94%	-9.26%	8.64%	17.26%	
Cumulative interest-earning assets as a percentage of cumulative interest-bearing liabilities at December 31, 2018	227.27%	62.11%	87.70%	111.09%	122.17%	

(1) Interest-earnings assets are included in the period in which the balances are expeceted to be redeployed and/or repriced as a result of anticiapated prepayments, shceduled rate adjustments and contractual maturities.

(2) Includes FHLB Stock is in the three months or less category.

(3) Interest-rate sensitivity gap represents the difference between total interest-earning assets and total interest-bearing liabilities.

Certain shortcomings are inherent in the method of analysis presented in the foregoing table. For example, although certain assets and liabilities may have similar maturities or periods to repricing, they may react in different degrees to changes in market interest rates. Also, the interest rates on certain types of assets and liabilities may fluctuate in advance of changes in market interest rates, while interest rates on other types may lag behind changes in market rates. Additionally, certain assets, such as adjustable rate loans, have features which restrict changes in interest rates both on a short-term basis and over the life of the asset. Further, in the event of a change in interest rates, prepayment and early withdrawal levels would likely deviate significantly from those assumed in calculating the table. Finally, the ability of many borrowers to service their adjustable-rate loans may decrease in the event of an interest rate increase.

Net Portfolio Value Analysis. Our interest rate sensitivity also is monitored by management through the use of a model which generates estimates of the changes in our net portfolio value ("NPV") over a range of interest rate scenarios. NPV is the present value of expected cash flows from assets, liabilities and off-balance sheet contracts. The NPV ratio, under any interest rate scenario, is defined

as the NPV in that scenario divided by the market value of assets in the same scenario. The following table sets forth our NPV as of December 31, 2018 and reflects the changes to NPV as a result of immediate and sustained changes in interest rates as indicated.

Change in Interest Rates In Basis Points (Rate Shock)	Net Portfolio Value			NPV as % of Portfolio Value of Assets	
	Amonts	$ Change	% Change	NPV Ratio	Change
	(Dollars in thousands)				
300	$ 198,005	$ (8,329)	-4.04%	-6.24%	-6.61%
200	$ 206,351	$ 17	0.01%	-3.95%	-4.32%
100	$ 209,871	$ 3,537	1.71%	-1.65%	-2.02%
Static	$ 206,334	$ -		0.37%	
(100)	$ 208,857	$ 2,523	1.22%	2.12%	1.75%
(200)	$ 204,269	$ (2,065)	-1.00%	4.03%	3.66%
(300)	$ 183,184	$ (23,150)	-11.22%	4.70%	4.33%

As is the case with the GAP Table, certain shortcomings are inherent in the methodology used in the above interest rate risk measurements. Modeling changes in NPV require the making of certain assumptions which may or may not reflect the manner in which actual yields and costs respond to changes in market interest rates. In this regard, the models presented assume that the composition of our interest sensitive assets and liabilities existing at the beginning of a period remains constant over the period being measured and also assumes that a particular change in interest rates is reflected uniformly across the yield curve regardless of the duration to maturity or repricing of specific assets and liabilities. Accordingly, although the NPV model provides an indication of interest rate risk exposure at a particular point in time, such model is not intended to and does not provide a precise forecast of the effect of changes in market interest rates on net interest income and will differ from actual results.

Return on Equity and Assets

The following table presents certain performance ratios for the years ended December 31, 2018, 2017 and 2016.

	2018	2017	2016
Return on Average Assets (ROA)	1.22%	1.02%	1.17%
Return on Average Equity (ROE)[1]	8.30%	8.30%	12.05%
Average Equity to Average Assets[1]	14.37%	12.35%	9.72%
Dividend Payout Ratio[2]	NM[3]	0.00%	0.00%

[1] The Bank completed a common stock offering on August 4, 2017, resulting in the Bank's stockholders' equity increasing by $51.8 million from net proceeds.
[2] The Bank declared an initial cash dividend of $0.03 per common stock during the fourth quarter of 2018.
[3] Not meaningful.

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 securities' 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 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 FASB ASC Topic 740, *Income Taxes.* This includes guidance related to accounting for uncertainties in income taxes, which sets out a consistent framework to determine the appropriate level of tax reserves to maintain for uncertain tax positions. We had no material unrecognized tax benefits or accrued interest and penalties as of December 31, 2018 and 2017. 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.

The 2017 Tax Act reduced the U.S. federal corporate tax rate from 35% to 21% effective January 1, 2018. Also, on December 22, 2017, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 118 ("SAB 118"), which provides guidance on accounting for tax effects of the 2017 Tax Act. SAB 118 provides a measurement period of up to one year from the enactment date to complete the accounting. Any adjustments during this measurement period will be included in net earnings from continuing operations as an adjustment to income tax expense in the reporting period when such adjustments are determined. Based on the information available and current interpretation of the rules, the Bank estimated the impact of the reduction in the corporate tax rate and

remeasurement of certain deferred tax assets and liabilities. The provisional amount recorded in the fourth quarter of 2017 related to the remeasurement of the Bank's deferred tax balance resulted in additional income tax expense of $40,000. As of December 31, 2018, management has concluded its assessment and determined not additional adjustment is required.

Revenue Recognition In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers." The standard's core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. In doing so, companies generally will be required to use more judgment and make more estimates than under current guidance. These may include identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. Subsequent to the issuance of ASU 2014-09, the FASB issued targeted updates to clarify specific implementation issues including ASU No. 2016-08, "Principal versus Agent Considerations (Reporting Revenue Gross versus Net)," ASU No. 2016-10, "Identifying Performance Obligations and Licensing," ASU No. 2016-12, "Narrow-Scope Improvements and Practical Expedients," and ASU No. 2016-20 "Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers." For financial reporting purposes, the standard allows for either full retrospective adoption, meaning the standard is applied to all of the periods presented, or modified retrospective adoption, meaning the standard is applied only to the most current period presented in the financial statements with the cumulative effect of initially applying the standard recognized at the date of initial application. Since the guidance does not apply to revenue associated with financial instruments, including loans and securities that are accounted for under other GAAP, the new guidance did not have a material impact on revenue most closely associated with financial instruments, including interest income and expense. The Bank completed its overall assessment of revenue streams and review of related contracts potentially affected by the ASU, including deposit related fees, interchange fees and merchant income. Based on this assessment, the Bank concluded that ASU 2014-09 did not materially change the method in which the Bank currently recognizes revenue for these revenue streams. The Bank also completed its evaluation of certain costs related to these revenue streams to determine whether such costs should be presented as expenses or contra-revenue (i.e., gross vs. net). Based on its evaluation, the Bank determined that the classification of certain debit and credit card related costs should change (i.e., costs previously recorded as expense is now recorded as contra-revenue, and vice versa). These classification changes resulted in immaterial changes to both revenue and expense. The Bank also determined that certain costs related to ATMs should be recorded as an expense rather than a reduction of revenue. This change did not have a material effect to non-interest income or expense. The Bank adopted ASU 2014-09 and its related amendments on its required effective date of January 1, 2018 utilizing the modified retrospective approach. Since there was no net income impact upon adoption of the new guidance, a cumulative effect adjustment to opening retained earnings was not deemed necessary. Consistent with the modified retrospective approach, the Bank did not adjust prior period amounts for the debit and credit card costs and the ATM costs reclassifications noted above. See Note 10 Revenue Recognition for more information.

Recently Issued Accounting Standards

See Note 1- "Summary of Significant Accounting Policies" in the Notes 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

See Item 7- "Management's Discussion and Analysis of Financial Condition and Results of Operations – Exposures to Changes in Interest Rates."

Item 8. Financial Statements and Supplementary Data

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016

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Report of Independent Registered Public Accounting Firm

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

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated statements of financial condition of The Bank of Princeton (the "Company") and subsidiaries as of December 31, 2018 and 2017, the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2018, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company and subsidiaries at December 31, 2018 and 2017, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2018, 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) ("PCAOB"), the Company's internal control over financial reporting as of December 31, 2018, 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 March 20, 2019 expressed an unqualified opinion thereon.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

BDO USA, LLP

We have served as the Company's auditor since 2013.

Philadelphia, Pennsylvania
March 20, 2019

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Report of Independent Registered Public Accounting Firm

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

Opinion on Internal Control over Financial Reporting

We have audited The Bank of Princeton's (the "Company") internal control over financial reporting as of December 31, 2018, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (the "COSO criteria"). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the consolidated statements of financial condition of the Company and subsidiaries as of December 31, 2018 and 2017, the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2018, and the related notes and our report dated March 20, 2019 expressed an unqualified opinion thereon.

Basis for Opinion

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 "Item 9A, Controls and Procedures". Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit of internal control over financial reporting in accordance with the standards of the PCAOB. 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 the 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.

Definition and Limitations of Internal Control over Financial Reporting

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 generally accepted accounting principles. 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 generally accepted accounting principles, 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 USA, LLP

Philadelphia, Pennsylvania
March 20, 2019

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

	December 31, 2018	December 31, 2017
ASSETS		
Cash and due from banks	$ 7,922	$ 13,658
Interest-bearing deposits in other banks	18,462	69,164
Total cash and cash equivalents	26,384	82,822
Securities available-for-sale (amortized cost of $92,341 and $101,635, respectively)	91,681	101,744
Securities held-to-maturity (fair value of $236 and $280, respectively)	228	264
Loans receivable, net of allowance for loan losses of $11,944 and $11,591 at December 31, 2018 and 2017, respectively	1,069,235	958,356
Bank-owned life insurance	45,481	40,556
Other real estate owned (OREO)	44	802
Premises and equipment, net	4,201	3,879
Accrued interest receivable	3,734	3,508
Restricted investment in bank stock	3,574	978
Deferred taxes	4,268	809
Other assets	2,734	6,873
TOTAL ASSETS	$ 1,251,564	$ 1,200,591
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES:		
Deposits:		
Non-interest-bearing	$ 102,678	$ 100,633
Interest-bearing	904,569	928,035
Total deposits	1,007,247	1,028,668
Borrowings	55,400	-
Accrued interest payable	2,198	1,591
Other liabilities	2,401	2,037
TOTAL LIABILITIES	1,067,246	1,032,296
STOCKHOLDERS' EQUITY:		
Common stock, $5.00 par value, 15,000,000 authorized, 6,655,509 and 6,551,229 shares issued and outstanding at December 31, 2018 and 2017, respectively	33,278	32,756
Paid-in capital	77,895	76,350
Retained earnings	73,630	59,122
Accumulated other comprehensive (loss) income	(485)	67
TOTAL STOCKHOLDERS' EQUITY	184,318	168,295
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 1,251,564	$ 1,200,591

