



# The Bank of Princeton

## Corporate HQ Bayard Lane

183 Bayard Lane  
Princeton, NJ 08540  
609.874.7033

www.thebankofprinceton.com

Main: 609.921.1700

## Operations Center

403 Wall Street  
Princeton, NJ 08540

## New Jersey

### Bordentown

335 Farnsworth Avenue  
Bordentown, NJ 08505  
609.291.8200

### Browns Mills

101 Pemberton  
Browns Mills Road  
Browns Mills, NJ 08015  
609.893.5540

### Chambers St.

21 Chambers Street  
Princeton, NJ 08542  
609.921.6800

### Chesterfield

305 Bordentown—  
Chesterfield Road  
Chesterfield, NJ 08515  
609.324.1256

### Cream Ridge

403 Route 539  
Cream Ridge, NJ 08514  
609.757.1120

### Deptford

1895 Hurffville Road  
Sewell, NJ 08080  
856.227.9440

### Hamilton

339 Route 33  
Hamilton, NJ 08619  
609.584.0011

### Lakewood

12 America Avenue, 7B  
Lakewood, NJ 08701  
732.835.7320

### Lambertville

10 Bridge Street  
Lambertville, NJ 08530  
609.397.0333

### Lawrenceville

2999 Princeton Pike  
Lawrenceville, NJ 08648  
609.882.0500

### Monroe

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

### Montgomery

1185 Route 206 North  
Princeton, NJ 08540  
609.497.0500

### Nassau St.

194 Nassau Street  
Princeton, NJ 08542  
609.921.3311

### New Brunswick

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

### Pennington

2 Route 31 South  
Pennington, NJ 08534  
609.730.8500

### Piscataway

1642 Stelton Road, Ste 410  
Piscataway, NJ 08854  
732.743.3500

### Princeton Jct.

11 Cranbury Road  
Princeton Junction, NJ 08550  
609.759.8100

### Quakerbridge Rd.

3745 Quakerbridge Road  
Hamilton, NJ 08619  
609.981.8900

### Sicklerville

483 Cross Keys Road  
Sicklerville, NJ 08081  
856.728.0343

## Pennsylvania

### Cheltenham

470 W. Cheltenham Avenue  
Philadelphia, PA 19126  
215.224.6400

### Chestnut St.

1839 Chestnut Street  
Philadelphia, PA 19103  
215.996.7380

### Chinatown

921 Arch Street  
Philadelphia, PA 19107  
215.923.6200

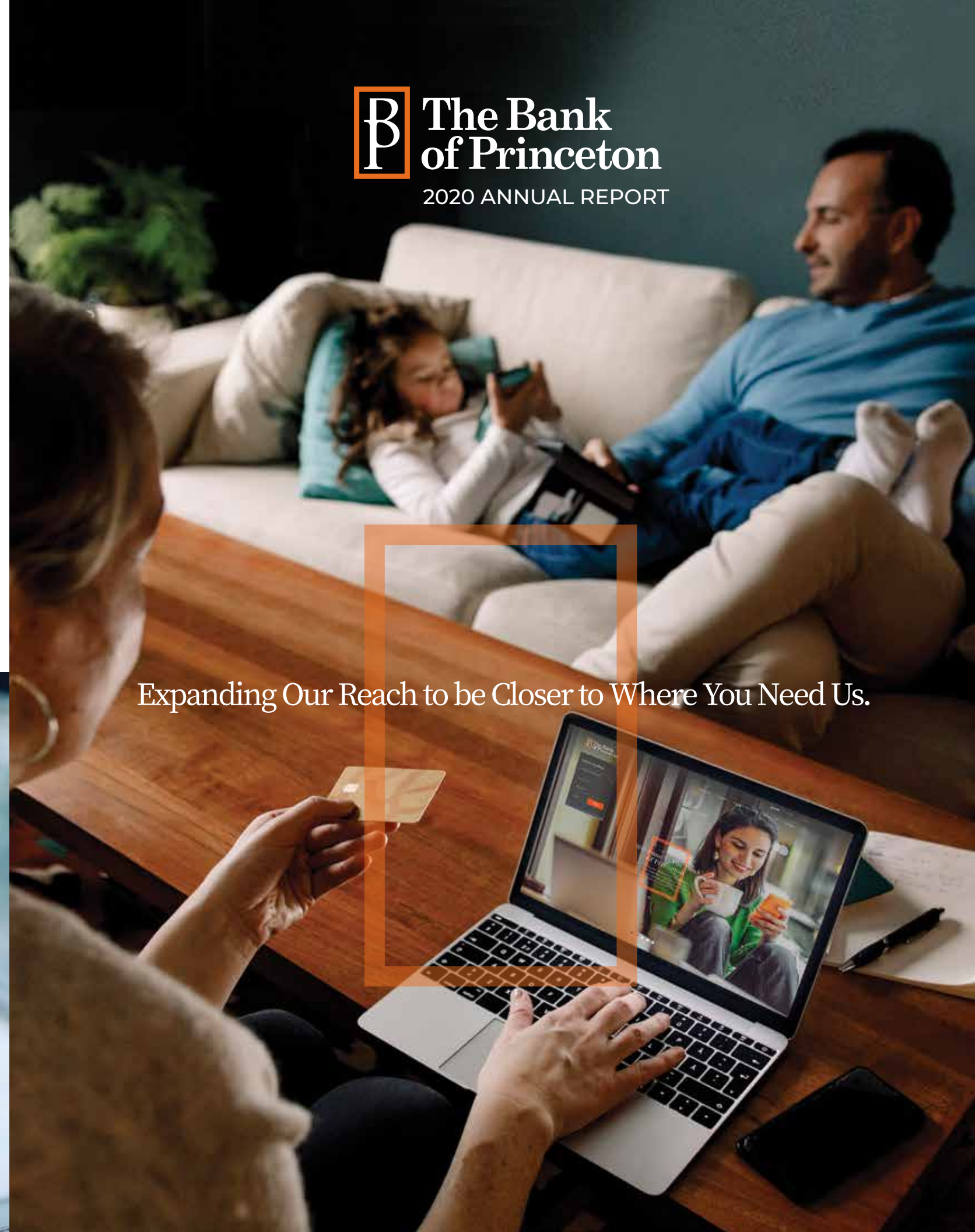
### North Wales

1222 Welsh Road  
North Wales, PA 19454  
215.631.9911



# The Bank of Princeton

## 2020 ANNUAL REPORT



Expanding Our Reach to be Closer to Where You Need Us.

24 Locations Across  
New Jersey and Pennsylvania





# Table of Contents

Letter to the Shareholders.....i -ii  
2020 Form 10-K.....1  
Who We Are.....117

Adaptable  
Resourceful  
Diligent  
Resilient  
Steadfast  
Committed

Providing Banking Solutions  
to Customers Where  
and How They Need Them.



# Dear Fellow Shareholders,



Edward J. Dietzler  
President  
Chief Executive Officer

**The Bank had a very strong year despite contending with the pandemic.**

Despite the economic and social challenges that occurred during 2020 caused by the COVID-19 pandemic, our top priorities during this year were to keep our staff safe, continue to assist our customers with their financial needs, and look for opportunities to enhance the value to you, our shareholders.

The Bank of Princeton completed a successful year with earnings of \$13.8 million, or \$2.01 per diluted common share, representing a 36.1% increase over 2019. Total assets grew to \$1.6 billion, a 10.2% increase from the year prior. These results and increasing the cash dividend were a part of the Bank's strategic initiative of increasing shareholder value along with controlled prudent growth of the Bank's loan portfolio, which grew \$177.0 million during 2020. Total deposits increased \$129.0 million during the same period.

The Bank continued with its branch expansion by the addition of three new branches during 2020, expanding our territory into Lakewood and Piscataway, and increasing our presence within the Center City Philadelphia area with our Chestnut Street branch. With these additions, the Bank's franchise expanded to twenty-four branches. Management's focus is developing and expanding its market footprint through growth of new banking relationships.

The Bank is approaching its 14th year of operation and 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 staying significantly involved in the community. The Bank's strong capital position provides the opportunity for future organic growth, as well as the ability to take advantage of acquisition opportunities when they present themselves.

## Notable Highlights for 2020

- Net loans increased \$178.3 million to nearly \$1.37 billion at year-end 2020 and reflected a 15% increase year over year.
- The efficiency ratio for 2020 declined to 52.6%, a significant improvement from the same period in 2019 ratio of 59.77%.
- Participation in the Paycheck Protection Program (PPP) provided over 1,500 loans to business and non-profit organizations totaling \$183.5 million, and provided an increase in business checking accounts. Continuing its support of the community, the Bank is currently participating in the second phase of PPP loans, which commenced in January 2021, and already has over \$80.0 million in 2021 commitments in this program.
- The Bank successfully opened three new full-service branch locations: Lakewood in the 2nd Quarter 2020, and Chestnut Street in Center City Philadelphia and Piscataway, both in the 3rd Quarter 2020.

- For the year, the Bank reduced its cost of funds (including non-interest deposits) by 62 basis points to 0.98%, compared to 2019.
- The Bank reduced the ratio of nonperforming loans to total loans to below 0.12% as of December 31, 2020.

Although 2020 was a difficult year for the banking industry, the Bank took steps to transition its funding structure and decrease its cost of funds by 176%, going from a 4th Quarter 2019 run rate of 1.57% to 0.68% for the 4th Quarter 2020. This transformational effort increased our net interest margin to 3.63% from 3.10% for the same comparative period. To help achieve this result, we repositioned our funding mix by decreasing our time deposits, which represented 40% of 4th Quarter 2019 funding, to 29% for the 4th Quarter 2020, and for the same period took non-interest-bearing checking from 12% of deposits to 17%.

The uncertainty in credit quality caused by the COVID-19 pandemic made for a challenging time. Management took various actions to help insulate the Bank from the harm caused by a downturn in the economy. The Bank first slowed our traditional commercial production to hold our loans outstanding flat year over year, and allowed PPP loans (which are loans guaranteed by the Small Business Administration) to grow to \$175.9 million at year-end. In addition, the Bank worked with its current customers to modify payment terms on \$263 million of loans during the year, of which \$218 million returned to their original payments bringing the total at year-end down to \$45 million. Finally, we recorded a \$5.2 million credit provision, bringing our credit allowance to \$16 million, or 1.35% of period end loans excluding PPP product. Non-performing loans actually declined during 2020 to \$1.7 million at year-end 2020. Management is very pleased with the overall result of our credit initiatives.

The Bank continues to make significant investments in digital technologies which allows our clients to remotely access the many Bank products and services. In addition, while our existing clients can benefit from this convenience, this technology also allows the Bank to recruit new consumer and business customers within our footprint and surrounding market areas.

The Board and Management of the Bank remain committed to providing the highest level of customer service along with being a strong partner in the communities we serve. We are extremely proud of our employees for their response to the challenges of COVID-19.



Richard J. Gillespie  
Chairman  
of the Board

**Maintaining focus on serving our customers throughout the pandemic remained vital.**





# 2020 Financial Reports

## The Bank of Princeton FEDERAL DEPOSIT INSURANCE CORPORATION Washington, D.C. 20429

### FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the Fiscal Year Ended December 31, 2020

- OR -

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

FDIC Certificate Number: 58513

### THE BANK OF PRINCETON

(Exact name of Registrant as specified in its Charter)

New Jersey

(State or other Jurisdiction of  
Incorporation or Organization)

68-0645074

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

183 Bayard Lane, Princeton, NJ

(Address of Principal Executive Offices)

08540

(Zip Code)

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

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

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or such shorter period that the registrant was required to submit such files).  YES  NO

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.

Large accelerated filer   
Non-accelerated filer

Accelerated filer   
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  NO

The aggregate market value of the voting common stock held by non-affiliates at June 30, 2020 was \$107.1 million.

As of March 09, 2021, there were 6,794,779 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, 2020 in connection with its 2021 Annual Meeting of Stockholders to be held April 27, 2021 is incorporated by reference into Part III of this annual report on Form 10-K.