See notes to consolidated financial statements

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

	For the Years Ended December 31,		
INTEREST AND DIVIDEND INCOME	2018	2017	2016
Loans receivable, including fees	$51,085	$45,119	$42,304
Securities available-for-sale:			
Taxable	1,176	1,156	1,154
Tax-exempt	1,306	1,241	1,663
Securities held-to-maturity	13	15	19
Other interest and dividend income	785	441	293
TOTAL INTEREST AND DIVIDEN INCOME	54,365	47,972	45,433
INTEREST EXPENSE			
Deposits	12,962	8,297	7,360
Borrowings	394	543	403
TOTAL INTEREST EXPENSE	13,356	8,840	7,763
NET INTEREST INCOME	41,009	39,132	37,670
Provision (credit) for loan losses	665	3,765	(41)
NET INTEREST INCOME AFTER PROVISION (CREDIT) FOR LOAN LOSSES	40,344	35,367	37,711
NON-INTEREST INCOME			
Gain on sale of securities available-for-sale, net	1	14	136
Income from bank-owned life insurance	1,225	896	653
Fees and service charges	613	629	578
Loan fees, including prepayment penalties	755	1,253	962
Other	68	38	67
TOTAL NON-INTEREST INCOME	2,662	2,830	2,396
NON-INTEREST EXPENSE			
Salaries and employee benefits	14,530	13,042	13,350
Occupancy and equipment	3,387	3,461	3,483
Professional fees	1,939	2,134	2,147
Data processing and communications	2,101	1,970	1,904
Federal deposit insurance assessment	338	508	705
Advertising and promotions	421	260	225
Office expense	267	266	308
Other real estate owned	2	8	18
Loss on sale of other real estate owned	540	-	42
Other	1,773	1,685	1,621
TOTAL NON-INTEREST EXPENSE	25,298	23,334	23,803
INCOME BEFORE INCOME TAX EXPENSE	17,708	14,863	16,304
Income tax expense	3,000	3,849	4,461
NET INCOME	$14,708	$11,014	$11,843
Earnings per share-basic	$2.22	$2.00	$2.52
Earnings per share-diluted	$2.14	$1.90	$2.36
Dividends declared per share	$0.03	--	--

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Dollars in thousands)

	For the Years Ended December 31,		
	2018	**2017**	**2016**
NET INCOME	$14,708	$11,014	$11,843
Other comprehensive income (loss)			
Unrealized holdings gains (losses) arising during period on securities available-for-sale	(749)	129	(715)
Income tax effect on unrealized holding (gains) losses	198	(49)	276
Less: reclassification adjustment for gains on sales of securities available-for-sale[1]	(1)	(14)	(136)
Income tax effect on reclassification adjustment for gains On sale of securities available-for-sale[2]	-	5	52
Total other comprehensive income (loss)	(552)	71	(523)
COMPREHENSIVE INCOME	$14,156	$11,085	$11,320

[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.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

For the Years Ended December 31, 2018, 2017 and 2016

(Dollars in thousands, except share data)

	Common stock	Paid-in capital	Retained earnings	Accumulated other comprehensive (loss) income	Total
Balance, January 1, 2016	$ 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
Non-qualified stock options exercised					
Stock-based compensation expense	-	546	-	-	546
Balance, December 31, 2016	$ 23,502	$ 31,856	$ 48,108	$ (4)	$ 103,462
	-				
Net income		-	11,014	-	11,014
Other comprehensive income	-	-	-	71	71
Stock Issuance (1,725,000 shares, net of)	8,625	43,180	-	-	51,805
Stock options and warrants exercised (125,834 shares)	629	835	-	-	1,464
Stock-based compensation expense	-	479	-	-	479
Balance, December 31, 2017	$ 32,756	$ 76,350	$ 59,122	$ 67	$ 168,295
Net income	-	-	14,708	-	14,708
Other comprehensive loss	-	-	-	(552)	(552)
Director Compensation (6,430 shares)	32	168	-	-	200
Dividend Declared $0.03 per share	-	-	(200)	-	(200)
Stock options and warrants exercised (97,850 shares)	490	883	-	-	1,373
Stock-based compensation expense	-	494	-	-	494
Balance, December 31, 2018	$ 33,278	$ 77,895	$ 73,630	$ (485)	$ 184,318

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in thousands)

	For the Years Ended December 31, 2018	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$14,708	$11,014	$11,843
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision (credit) for loan losses	665	3,765	(41)
Depreciation and amortization	638	790	940
Gain on sale of premise and equipment	--	(3)	--
Stock-based compensation	494	479	546
Amortization of premiums and accretion of discounts on securities	328	416	614
Accretion of net deferred loan fees and costs	(969)	(1,160)	(1,112)
Net realized gains on sale of securities available-for-sale	(1)	(14)	(136)
Increase in cash surrender value of bank-owned life insurance	(1,225)	(896)	(653)
Deferred income tax expense	(3,242)	4,737	20
Net loss on sale of other real estate owned	540	--	42
Amortization of core deposit intangible	--	30	9
Director's Compensation Plan stock issuance	200	--	--
Decrease (increase) in accrued interest receivable and other assets	3,913	(6,067)	1,241
Increase (decrease) in accrued interest payable and other liabilities	972	(285)	268
NET CASH PROVIDED BY OPERATING ACTIVITIES	17,021	12,806	13,581
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of securities available-for-sale	(9,145)	(17,468)	(7,052)
Proceeds from sale of securities available-for-sale	-	554	10,274
Principal repayments of securities available for-sale	12,566	13,902	16,452
Maturities and calls of securities available for-sale	5,545	14,015	7,472
Maturities, calls and principal repayments of securities held-to-maturity	36	76	41
Net increase in loans	(53,195)	(42,973)	(51,256)
Purchase of loans	(57,380)	(69,282)	--
Purchases of bank-owned life insurance	(3,700)	(14,249)	(2,500)
Proceeds on sale of other real estate owned	218	--	258
Purchases of premises and equipment	(960)	(150)	(9)
(Purchases) redemptions of restricted bank stock	(2,596)	2,670	3,215
NET CASH USED IN INVESTING ACTIVITIES	(108,611)	(112,905)	(23,105)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net (decrease) increase in deposits	(21,421)	166,147	73,088
Proceeds and (repayments) of overnight borrowings	55,400	(56,100)	17,300
Repayments of term borrowings	--	--	(90,000)
Issuance of common stock, net	--	51,805	--
Cash Dividends	(200)	--	--
Proceeds from exercise of stock options	1,373	1,464	152
NET CASH PROVIDED BY FINANCING ACTIVITIES	35,152	163,316	540
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(56,438)	63,217	(8,984)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	82,822	19,605	28,589
CASH AND CASH EQUIVALENTS, END OF PERIOD	26,384	82,822	19,605
SUPPLEMENTARY CASH FLOWS INFORMATION:			
Interest paid	$12,749	$8,585	$7,837
Income taxes paid	$1,967	$5,343	$3,510
SUPPLEMENTARY SCHEDULE OF NONCASH ACTIVITIES:			
Transfers from loans receivable, net of OREO	$--	$802	$--

See notes to consolidated financial statements.

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.

On August 4, 2017, the Bank completed a common stock offering and issued 1,725,000 shares of common stock, at a price to the public of $32.00 per share. The common stock now trades on the NASDAQ Global Select Market under the ticker symbol "BPRN."

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.

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 FDIC 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 – Summary of Significant Accounting Policies (Continued)

Management believes that the allowance for loan losses is adequate as of December 31, 2018 and 2017. While management uses current information to recognize losses on loans, future additions to the allowance for loan losses may be necessary based on changes in economic conditions in the market area or other factors.

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

Subsequent Events

On February 4, 2019 the Bank and Beneficial Bancorp, Inc. ("Beneficial") has entered into a purchase and assumption to sell five branches in Bordentown, Browns Mills, Chesterfield, Deptford and Sicklerville, New Jersey to the Bank. The Bank is purchasing an estimated amount of $191.4 million in deposits at a premium equal to 7.37% and four branches and related fixed assets at the fair value on the date of closing. These are the five retail banking offices previously identified by WSFS Financial Corporation ("WSFS") and its subsidiary WSFS Bank on December 13, 2018 as being outside of the combined core foot print of Beneficial and WSFS following the previously announced merger of the two companies, which is expected to close in the first quarter of 2019. The Bank expects to close on its transaction during the second quarter of 2019.

The Bank also announced the opening of two additional branches in Quakerbridge, New Jersey and Princeton Junction, New Jersey. They are schedule to open in the second and third quarters of 2019.

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 five boroughs of New York city 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 the Federal Reserve Bank of Philadelphia.

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

Note 1 – Summary of Significant Accounting Policies (Continued)

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 evaluates its securities portfolio for OTTI throughout the year. Each investment, having 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 are 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 2018 and 2017, it was determined that there were no other-than-temporarily impaired investments.

Restricted Investment in Bank Stock

Restricted stock includes Federal Home Loan Bank of New York stock and Atlantic Communities Bankers Bank stock that are considered restricted as to marketability and recorded at cost. These securities are evaluated for impairment each reporting period.

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 (includes multi-family), 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.

Note 1 – Summary of Significant Accounting Policies (Continued)

Allowance for credit losses

The allowance for credit losses consists of the allowance for loan losses and the reserve for unfunded lending commitments. The allowance for loan losses represents management's estimate of losses inherent in the loan portfolio as of the balance sheet date and is recorded as a reduction to loans. The reserve for unfunded lending commitments represents management's estimate of losses inherent in its unfunded loan commitments and is recorded in other liabilities on the 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 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 ranging from 4 bps (low risk) to 24 bps (severely high risk) to each element for each portfolio segment.

Note 1 – Summary of Significant Accounting Policies (Continued)

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

Residential first-lien mortgage loans 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.

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 affected 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

Note 1 – Summary of Significant Accounting Policies (Continued)

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

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

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

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

Loans with modified terms 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.

Note 1 – Summary of Significant Accounting Policies (Continued)

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, prepaid assets and other assets.

Restricted Stock

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 $878,000 is carried at cost at December 31, 2018 and 2017, 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, 2018 and 2017.

Management believes no impairment charge is necessary related to the FHLB restricted stock or the ACBB restricted stock as of December 31, 2018 or 2017.

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 years ended December 31, 2018 and 2017. 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, 2018, tax years after 2015 are subject to federal examination and tax years after 2014 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.

Note 1 – Summary of Significant Accounting Policies (Continued)

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.

Public law No. 115-97, originally known as the Tax Cuts and Jobs Act and now called H. R. 1 (the "Tax Act"), enacted on December 22, 2017, reduced the U.S. federal corporate tax rate from 35% to 21% effective January 1, 2018. Also, on

December 22, 2017, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 118 ("SAB 118"), which provides guidance on accounting for tax effects of the Tax Act. SAB 118 provides a measurement period of up to one year from the enactment date to complete the accounting. Any adjustments during this measurement period will be included in net earnings from continuing operations as an adjustment to income tax expense in the reporting period when such adjustments are determined. Based on the information available and current interpretation of the rules, the Bank estimated the impact of the reduction in the corporate tax rate and remeasurement of certain deferred tax assets and liabilities. The provisional amount recorded in the fourth quarter of 2017 related to the remeasurement of the Bank's deferred tax balance resulted in additional income tax expense of $40,000. As of December 31, 2018, management has concluded its assessment and determined no additional adjustment is required.

On July 1, 2018, New Jersey enacted legislation which adds to the state's 9.0% Corporation Business Tax rate (i) a 2.5% surtax for periods beginning in 2018 and 2019 and (ii) a 1.5% surtax for periods beginning in 2020 and 2021. These surtaxes apply to corporations with more than $1 million of net income allocated to New Jersey and expire beginning in 2022. Also, for periods beginning in 2017, New Jersey has reduced the dividends-received deduction from 100% to 95% for certain dividend income received by a corporation from a subsidiary that is at least 80% owned by the corporation. Effective in 2019, New Jersey has adopted combined income tax reporting for certain members of a commonly-controlled unitary business group. These changes will increase the Company's New Jersey state income tax expense in future periods, and we are currently evaluating how these changes will impact the Bank's taxes.

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 matching contributions to employees of $150,000, $115,000 and $117,000, respectively during the years ended December 31, 2018, 2017 and 2016.

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.

Note 1 – Summary of Significant Accounting Policies (Continued)

The stock compensation accounting guidance requires that compensation costs for all stock awards be calculated and recognized over the employees' service period, generally defined as the vesting period. For awards with graded vesting, compensation cost is recognized on a straight-line basis over the requisite service period for the entire award. A Black-Scholes model is used to estimate the fair value of stock options. An option is considered to be forfeited, if the grant stock option were not exercised prior to vesting. At the date of grant, the Bank estimates the forfeiture rate as part of its initial determination of the fair-value of options granted and then adjusts forfeitures as they occur.

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.

Adoption of New Accounting Standards

In May 2017, the FASB issued ASU 2017-09, "Compensation-Stock Compensation (Topic 718)." This amendment clarifies when changes to the terms or conditions of share-based payment awards must be accounted for as modifications. Entities will apply the modification accounting guidance if the value, vesting conditions or classification of the award changes. Entities will have to make all of the disclosures about modifications that are required today, in addition to disclosing that compensation expense has not changed, if that is the case. The new guidance also clarifies that a modification to an award could be significant and therefore require disclosure, even if modification accounting is not required. The guidance will be applied prospectively to awards modified on or after the adoption date and is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2017. The Bank adopted this ASU effective on January 1, 2018 and this ASU did not have a material impact effect on the Bank's consolidated financial statements.

In November 2016, the FASB issued 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. The Bank does not have restricted cash and therefore the adoption of ASU 2016-18 did not have a material impact on the Bank's consolidated financial statements.

Note 1 – Summary of Significant Accounting Policies (Continued)

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. The adoption of ASU 2016-01 did not have a material impact effect on the Bank's consolidated financial statements.

In February 2018, the FASB issued Accounting Standard Update ("ASU") 2018-02, "Income Statement – Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income." The amendments in ASU 2018-02 allow a reclassification from accumulated other comprehensive income to retained earnings for re-measured adjustments on the tax effects resulting from H. R. 1 (originally known as the "Tax Cuts and Job Act") ("Tax Act"). The amendments in this update also require entities to disclose their accounting policy for releasing income tax effects from accumulated other comprehensive income. The ASU is effective for annual periods, and interim periods within those annual periods, beginning after December 31, 2018. Early adoption is permitted, and the provisions of the amendment should be applied either in the period of adoption or retrospectively to each period (or periods) in which the effect of the change in the U.S. federal corporate income tax rate in the Tax Reform Act is recognized. The adoption of ASU 2018-02 did not have a material impact effect on the Bank's 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. Because the ASU does not apply to revenue associated with financial instruments (including loans and securities), the Bank concluded that the new guidance did not have a material impact on the elements of its consolidated statements of income most closely associated with financial instruments (such as interest income, interest expense and securities gains). This ASU was effective for the Bank on January 1, 2018. The Bank completed its identification of all revenue streams included in its financial statements and has identified its deposit related fees, service charges, debit and interchange income to be within the scope of the standard. The Bank adopted this ASU on January 1, 2018, on a modified retrospective approach. The adoption of this ASU, as discussed above, did not have a significant impact to the Bank's financial condition, results of operations and consolidated financial statements.

Accounting Standards Pending Adoption

In January 2017, the FASB issued ASU No. 2017-04, *"Intangibles – Goodwill and other (Topic 350) – Simplifying the Test for Goodwill Impairment"* These amendments eliminate Step 2 from the goodwill impairment test. The amendments also eliminate the requirements for any reporting unit with a zero or negative carrying amount to perform a qualitative assessment and, if it fails that qualitative test, to perform Step 2 of the goodwill impairment test. An entity still has the option to perform the qualitative assessment for a reporting unit to determine if the quantitative impairment test is necessary. The guidance is effective for annual or any interim goodwill impairment tests in fiscal years beginning after

Note 1 – Summary of Significant Accounting Policies (Continued)

December 15, 2019. Early adoption is permitted for interim or annual goodwill impairment test performed on testing dates after January 1, 2017. ASU 2017-04 should be adopted on a prospective basis. The Bank does not expect ASU 2017-04 to have a material impact on its accounting disclosures, as of December 31, 2018 the Bank did not have any intangible assets on its balance sheet. The Bank is assessing future impact of ASU-2017-04 and does not expect it to have a material impact.

In March 2017, the FASB issued ASU No. 2017-08 *"Receivables – Nonrefundable Fees and Other Cost (Subtopic 310-20), Premium Amortization on Purchased Callable Debt Securities."* These amendments shorten the amortization period for certain callable debt securities held at a premium. Specifically, the amendments require the premium to be amortized to the earliest call date. The amendments do not require an accounting change for securities held at a discount; the discount continues to be amortized to maturity. The guidance is effective for public business entities for fiscal years, and interim periods within those fiscal years beginning after December 15, 2018. Early adoption is permitted including adoption in an interim period. If an entity early adopts in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes the interim period. The amendments should be applied on a modified retrospective basis, with a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption. The Bank is assessing the impact of ASU-2017-08 and does not expect it to have a material impact.

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 is in the initial stages of evaluating the effect of this standard on its consolidated financial statements. The Bank engage a third-party vendor to assist in meeting the requirements under ASU 2016-13. The Bank is in the process of evaluating the different assumptions scenarios and formulate different measurements. The Bank believes it will be incompliance as of January 1, 2019.

The FASB issued Update No. 2016-02, "Leases", in February 2016. From the lessee's perspective, the new standard establishes a right-of-use ("ROU") model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either a finance or operating, with classification affecting the pattern of expenses recognition in the incomes statement for lessees. The guidance also eliminates the current real estate-specific provision and changes guidance on sale-leaseback transactions, initial direct costs and lease executory costs. For public companies, this update will be effective for interim and annual periods beginning after December 15, 2018 and is to be applied on a modified retrospective basis. The Bank expects to elect certain optional practical expedients, such as grandfathering operating leases, re-evaluating embedded leases for service contracts and reassess initial direct costs. The Bank adopted the use-of-hindsight practical expedient and re-evaluated the lease terms including the option periods that are likely to be exercised. The Bank currently leases its main office and branch, nine additional branch locations and operational departments under operating leases that will result in recognition of lease assets and lease liabilities on the consolidated balance sheets under the update. The amount of assets and liabilities added to the balance sheet is estimated to be $12.8 million on the Bank's consolidated financial statements per preliminary estimates. The Bank does not expect that the adoption of the new standard to impact the well capitalized status for capital ratios.

Note 1 – Summary of Significant Accounting Policies (Continued)

Update 2018-11- Leases (topic 842): Targeted improvements provided an additional/optional transition method to adopt the new leases standard. Prior to this ASU issuance, a modified retrospective transition approach was required. The Bank plans to adopt this optional transition method and the cumulative-effect adjustment to our opening retained earnings balance is expected to be immaterial at January 1, 2019. The adoption of this ASU will no materially impact our Consolidated Statement of Financial Condition and Consolidated Statements of Changes in Stockholder's Equity. Update 2018-20- Leases (topic 842): Narrow-Scope Improvements for Lessors was released to better clarify the treatment of sales taxes and other similar taxes related to Lessor and Lessees cost and payments. The amendments in this update permit lessors, as an accounting policy election, to not evaluate whether certain sales taxes and other similar taxes are lessor costs. Instead, those lessors will account for those costs as if they are lessee costs. Also, certain lessor cost requires lessors to exclude from variable payments, and therefore revenue, lessor costs paid by lessees directly to third parties. The Bank's lessor income is immaterial; as such, this ASU will not have material impact our Consolidated Statement of Financial Condition or Consolidated Statement of Comprehensive Income.

Note 2 – Earnings Per Share

The following schedule presents earnings per share data:

	Years ended December 31,		
	2018	2017	2016
	(Dollars in thousands, except per share data)		
Net income applicable to common stockholders	$14,708	$11,014	$11,843
Weighted average number of common shares outstanding	6,628	5,497	4,696
Basic earnings per share	$2.22	$2.00	$2.52
Net income applicable to common stockholders	$14,708	$11,014	$11,843
Weighted average number of common shares outstanding	6,628	5,497	4,696
Dilutive effect of potential common shares	244	290	323
Weighted average number of diluted common shares outstanding	6,872	5,787	5,019
Diluted earnings per share	$2.14	$1.90	$2.36

Options and warrants to purchase 514,827 shares of common stock at a weighted average exercise price of $16.90 were included in the computation of diluted earnings per share for the year ended December 31, 2018. Options to purchase 70,875 shares of common stock at a weighted average exercise price of $32.69 were not included in the computation of diluted earnings per share because the exercise price equaled or exceeded the fair value of our common stock at December 31, 2018.

Options and warrants to purchase 573,152 shares of common stock at a weighted average exercise price of $15.30 were included in the computation of diluted earnings per share for the year ended December 31, 2017. Options to purchase 43,375 shares of common stock at a weighted average exercise price of $32.00 were not included in the computation of diluted earnings per share because the exercise price equaled or exceeded the fair value of our common stock at December 31, 2017.

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.