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**TABLE OF CONTENTS**

	<u>PAGE</u>
<b>PART I</b>	
Item 1 Business	4
Item 1A Risk Factors	20
Item 1B Unresolved Staff Comments	29
Item 2 Properties	29
Item 3 Legal Proceedings	31
Item 4 Mine Safety	31
<b>PART II</b>	
Item 5 Market for the Registrant's Common Equity, Related Stockholder Matters Issuer Purchases of Equity Securities	32
Item 6 Selected Financial Data	35
Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operation	36
Item 7A Quantitative and Qualitative Disclosures about Market Risk	49
Item 8 Financial State and Supplementary Data	50
Item 9 Changes In and Disagreements with Accounts on Accounting Financial Disclosure	105
Item 9A Controls and Procedures	105
Item 9B Other Information	106
<b>PART III</b>	
Item 10 Directors, Executive Officers and Corporate Governance	106
Item 11 Executive Compensation	106
Item 12 Security Ownership of Certain Beneficial Owners and Management and Related Stockholders Matters.	106
Item 13 Certain Relationships and Related Transactions, and Director Independence	107
Item 14 Principal Accounting Fees and Services	107
<b>PART IV</b>	
Item 15 Exhibits: Financial Statement Schedules	108
Item 16 Form 10-K Summary	109
<b>Signatures</b>	110



# The Bank of Princeton

## 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”, health emergencies, the spread of infectious diseases or pandemics; 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. 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 21 branches, is generally an area within an approximate 100 mile radius of Princeton, NJ, including parts of Mercer, Somerset, Hunterdon, Monmouth, Middlesex, Ocean, Gloucester, Camden and Burlington Counties in 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. In March 2019, the Bank converted the former MoreBank branches to operate under The Bank of Princeton name. In December 2018, the Bank opened a new branch in Cream Ridge, New Jersey. In April 2019, the Bank opened a new branch in Quakerbridge, New Jersey and another branch in September 2019, located in Princeton Junction, New Jersey.

On May 17, 2019, the Bank successfully completed acquisition of five WSFS Bank branches located in Bordentown, Browns Mills, Chesterfield, Deptford and Sicklerville, in New Jersey.

# The Bank of Princeton

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

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”).

## 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):

	2020		2019		2018		2017		2016	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
Commercial real estate <sup>1</sup>	\$812,043	59.3 %	\$853,876	71.8 %	\$729,336	67.3 %	\$634,768	65.3 %	\$554,050	64.2 %
Commercial and industrial	40,597	3.0	43,504	3.7	71,838	6.6	59,636	6.1	60,886	7.1
Construction	263,032	19.2	189,789	15.9	161,275	14.9	183,375	18.9	166,719	19.3
Residential first-lien mortgage	66,857	4.9	89,067	7.5	102,008	9.4	73,505	7.6	56,712	6.6
Home Equity	9,929	0.7	13,753	1.2	19,035	1.8	20,998	2.2	24,762	2.9
Paycheck Protection Program (“PPP”)	175,878	12.9	-	-	-	-	-	-	-	-
<b>Total Loans</b>	<b>1,368,336</b>	<b>100.0 %</b>	<b>1,189,989</b>	<b>100.0 %</b>	<b>1,083,492</b>	<b>100.0 %</b>	<b>972,282</b>	<b>100.0 %</b>	<b>863,129</b>	<b>100.0 %</b>
Deferred fees and costs	(4,850)		(3,419)		(2,313)		(2,335)		(2,803)	
Allowance for loan losses	(16,027)		(12,557)		(11,944)		(11,591)		(10,822)	
<b>Loans, net</b>	<b>\$1,347,459</b>		<b>\$1,174,013</b>		<b>\$1,069,235</b>		<b>\$958,356</b>		<b>\$849,504</b>	

<sup>1</sup> Includes multi-family real estate secured loans.



## The Bank of Princeton

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, 2020, commercial real estate and multi-family loans amounted in the aggregate to \$812.0 million, or 59.3% of the total loan portfolio. Our commercial real estate portfolio has increased \$258.0 million or 46.6% since December 31, 2016, when commercial real estate and multi-family loans amounted to \$554.1 million, or 64.2%, of our total portfolio.

The commercial real estate and multi-family loan portfolio consists 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, 2020, the average commercial and multi-family real estate loan size was approximately \$1.4 million.

Although terms for commercial real estate and multi-family loans vary, our underwriting standards generally allow for terms up to 7 years with loan-to-value ratios of not more than 75%. Most of the loans are structured with balloon payments of 5 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 from 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 project's 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.

Various aspects of commercial and multi-family loan transactions 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 1.25 X. We also evaluate the credit and financial condition of the borrower, and if applicable, the guarantor. With respect to loan participation interests 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 a \$20.0 million loan. The proceeds were used to purchase a 32-unit office building located in Hamilton, NJ.
- The second largest commercial real estate loan is an \$18.0 million loan. The proceeds were used to refinance a Construction line of credit ("LOC") in the amount of \$12.9 million and the remaining balance was advanced as cash out to the borrower for future real estate investment purchases. The funds were used to finance the construction of a shopping center located in Lakewood, NJ with 14 retail units.
- The third largest commercial real estate loan is an \$13.0 million loan. The proceeds were used to refinance an existing mortgage of \$3.4 million, fund property repairs and upgrades of \$2.7 million, and the balance of \$6.9 million was advanced as cash out to the borrower for future real estate investment purchases.

**Commercial and Industrial Loans.** At December 31, 2020, commercial and industrial loans amounted in the aggregate to \$40.6 million, or 3.0%, of the total loan portfolio. Our commercial and industrial portfolio has decreased \$20.3 million, or 33.3%, since December 31, 2016, when commercial and industrial loans amounted to \$60.9 million, or 7.1%, of our total loan portfolio.

Commercial business loans are made to small to 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.

## The Bank of Princeton

**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, 2020, our construction loans amounted to \$263.0 million, or 19.2% of our total portfolio. The average size of a construction loan was approximately \$3.8 million at December 31, 2020. Our construction loans portfolio has increased substantially since December 31, 2016, when construction loan amounted to \$166.7 million, or 19.3% of our total loan portfolio, an increase of \$96.3 million or 57.8%. Construction lending represents a segment of our loan portfolio and is driven primarily by market conditions. Loans to finance construction of condominium 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. 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 to 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 a \$26.0 million loan. The proceeds were used to finance Phase 1 of a four-phase project located in Town of Palm Tree, NY. The combined projects consist of 1,951 residential condo units situated on approximately 69 acres of land. Phase 1 alone will consist of 456 residential condominium units. The Bank participated in this loan and holds 19.05% interest. The project is approximately 5% complete.
- The second largest construction loan is \$ 20.0 million. The proceeds were used to construct a 14 story mixed use building including 68 residential and 2 retail units. The project is located Brooklyn NY. The project is approximately 50% complete.
- The third largest construction loan is an \$18.1 million loan. The proceeds were used for a three-phase site construction and site development for residential houses. The project is located in Middletown, PA. The project is approximately 40% 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, 2020, our residential first-lien loans amounted to \$66.9 million, or 4.9%, of our total portfolio. Our residential first-lien loan portfolio has increased \$10.1 million, or 17.9%, since December 31, 2016, when residential first-lien loans amounted to \$56.7 million, or 6.6%, of our total loan portfolio.

**Home Equity Loans and Consumer Loans.** 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 are solicited on a direct basis and upon referrals from our directors, stockholder and existing customers.

**Paycheck Protection Program Loans.** The Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") was passed by Congress and signed into law on March 27, 2020. The CARES Act authorized the Small Business Administration ("SBA") to temporarily guarantee loans under a new 7(a) loan program called the Paycheck Protection Program ("PPP"). PPP loans are forgivable, in whole or in part, if the proceeds are used for payroll and other permitted purposes in accordance with the requirements of the PPP. These loans carry a fixed rate of 1.00% and generally a term of two years, if not forgiven, in whole or in part. Payments were deferred for the first six months of the loan. The loans are 100% guaranteed by the SBA. The SBA pays the originating bank a processing fee ranging from 1% to 5%, based on the size of the loan. During 2020 the Bank originated \$185.6 million of PPP loans of which \$9.7



## The Bank of Princeton

million have been forgiven by the SBA as of December 31, 2020. At December 31, 2020, our PPP loans amounted to \$175.9 million, or 12.9% of our total portfolio. These loans are fully guaranteed by the SBA.

**Loans Receivable, Net.** Loans receivable, net increased from \$1.19 billion at December 31, 2019 to \$1.37 billion at December 31, 2020, an increase of \$178.3 million, or 15.0%. 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, 2020			
	Due in one year or less	Due after one through five years	Due after five years	Total
(Dollars in thousands)				
Commercial real estate	\$ 29,831	\$ 100,049	\$ 682,163	\$ 812,043
Commercial and industrial	20,947	9,032	10,618	40,597
Construction	127,828	135,204	-	263,032
Residential first-lien mortgage	-	-	66,857	66,857
Home equity / Consumer	-	193	9,736	9,929
Paycheck Protection Program	21	175,857	-	175,878
Total loans	<u>\$ 178,627</u>	<u>\$ 420,335</u>	<u>\$ 769,374</u>	<u>\$ 1,368,336</u>
Type:				
Fixed rate loans	\$ 92,442	\$ 229,041	\$ 121,103	\$ 442,586
Floating rate loans	<u>86,185</u>	<u>191,294</u>	<u>648,271</u>	<u>925,750</u>
Total loans	<u>\$ 178,627</u>	<u>\$ 420,335</u>	<u>\$ 769,374</u>	<u>\$ 1,368,336</u>

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,				
	2020	2019	2018	2017	2016
(Dollars in thousands)					
Nonaccrual loans:					
Commercial real estate	\$ 1,030	\$ 2,071	\$ 2,968	\$ 7,589	\$ 1,389
Commercial and industrial	132	0	2196	18	188
Construction	370	371	487	1592	1649
Residential first-lien mortgage	144	-	0	-	-
Home equity/Consumer	-	-	48	-	145
Paycheck Protection Program	-	-	-	-	-
Total nonaccrual loans	<u>1,676</u>	<u>2,442</u>	<u>5,699</u>	<u>9,199</u>	<u>3,371</u>
Troubled debt restructurings (TDRs) – performing	8,704	9,293	1,286	4,796	4,943
Accruing loans 90 days or more past due	-	-	-	-	1,820
Total nonperforming loans and performing TDRs	<u>10,380</u>	<u>11,735</u>	<u>6,985</u>	<u>13,995</u>	<u>10,134</u>
Other real estate owned	-	-	44	802	-
Total nonperforming assets and performing TDRs	<u>\$ 10,380</u>	<u>\$ 11,735</u>	<u>\$ 7,029</u>	<u>\$ 14,797</u>	<u>\$ 10,134</u>

## The Bank of Princeton

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, 2020 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 collateral value or observable market price (or discounted cash flows) of the impaired loan is lower than the carrying value of that loan. At December 31, 2020, all impaired loans value was based on the value of their collateral. 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, 2020, the allowance for loan losses was \$16.0 million as compared to \$12.6 million as of December 31, 2019. The provision for loan losses for the year ended December 31, 2020 increased \$425,000 over the provision of \$4.8 million for the year ended December 31, 2019, which was primarily due to \$1.8 million in net charge-offs recorded in 2020 and increases in the qualitative factors used in estimating the provision. The ratio of allowance for loan losses to total loans as of December 31, 2020 was 1.17% (includes PPP loans) compared to 1.06% as of December 31, 2019.