Note 3 – Investment Securities

The following summarizes the amortized cost and estimated fair value of securities available-for-sale with gross unrealized gains and losses therein:

	December 31, 2018			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(Dollars in thousands)			
Available-for-sale:				
Mortgage-backed securities-U.S. Government Sponsored Enterprises (GSEs)	$ 46,954	$ 129	$ (611)	$ 46,472
Obligations of state and political subdivisions	45,387	113	(291)	45,209
Total	$ 92,341	$ 242	$ (902)	$ 91,681

	December 31, 2017			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(Dollars in thousands)			
Available-for-sale:				
Mortgage-backed securities-U.S. Government Sponsored Enterprises (GSEs)	$ 53,943	$ 240	$ (412)	$ 53,771
Obligations of state and political subdivisions	47,692	333	(52)	47,973
Total	$ 101,635	$ 573	$ (464)	$ 101,744

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, 2018 are as follows:

	Less than 12 Months		More than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(Dollars in thousands)					
Mortgage-backed securities-U.S. Government Sponsored Enterprises (GSEs)	$ 4,289	$ (18)	$ 34,869	$ (593)	$ 39,158	$ (611)
Obligations of state and political subdivisions	12,602	(137)	7,893	(154)	20,495	(291)
Total	$ 16,891	$ (155)	$ 42,762	$ (747)	$ 59,653	$ (902)

The Bank of Princeton

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 3 – Investment Securities

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, 2017 are as follows:

	Less than 12 Months		More than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(Dollars in thousands)					
Mortgage-backed securities-U.S. Government Sponsored Enterprises (GSEs)	$ 40,268	$ (303)	$ 5,115	$ (109)	$ 45,383	$ (412)
Obligations of state and political subdivisions	8,529	(48)	878	(4)	9,407	(52)
Total	$ 48,797	$ (351)	$ 5,993	$ (113)	$ 54,790	$ (464)

At December 31, 2018, there were 65 securities in the more-than-twelve-months category and 42 securities in the less-than twelve-month category for the securities available-for-sale portfolio. Included in the 65 securities in the twelve-months-or-more category are 47 mortgage-backed securities and 18 municipal debt obligations. Included in the 42 securities in the less-than twelve-month category are 14 mortgage-backed securities and 28 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, 2018 and 2017.

At December 31, 2017, there were ten securities in the more-than-twelve-months category and 65 securities in the less-than twelve-month category for the securities available-for-sale portfolio. Included in the ten securities in the twelve-months-or-more category are mortgage-backed securities and two municipal debt obligations. Included in the 65 securities in the less-than twelve-month category are 43 mortgage-backed securities and 19 municipal debt obligations.

The amortized cost and estimated fair value of securities available-for-sale at December 31, 2018 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
	(Dollars in thousands)	
Due in one year or less	$ 251	$ 253
Due after one year through five years	11,823	11,812
Due after five years through ten years	50,426	50,161
Due after ten years	29,841	29,455
Total	$ 92,341	$ 91,681

Note 3 – Investment Securities (Continued)

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

	December 31, 2018			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(Dollars in thousands)			
Held-to-maturity:				
Mortgage-backed securities-U.S. Government Sponsored Enterprises (GSEs)	$ 228	$ 8	$ -	$ 236

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

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

	December 31, 2017			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(Dollars in thousands)			
Held-to-maturity:				
Mortgage-backed securities-U.S. Government Sponsored Enterprises (GSEs)	$ 264	$ 16	$ -	$ 280

There were no sales of securities available-for-sale for the twelve months ended December 31, 2018. Proceeds from the calls and maturities of securities available-for-sale amounted to $5.5 million for the twelve months ended December 31, 2018, which included approximately $1 thousand in gross realized gains. Proceeds from the sale of securities available-for-sale amounted to $554,000 for the year ended December 31, 2017, which included a gross realized gains of approximately $14,000. Proceeds from the sale of securities available-for-sale amounted to $10.3 million for the year ended December 31, 2016, which included a gross realized gains of approximately $136,000 and no realized losses.

There are no Securities pledged as collateral for NJ Governmental Unit Deposit Protection Act ("GUDPA") deposits at December 31, 2018. Securities available-for-sale with fair values of approximately $55.7 million and securities held-to-maturity with fair values of approximately $264,000 were pledged as collateral for NJ Governmental Unit Deposit Protection Act ("GUDPA") deposits at December 31, 2017.

Note 4 – Loans Receivable

Loans receivable, net were comprised of the following:

	December 31, 2018	December 31, 2017
	(Dollars in thousands)	
Commercial real estate	$ 729,336	$ 634,768
Commercial and industrial	71,838	59,636
Construction	161,275	183,375
Residential first-lien mortgage	102,008	73,505
Home equity	17,048	20,551
Consumer	1,987	447
Total loans	1,083,492	972,282
Deferred fees and costs	(2,313)	(2,335)
Allowance for loan losses	(11,944)	(11,591)
Loans, net	$ 1,069,235	$ 958,356

During 2018, approximately $57.4 million of loans were purchase at a premium of $67,000.

The following table presents nonaccrual loans by segment of the loan portfolio:

	December 31, 2018	December 31, 2017
	(Dollars in thousands)	
Commercial real estate	$ 2,968	$ 7,589
Commercial and industrial	2,196	18
Construction	487	1,592
Home equity	48	-
Total	$ 5,699	$ 9,199

Note 4 – Loans Receivable (Continue)

The following table summarizes information in regard 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, 2018 and the year then ended:

	Unpaid Principal Balance	Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized
			(Dollars in thousands)		
With no related allowance recorded:					
Commercial real estate	$ 6,763	6,811	$ -	$ 6,821	$ 429
Commercial and industrial	615	599	-	417	48
Construction	-	-	-	1,176	-
Residential first-lien mortgage	630	633	-	638	17
Home equity	246	247	-	276	16
Consumer	-	-	-	-	-
Total	8,254	8,290	-	9,328	510
With an allowance recorded:					
Commercial real estate	3,496	3,356	319	3,220	72
Commercial and industrial	2,325	2,325	640	2,159	64
Construction	487	487	211	163	15
Residential first-lien mortgage	-	-	-	-	-
Home equity	-	-	-	-	-
Consumer	-	-	-	-	-
Total	6,308	6,168	1,170	5,542	151
Total:					
Commercial real estate	10,259	10,167	319	10,041	501
Commercial and industrial	2,940	2,924	640	2,576	112
Construction	487	487	211	1,339	15
Residential first-lien mortgage	630	633	-	638	17
Home equity	246	247	-	276	16
Consumer	-	-	-	-	-
Total	$ 14,562	$ 14,458	$ 1,170	$ 14,870	$ 661

Note 4 – Loans Receivable (Continued)

The following table summarizes information in regard 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, 2017 and the year then ended:

	Unpaid Principal Balance	Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized
			(Dollars in thousands)		
With no related allowance recorded:					
Commercial real estate	$ 13,651	11,704	$ -	$ 8,452	$ 517
Commercial and industrial	718	494	-	1,983	49
Construction	-	-	-	-	-
Residential first-lien mortgage	644	645	-	652	15
Home equity	319	320	-	530	32
Consumer	-	-	-	-	-
Total	15,332	13,163	-	11,617	613
With an allowance recorded:					
Commercial real estate	146	147	3	148	8
Commercial and industrial	1,960	1,967	198	948	100
Construction	1,612	1,592	95	1,618	-
Residential first-lien mortgage	-	-	-	-	-
Home equity	-	-	-	-	-
Consumer	-	-	-	-	-
Total	3,718	3,706	296	2,714	108
Total:					
Commercial real estate	13,797	11,851	3	8,600	525
Commercial and industrial	2,678	2,461	198	2,931	149
Construction	1,612	1,592	95	1,618	-
Residential first-lien mortgage	644	645	-	652	15
Home equity	319	320	-	530	32
Consumer	-	-	-	-	-
Total	$ 19,050	$ 16,869	$ 296	$ 14,331	$ 721

Note 4 – Loans Receivable (Continued)

The following table summarizes information in regard 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
			(Dollars 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 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, 2018:

	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
				(Dollars in thousands)			
Commercial real estate	$ 15,590	$ 7,118	$ 2,844	$ 25,552	$ 703,784	$ 729,336	$ -
Commercial and industrial	250	1,083	2,196	3,529	68,309	71,838	-
Construction	-	-	487	487	160,788	161,275	-
Residential first-lien mortgage	602	-	-	602	101,406	102,008	-
Home equity	-	-	48	48	17,000	17,048	-
Consumer	-	-	-	-	1,987	1,987	-
Total	$ 16,442	$ 8,201	$ 5,575	$ 30,218	$ 1,053,274	$ 1,083,492	$ -

The following table presents the segments of the loan portfolio summarized by the past due status as of December 31, 2017:

	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
				(Dollars in thousands)			
Commercial real estate	$ 970	$ 271	$ 7,589	$ 8,830	$ 625,938	$ 634,768	$ -
Commercial and industrial	-	-	18	18	59,618	59,636	-
Construction	-	-	1,592	1,592	181,783	183,375	-
Residential first-lien mortgage	1,217	-	-	1,217	72,288	73,505	-
Home equity	-	-	-	-	20,551	20,551	-
Consumer	-	1	-	1	446	447	-
Total	$ 2,187	$ 272	$ 9,199	$ 11,658	$ 960,624	$ 972,282	$ -

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, 2018:

	Pass	Special Mention	Substandard	Doubtful	Total
			(Dollars in thousands)		
Commercial real estate	$ 705,333	$ 14,079	$ 9,924	$ -	$ 729,336
Commercial and industrial	67,170	2,223	2,445	-	71,838
Construction	157,641	3,147	487	-	161,275
Residential first-lien mortgage	101,847	-	161	-	102,008
Home equity	17,000	-	48	-	17,048
Consumer	1,987	-	-	-	1,987
Total	$ 1,050,978	$ 19,449	$ 13,065	$ -	$ 1,083,492

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, 2017:

	Pass	Special Mention	Substandard	Doubtful	Total
			(Dollars in thousands)		
Commercial real estate	$ 619,476	$ 7,608	$ 7,684	$ -	$ 634,768
Commercial and industrial	53,875	3,847	1,914	-	59,636
Construction	181,783	-	1,592	-	183,375
Residential first-lien mortgage	73,340	-	165	-	73,505
Home equity	20,551	-	-	-	20,551
Consumer	447	-	-	-	447
Total	$ 949,472	$ 11,455	$ 11,355	$ -	$ 972,282

Allowance for loan losses on loans receivables at and for the year ended December 31, 2018:

	Commercial real estate	Commercial and industrial	Construction	Residential first-lien mortgage	Home equity	Consumer	Unallocated	Total
				(Dollars in thousands)				
Allowance for loan losses:								
Beginning balance	$ 6,240	$ 957	$ 3,077	$ 461	$ 144	$ 3	$ 709	$ 11,591
Provisions (credit)	1,156	335	(993)	107	(46)	8	98	665
Charge-offs	(216)	(30)	(225)	-	(3)	-	-	(474)
Recoveries	28	134	-	-	-	-	-	162
Ending Balance	$ 7,208	$ 1,396	$ 1,859	$ 568	$ 95	$ 11	$ 807	$ 11,944
Ending Balance:								
Individually evaluated for impairment	$ 319	$ 640	$ 211	$ -	$ -	$ -	$ -	$ 1,170
Collectively evaluated for impairment	$ 6,889	$ 756	$ 1,648	$ 568	$ 95	$ 11	$ 807	$ 10,774

Recorded investment in loans receivables at December 31, 2018:

	Commercial real estate	Commercial and industrial	Construction	Residential first-lien mortgage	Home equity	Consumer	Unallocated	Total
Loans:								
Ending Balance:								
Individually evaluated for impairment	$ 10,167	$ 2,924	$ 487	$ 633	$ 247	$ -	$ -	$ 14,458
Collectively evaluated for impairment	719,169	68,914	160,788	101,375	16,801	1,987	-	1,069,034
Ending Balance	$ 729,336	$ 71,838	$ 161,275	$ 102,008	$ 17,048	$ 1,987	$ -	$ 1,083,492

Note 4 – Loans Receivable (Continued)

Allowance for loan losses on loans receivables at and for the year ended December 31, 2017:

	Commercial real estate	Commercial and industrial	Construction	Residential first-lien mortgage	Home equity	Consumer	Unallocated	Total
				(Dollars in thousands)				
Allowance for loan losses:								
Beginning balance	$ 5,330	$ 974	$ 3,159	$ 404	$ 155	$ 3	$ 797	$ 10,822
Provisions (credits)	3,220	673	(86)	57	(11)	-	(88)	3,765
Charge-offs	(2,310)	(730)	-	-	-	-	-	(3,040)
Recoveries	-	40	4	-	-	-	-	44
Ending Balance	$ 6,240	$ 957	$ 3,077	$ 461	$ 144	$ 3	$ 709	$ 11,591
Ending Balance:								
Individually evaluated for impairment	$ 3	$ 198	$ 95	$ -	$ -	$ -	$ -	$ 296
Collectively evaluated for impairment	$ 6,237	$ 759	$ 2,982	$ 461	$ 144	$ 3	$ 709	$ 11,295

Recorded investment in loans receivables at December 31, 2017:

	Commercial real estate	Commercial and industrial	Construction	Residential first-lien mortgage	Home equity	Consumer	Unallocated	Total
Loans:								
Ending Balance:								
Individually evaluated for impairment	$ 11,851	$ 2,461	$ 1,592	$ 645	$ 320	$ -	$ -	$ 16,869
Collectively evaluated for impairment	622,917	57,175	281,459	72,860	20,231	447	-	1,055,089
Ending Balance	$ 634,768	$ 59,636	$ 283,051	$ 73,505	$ 20,551	$ 447	$ -	$ 1,071,958

At December 31, 2018, seven loans totaling $1.3 million were considered troubled debt restructurings and classified as impaired. Troubled debt restructurings of $1.3 million consisting of two commercial and industrial loans totaling $475 thousand, three commercial real estate loans totaling $144 thousand, one residential first-lien mortgage for $469 thousand and a $198 thousand HELOC loan were performing in accordance with their modified terms at December 31, 2018. There were no loans on non-accrual status as of December 31, 2018.

At December 31, 2017, 11 loans totaling $6.4 million were considered troubled debt restructurings and classified as impaired. Troubled debt restructurings of $4.8 million consisting of three commercial and industrial loans totaling $538 thousand, four commercial real estate loans totaling $3.5 million, one residential first-lien mortgage for $479 thousand and two HELOC loan totaling $319 thousand were performing in accordance with their modified terms at December 31, 2017. The remaining loan in the amount of $1.6 million was a construction loan on non-accrual status as of December 31, 2017.

Note 4 – Loans Receivable (Continued)

The following table summarizes information with regards to new troubled debt restructurings for the year ended December 31, 2018 (Dollars in thousands):

	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Troubled debt restructurings:			
Commercial and industrial	1	$ 443	$ 443

As indicated above, the Bank modified a loan during the year ended December 31, 2018 that constituted troubled debt restructuring, due to concerns over the borrower's cash flow. In modifying the commercial and industrial loan, the Bank agreed to extend the maturity and changed the payment to interest only. Troubled debt restructurings are impaired loans and therefore, in accordance with the Bank's policy, are individually evaluated for impairment. As of December 31, 2018 there was no specific allowance on these modified loans.

No loans classified as troubled debt restructurings had a payment default during 2018.

The following table summarizes information with regard to new troubled debt restructurings for the year ended December 31, 2017 (Dollars in thousands):

	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Troubled debt restructurings:			
Commercial and industrial	1	$ 40	$ 40

As indicated above, the Bank modified a loan during the year ended December 31, 2017 that constituted troubled debt restructuring, due to concerns over the borrower's cash flow. In modifying the commercial and industrial loan, the Bank agreed to reduce the interest rate and extend the maturity. Troubled debt restructurings are impaired loans and therefore, in accordance with the Bank's policy, are individually evaluated for impairment. As of December 31, 2017 there was no specific allowance on these modified loans.

No loans classified as troubled debt restructurings had a payment default during 2017.

Note 4 – Loans Receivable (Continued)

Loans to Related Party. Included in total loans are loans due from directors and other related parties of $9.5 million and $8.3 million at December 31, 2018 and 2017. 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 confirms that collateral requirements, terms and rates are comparable to other borrowers and are in compliance with underwriting policies prior to approving loans to individual directors. The following presents the activity in amount due from directors and other related parties for the years ended December 31, 2018 and 2017.

(Dollars in thousands)	2018	2017
Outstanding related party loans at January 1,	$ 8,287	$ 5,516
New loans	1,500	3,806
Repayments	(311)	(1,035)
Outstanding related party loans at December 31,	$ 9,476	$ 8,287

No loans to related parties were nonaccrual, past due, restructured or potential problems at December 31, 2018 and 2017.

Note 5 – Premises and Equipment

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

	Estimated useful lives	2018	2017
Land	N/A	$ 410	$ 410
Buildings	40 Yrs.	1,714	1,714
Leasehold improvements	10 Yrs.	5,487	5,459
Furniture, fixtures and equipment	3-7 Yrs.	4,464	4,190
Construction in progress		658	
Total before accumulated depreciation and amortization		12,733	11,773
Accumulated depreciation and amortization		(8,532)	(7,894)
Total		$ 4,201	$ 3,879

Note 6 – Deposits

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

	2018	2017
Demand, non-interest-bearing checking	$ 102,678	$ 100,633
Demand, interest-bearing	151,042	282,076
Savings	94,789	105,475
Money market	286,457	246,898
Time deposits, $250,000 and over	104,104	110,085
Time deposits, other	268,177	183,501
Total	$ 1,007,247	$ 1,028,668

Money market accounts totaling $21.9 million and $16.8 million at December 31, 2018 and 2017, respectively were originated through brokers.

Note 6 – Deposits (Continued)

At December 31, 2018, the scheduled maturities of certificates of deposit were as follows (Dollars in thousands):

	Amounts
2019	$ 193,983
2020	103,339
2021	54,477
2022	13,079
2023	7,403
Total	$ 372,281

The Bank's time deposits of $100,000 or more represent 16.0% of total deposits at December 31, 2018 and are include in the table above. Approximately $72.0 million and $38.8 million at December 31, 2018 and 2017, respectively were originated through brokers.

Related party deposits were approximately $3.7 million and $2.8 million at December 31, 2018 and 2017 respectively.

Deposit overdrafts reclassified as loan balances were $1.2 million and $78,000 at December 31, 2018 and 2017, respectively.

Note 7 – 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. The FHLB-NY has non-specific blanket collateral on the Bank's loan portfolio as of December 31, 2018 and 2017.

The following table presents the Bank's borrowings at December 31 (Dollars in thousands):

	2018	2017
FHLB-NY overnight advances (rate of 2.60% at December 31, 2018)	$ 55,400	$ -
Total borrowings	$ 55,400	$ -

At December 31, 2018, the Bank has a maximum borrowing capacity with the FHLB-NY, subject to certain collateral restrictions, of $295.4 million, with $180.0 million available. The Bank is also a shareholder in Atlantic Community Bancshares, Inc., the holding company of ACBB. As of December 31, 2018, 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, 2018.

Note 8 – 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 (Dollars in thousands):

2019	$ 1,804
2020	1,817
2021	1,471
2022	730
2023	554
Thereafter	77
Total	$ 6,453

Rental expense for the years ended December 31, 2018, 2017 and 2016 was $1.7 million, $1.7 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 $293,000, $325,000 and $312,000 were made to this related party in each of the years ended December 31, 2018, 2017 and 2016, 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 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 are written 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.

Note 8 – Commitments and Contingencies (Continued)

The current amount of the liability as of December 31, 2018 and 2017 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 (Dollars in thousands):

	2018	2017
Performance and standby letters of credit	$ 2,342	$ 2,377
Undisbursed loans-in-process	74,086	99,676
Commitments to fund loans	16,085	18,920
Unfunded commitments under lines of credit	6,011	8,165
Total	$ 98,524	$ 129,138

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 9 – Income Taxes

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

	2018	2017	2016
		(Dollars in thousands)	
Current tax expense:			
Federal	$5,917	($892)	$4,162
State	325	4	279
Total Current	6,242	(888)	4,441
Deferred income tax benefit:			
Federal	(3,167)	4,699	(66)
State	(75)	38	86
Total deferred	(3,242)	4,737	20
Total income tax expenses	$3,000	$3,849	$4,461

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:

	2018	2017
	(Dollars in thousands)	
Deferred tax assets:		
Allowance for loan losses	$ 3,148	$ 3,091
Net operating loss carry-forwards	561	779
Organizational costs	86	117
Unrealized loss on securities	175	-
Subsequent write down OREO	36	-
Premises and equipment	173	167
Other	463	455
Total deferred tax assets	4,642	4,609
Deferred tax liabilities:		
Deferred loan costs	(366)	(358)
Unrealized gains on securities	-	(42)
Deferred REIT income	-	(3,387)
Acquisition accounting adjustments	(8)	(13)
Total deferred tax liabilities	(374)	(3,800)
Net deferred tax asset	$ 4,268	$ 809

Note 9 – Income Taxes (Continued)

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

	2018		2017		2016	
	Amount	Rate	Amount	Rate	Amount	Rate
			(Dollars in thousands)			
Federal income tax expense at statutory rate	$3,719	21.0%	$5,043	34.0%	$5,543	34.0%
Increases (reduction) in taxes resulting from:						
State income taxes, net of federal benefit	198	1.1	28	0.2	241	1.5
Tax-exempt income, net	(853)	(4.8)	(1,444)	(9.8)	(1,515)	(9.3)
Excise tax on deferred income (REIT)	-	-	517	3.5	-	-
Incentive stock options	(98)	(0.6)	(267)	(1.8)	-	-
Non-deductible expenses	11	0.1	12	0.1	213	1.3
Other	23	0.1	(40)	(0.3)	(21)	(0.1)
Total income taxes applicable to pre-tax income	$3,000	16.9%	$3,849	25.9%	$4,461	27.4%

The Tax Cuts and Jobs Act ("Act") was enacted on December 22, 2017. The Act reduced the U.S. federal corporate tax rate from 35.0% to 21.0% for years beginning on or after January 1, 2018. The provision amount to income tax expense was $40,000, which was related to the remeasurement of the Bank's deferred tax balance.