## The Bank of Princeton

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,				
	2020	2019	2018	2017	2016
Balance at beginning of year	\$ 12,557	\$ 11,944	\$ 11,591	\$ 10,822	\$ 10,851
Charge offs:					
Commercial real estate	(716)	(2,597)	(216)	(2,310)	-
Commercial and industrial	(188)	(1,895)	(30)	(730)	-
Construction	(886)	-	(225)	-	-
Residential first-lien mortgage	-	-	-	-	-
Home equity/Consumer	-	-	(3)	-	-
Paycheck Protection Program	-	-	-	-	-
Total charge offs	(1,790)	(4,492)	(474)	(3,040)	-
Recoveries:					
Commercial real estate	35	222	28	-	-
Commercial and industrial	-	83	134	40	12
Construction	-	-	-	4	-
Residential first-lien mortgage	-	-	-	-	-
Home equity/Consumer	-	-	-	-	-
Paycheck Protection Program	-	-	-	-	-
Total recoveries	35	305	162	44	12
Net charge-offs	(1,755)	(4,187)	(312)	(2,996)	12
Additions (reductions) charged to the provision (credit) for loan losses	5,225	4,800	665	3,765	(41)
Balance at end of year	\$ 16,027	\$ 12,557	\$ 11,944	\$ 11,591	\$ 10,822
Net charge offs to average loans outstanding	0.14%	0.37%	0.03%	0.33%	0.00%

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 Bank of Princeton

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.

(Dollars in thousands)	December 31,					
	2020		2019		2018	
	Amount	Allocation as a % of Loan	Amount	Allocation as a % of Loan	Amount	Allocation as a % of Loan
Commercial real estate	\$ 9,635	59.3%	\$ 8,172	71.7%	\$ 7,208	67.3%
Commercial and industrial	1,015	3.0%	973	3.7%	1,396	6.6%
Construction	4,069	19.2%	2,258	15.9%	1,859	14.9%
Residential first-lien mortgage	324	4.9%	353	7.5%	568	9.4%
Home equity/Consumer	61	0.7%	76	1.2%	106	1.8%
Paycheck Protection Program	-	12.9%	-	0.0%	-	0.0%
Unallocated	923	0.0%	726	0.0%	807	0.0%
Total	\$ 16,027	100.0%	\$ 12,558	100.0%	\$ 11,944	100.0%

(Dollars in thousands)	December 31,			
	2017		2016	
	Amount	Allocation as a % of Loan	Amount	Allocation as a % of Loan
Commercial real estate	\$ 6,240	65.3%	\$ 5,330	64.2%
Commercial and industrial	957	6.1%	974	7.0%
Construction	3,077	18.9%	3,159	19.3%
Residential first-lien mortgage	461	7.6%	404	6.6%
Home equity/Consumer	147	2.1%	158	2.9%
Paycheck Protection Program	-	0.0%	-	0.0%
Unallocated	709	0.0%	797	0.0%
Total	\$ 11,591	100.0%	\$ 10,822	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 income (loss).



## The Bank of Princeton

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

(Dollars in thousands)	December 31,								
	2020			2019			2018		
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value	
Mortgage-backed Securities-U.S. Government-sponsored Enterprises (GSEs)	\$ 24,487	\$ 25,112	\$ 55,677	\$ 55,951	\$ 46,954	\$ 46,472			
Obligations of state and political subdivisions	48,728	50,516	55,777	56,361	45,387	45,209			
<b>Total</b>	<b>\$ 73,215</b>	<b>\$ 75,628</b>	<b>\$ 111,454</b>	<b>\$ 112,312</b>	<b>\$ 92,341</b>	<b>\$ 91,681</b>			

Securities available-for-sale, which are carried at fair value, decreased \$36.7 million, or 32.7%, to \$75.6 million at December 31, 2020 from December 31, 2019. The Bank utilized a portion of excess cash on hand to fund loan growth, primarily PPP loans.

The following table presents a summary of the amortized cost and fair value of our HTM securities.

(Dollars in thousands)	December 31,					
	2020		2019		2018	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Mortgage-backed Securities-U.S. Government-sponsored Enterprises (GSEs)	\$ 215	\$ 237	\$ 222	\$ 236	\$ 228	\$ 236

HTM securities decreased 3.2% from December 31, 2019 to December 31, 2020. 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, 2020. 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.

(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)	\$ -	\$ 917	\$ 1,693	\$ 21,877
Obligations of state and political subdivisions	290	5,770	12,462	30,206	48,728
<b>Total</b>	<b>\$ 290</b>	<b>\$ 6,687</b>	<b>\$ 14,155</b>	<b>\$ 52,083</b>	<b>\$ 73,215</b>
Weighted average yield	2.72%	3.93%	4.70%	2.79%	3.26%

At December 31, 2020, 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.

## The Bank of Princeton

### Cash and Due From Banks

Cash and due from banks increased from \$72.6 million at December 31, 2019 to \$77.4 million at December 31, 2020, an increase of \$4.8 million, or 6.7%. The increase in cash and due from banks was primarily attributable to an increase in deposits that is being held to fund future loan growth.

### Premises and Equipment

Premises and equipment, net increased \$1.9 million from December 31, 2019 to December 31, 2020 resulting from the addition of three new branches opened during 2020, certain leasehold improvements with its existing branch network and \$683,000 in additional purchases in computers and equipment, offset by \$1.2 million in depreciation expense that occurred during the year.

### Goodwill and Core Deposit Intangible

At December 31, 2020, the Bank had \$8.9 million of goodwill and \$3.0 million in core deposit intangible asset derived from five branches purchased in May 2019.

### Accrued Interest Receivable and Other Assets

Accrued interest receivable increased \$1.3 million from December 31, 2019 to December 31, 2020, primarily due to an increase in the outstanding principal balance of loans at December 31, 2020. Deferred taxes increased \$533,000 from December 31, 2019 to December 31, 2020, primarily due to the increase in deferred tax associated with the allowance for loan losses, addition of deferred tax asset associated to PPP loans and the net-deferred tax asset associated with core deposit intangible. Bank owned life insurance increased \$1.2 million from December 31, 2019 to December 31, 2020, primarily due to the earnings recorded from the existing policies. Other assets decreased \$1.8 million from December 31, 2020 to December 31, 2019, primarily due to a reduction of income tax receivable.

### 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.

During normal business practices the Bank will utilize deposits originated by brokers for short term funding needs. At December 31, 2020 the balance of brokered deposits was \$96.1 million, an increase of \$60.5 million from the \$35.6 million outstanding at December 31, 2019.

At December 31, 2020, there were no customers whose deposit balances individually exceeded 5% of total deposits.



## The Bank of Princeton

The following table presents our time deposit maturities.

	December 31, 2020				
	Three months or less	Over three through six months	Over six through twelve months	Over twelve months	Total
(Dollars in thousands)					
Time deposits of \$100,000 or more	\$ 42,465	\$ 31,927	\$ 49,285	\$ 56,267	\$ 179,944
Time deposits of less than \$100,000	20,653	20,556	26,201	131,540	198,950
Total	\$ 63,118	\$ 52,483	\$ 75,486	\$ 187,807	\$ 378,894

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

	2020			2019			2018		
	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
(Dollars in thousands)									
Demand, non-interest-bearing checking	\$ 214,208	0.00%	16.5%	\$ 123,821	0.00%	11.0%	\$ 100,078	0.00%	9.8%
Demand interest-bearing	224,678	0.63%	17.3%	205,828	1.15%	18.3%	215,379	0.86%	21.0%
Money market	281,421	0.71%	21.6%	254,151	1.67%	22.6%	273,373	1.42%	26.6%
Savings deposits	171,119	0.58%	13.1%	132,027	1.30%	11.8%	102,219	1.17%	10.0%
Time deposits of \$250,000 or more	89,427	2.18%	6.9%	114,048	2.38%	10.2%	87,775	1.83%	8.6%
Other time deposits	321,056	2.00%	24.7%	292,860	2.30%	26.1%	247,005	1.79%	24.1%
Total	\$ 1,301,909	0.98%	100.0%	\$ 1,122,735	1.58%	100.0%	\$ 1,025,829	1.26%	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 increased from \$1.24 billion at December 31, 2019 to \$1.37 billion at December 31, 2020, an increase of \$129.4 million, or 10.5%. Non-interest-bearing deposits increased \$74.0 million, or 52.4%, to \$215.4 million at December 31, 2020. Interest-bearing deposits increased \$53.3 million, or 5.0%, to \$1.15 billion at December 31, 2020.

### Borrowings

At December 31, 2020 and 2019, the Bank had no borrowings outstanding.

### Accrued Interest Payable and Other Liabilities

Accrued interest payable and other liabilities increased \$5.7 million to \$26.8 million as compared to \$21.1 million in the prior year. This increase is primarily due to a \$5.8 million lease liability recorded in connection with right-of-use asset from the application of ASU No. 2016, "Leases" (Topic 842).

### Stockholders' Equity

Total stockholders' equity increased \$12.9 million to \$208.8 million at December 31, 2020, an increase of approximately 6.6%. This increase is primarily attributable to net income, net of cash dividends paid of \$11.1 million, \$287,000 received from the exercise of stock options and a \$1.2 million increase in the fair value of the available-for-sale investment securities.

## The Bank of Princeton

### 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	Mobile Banking	Electronic funds transfer (Zelle)

We also offer, on a limited basis, payroll-related services and credit card and merchant credit card processing through third parties hereby 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, 2020, we had approximately 176 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,



## The Bank of Princeton

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. In September 2019, the Bank was notified by the FDIC that the Deposit Insurance Fund Reserve Ratio exceeded 1.35% and that the Bank would receive a one-time credit in the amount of \$270,000, which would offset the Bank’s quarterly deposit insurance premium payment.

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.

## The Bank of Princeton

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 and became fully phased-in on January 1, 2019. At December 31, 2020, the Bank met all capital adequacy requirements on a fully phased-in basis.

(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, 2020:						
Total capital (to risk-weighted assets)	\$ 211,165	16.03%	\$ 138,351	≥ 10.50%	\$ 131,762	≥ 10.00%
Tier 1 capital (to risk-weighted assets)	\$ 195,138	14.81%	\$ 111,998	≥ 8.50%	\$ 105,410	≥ 8.00%
Common equity tier 1 capital (to risk-weighted assets)	\$ 195,138	14.81%	\$ 92,234	≥ 7.00%	\$ 85,646	≥ 6.50%
Tier 1 leverage capital (to average assets)	\$ 195,138	12.48%	\$ 101,609	≥ 6.50%	\$ 78,161	≥ 5.00%
December 31, 2019:						
Total capital (to risk-weighted assets)	\$ 194,675	15.11%	\$ 135,294	≥ 10.50%	\$ 128,852	≥ 10.00%
Tier 1 capital (to risk-weighted assets)	\$ 182,118	14.13%	\$ 109,524	≥ 8.50%	\$ 103,082	≥ 8.00%
Common equity tier 1 capital (to risk-weighted assets)	\$ 182,118	14.13%	\$ 90,196	≥ 7.00%	\$ 83,754	≥ 6.50%
Tier 1 leverage capital (to average assets)	\$ 182,118	12.89%	\$ 91,810	≥ 6.50%	\$ 70,623	≥ 5.00%

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, 2020, the Bank exceeded all 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



## The Bank of Princeton

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, 2020, 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, 2020, we maintained a “satisfactory” CRA rating. The federal banking regulators recently announced extensive proposed changes to the regulations under CRA, but no final rules have yet been adopted. We have not yet examined the proposed changes, but we do not believe that they will materially affect the operation of the Bank if they are adopted.

**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.

## The Bank of Princeton

**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, 2020, the Bank’s lending limit to one borrower under regulatory guidelines was \$31.7 million, but our Board of Directors has set an internal lending limit of approximately 75.0% of legal lending limit or \$23.8 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 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 consolidated 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.

Section 201 of the EGRR&CPA directed the federal banking agencies to develop a community bank leverage ratio (“CBLR”) of not less than 8% and not more than 10% for qualifying community banks and bank holding companies with total consolidated assets of less than \$10 billion. Qualifying community banking organizations that exceed the CBLR level established by the agencies, and that elect to be covered by the CBLR framework, will be considered to have met: (i) the generally applicable leverage and risk-based capital requirements under the banking agencies’ capital rules; (ii) the capital ratio requirements necessary to be considered “well capitalized” under the banking agencies’ prompt corrective action framework in the case of insured depository institutions; and (iii) any other applicable capital or leverage requirements.

On September 17, 2019, the Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve Board, and the FDIC adopted a rule to implement the provisions of Section 201 of the EGRR&CPA. Under the rule, a qualifying community banking organization would be defined as a deposit institution or depository institution holding company with less than \$10 billion in assets and specified limited amounts of off-balance sheet exposures, trading assets and liabilities, mortgage servicing assets, and certain temporary difference deferred tax assets. A qualifying community banking organization would be permitted to elect the CBLR framework if its CBLR is greater than 9%. The rule also addresses opting in and opting out of the CBLR framework by a community banking organization, the treatment of a community banking organization that falls below the CBLR requirements, and the effect of various CBLR levels for purposes of the prompt corrective action categories applicable to insured depository institutions. Advanced approaches banking organizations (generally, institutions with \$250 billion or more in consolidated assets) are not eligible to use the CBLR framework. The Bank did not opt in to the CBLR framework.



## The Bank of Princeton

The Bank continues to analyze the changes implemented by the EGRR&CPA, including the CBLR framework included in the recently adopted rule, 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.** On September 29, 2020, New Jersey Governor Phil Murphy signed into law A.4721, extending through December 31, 2023, the 2.5% surtax currently imposed on Corporation Business Tax (CBT) filers with allocated taxable net income over \$1 million. As originally enacted, the surtax rate was scheduled to decrease from 2.5% to 1.5% for privilege periods beginning on or after January 1, 2020 through December 31, 2021 and expire for privilege periods beginning on or after January 1, 2022. The change made by A.4721 takes effect immediately and applies retroactively to privilege periods beginning on or after January 1, 2020.

On July 1, 2018, New Jersey Governor Phil Murphy signed into law changes to the corporate business tax laws. This legislation required a combined group to file combined returns for tax years beginning in 2019 and thereafter. However, due to technical issues and inconsistencies with existing tax law, it was determined that the tax law change did not have an impact on deferred taxes. In December 2019, the State of New Jersey issued a clarifying technical bulletin related to the impact of the 2018 tax legislation. This technical bulletin provided clarification to the combined income tax reporting for certain members of a unitary business group. Accordingly, this required a revaluation of some of the Bank's deferred tax assets. In the 4th quarter of 2019, the Bank recorded a state deferred tax benefit in the amount of approximately \$117,000.

**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 an investment in our common stock, investors should consider, among other factors, the following risk factors.*

#### **RISKS RELATED TO OUR BUSINESS**

***The COVID-19 pandemic is adversely affecting, and will likely continue to adversely affect, our business, financial condition, liquidity, and results of operations.***

The COVID-19 pandemic has negatively impacted the U.S. and global economy; disrupted U.S. and global supply chains; created significant volatility and disruption in financial markets; contributed to a decrease in the rates and yields on U.S. Treasury securities; resulted in ratings downgrades, credit deterioration, and defaults in many industries; increased demands on capital and liquidity; and increased unemployment levels and decreased consumer confidence. In addition, the pandemic has resulted in temporary and permanent closures of many businesses and the institution of social distancing and other requirements in many states and communities, including those in our footprint. The pandemic will likely cause us to recognize credit losses in our loan portfolio and increases in our allowance for loan losses. Sustained adverse effects may also increase our cost of capital, prevent us from satisfying our minimum regulatory capital ratios and other supervisory requirements, or result in downgrades in our credit ratings. The extent to which the COVID-19 pandemic impacts our business, financial condition, liquidity, and results of operations will depend on future developments, which are highly uncertain and cannot be predicted, including the scope and duration of the pandemic, the continued effectiveness of our Pandemic Action Plan, the direct and indirect impact of the pandemic on our customers, colleagues,

## The Bank of Princeton

counterparties and service providers, and actions taken by governmental authorities and other third parties in response to the pandemic.

Governmental authorities have taken significant measures to provide economic assistance to individual households and businesses, stabilize the markets, and support economic growth. The success of these measures is unknown, and they may not be sufficient to fully mitigate the negative impact of the pandemic. Additionally, some measures, such as a suspension of consumer and commercial loan payments and the reduction in interest rates to near zero, may have a negative impact on our business, financial condition, liquidity, and results of operations. We also face an increased risk of litigation and governmental and regulatory scrutiny as a result of the effects of the pandemic on market and economic conditions and actions governmental authorities take in response to those conditions.

The length of the pandemic and the effectiveness of the measures being put in place to address it are unknown. Until the effects of the pandemic subside, we expect continued draws on lines of credit, reduced revenues in our businesses, and increased customer defaults. Furthermore, the U.S. economy has experienced a recession as a result of the pandemic, and our business could be materially and adversely affected by a prolonged recession. Therefore, given the ongoing and dynamic nature of the COVID-19 outbreak, it is difficult to predict the full impact on our business. The extent of such impact will depend on future developments, which are highly uncertain, including when the coronavirus can be controlled and abated and when and how the economy may be fully reopened and remain open. As the result of the COVID-19 pandemic and the related adverse local and national economic consequences, the Bank could be subject to any of the following risks which could have a material, adverse effect on its business, financial condition, liquidity, and results of operations:

- demand for products and services may decline, making it difficult to grow assets and income;
- if the economy is unable to substantially reopen or remain open, and high levels of unemployment continue for an extended period of time, loan delinquencies, problem assets, and foreclosures may increase, resulting in increased charges and reduced income;
- collateral for loans, especially real estate, may decline in value, which could cause loan losses to increase;
- the allowance for loan losses may have to be increased if borrowers experience financial difficulties, which will adversely affect our net income;
- the net worth and liquidity of loan guarantors may decline, impairing their ability to honor commitments;
- as the result of the decline in the Federal Reserve Board's target federal funds rate to near 0%, the yield on assets may decline to a greater extent than the decline in the cost of interest-bearing liabilities, reducing net interest margin and spread, and reducing net income;
- a material decrease in net income or a net loss over several quarters could result in a decrease in the rate of, or full suspension of, quarterly cash dividends;
- cyber security risks are increased as the result of an increase in the number of employees working a portion of their work hours remotely;
- civil unrest could occur in the communities that the Bank serves;
- we rely on third party vendors for certain services, and the unavailability of critical service due to COVID-19 outbreak could have an adverse effect on us; and
- FDIC premiums may increase if the agency experiences additional resolution costs.

To the extent the pandemic adversely affects our business, financial condition, liquidity, or results of operations, it may also have the effect of heightening many of the other risks described elsewhere in this "Risk Factors" section.

***Our participation in the SBA PPP loan program exposes us to risks related to noncompliance with the PPP, as well as litigation risk related to our administration of the PPP loan program, which could have a material adverse impact on our business, financial condition and results of operations***

The Bank is a participating lender in the PPP, a loan program administered through the SBA, that was created to help eligible businesses, organizations and self-employed persons fund their operational costs during the COVID-19 pandemic. Under this program, the SBA guarantees 100% of the amounts loaned under the PPP. The PPP opened on April 3, 2020; however, because of the short window between the passing of the CARES Act and the opening of the PPP, there was some ambiguity in the laws, rules and guidance regarding the operation of the PPP, which exposes the Bank to risks relating to noncompliance with the PPP. For instance, other financial institutions have experienced litigation related to their process and procedures used in processing applications for the PPP. Any financial liability, litigation costs or reputational damage caused by PPP related litigation could have a material adverse impact on our business, financial condition and results of operations. In addition, the Bank may be exposed to credit risk on PPP loans if a determination is made by the SBA that there is a deficiency in the manner in which the loan was originated, funded, or serviced. If



## The Bank of Princeton

a deficiency is identified, the SBA may deny its liability under the guaranty, reduce the amount of the guaranty, or, if it has already paid under the guaranty, seek recovery of any loss related to the deficiency from the Bank.

### *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 100 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 levels are not sufficient, it may be more expensive to fund loan originations.*

Our deposits have been our primary funding source. In current market conditions, depositors may choose to redeploy their funds into the stock market or other investment alternatives, 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 sufficiently increase our deposit balances, we may be required to increase our use of 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 guarantee 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

## The Bank of Princeton

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 guarantee 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, 2020, we had approximately \$812.0 million of commercial real estate loans, which represented 59.3% 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 \$263.0 million, or 19.2%, of our total loan portfolio as of December 31, 2020. In addition, we make both secured and unsecured commercial and industrial loans. At December 31, 2020, we had \$40.6 million of commercial and industrial loans, which represented 3.0% 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, including the downturn caused by the COVID-19 pandemic, 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.

The COVID-19 pandemic has caused a recession in our local economy and commercial 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 could occur as a result of less need for office space due to more people working from home due to COVID-19 or other factors. This would decrease property values and may decrease the likelihood that a borrower may find permanent financing alternatives. The weakening in the commercial real estate market due to COVID-19 will 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, such as the one caused by the COVID-19 pandemic, 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 such as the one caused by the COVID-19 pandemic, often need substantial additional capital to expand or compete and may experience significant volatility in operating results. In addition, if such business has been forced to either close or substantially modify its business activity due to the orders issued by states fighting the COVID-19 pandemic, any one or more of these factors is likely to impair the borrower's ability to repay a loan. In addition, the success of a small to mid-sized 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. The COVID-19 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, 2020 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 which system recently had to be modified to cover the additional risks caused by the increase level of employees working remotely due to COVID-19 pandemic and we also 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 our 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 ended December 31, 2020. 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 our 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 due to COVID-19-related restrictions and disruptions or for any other 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 due to COVID-19-related restrictions and disruptions or otherwise, 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

*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, 2022 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.

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.



## The Bank of Princeton

*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. Recently, cybersecurity threats have increased even more, primarily through COVID-19 themed phishing campaigns. 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. A portion of our workforce (which changes based on management’s discretion) are working a portion of their work hours remotely due to the COVID-19 pandemic which has only increased our risk in this area. Therefore, the Bank’s information technology department has instituted additional security measures with the use of lap top computers at home, such as specially loaded software providing more accessibility, increased monitoring of access logs, and the requirement for employees to bring their lap top computer into the office when working there. In addition, files and documents are only allowed to be transferred via the issued lap top computer; no personal emails can be used. 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

## The Bank of Princeton

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 its 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.

*We face risks related to health epidemics and other outbreaks, severe weather, power or telecommunications loss, and terrorism which could significantly disrupt our operations.*

Business disruptions can occur due to forces beyond the Bank’s control such as severe weather, power or telecommunications loss, accidents, flooding, terrorism, health emergencies, the spread of infectious diseases or pandemics. Our business could be adversely impacted by the effects of any of these events to the extent that they harm the local or national economy. Any of these events may also impact our branches, our operations, our customers and / or our vendors, which may materially and adversely affect our business, financial condition and results of operations. These business disruptions may include temporary closure of our branches and/or the facilities of our customers or vendors and suspension of services, which may materially and adversely affect our business, financial condition and results of operations.