The Bank had available federal net operating loss carry-forwards of approximately $2.7 million and $3.1 million at December 31, 2018 and 2017, respectively, 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.

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.

On July 1, 2018, New Jersey enacted legislation which adds to the state's 9.0% Corporation Business Tax rate (i) a 2.5% surtax for periods beginning in 2018 and 2019 and (ii) a 1.5% surtax for periods beginning in 2020 and 2021. These surtaxes apply to corporations with more than $1 million of net income allocated to New Jersey and expire beginning in 2022. Also, for periods beginning in 2017, New Jersey has reduced the dividends-received deduction from 100% to 95% for certain dividend income received by a corporation from a subsidiary that is at least 80% owned by the corporation. Effective in 2019, New Jersey has adopted combined income tax reporting for certain members of a commonly-controlled unitary business group. These changes will increase the Company's New Jersey state income tax expense in future periods, and we are currently evaluating how these changes will impact the Bank's taxes.

Note 10 – Revenue Recognition

The adoption of ASU No. 2014-09 *"Revenue from Contracts with Customers" (Topic 606)* did not have a material impact on the measurement or recognition of revenue; as such, a cumulative effect adjustment to opening retained earnings was not deemed necessary. Results for reporting periods beginning after January 1, 2018 are presented under Topic 606, while prior period amounts were not adjusted and continue to be reported in accordance with our historic accounting under Topic 605.

Topic 606 does not apply to revenue associated with financial instruments, including revenue from loans and securities. In addition, certain non-interest income streams such as fees associated with mortgage servicing rights, financial guarantees, derivatives, and certain credit card fees are also not in scope of the new guidance. Topic 606 is applicable to non-interest revenue streams such as deposit related fees and interchange fees. However, the recognition of these revenue streams did not

Note 10 – Revenue Recognition (Continued)

change significantly upon adoption of Topic 606. Substantially all of the Bank's revenue is generated from contracts with customers. Non-interest revenue streams in-scope of Topic 606 are discussed below.

Service charges on deposit accounts consist of account analysis fees (i.e., net fees earned on analyzed business and public checking accounts), monthly service fees, check orders, and other deposit account related fees. The Bank's performance obligation for account analysis fees and monthly service fees is generally satisfied, and the related revenue recognized, over the period in which the service is provided. Check orders and other deposit account related fees are largely transactional based, and therefore, the Bank's performance obligation is satisfied, and related revenue recognized, at a point in time. Payment for service charges on deposit accounts is primarily received immediately or in the following month through a direct charge to customers' accounts.

Fees, exchange, and other service charges are primarily comprised of debit and credit card income, ATM fees, merchant services income, and other service charges. Debit and credit card income is primarily comprised of net interchange fees earned whenever the Banks's debit and credit cards are processed through card payment networks such as Visa. ATM fees are primarily generated when a cardholder uses a non-Bank ATM or a non-Bank cardholder uses a Bank ATM. Merchant services income mainly represents fees charged to merchants to process their debit and credit card transactions, in addition to account management fees. Other service charges include revenue from processing wire transfers, bill pay service, cashier's checks, and other services. The Bank's performance obligation for fees, exchange, and other service charges are largely satisfied, and related revenue recognized, when the services are rendered or upon completion. Payment is typically received immediately or in the following month.

The following presents non-interest income, segregated by revenue streams in-scope and out-of-scope of Topic 606, for the twelve months ended December 31, 2018 and 2017 (Dollars in thousands).

	Twelve Months Ended December 31,	
	2018	2017
Non-interest Income		
In-scope of Topic 606		
Service charges on deposit accounts	$ 542	$ 542
Fees and charges on deposit accounts	71	87
Other	68	38
Non-interest income (in-scope of Topic 606)	681	667
Non-interest income (out-of-scope of Topic 606)	1,981	2,163
Total Non-interest Income	$ 2,662	$ 2,830

Note 11 – 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.

Note 11 – Fair Value Measurements and Disclosure (Continued)

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

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

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

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

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

For financial assets measured at fair value on a recurring basis, the fair value measurements by level within the fair value hierarchy used at December 31, 2018 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, 2018
	(Dollars in thousands)			
Mortgage-backed securities-U.S. Government Sponsored Enterprises (GSEs)	$ -	$ 46,472	$ -	$ 46,472
Obligations of state and political subdivisions	-	45,209	-	45,209
Securities available-for-sale at fair value	$ -	$ 91,681	$ -	$ 91,681

Note 11 – 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, 2017 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, 2017
	(Dollars in thousands)			
Mortgage-backed securities-U.S. Government Sponsored Enterprises (GSEs)	$ -	$ 53,771	$ -	$ 53,771
Obligations of state and political subdivisions	-	47,973	-	47,973
Securities available-for-sale at fair value	$ -	$ 101,744	$ -	$ 101,744

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, 2018, 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, 2018
	(Dollars in thousands)			
Impaired loans	$ -	$ -	$ 4,998	$ 4,998
Other real estate owned	-	-	44	44
	$ -	$ -	$ 5,042	$ 5,042

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, 2017, 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, 2017
	(Dollars in thousands)			
Impaired loans	$ -	$ -	$ 3,410	$ 3,410
Other real estate owned	-	-	802	802
	$ -	$ -	$ 4,212	$ 4,212

The following table presents quantitative information with regards to Level 3 fair value measurements at December 31, 2018.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 11 – Fair Value Measurements and Disclosure (Continued)

Description	Fair Value at December 31, 2018	Valuation Technique	Unobservable Input	Range (Weighted Average)
	(Dollars in thousands)			
Impaired loans	$ 144	Cash flows[1]	Discount adjustment	6.9%-7.0% (6.9%)
Impaired loan	$ 4,854	Collateral[2]	Discount adjustment	0.0%-32.85% (10.83%)
Other real estate owned	$ 44	Appraisal of collateral[2]	Discount adjustment	6.0% (6.%)

[1] Fair value for these impaired loans was generally determined through calculating the present value of future cash flows.
[2] Fair value is generally determined through independent appraisal of the underlying collateral, primarily using comparable sales.

The following table presents quantitative information with regards to Level 3 fair value measurements at December 31, 2017.

Description	Fair Value at December 31, 2017	Valuation Technique	Unobservable Input	Range (Weighted Average)
	(Dollars in thousands)			
Impaired loans	$ 1,524	Cash flows[1]	Discount adjustment	6.9%-7.0% (6.9%)
Impaired loan	$ 1,886	Collateral[2]	Discount adjustment	10.17% (10.17%)
Other real estate owned	$ 802	Appraisal of collateral[3]	Discount adjustment[4]	6.1%-8.0% (6.3%)

[1] Fair value for these impaired loans was generally determined through calculating the present value of future cash flows.
[2] Fair value for this loan was determined by trade price noted on Bloomberg during December 2017.
[3] Fair value is generally determined through independent appraisal of the underlying collateral, primarily using comparable sales.
[4] Appraisals may be adjusted by management for qualitative factors, such as economic conditions and estimated liquidation expense.

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

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 11 – Fair Value Measurements and Disclosure (Continued)

Impaired loans (generally carried at fair value)

Impaired loans carried at fair value are those impaired loans in which the Bank has measured impairment generally based on the fair value of the related loan's collateral. Fair value is generally determined based upon independent third-party appraisals of the properties, or discounted cash flows based upon the expected proceeds, 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.

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.

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

	December 31, 2018				
	Carrying Amount	Estimated Fair Value	Level 1	Level 2	Level 3
	(Dollars in thousands)				
Financial assets:					
Cash and cash equivalents	$ 26,384	$ 26,384	$ 26,384	$ -	$ -
Securities available-for-sale at fair value	92,341	91,681	-	91,681	-
Securities held-to-maturity	228	236	-	236	-
Loans receivable, net	1,069,235	1,074,741	-	-	1,074,741
Restricted investments in bank stocks	3,574	3,574	-	3,574	-
Accrued interest receivable	3,734	3,734	-	3,734	-
Financial liabilities:					
Deposits	1,007,247	990,559	-	990,559	-
Borrowings	55,400	55,403		55,403	
Accrued interest payable	$ 2,198	$ 2,198	$ -	$ 2,198	$ -

Note 11 – Fair Value Measurements and Disclosure (Continued)

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

	December 31, 2017				
	Carrying Amount	Estimated Fair Value	Level 1	Level 2	Level 3
	(Dollars in thousands)				
Financial assets:					
Cash and cash equivalents	$ 82,822	$ 82,822	$ 82,822	$ -	$ -
Securities available-for-sale at fair value	101,744	101,744	-	101,744	-
Securities held-to-maturity	264	280	-	280	-
Loans receivable, net	958,356	966,169	-	-	966,169
Restricted investments in bank stocks	978	978	-	978	-
Accrued interest receivable	3,508	3,508	-	3,508	-
Financial liabilities:					
Deposits	1,028,668	1,022,031	-	1,022,031	-
Accrued interest payable	$ 1,591	$ 1,591	$ -	$ 1,591	$ -

Limitations

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

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

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

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

Note 12 – 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 which expired in 2017 enabled the warrant holder to purchase one (1) share of common stock at $10.00 per share for each warrant exercised. During 2017, 68,250 organizer warrants were exercised and the remaining 3,750 organizer warrants expired.

Note 12 – Stock-Based Compensation (Continued)

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. 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, 2018, under the MoreBank 2004 Incentive Equity Compensation Plan had the remaining 2,000 options expired.

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, 2018 there were 36,338 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.

In 2018, the Bank adopted The Bank of Princeton 2018 Equity Incentive Plan (the "2018 Plan"), which was approved by our board of directors in February 2018 and by our stockholders in May 2018. The 2018 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 2018 Plan authorizes up to 328,910 shares of common stock. As of December 31, 2018, no shares have been granted in from this plan.