### 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 24 other branch locations in New Jersey and Pennsylvania. The following table sets forth certain information regarding the Bank’s properties as of December 31, 2020:



## The Bank of Princeton

Location	Leased or Owned	Date of Lease Expiration <sup>1</sup>
<i>Corporate Headquarters and Branch</i> 183 Bayard Lane Princeton, NJ	Leased	October 31, 2023
<i>Operations Center</i> 403 Wall Street Princeton, NJ	Leased	February 28, 2026
<i>Hamilton Branch</i> 339 Route 33 Hamilton, NJ	Leased	October 30, 2025
<i>Pennington Branch</i> 2 Route 31 Pennington, NJ	Leased	April 30, 2022
<i>Chambers Street Branch<sup>2</sup></i> 21 Chambers Street Princeton, NJ	Leased	December 31, 2021
<i>Montgomery Branch</i> 1185 Route 206 North Princeton, NJ	Leased	April 30, 2025
<i>Monroe Branch</i> 1 Rossmoor Drive Monroe Township, NJ	Leased	July 31, 2030
<i>Lambertville Branch</i> 10-12 Bridge Street Lambertville, NJ	Owned	N/A
<i>Lawrenceville Branch</i> 2999 Princeton Pike Lawrenceville, NJ	Leased	October 30, 2025
<i>Nassau Street Branch</i> 194 Nassau Street Princeton, NJ	Leased	November 30, 2021
<i>New Brunswick Branch</i> 1 Spring Street, Suite 102 New Brunswick, NJ	Leased	March 31, 2022
<i>Cream Ridge Branch</i> 403 Rt 539 Cream Ridge, NJ	Leased	October 28, 2023
<i>Chesterfield Branch</i> 305 Bordentown-Chesterfield Road Chesterfield, NJ	Owned	N/A
<i>Bordentown Branch</i> 335 Farnsworth Avenue Bordentown, NJ	Owned	N/A

## The Bank of Princeton

<i>Browns Mills Branch</i> 101 Pemberton Browns Mills Road Browns Mills, NJ	Owned	N/A
<i>Deptford Branch</i> 1893 Hurffville Road Deptford, NJ	Owned	N/A
<i>Sicklerville Branch</i> 483 Cross Key Road Sicklerville, NJ	Leased	February 1, 2026
<i>Princeton Junction Branch</i> 11 Cranbury Road Princeton Junction, NJ	Leased	September 1, 2022
<i>Quakerbridge Branch</i> 3745 Quakerbridge Road Hamilton, NJ	Leased	April 1, 2024
<i>Lakewood Branch</i> 12 American Avenue, 7B Lakewood, NJ	Leased	August 20, 2025
<i>Piscataway Branch</i> 1642 Stelton Road, Suite 410 Piscataway, NJ	Leased	March 31, 2027
<i>North Wales Branch</i> 1222 Welsh Road North Wales, PA	Leased	September 30, 2021
<i>Cheltenham Branch</i> 470 West Cheltenham Avenue Philadelphia, PA	Leased	January 25, 2021
<i>Chinatown Branch</i> 921 Arch Street Philadelphia, PA	Leased	September 30, 2022
<i>Chestnut Street Branch</i> 1839 Chestnut Street Philadelphia, PA	Leased	February 28, 2027

<sup>1</sup> The expiration date is based on the next upcoming maturity date and does not take into consideration any renewal/extensions dates.

<sup>2</sup> Branch has been temporary closed due to the COVID-19 Pandemic.

### 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 its property is subject, which, if determined adversely to the Bank, would be material in relation to the Bank's 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.



# The Bank of Princeton

## 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

The Bank's common stock trades on the "NASDAQ Global Select Market" under the ticker symbol "BPRN." As of March 12, 2021, there were approximately 683 holders of our common stock.

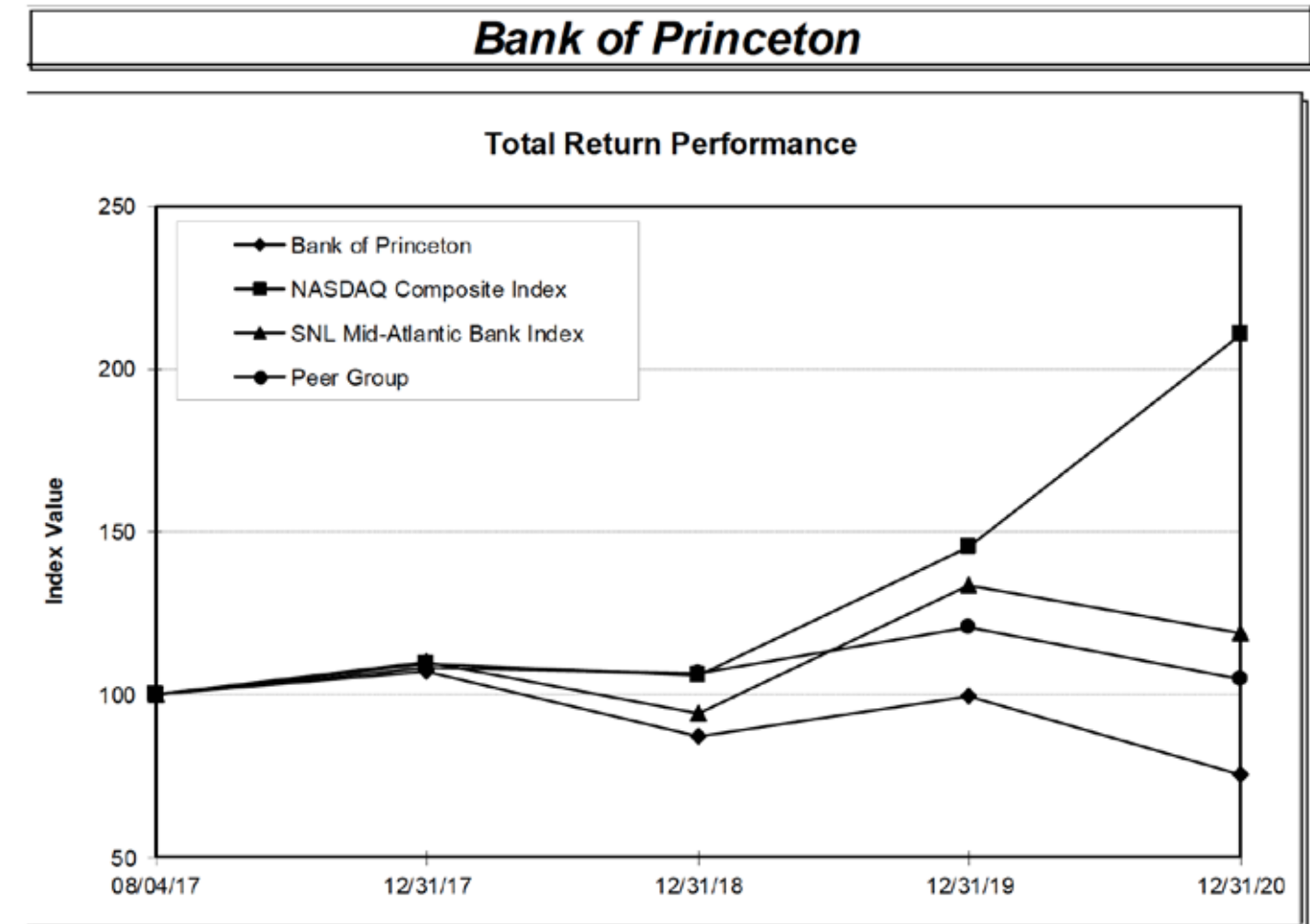
The following table shows the quarterly high and low closing prices of our common stock traded on NASDAQ.

Quarter ended:	Stock Price		Cash Dividend Per Share
	High	Low	
December 31, 2020	\$26.44	\$18.12	\$0.12
September 30, 2020	\$20.45	\$17.40	\$0.10
June 30, 2020	\$24.70	\$17.51	\$0.10
March 31, 2020	\$32.25	\$19.07	\$0.10
December 31, 2019	\$32.12	\$27.34	\$0.10
September 30, 2019	\$30.20	\$25.92	\$0.10
June 30, 2019	\$32.75	\$27.42	\$0.03
March 31, 2019	\$33.33	\$27.58	\$0.03

# The Bank of Princeton

## 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	12/31/18	12/31/19	12/31/20
Bank of Princeton	100.00	107.31	87.28	99.15	75.08
NASDAQ Composite Index	100.00	109.19	106.09	145.02	210.16
SNL Mid-Atlantic Bank Index	100.00	110.06	94.04	133.74	119.03
Peer Group	100.00	108.44	106.63	120.52	104.58

Peer group includes Banks and Thrifts with total assets between \$750M – \$1.25B

Source: S&P Global Market Intelligence  
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## The Bank of Princeton

### Securities Authorized for Issuance under Equity Compensation Plans

The following table summarizes our equity compensation plan information as of December 31, 2020. See Note 15 “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.

<b>Plan Category</b>	<b>Number of shares of common stock to be issued upon exercise of outstanding options</b>	<b>Weighted-average exercise price of outstanding options</b>	<b>Number of shares of common stock remaining available for future issuance under compensation plans</b>
<i>Equity Compensation Plans approved by security holders</i>	439,434	\$19.40	377,919
<i>Equity Compensation Plans not approved by security holders</i>	--	--	--
<b>Total</b>	<b>439,434</b>	<b>\$19.40</b>	<b>377,919</b>

## The Bank of Princeton

### 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.

(Dollars in thousands)	At December 31,				
	2020	2019	2018	2017	2016
<b>SELECTED FINANCIAL AND OTHER DATA:</b>					
Total assets	\$ 1,602,838	\$ 1,454,894	\$ 1,251,564	\$ 1,200,591	\$ 1,025,996
Cash and cash equivalents	77,429	72,598	26,384	82,822	19,605
Investment securities					
Held-to-maturity	215	222	228	264	340
Available-for-sale	75,628	112,312	91,681	101,744	113,034
Loans receivable, net	1,347,459	1,174,013	1,069,235	958,356	849,504
Deposits	1,367,266	1,237,890	1,007,247	1,028,668	862,521
FHLB advances	-	-	55,400	-	56,100
Total stockholders' equity	208,818	195,925	184,318	168,295	103,462
Non-performing loans	1,676	2,442	5,699	9,199	3,371
Non-performing assets	1,676	2,442	5,743	1,001	-
Banking and operations offices	25	22	15	14	14
<b>Year end December 31,</b>					
(Dollars in thousands)	2020	2019	2018	2017	2016
<b>SELECTED OPERATING DATA:</b>					
Total interest income	\$ 61,676	\$ 59,717	\$ 54,365	\$ 47,972	\$ 45,433
Total interest expense	12,826	18,266	13,356	8,840	7,763
Net interest income	48,850	41,451	41,009	39,132	37,670
Provision for loan losses	5,225	4,800	665	3,765	(41)
Net interest income after provision for loan losses	43,625	36,651	40,344	35,367	37,711
Total non-interest income	4,806	3,385	2,662	2,830	2,354
Total non-interest expenses	31,141	27,732	25,298	23,334	23,761
Income before income taxes	17,290	12,304	17,708	14,863	16,304
Income taxes	3,484	2,162	3,000	3,849	4,461
Net Income	13,806	10,142	14,708	11,014	11,843
Basis earnings per share	\$ 2.04	\$ 1.51	\$ 2.22	\$ 2.00	\$ 2.52
Diluted earnings per share	\$ 2.01	\$ 1.47	\$ 2.14	\$ 1.90	\$ 2.36
Dividends paid per common share	\$ 0.40	\$ 0.26	\$ 0.03	\$ -	\$ -



## The Bank of Princeton

(Dollars in thousands)	Year end December 31,				
	2020	2019	2018	2017	2016
<b>SELECTED OPERATING RATIOS:</b>					
Average yield on earning assets	4.31%	4.72%	4.66%	4.66%	4.66%
Average rate paid on interest-bearing liabilities	1.18%	1.80%	1.42%	1.06%	0.97%
Average rate spread	3.13%	2.92%	3.25%	3.60%	3.69%
Net interest margin	3.42%	3.27%	3.52%	3.80%	3.86%
Average interest-earning assets to average interest-bearing liabilities	1.31%	1.24%	1.24%	1.23%	1.21%
Net interest income after provision for loan losses to non-interest expense	1.40%	1.32%	1.59%	1.52%	1.59%
Total non-interest expense to average assets	2.03%	2.05%	2.07%	2.17%	2.35%
Efficiency ratio <sup>1</sup>	57.29%	59.38%	57.94%	55.63%	59.57%
Return on average assets	0.90%	0.75%	1.22%	1.02%	1.17%
Return on average equity	6.82%	5.33%	8.30%	8.30%	12.05%
Average equity to average assets	14.16%	14.07%	14.37%	12.35%	9.72%
Book value per share	\$ 30.75	\$ 28.98	\$ 27.69	\$ 25.69	\$ 22.01
Tangible book value <sup>2</sup>	\$ 29.00	\$ 27.11	\$ 27.69	\$ 25.69	\$ 22.00

<sup>1</sup>The efficiency ratio is a non-GAAP measure that represents the ratio of non-interest expense divided by the net-interest income and non-interest expense.

<sup>2</sup>Tangible book value per common share is a non-GAAP measure that represents book value per common share which excludes goodwill and core deposit intangible.

### 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, 2020 and December 31, 2019
- Comparison of Operating Results for the Years Ended December 31, 2020, 2019 and 2018
- 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.

## The Bank of Princeton

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, 2020 and December 31, 2019

**General.** Total assets were \$1.60 billion at December 31, 2020, an increase of \$147.9 million, or 10.2%, when compared to \$1.45 billion at the end of 2019. The primary reason for the increase in total assets was due to an increase in net loans of approximately \$176.9 million, primarily consisting of PPP<sup>1</sup> loans guaranteed by the U.S. government. Net loans also increased \$173.4 million from \$1.17 billion at December 31, 2019. Cash and cash equivalents increased \$4.8 million, or 6.7%, to \$77.4 million as of December 31, 2020. Investment securities classified available-for-sale decreased \$36.7 million from the \$112.3 million as of December 31, 2019.

Total liabilities increased by \$135.1 million to \$1.39 billion at December 31, 2020 from \$1.26 billion at December 31, 2019. Total deposits at December 31, 2020 increased by \$129.4 million, or 10.5%, when compared to December 31, 2019, primarily due to loan proceeds maintained in non-interest demand accounts from customers who received PPP loans as well as growth from new branches added since December 31, 2019. When comparing December 31, 2020 to balances at December 31, 2019, interest checking increased \$76.2 million, non-interest checking increased \$74.0 million, savings accounts increased \$24.2 million, and money market accounts increased \$10.4 million, partially offset by a decrease in time deposits of \$55.4 million. In addition, the Bank did not have any outstanding balance in FHLB short-term advances for both periods ended December 31, 2020 and 2019.

Total stockholders' equity at December 31, 2020 increased \$12.9 million, or 6.6%, when compared to the end of 2019. This increase was primarily due to earnings recorded during the twelve months of 2020 minus the cash dividend paid during the period, and an increase of \$1.2 million in the fair-value of the available-for-sale investment portfolio. The ratio of equity to total assets at December 31, 2020 was 13.0% compared to 13.5% at December 31, 2019, as the current period ratio was impacted by the 10.25% growth in assets.

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, 2020, 2019 and 2018

##### **General.**

**2020 vs 2019.** Net income for the year ended December 31, 2020 was \$13.8 million, an increase of approximately \$3.7 million, or 36.1%, as compared to the year ended December 31, 2019. This increase over 2019's results was primarily due to a \$7.4 million increase in net-interest income and a \$1.4 million increase in non-interest income, partially offset by a \$3.4 million increase in non-interest expenses, a \$1.3 million increase in income tax expense and a \$425 thousand increase in the provision for loan losses.

**2019 vs 2018.** Net income for the year ended December 31, 2019 was \$10.1 million, a decrease of approximately \$4.6 million, or 31.0%, as compared to the year ended December 31, 2018. The decline in earnings was primarily due to an increase in the Bank's provision for loan losses of \$4.1 million of which \$3.9 million was recorded in the first quarter of 2019.



## The Bank of Princeton

### *Net interest income.*

**2020 vs 2019.** Net interest income for the twelve month period ended December 31, 2020 was \$48.9 million, an increase of \$7.4 million, or 17.8%, over the same period in 2019. This increase was due a \$2.0 million increase in interest income and a \$5.4 million decline in interest expense. For the twelve month period ended December 31, 2020, the average outstanding balance of earning assets increased by \$163.9 million and average outstanding balance of interest-bearing liabilities increased \$71.8 million. The total rate on liabilities, which includes non-interest-bearing deposits, for the twelve month periods ended December 31, 2020 and 2019 was 0.98% and 1.60%, respectively. For the twelve month periods ended December 31, 2020 and 2019 the total rate on interest-bearing liabilities, which includes non-interest bearing deposits, was 0.98% and 1.60%, respectively.

**2019 vs 2018.** Net interest income for the twelve months of 2019 was \$41.5 million, an increase of \$442,000, or 1.1%, when compared to the twelve months of 2018. The increase was due to significant growth of average earning assets of \$100.5 million, while maintaining an average yield of 4.72% for the twelve months ended December 31, 2019, an increase of 6 basis points over the same period in 2018, generating an increase in interest income of \$5.4 million. This increase was partially offset by an increase in interest expense of approximately \$4.9 million resulting from a \$74.4 million increase of the average outstanding balance of interest-bearing liabilities, along with a 32 basis point increase in the average rate paid on interest-bearing liabilities.

### *Total interest and dividend income.*

**2020 vs 2019.** Total interest and dividend income increased \$2.0 million, or 3.3%, to \$61.7 million for the year ended December 31, 2020, compared to \$59.7 million for the prior year. The improvement in interest income resulted from a \$163.9 million increase in the average balance of interest-earning assets, partially offset by a decrease in the yield on earning assets of 41 basis points to 4.31% for the twelve month period ended December 31, 2020.

Interest income and fees on loans increased \$3.1 million, or 5.4%, to \$59.3 million for the year ended December 31, 2020, compared to \$56.3 million for the prior year. The increase was attributable to an increase in the average balance of loans receivable of \$166.7 million from \$1.12 billion in 2019 to \$1.29 billion in 2020. This increase was offset by a 41 basis point decrease in the year-over-year average yield on loans, associated with the reduction of market rates and loan composition influenced by the PPP loan portfolio.

Interest income on securities decreased approximately \$367,000, or 14.8%, for the year ended December 31, 2020 compared to the prior year. This decrease was primarily attributable to a \$4.2 million decrease in average balances and a 29 basis point reduction in the yield earned on the securities portfolio. Average balances decreased due to \$19.2 million of securities sold, and because cash received from principal repayments and maturities/calls was utilized to fund the growth in our loan portfolio.

Other interest and dividends decreased \$724,000, or 73.1%, to \$267,000 for the year ended December 31, 2020, compared to \$991,000 for the prior year. This decrease was primarily due to a 168 basis point reduction in the yield earning on other investments, caused by two Federal Open Market Committee rate reductions in March of 2020 totaling 150 basis points and the three 25 basis points reductions during 2019.

**2019 vs 2018.** Total interest and dividend income increased \$5.4 million, or 9.8%, to \$59.7 million for the year ended December 31, 2019, compared to \$54.4 million for the prior year. The improvement in interest income resulted from a \$100.5 million increase in the average balance of interest-earning assets. The yield on earning assets remained flat for both periods at 4.72%.

Interest income and fees on loans increased \$5.2 million, or 10.1%, to \$56.3 million for the year ended December 31, 2019, compared to \$51.1 million for the prior year. The increase was attributable to an increase in the average balance of loans receivable of \$97.2 million from \$1.03 billion in 2018 to \$1.12 billion in 2019. This increase was aided by a three basis point increase in the year-over-year average yield on loans.

Interest income on securities decreased approximately \$20,000, or 0.8%, for the year ended December 31, 2019 compared to the prior year. This decrease was primarily attributable to a \$1.1 million decrease in average balances. Average balances decreased due to cash received from principal repayments and maturities/calls being utilized to fund the growth in our loan portfolio.

Other interest and dividends increased \$206,000, or 26.2%, to \$991,000 for the year ended December 31, 2019, compared to \$785,000 for the prior year. This increase was primarily due to an approximately \$4.5 million increase in the average outstanding balances and a higher yield of approximately 27 basis points earned.

## The Bank of Princeton

### *Interest Expense.*

**2020 vs 2019.** Total interest expense decreased \$5.4 million, or 29.8%, for the year ended December 31, 2020 compared to the prior year. This decrease was the result of a 61 basis point decrease in the cost of interest-bearing liabilities, partially offset by an increase of \$71.8 million in average interest-bearing liabilities.

Interest expense on deposits decreased \$5.0 million for the year ended December 31, 2020 compared to the prior year due to a decrease in the cost of interest-bearing deposits of 61 basis points during 2019, partially offset by a decrease in average interest-bearing deposits of \$88.8 million.

Interest expense on borrowings decreased approximately \$473,000, or 98.1%, for the year ended December 31, 2020 compared to the prior year. This decrease was primarily attributable to a \$17.0 million decrease in the average balances and an increase of 196 basis points in the cost of borrowings.

**2019 vs 2018.** Total interest expense increased \$4.9 million, or 36.8%, for the year ended December 31, 2019 compared to the prior year. This increase was the result of a 38 basis point increase in the cost of interest-bearing liabilities, coupled with a \$74.3 million increase in average interest-bearing liabilities.

Interest expense on deposits increased \$4.8 million for the year ended December 31, 2019 compared to the prior year due to an increase in the cost of interest-bearing deposits of 38 basis points during 2018, coupled with an increase in average interest-bearing deposits of \$73.2 million.

Interest expense on borrowings increased approximately \$88,000, or 22.3%, for the year ended December 31, 2019 compared to the prior year. This decrease was primarily attributable to a \$1.1 million decrease in the average balances and an increase of 34 basis points in the cost of borrowings.

### *Provision for Loan Losses.*

**2020 vs 2019.** The provision for credit losses for the twelve months ended December 31, 2020 was \$5.2 million compared with a provision of \$4.8 million for the 2019 period. The current level of general reserves was impacted by increases in qualitative factors due to growth within the Bank's loan portfolio mainly in the construction and development loans, continued uncertainties of the economic impact from the COVID-19 pandemic and an increase in the historical loss factor resulting from increased levels of prior period charge-offs. As of December 31, 2020, the Bank did not apply any qualitative factors to the loans originated from PPP, based on the U.S government's guarantee and the Coronavirus Aid, Relief and Economic Securities Act requirement to classify these loans at 0% in determining risk-based capital ratio. The rate of allowance for credit losses to period end loans was 1.18% (excluding PPP loans, the coverage ratio was 1.35%) at December 31, 2020, compared to 1.06% at December 31, 2019, which reflects management's assessment of the credit quality in the loan portfolio. 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.

**2019 vs 2018.** The provision for credit losses for the twelve months ended December 31, 2019 was \$4.8 million compared with a provision of \$665,000 for the 2018 period. The increase in the provision was due to a \$4.2 million provision recorded in the first quarter of 2019 resulting from \$4.3 million in charge-offs recorded against three separate borrower relationships. The ratio of allowance for loan losses to total loans decreased from 1.20% to 1.06% for the period ended December 31, 2019, primarily due to a decrease in commercial and industrial loans as a percentage of total portfolio which have a higher risk profile and a decrease in impaired loans and related specific reserves. 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.*

**2020 vs 2019.** Total non-interest income for the twelve month period ended December 31, 2020 increased \$1.4 million, or 41.7%, primarily due to increases of \$540 thousand from the gains recorded from the sale of investment securities available-for-sale, \$431 thousand in service charges collected and \$391 thousand in loan fees.

**2019 vs 2018.** Total non-interest income for the twelve months ended December 31, 2019 increased \$723,000, or 27.2%, when compared to the same period in 2018. This increase was primarily due to an amount of services charges collected on deposits resulting from the branch acquisition in May 2019. In addition, fees collected from the loan portfolio increased \$224,000, or 29.7%, in 2019 when compared to 2018.



## The Bank of Princeton

### Non-Interest Expense.

**2020 vs 2019.** For the twelve month period ended December 31, 2020, non-interest expense was \$31.1 million, compared to \$27.7 million for the same period in 2019. The increase was due to an increase in additional operating cost associated with the Bank's branch expansion strategy.

**2019 vs 2018.** For the twelve month period ended December 31, 2019, non-interest expense was \$27.7 million, compared to \$25.3 million for the same period in 2018. The \$2.4 million increase was attributed to expenses recorded relating to the branch acquisition and its impact on other operating expenses along with expenses associated with new branch expansion.

### Income Tax Expense.

**2020 vs 2019.** For the year ended December 31, 2020, the Bank recorded income tax expense of \$3.5 million resulting in an effective tax rate of 20.2%, compared to a \$2.2 million expense resulting in an effective tax rate of 17.6% for the same period in 2019. The current effective tax rate was impacted by decreased level of tax-free income against taxable earnings. In addition to, during the third quarter of 2020, the New Jersey Governor signed a law extending and retroactively increasing New Jersey's corporation business tax surtax by 1.0% to 2.5%.

**2019 vs 2018.** For the year ended December 31, 2019, the Bank recorded income tax expense of \$2.2 million resulting in an effective tax rate of 17.6%, compared to a \$3.0 million expense resulting in an effective tax rate of 16.9% for the same period in 2018. The current effective tax yields for the twelve months ended December 31, 2019, were increased, in part, by the recording of a \$117,000 income tax expense as a result of the New Jersey Division of Taxation issuing TB-86(R) on December 16, 2019, which provided clarity for Business Entities in a Combined Group.