The Bank adopted The Bank of Princeton 2018 Director Fee Plan ("Plan") which was approved at the Annual Meeting of Stockholders held on April 24, 2018. The Plan allows non-employee board of directors to elect to receive up to 100% of their annual compensation in the form of Bank common stock. The Plan authorizes up to 150,000 shares of common stock. As of December 31, 2018, 6,430 shares of common stock were issued.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 12 – Stock-Based Compensation (Continued)

The following is a summary of the status of the Bank's stock option activity and related information for the year ended December 31, 2018:

	Number of Stock Options / Warrants	Weighted Avg. Exercise Price	Weighted Avg. Remaining Contractual Life	Aggregate Intrinsic Value
Balance at January 1, 2018	624,527	$ 16.50		
Granted	70,875	$ 32.69		
Exercised	(97,850)	$ 14.02		
Forfeited	(6,150)	$ 24.57		
Expired	(13,250)	$ 23.91		
Balance at December 31, 2018	578,152	$ 18.72	5.58 years	$ 5,809,749
Exercisable at December 31, 2018	462,616	$ 16.22	4.48 years	$ 5,537,840

The fair value of the 2018 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	19.39%
Forfeiture rate	4.00%
Dividend yield	0.00%
Risk-free interest rate	2.65%
Fair value	$ 8.39

The expected life of stock options granted is generally derived from historical experience. Expected volatilities are general based on the average of three peers' historical volatilities due to the banks limited liquidity in the open market. The Bank uses an estimated forfeiture rate due to limited historical data. At the time of the grant, the Bank had not declared any cash dividend therefore no dividend yield was used. The risk-free rate for periods within the contractual term of the share option is based on the U.S. Treasury for a comparable term.

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, 2017:

	Number of Stock Options / Warrants	Weighted Avg. Exercise Price	Weighted Avg. Remaining Contractual Life	Aggregate Intrinsic Value
Balance at January 1, 2017	728,553	$ 14.74		
Granted	43,875	$ 32.00		
Exercised	(125,334)	$ 11.64		
Forfeited	(16,100)	$ 18.86		
Expired	(6,467)	$ 12.25		
Balance at December 31, 2017	624,527	$ 16.50	5.9 years	$ 11,144,316
Exercisable at December 31, 2017	517,017	$ 15.05	5.42 years	$ 9,973,449

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 12 – Stock-Based Compensation (Continued)

The fair value of the 2017 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	30.97%
Forfeiture rate	2.75%
Dividend yield	0.00%
Risk-free interest rate	2.28%
Fair value	$ 11.03

The expected life of stock options granted is generally derived from historical experience. Expected volatilities are general based on the average of a small sample of peers' historical volatilities due to the banks limited liquidity in the open market. The Bank uses an estimated forfeiture rate due to limited historical data. At the time of the grant, the Bank had not declared any cash dividend therefore no dividend yield was used. The risk-free rate for periods within the contractual term of the share option is based on the U.S. Treasury for a comparable term.

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 was 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

Stock option expenses included in salaries and employee benefits expense in the consolidated statements of income were $408,000, $392,000 and $469,000 for the years ended December 31, 2018, 2017 and 2016, respectively. A tax benefit was recognized of $87,000, $133,000 and $159,000 for the years ended December 31, 2018, 2017 and 2016, respectively. Stock option expenses recorded within other expenses were $86,000, $86,000 and $77,000 for the years ended December 31, 2018, 2017 and 2016, respectively. A tax benefit was recognized of $18,000, $45,000 and $54,000 for the years ended December 31, 2018, 2017 and 2016, respectively. At December 31, 2018, there was approximately $720,000 of unrecognized expense related to outstanding stock options, which will be recognized over a period of approximately 1.26 years.

Note 13 – 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 organizations 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 1.25% capital buffer requirement, as of December 31, 2018, in our minimum capital adequacy ratios in the table below. When fully phased-in on January 1, 2019, to comply with the capital buffer rules the Bank will be required to have a common equity Tier 1 capital ratio of at least 7.0%, a Tier 1 capital ratio of at least 8.5%, and a total capital ratio to 10.5%. Management believes that, as of December 31, 2018, 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 13 – Regulatory Matters (Continued)

The Bank's actual capital amounts and ratios at December 31, 2018 and 2017 are presented below (Dollars in thousands):

	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, 2018:						
Total capital (to risk-weighted assets)	$ 196,092	17.366%	$ 111,506	≥ 9.875%	$ 112,918	≥ 10.000%
Tier 1 capital (to risk-weighted assets)	$ 184,148	16.308%	$ 88,923	≥ 7.875%	$ 90,334	≥ 8.000%
Common equity tier 1 capital (to risk-weighted assets)	$ 184,148	16.308%	$ 71,985	≥ 6.375%	$ 73,396	≥ 6.500%
Tier 1 leverage capital (to average assets)	$ 184,148	14.894%	$ 72,640	≥ 5.875%	$ 61,821	≥ 5.000%
December 31, 2017:						
Total capital (to risk-weighted assets)	$ 178,740	17.120%	$ 96,601	≥ 9.25%	$ 104,433	≥ 10.000%
Tier 1 capital (to risk-weighted assets)	$ 167,149	16.010%	$ 70,231	≥ 7.25%	$ 83,547	≥ 8.000%
Common equity tier 1 capital (to risk-weighted assets)	$ 167,149	16.010%	$ 60,049	≥ 5.75%	$ 67,882	≥ 6.500%
Tier 1 leverage capital (to average assets)	$ 167,149	14.640%	$ 45,661	≥ 4.000%	$ 50,076	≥ 5.000%

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

Note 14 – Quarterly Financial Data (unaudited)

	Year Ended December 31, 2018			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	(Dollars in thousands, except for per share data)			
Interest and dividend income	$ 12,592	$ 13,457	$ 14,129	$ 14,187
Interest expense	2,697	3,190	3,588	3,881
Net Interest Income	9,985	10,267	10,541	10,306
Provision for loan losses	255	410	-	-
Net Interest Income after Provision for Loan Losses	9,640	9,857	10,541	10,306
Non-interest income	786	627	648	601
Non-interest expense	6,055	6,270	6,655	6,318
Income before Income Tax Expense	4,371	4,214	4,534	4,589
Income tax expense	790	579	830	801
Net Income	$ 3,581	$ 3,635	$ 3,704	$ 3,788
Earnings per common share				
Basic	$ 0.55	$ 0.55	$ 0.56	$ 0.57
Diluted	$ 0.52	$ 0.53	$ 0.54	$ 0.55

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 14 – Quarterly Financial Data (unaudited) (Continued)

	Year Ended December 31, 2017			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	(Dollars in thousands, except for per share data)			
Interest and dividend income	$ 11,322	$ 11,631	$ 12,229	$ 12,790
Interest expense	1,958	2,154	2,281	2,447
Net Interest Income	9,364	9,477	9,948	10,343
Provision for loan losses	-	-	850	2,915
Net Interest Income after Provision for Loan Losses	9,364	9,477	9,098	7,428
Non-interest income	364	519	1,147	800
Non-interest expense	5,960	6,039	5,842	5,493
Income before Income Tax Expense	3,768	3,957	4,403	2,735
Income tax expense	678	918	1,225	1,028
Net Income	$ 3,090	$ 3,039	$ 3,178	$ 1,707
Earnings per common share				
Basic	$ 0.66	$ 0.63	$ 0.45	$ 0.26
Diluted	$ 0.61	$ 0.60	$ 0.44	$ 0.25

The Bank of Princeton

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, 2017 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, 2017, 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 13a-15(e) promulgated under the Exchange Act) as of December 31, 2017. 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, 2018 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, the Bank's independent registered public accounting firm that audited the Bank's consolidated financial statements included in this Annual Report on Form 10-K, has issued a report on the effectiveness of the Company's internal control over financial reporting as of December 31, 2018, as stated in its report

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, 2018 that has materially affected, or is reasonably likely to materially affect, the Bank's internal control over financial reporting.

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information required by this Item is set forth under the headings, "ELECTION OF DIRECTORS," "EXECUTIVE OFFICERS AND COMPENSATION – Executive Officers," "SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE," "CODE OF CONDUCT," "BOARD OF DIRECTORS AND COMMITTEES" in the Bank's definitive proxy statement to be filed with the Federal Deposit Insurance Corporation not later than 120 days after December 31, 2018 in connection with the solicitation of proxies for its 2019 Annual Meeting of Stockholders and incorporated by reference.

Item 11. Executive Compensation

The information required by this Item is set forth under the headings, "ADVISORY VOTE TO APPROVE NAMED EXECUTIVE OFFICER COMPENSATION," "BOARD OF DIRECTORS AND COMMITTEES – Compensation Processes and Procedures," "EXECUTIVE OFFICERS AND COMPENSATION – Executive Compensation," "EQUITY COMPENSATION PLAN INFORMATION," "EXECUTIVE OFFICERS AND COMPENSATION – Employment Agreements," "BOARD OF DIRECTORS AND COMMITTEES - Compensation As It Relates to Risk Management," "EQUITY COMPENSATION PLAN INFORMATION - 2018 Compensation of Directors" in the Bank's definitive proxy statement to be filed with the Federal Deposit Insurance Corporation not later than 120 days after December 31, 2018 in connection with its 2019 Annual Meeting of Stockholders and incorporated by reference.

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

The information required by this Item is set forth under the headings, "EQUITY COMPENSATION PLAN INFORMATION," "EXECUTIVE OFFICERS AND COMPENSATION – Stock Option Plans," and "SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT", in the Bank's definitive proxy statement to be filed with the Federal Deposit Insurance Corporation not later than 120 days after December 31, 2018 in connection with its 2019 Annual Meeting of Stockholders and incorporated by reference

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

The information required by this Item is set forth under the headings, "CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS," "BOARD OF DIRECTORS AND COMMITTEES – Director Independence," in the Bank's definitive proxy statement to be filed with the Federal Deposit Insurance Corporation not later than 120 days after December 31, 2018 in connection with its 2019 Annual Meeting of Stockholders and incorporated by reference.

Item 14. Principal Accounting Fees and Services

The information required by this Item is set forth under the headings, "PROPOSAL TO RATIFY THE SELECTION OF BDO USA, LLP AS THE BANK'S INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR THE YEAR ENDING DECEMBER 31, 2019," in the Bank's definitive proxy statement to be filed with the Federal Deposit Insurance Corporation not later than 120 days after December 31, 2018 in connection with its 2019 Annual Meeting of Stockholders and incorporated by reference.