## The Bank of Princeton

**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)	For the Year Ended December 31,					
	2020			2019		
	Average Balance	Interest	Average Yield/Cost	Average Balance	Interest	Average Yield/Cost
<b>Interest-earning assets:</b>						
Loan receivable, net	\$ 1,291,534	\$ 59,301	4.59%	\$ 1,124,865	\$ 56,251	5.00%
Investment securities						
Available-for-sale	93,483	2,097	2.24%	97,653	2,463	2.52%
Held-to-maturity	219	11	5.26%	225	12	5.26%
Other interest-earning assets	45,052	267	0.59%	43,693	991	2.27%
Total interest-earning assets	1,430,288	61,676	4.31%	1,266,436	59,717	4.72%
Non-interest-earning assets	100,552			84,636		
Total assets	\$ 1,530,840			\$ 1,351,072		
<b>Interest-earning liabilities:</b>						
Interest-bearing demand and savings deposits	\$ 395,797	2,410	0.61%	\$ 337,855	4,090	1.21%
Money markets	281,421	2,003	0.71%	254,151	4,250	1.67%
Time deposits	410,483	8,404	2.05%	406,908	9,444	2.32%
Total interest-bearing deposits	\$ 1,087,701	12,817	1.18%	\$ 998,914	17,784	1.78%
FHLB advances	1,345	9	0.67%	18,326	482	2.63%
Total interest-bearing liabilities	1,089,046	12,826	1.18%	1,017,240	18,266	1.80%
Non-interest-bearing liabilities	239,239			123,821		
Total liabilities	1,328,285			1,141,061		
Stockholders' equity	202,555			190,111		
Total liabilities and stockholders' equity	1,530,840			1,331,172		
Interest rate spread <sup>1</sup>			3.13%			2.92%
Net interest income		\$ 48,850			\$ 41,451	
Net yield on interest-earning assets <sup>2</sup>			3.42%			3.27%
Ratio of average interest earning assets to average interest-bearing liabilities			1.31x			1.24x

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

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



## The Bank of Princeton

(Dollars in thousands)

	2018		
	Average Balance	Interest	Average Yield/Cost
<b>Interest-earning assets:</b>			
Loan receivable, net	\$ 1,027,701	\$ 51,085	4.97%
Investment securities			
Available-for-sale	98,727	2,482	2.51%
Held-to-maturity	251	13	5.18%
Other interest-earning assets	39,214	785	2.00%
Total interest-earning assets	1,165,893	54,365	4.66%
Non-interest-earning assets	57,456		
Total assets	\$ 1,223,349		
<b>Interest-earning liabilities:</b>			
Interest-bearing demand and savings deposits	\$ 317,598	3,051	0.96%
Money markets	273,373	3,888	1.42%
Time deposits	334,780	6,023	1.80%
Total interest-bearing deposits	\$ 925,751	12,962	1.40%
FHLB advances	17,196	394	2.29%
Total interest-bearing liabilities	942,947	13,356	1.42%
Non-interest-bearing liabilities	104,611		
Total liabilities	1,047,558		
Stockholders' equity	175,791		
Total liabilities and stockholders' equity	1,223,349		
Interest rate spread <sup>1</sup>			3.25%
Net interest income		\$ 41,009	
Net yield on interest-earning assets <sup>2</sup>			3.52%
Ratio of average interest earning assets to average interest-bearing liabilities			1.24x

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

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

## The Bank of Princeton

### 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.

(Dollars in thousands)	Year Ended December 31, 2020 vs. 2019			Year Ended December 31, 2019 vs. 2018		
	Increase (Decrease) Due to			Increase (Decrease) Due to		
	Volume	Rate	Net	Volume	Rate	Net
<b>Interest and dividend income:</b>						
Loan receivable, net	\$ (4,631)	\$ 7,681	\$ 3,050	\$ 4,859	\$ 307	\$ 5,166
Investment securities						
Available-for-sale	(315)	(51)	(366)	(18)	(1)	(19)
Held-to-maturity	-	(1)	(1)	(1)	-	(1)
Other interest-earning assets	(733)	9	(724)	102	104	206
Total interest-earning assets	\$ (5,679)	\$ 7,638	\$ 1,959	\$ 4,942	\$ 410	\$ 5,352
<b>Interest expense:</b>						
Interest-bearing demand and savings deposits	\$ (2,032)	\$ 352	\$ (1,680)	\$ 245	\$ 794	\$ 1,039
Money markets	(2,446)	199	(2,247)	(321)	683	362
Time deposits	(1,095)	55	(1,040)	1,674	1,747	3,421
FHLB advances	(360)	(113)	(473)	30	58	88
Total interest-bearing liabilities	\$ (5,933)	\$ 493	\$ (5,440)	\$ 1,628	\$ 3,282	\$ 4,910
Change in net interest income	\$ 254	\$ 7,145	\$ 7,399	\$ 3,314	\$ (2,872)	\$ 442

### 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-earning 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, 2020, we had remaining available capacity with FHLB-NY, subject to certain collateral restrictions, of \$192.5 million.

Additionally, we are a shareholder of Atlantic Community Bancshares, Inc., and as such, as of December 31, 2020, 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.



## The Bank of Princeton

**Contractual Obligations.** We have non-cancelable operating leases for branch offices and our operations center. The following table is a schedule of future payments under operating leases with initial terms longer than 12 months at December 31, 2020:

Years Ended December 31:	(in thousands)
2021	\$ 2,483
2022	2,106
2023	2,024
2024	1,758
2025	1,731
Thereafter	13,593
Total minimum payments required	<u>23,695</u>

The following table summarizes our contractual cash obligations relating to certificates of deposits:

Years Ended December 31:	(in thousands)
2021	\$ 191,087
2022	61,382
2023	37,683
2024	56,764
2025 and over	<u>31,978</u>
Total	<u>\$ 378,894</u>

**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, 2020, we met the capital requirements to be considered “well capitalized.” See Note 16 – “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)	2020	2019
Performance and standby letters of credit	\$ 2,165	\$ 2,353
Undisbursed loans-in-process	116,877	99,764
Commitments to fund loans	39,868	42,129
Unfunded commitments under lines of credit	4,079	4,494
Total	<u>\$ 162,989</u>	<u>\$ 148,740</u>

## The Bank of Princeton

For additional information regarding our outstanding lending commitments at December 31, 2020, 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, 2020, 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, 2020, 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.



## The Bank of Princeton

	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
<b>Interest-earning assets: (1)</b>						
Investment securities	\$ 18,018	\$ 6,065	\$ 13,130	\$ 22,962	\$ 14,376	\$ 74,551
Loans receivable	350,365	225,873	488,700	253,222	47,800	1,365,960
Other interest-earning assets (2)	74,105	-	-	-	-	74,105
<b>Total interest-earning assets</b>	<b>\$ 442,488</b>	<b>\$ 231,938</b>	<b>\$ 501,830</b>	<b>\$ 276,184</b>	<b>\$ 62,176</b>	<b>\$ 1,514,616</b>
<b>Interest-bearing liabilities:</b>						
Checking and savings accounts	\$ 10,545	\$ 457,156	\$ -	\$ -	\$ -	\$ 467,701
Money market accounts	16,565	288,726	-	-	-	305,291
Certificate accounts	60,672	136,012	97,023	31,622	-	325,329
<b>Total interest-bearing liabilities</b>	<b>\$ 87,782</b>	<b>\$ 881,894</b>	<b>\$ 97,023</b>	<b>\$ 31,622</b>	<b>\$ -</b>	<b>\$ 1,098,321</b>
<b>Interest-earning assets less interest-bearing liabilities</b>	<b>\$ 354,706</b>	<b>\$ (649,956)</b>	<b>\$ 404,807</b>	<b>\$ 244,562</b>	<b>\$ 62,176</b>	<b>\$ 416,295</b>
<b>Cumulative interest-rate sensitivity gap (3)</b>	<b>\$ 354,706</b>	<b>\$ (295,250)</b>	<b>\$ 109,557</b>	<b>\$ 354,119</b>	<b>\$ 416,295</b>	
<b>Cumulative interest-rate gap as a percentage of total assets at December 31, 2020</b>	<b>22.13%</b>	<b>-18.42%</b>	<b>6.84%</b>	<b>22.09%</b>	<b>25.97%</b>	
<b>Cumulative interest-earning assets as a percentage of cumulative interest-bearing liabilities at December 31, 2020</b>	<b>504.08%</b>	<b>69.55%</b>	<b>110.27%</b>	<b>132.24%</b>	<b>137.90%</b>	

(1) Interest-earning assets are included in the period in which the balances are expected to be redeployed and/or repriced as a result of anticipated prepayments, scheduled rate adjustments and contractual maturities.

(2) Includes FHLB Stock

(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, 2020 and reflects the changes to NPV as a result of immediate and sustained changes in interest rates as indicated.

## The Bank of Princeton

Change in Interest Rates In Basis Points Shock)	Net Portfolio Value			NPV as % of Portfolio Value of Assets	
	Amounts	\$ Change	% Change	NPV Ratio	Change
	(in Thousands)				
300	\$ 324,291	\$ 10,612	3.38%	0.07%	-7.13%
200	\$ 321,015	\$ 7,336	2.34%	2.05%	-5.16%
100	\$ 322,227	\$ 8,548	2.73%	4.75%	-2.45%
Static	\$ 313,679	\$ -		7.20%	
(100)	\$ 267,937	\$ (45,742)	-14.58%	6.64%	-0.56%
(200)	\$ 245,004	\$ (68,675)	-21.89%	5.49%	-1.71%
(300)	\$ 232,564	\$ (81,115)	-25.86%	4.71%	-2.50%

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, 2020, 2019 and 2018.

	2020	2019	2018
Return on Average Assets (ROA)	0.90%	0.75%	1.22%
Return on Average Equity (ROE)	6.82%	5.33%	8.30%
Average Equity to Average Assets	13.23%	14.07%	14.37%
Dividend Payout Ratio <sup>1</sup>	20.59%	17.22%	NM <sup>2</sup> %

<sup>1</sup> The Bank declared an initial cash dividend of \$0.03 per common stock during the fourth quarter of 2018.

<sup>2</sup> 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.

**Goodwill and Core Deposit Intangible.** Both goodwill and the core deposit intangible asset is reviewed for impairment annually or when events and circumstances indicate that an impairment may have occurred. As a result of the COVID-19 pandemic and a broad decline in the market values of all banking company stock, the market price of the Bank’s common stock and the resulting aggregate market capitalization of the Bank declined. During each of the quarterly periods ended March 31, 2020, June 30, 2020, September 30, 2020, and December 31, 2020, the Bank concluded that a triggering event occurred due to the decline in the Bank’s stock price and market capitalization as a result of the COVID-19 pandemic. In each quarterly period, management concluded based on the results of a qualitative goodwill impairment analysis that the fair value of the reporting unit exceeded the carrying value and the goodwill was not impaired. At May 31, 2020, the Bank performed its annual quantitative goodwill impairment analysis determining the fair value of the reporting unit based on the income approach and market approach. The income approach uses a dividend discount analysis. This approach calculates cash flows based on anticipated financial results assuming a change of control transaction. This change of control assumes that an acquirer will achieve an expected base level of earnings, achieve integration cost savings and incur certain transaction costs (including such items as legal and financial advisors fees, contract cancellations, severance and employment obligations, and other transaction costs). The present value of all excess cash flows generated by the Bank (above the minimum tangible capital ratio) plus the present value of a terminal sale value is calculated to arrive at the fair value for the income approach. The market approach is used to calculate the fair value of a company by calculating median earnings and book value pricing multiples for recent actual acquisitions of companies of similar size and performance and then applying these multiples to our reporting unit. No company or transaction in the analysis is identical to our reporting unit and, accordingly, the results of the analysis are only indicative of comparable value. This technique uses historical data to create a current pricing level and is thus a trailing indicator. Results of the market approach need to be understood in this context, especially in periods of rapid price change and market uncertainty. The Bank applied the market valuation approach to our then current stock price adjusted by an appropriate control premium and also to a peer group adjusted by an appropriate control premium. In this analysis, the Bank determined that none of its goodwill was impaired. Also, the core deposit intangible was analyzed and no impairment was recorded.