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 - "Financial Statements of Supplementary Data"
(b) of this Annual Report:

i. Consolidated Statements of Financial Condition as of December 31, 2018 and 2017

ii. Consolidated Statements of Income for the years ended December 31, 2018, 2017 and 2016

iii. Consolidated Statements of Comprehensive Income for the years ended December 31, 2018, 2017 and 2016

iv. Consolidated Statements of Changes in Stockholders' Equity for the years ended December 31, 2018, 2017 and 2016

v. Consolidated Statements of Cash Flows for the years ended December 31, 2018, 2017 and 2016

vi. Notes to Consolidated Financial Statements

(c) Financial Statement Schedules

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

(d) 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		Certificate of Incorporation, as amended.
3.2	(C)	Amended and Restated Bylaws
4.1	(A)	Specimen form of stock certificate.
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 for 2007 Stock Option Plan*
10.4		Form of Incentive Stock Option Agreement for 2012 Stock Option Plan*
10.5	(A)	Form of Nonqualified Stock Option Agreement for 2007 Stock Option Plan*
10.6		Form of Nonqualified Stock Option Agreement for 2012 Stock Option Plan*
10.7	(A)	MoreBank 2004 Incentive Equity Compensation Plan*
10.8	(A)	Form of Incentive Stock Option Agreement*
10.9	(A)	Form of Nonqualified Stock Option*
10.10	(A)	Form of Option for the Purchase of Shares of the Par Value of $1.00 Per Share of MoreBank*
10.11	(D)	Mutual Termination Agreement by and among Investors Bancorp, Inc., Investors Bank and the Bank, dated as of January 24, 2017
10.12	(E)	Employment Agreement between the Bank and Edward J. Dietzler dated as of December 6, 2018*
10.13	(E)	Employment Agreement between the Bank and Daniel J. O'Donnell dated as of December 6, 2018*
10.14	(G)	The Bank of Princeton Amended and Restated Equity 2018 Equity Incentive Plan*
10.15		Form of Incentive Stock Option Agreement*
10.16		Form of Incentive Stock Option Agreement*
10.17		

10.18	(H)	Branch Purchase and Assumption Agreement, dated February 2, 2019, between the Bank and Beneficial Bank (and its successor in interest)
10.19	(H)	Employment Agreement between the Bank and George S. Rapp dated as of January 25, 2019*
10.20	(F)	Employment Agreement between the Bank and Stephanie Adkins dated January 25, 2019*
10.21	(I)	Employment Agreement between the Bank and Christopher Tonkovich dated February 25, 2019*
		The Bank of Princeton 2018 Director Fee Plan*
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

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* 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 Exhibit 3.1 to registrant's Quarterly Report on Form 10-Q, filed with the Federal Deposit Insurance Corporation on August 10, 2017.

(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.

(E) Incorporated by reference to Exhibits 10.1 and 10.2 to registrant's Current Report on Form 8-K, filed with the Federal Deposit Insurance Corporation on December 7, 2018.

(F) Incorporated by reference to registrant's Current Report on Form 8-K filed with the Federal Deposit Insurance Corporation and dated February 25, 2019.

(G) Incorporated by reference to Exhibit 10.1 to registrant's Current Report on Form 8-K filed with the Federal Deposit Insurance Corporation and dated February 21, 2019.

(H) Incorporated by reference to Exhibits 10.1 and 10.2 to registrant's Current Report on Form 8-K filed with the Federal Deposit Insurance Corporation and dated January 25, 2019.

(I) Incorporated by reference to Exhibit B to registrant's proxy materials filed with the Federal Deposit Insurance Corporation on March 26, 2018.

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 March 20, 2019.

The Bank of Princeton

/s/Edward Dietzler

By: Edward Dietzler
President and Chief Executive Officer
(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 20, 2019
/s/ Stephen Distler Stephen Distler	Vice Chairman of the Board	March 20, 2019
/s/ Stephen Shueh Stephen Shueh	Director	March 20, 2019
/s/ Robert N. Ridolfi, Esq Robert N. Ridolfi, Esq	Director	March 20, 2019
/s/ Judith A. Giacin Judith A. Giacin	Director	March 20, 2019
Martin Tuchman	Director	
/s/ Ross Wishnick Ross Wishnick	Director	March 20, 2019
/s/Edward Dietzler Edward Dietzler	President, Chief Executive Officer, Director (Principal Executive Officer)	March 20, 2019
/s/ George S. Rapp George S. Rapp	Executive Vice President, Chief Financial Officer (Principal Financial and Accounting Officer)	March 20, 2019

EXHIBIT INDEX

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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

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: March 20, 2019

/s/Edward Dietzler
Edward Dietzler
President and Chief Executive Officer
(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: March 20, 2019

/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, 2018 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 and Chief Executive Officer
(Principal Executive Officer)

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

March 20, 2019

Who We Are
Board of Directors

Richard Gillespie
Chairman

Stephen A. Distler
Vice Chairman

Edward J. Dietzler
President
Chief Executive Officer

Ross E. Wishnick
Vice Chairman

Judith A. Giacin

Robert N. Ridolfi, Esq.

Stephen K. Shueh

Martin Tuchman

Who We Are

Executive Management

Edward J. Dietzler
President
Chief Executive Officer

Daniel J. O'Donnell
Executive Vice President
Chief Risk Officer
& General Counsel

George S. Rapp
Executive Vice President
Chief Financial Officer

Christopher M. Tonkovich
Executive Vice President
Chief Credit Officer

Stephanie M. Adkins
Executive Vice President
Chief Lending Officer

Established 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 eleven branch locations that serve Mercer, Hunterdon, Middlesex, Somerset, Monmouth and Ocean counties in New Jersey along with three branches in the Montgomery County and Philadelphia markets of Pennsylvania.

Today, The Bank of Princeton is comprised of fourteen branch locations and a comprehensive Operations Center headquartered in Princeton.

Marketing

Barbara A. Cromwell, *SVP*

Human Resources

Anna Maria Miller, *SVP*

Retail Administration

Debra L. Von Gonten, *VP*
Rose Russo, *AVP*

Information Technology

Matthew T. Clark, *VP*
Kyndle E. Alig, *AVP*

Operations, Compliance & Security

Karen D. Pfeifer, *SVP*
Vincent Auletta, *VP*
Angela Bancroft, *VP*
Keith R. Bietzel, *VP*
Ronnie Ra, *AVP*

Loan Administration

Karen A. Collier, *SVP*
David Geyer, *SVP*
Mary Beth Gorecki, *SVP*
Stephen R. Helhowski, *VP*
Michelle Goldstein, *VP*
Amela Muslic, *VP*
Stanley Plytynski, *VP*
Joseph H. Robotin, *VP*
Lana Tremblay, *VP*
Lukasz Gargas, *AVP*
Eleanor Velasquez, *AVP*
Denise Youn, *AVP*

Finance

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Edward P. Hassenkamp, *VP*

Commercial Lenders

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William McCoy, *SVP, New Brunswick*
Kris Muse, *SVP, Nassau Street*
Paul M. Bencivengo, *VP, Hamilton*
William McDowell, *VP, Pennington/Lambertville*
Michele Lewis Fleming, *AVP, Chambers Street*
Jennifer Yoo, *AVP, Cheltenham*

Market Managers

Henrry Polanco, *Bayard Lane*
Darshana Jadav, *Chambers Street*
Paul Sabol, *Nassau Street*
Roseanne Maresma, *Montgomery*
Rhoda Sundhar, *Pennington*
Nedgine Douge, *Hamilton*
Wendy J. Evans, *Monroe*
Amy Zuccarello, *Lambertville*
Miriam Colón, *New Brunswick*
Karin van Garderen, *Lawrenceville*
Jeralyn H. Lang, *Cream Ridge*
Esther Youngsoon Sim, *Cheltenham*
Sera Yu, *North Wales*
Sokha Eng, *Arch Street*

Incorporators

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Andrew M. Chon
Peter M. Crowley
Stephen A. 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

Bank Wisely.

"The greatness of a community is most accurately measured by the compassionate actions of its members."
– Coretta Scott King

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

Advancing Opportunities
Alzheimer's New Jersey
American Foundation for Suicide Prevention
American Heart Association
American Repertory Ballet: DANCE POWER
Arc of Hunterdon County, The
Arts Council of Princeton
Ben Franklin Elementary School
Big Brothers Big Sisters of Mercer County
Bridge Academy of New Jersey, The
Capital Health Foundation
Capital Region Minority Chamber of Commerce
CASA of New Jersey
Catholic Charities, Diocese of Trenton
Center for Educational Advancement
Chapin School
Children's Home Society of New Jersey, The
Christine's Hope for Kids Foundation
Communiversity
Corner House Foundation
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Delaware River Towns Chamber of Commerce & Visitors Bureau, The
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DoughMain Financial Literacy Foundation
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Elijah's Promise
Fal-Rooney Sports Camps & Events
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Friends of Ely Park
Friends of Hopewell Valley Open Space
Friends of Princeton Charter School
Gift of Life Donor Program
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HomeFront
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Hopewell Valley Arts Council
Hopewell Valley Education Foundation
Hopewell Valley Veterans Association
Hopewell Valley YMCA
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Hunterdon County YMCA
I Believe in Pink
Isles, Inc.
Jason Fuhr Memorial Charity Golf Tournament & Scholarship Fund
Jewish Center of Princeton, The
Jewish Family & Children's Service of Greater Mercer County
Joint Effort: Princeton Safe Streets Weekend
Kalmia Club, The
Kidsbridge
Korean American Association of Greater Philadelphia
Korean Community Center of Greater Princeton
Korean Senior Golf Association
Korean United Church of Philadelphia
Lambertville / New Hope Winter Festival
Lambertville Area Education Foundation
Lambertville Historical Society
Lambertville-West Amwell Youth Baseball & Softball Association
LaShir
Lawrence Township
Lawrence Township Education Foundation
Lawrenceville Main Street
Lawrenceville School Camps, The
Manna on Main Street
Mary Jacobs Library Foundation
Meals on Wheels of Mercer County
Mercer Council on Alcoholism & Drug Addiction
Mercer County CYO
Mercer County Hispanic Association
Mercer County Turkey Trot
Monroe Indians for Civil Action
Middlesex County Regional Chamber of Commerce
MidJersey Chamber of Commerce
Mid-Summer Marketing Showcase
Mil Al Mission
Montgomery / Rocky Hill Rotary Club
Montgomery Baseball League
Montgomery Basketball League
Montgomery Business Association
Montgomery High School: Cougar Football Club
Montgomery Township Economic Development Commission
Montgomery Township Education Foundation
Montgomery Township Fireworks Committee
Montgomery Woman's Club
Mount Carmel Guild of Trenton
Mount Olive Baptist Church
Music & Theatre Parents Association of Hopewell Valley Central High School
National Association for Korean Schools: Mid-Atlantic Chapter
National Eating Disorders Association
National Junior Tennis & Learning of Trenton
New Brunswick City Center
New Brunswick Domestic Violence Response Team
New Hope Film Festival
New Hope Historical Society
New Jersey Association of Community Providers
Notre Dame High School
Om Parikh Memorial Fund
Parents Anonymous of New Jersey, Inc.
Parkinson Alliance, The
Paul Robeson House, The
PEI Kids
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Princeton Area Alumni Association
Princeton Battlefield Society, The
Princeton Education Foundation
Princeton Family YMCA
Princeton Historical Society
Princeton Independent Film Festival
Princeton Little League
Princeton Merchants Association
Princeton Nursery School
Princeton Pro Musica
Princeton Public Library
Princeton Recreation Department
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Princeton Symphony Orchestra
Princeton University Summer Chamber Concerts
Puerto Rican Action Board
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Ryan's Quest
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San Felese Lodge
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Shad Festival
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Special Olympics NJ
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Thomas Edison State University Foundation
Town Clock Community Development Corporation
Trenton Catholic Academy
Trenton Circus Squad
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United Way of Hunterdon County
Unity Square: Trunk or Treat
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