**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, 2020 and 2019. 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.

On September 29, 2020, New Jersey Governor Phil Murphy signed into law A.4721, extending through December 31, 2023, the 2.5% surtax currently imposed on Corporation Business Tax (CBT) filers with allocated taxable net income over \$1 million. As originally enacted, the surtax rate was scheduled to decrease from 2.5% to 1.5% for privilege periods beginning on or after January 1, 2020 through December 31, 2021 and expire for privilege periods beginning on or after January 1, 2022. The change made by A.4721 takes effect immediately and applies retroactively to privilege periods beginning on or after January 1, 2020. The Bank recorded an additional \$63,000 in income tax expense related to the adjusted surtax during 2020. Effective in 2019, New Jersey has adopted combined income tax reporting for certain members of a commonly-controlled unitary business group.

On July 1, 2018, New Jersey Governor Phil Murphy signed into law changes to the corporate business tax laws. This legislation required a combined group to file combined returns for tax years beginning in 2019 and thereafter. However, due to technical issues and inconsistencies with existing tax law, it was determined that the tax law change did not have an impact on deferred taxes. In December 2019, the State of New Jersey issued a clarifying technical bulletin related to the impact of the new tax legislation enacted in July 2018. This technical bulletin provided clarification to the combined income tax reporting for certain members of a unitary business group. Accordingly, this required a revaluation of some of the Bank’s deferred tax assets. In the 4th quarter, the Bank recorded state deferred tax expense in the amount of approximately \$117,000.

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, 2019, management has concluded its assessment and determined no additional adjustment is required.

#### 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



# The Bank of Princeton

## INDEX TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2020, 2019 AND 2018

	Page
Reports of Independent Registered Public Accounting Firm	51
Consolidated Statements of Financial Condition	54
Consolidated Statements of Income	55
Consolidated Statements of Comprehensive Income	56
Consolidated Statements of Changes in Stockholders' Equity	57
Consolidated Statements of Cash Flows	58
Notes to Consolidated Financial Statements	60

# The Bank of Princeton



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## Report of Independent Registered Public Accounting Firm

Stockholders and Board of Directors  
The Bank of Princeton  
Princeton, NJ

### Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated statement of financial condition of The Bank of Princeton (the "Company") as of December 31, 2020 and 2019, 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, 2020, 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 at December 31, 2020 and 2019, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2020, in conformity with accounting principles generally accepted in the United States of America.

### 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 Public Company Accounting Oversight Board (United States) ("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.

### Critical Audit Matters

The critical audit matters communicated below are matters arising from the current period audit of the consolidated financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the consolidated financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

### Allowance for Loan Losses

As described in Notes 1 and 4 to the Bank's consolidated financial statements, the Bank has a gross loans receivable portfolio of \$1.4 billion and related allowance for loan losses of \$16 million as of December 31, 2020. The allowance for loan losses includes a general reserve which is determined based on the results of a quantitative (i.e. historical





loss rates) and a qualitative analysis of all loans not measured for impairment individually at the reporting date. The Bank applies a weight factor ranging from low risk to severely high risk to each qualitative factor (as listed in Note 1) for each portfolio segment to reflect improving, stable or declining conditions from the historical loss data to the current conditions.

We identified the judgments made by management in the qualitative analysis of the allowance for loan losses as a critical audit matter. The Bank estimates the risk of loss on loans collectively evaluated for impairment primarily based on determination of qualitative risk factors. In doing so, management applies a weight factor to each qualitative risk factor based on management's best judgment using relevant information available at the time of evaluation. Auditing these complex judgments involved especially challenging auditor judgment due to the nature and extent of audit evidence and effort required to address these matters.

The primary procedures we performed to address this critical audit matter included:

- Assessing the design and testing the operating effectiveness of controls over management's review of the inputs and assumptions used to determine the qualitative risk factors, including controls addressing:
  - Management's review of the accuracy of data inputs used in the determination of adjustments made to the various qualitative risk factors.
  - Management's review of the qualitative and quantitative conclusions reached related to the qualitative risk factors and the resulting allocation to the allowance.
- Assessing the reasonableness of management's estimation process, including evaluating data inputs used and management's judgments in developing the qualitative risk factors including:
  - Comparing inputs and judgments used to historical loan loss experience, current economic data, impact of governmental forbearance and stimulus programs, including consideration of contradictory evidence.
  - Verifying the relevance and reliability of inputs used in determining the qualitative risk factors through evaluating the sources of data used, considering contradictory evidence, and testing the completeness and accuracy of data used.
  - Testing the mathematical accuracy and the allocation of qualitative risk factors through re-performing or independently calculating aggregation of qualitative risk factors and application of qualitative risk factors used in the allowance for loan losses.

#### **Goodwill**

As described in Notes 1 and 13 to the Bank's consolidated financial statements, the Bank has goodwill of \$8.9 million as of December 31, 2020, which is allocated to the Bank's single reporting unit. Goodwill is tested for impairment at the reporting unit level annually or when events and circumstances indicate that an impairment may have occurred. During each of the periods ended March 31, June 30, September 30, and December 31, 2020, the market volatility resulting from the COVID-19 pandemic resulted in a decrease in the Bank's stock price and market capitalization. The Bank determined that such decrease was a triggering event requiring interim goodwill qualitative impairment analysis. At May 31, 2020, the Bank performed its annual goodwill quantitative impairment analysis. The annual assessment of goodwill was performed by determining the fair value of the reporting unit based on the income and market approaches.

We identified the assumptions used by management in the annual assessment of goodwill impairment as a critical audit matter. Both the income and market approaches required significant management assumptions, including discount rate, anticipated cash flows assuming a change in control transaction, terminal sale value, and appropriate control premium. Auditing these significant assumptions involved especially challenging auditor judgment and an increased extent of effort and included personnel with specialized skill and knowledge. The significant assumptions were especially challenging to audit due to the inherent uncertainties related to the COVID-19 pandemic.



The primary procedures we performed to address this critical audit matter included:

- Assessing the reasonableness of assumptions used by management in the goodwill impairment analysis, including discount rate, anticipated cash flows assuming a change in control transaction, terminal sale value, and appropriate control premium, by:
  - Testing the completeness, accuracy, and relevance of underlying data used in management's anticipated cash flows by agreeing such data back to source documents, comparing to historical results and considering the impact of the COVID-19 pandemic; and
  - Utilizing personnel with specialized knowledge and skill in valuation to assist in (i) assessing the appropriateness of the valuation methodologies used and (ii) evaluating the reasonableness of assumptions used, including discount rate, terminal sale value, and appropriate control premium.

/s/ BDO USA, LLP

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

Philadelphia, Pennsylvania  
March 26, 2021



## The Bank of Princeton

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

	December 31, 2020	December 31, 2019
<b>ASSETS</b>		
Cash and due from banks	\$ 4,690	\$ 12,032
Interest-earning bank balances	72,739	60,566
Total cash and cash equivalents	77,429	72,598
Securities available-for-sale, at fair value (amortized value of \$73,215 and \$111,454, respectively)	75,628	112,312
Securities held-to-maturity (fair value of \$237 and \$236, respectively)	215	222
Loans receivable, net of allowance for loan losses of \$16,027 and \$12,557 at December 31, 2020 and December 31, 2019, respectively	1,347,459	1,174,013
Bank-owned life insurance	47,862	46,711
Premises and equipment, net	12,714	10,777
Accrued interest receivable	4,893	3,626
Restricted investment in bank stock	1,366	1,246
Deferred taxes, net	4,460	3,927
Goodwill	8,853	8,853
Core deposit intangible	3,036	3,763
Operating lease right-of-use asset	18,408	14,533
Other assets	515	2,313
<b>TOTAL ASSETS</b>	<b>\$ 1,602,838</b>	<b>\$ 1,454,894</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>LIABILITIES</b>		
<b>Deposits:</b>		
Non-interest-bearing	\$ 215,381	\$ 141,338
Interest-bearing	1,151,885	1,096,552
Total deposits	1,367,266	1,237,890
Accrued interest payable	2,476	3,885
Operating lease liability	18,987	15,040
Other liabilities	5,291	2,154
<b>TOTAL LIABILITIES</b>	<b>1,394,020</b>	<b>1,258,969</b>
<b>STOCKHOLDERS' EQUITY:</b>		
Common stock, \$5.00 par value, 15,000,000 authorized, 6,789,812 and 6,761,443 shares issued and outstanding at December 31, 2020 and December 31, 2019, respectively	33,949	33,807
Paid-in capital	79,708	79,215
Retained earnings	93,370	82,273
Accumulated other comprehensive income	1,791	630
<b>TOTAL STOCKHOLDER'S EQUITY</b>	<b>208,818</b>	<b>195,925</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 1,602,838</b>	<b>\$ 1,454,894</b>

See notes to consolidated financial statements.

## The Bank of Princeton

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

	For the twelve months ended December 31,		
	2020	2019	2018
<b>INTEREST AND DIVIDEND INCOME</b>			
Loans receivable, including fees	\$ 59,301	\$ 56,251	\$ 51,085
Securities available-for-sale:			
Taxable	719	1,126	1,176
Tax-exempt	1,378	1,337	1,306
Securities held-to-maturity	11	12	13
Other interest and dividend income	267	991	785
<b>TOTAL INTEREST AND DIVIDEND INCOME</b>	<b>61,676</b>	<b>59,717</b>	<b>54,365</b>
<b>INTEREST EXPENSE</b>			
Deposits	12,817	17,784	12,962
Borrowings	9	482	394
<b>TOTAL INTEREST EXPENSE</b>	<b>12,826</b>	<b>18,266</b>	<b>13,356</b>
<b>NET INTEREST INCOME</b>	<b>48,850</b>	<b>41,451</b>	<b>41,009</b>
Provision for loan losses	5,225	4,800	665
<b>NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES</b>	<b>43,625</b>	<b>36,651</b>	<b>40,344</b>
<b>NON-INTEREST INCOME</b>			
Gain on call/sale of securities available-for-sale	571	31	1
Income from bank-owned life insurance	1,151	1,230	1,225
Fees and service charges	1,493	1,062	613
Loan fees, including prepayment penalties	1,370	979	755
Other	221	90	68
<b>TOTAL NON-INTEREST INCOME</b>	<b>4,806</b>	<b>3,392</b>	<b>2,662</b>
<b>NON-INTEREST EXPENSES</b>			
Salaries and employee benefits	16,451	15,274	14,530
Occupancy and equipment	5,412	4,260	3,387
Professional fees	2,103	1,772	1,939
Data processing and communications	3,085	2,407	2,101
Federal deposit insurance	497	81	338
Advertising and promotion	301	386	421
Office expense	276	433	267
Other real estate expenses	-	10	2
Acquisition cost	-	627	-
Loss on sale of other real estate owned	-	7	540
Core deposit intangible	727	482	-
Other	2,289	2,000	1,773
<b>TOTAL NON-INTEREST EXPENSE</b>	<b>31,141</b>	<b>27,739</b>	<b>25,298</b>
<b>INCOME BEFORE INCOME TAX EXPENSE</b>	<b>17,290</b>	<b>12,304</b>	<b>17,708</b>
<b>INCOME TAX EXPENSE</b>	<b>3,484</b>	<b>2,162</b>	<b>3,000</b>
<b>NET INCOME</b>	<b>\$ 13,806</b>	<b>\$ 10,142</b>	<b>\$ 14,708</b>
Earnings per common share-basic	\$ 2.04	\$ 1.51	\$ 2.22
Earnings per common share-diluted	\$ 2.01	\$ 1.47	\$ 2.14
Dividends declared per common share	\$ 0.40	\$ 0.26	\$ 0.03

See notes to consolidated financial statements.



## The Bank of Princeton

### CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Dollars in thousands)

	For the Years Ended December 31,		
	2020	2019	2018
<b>NET INCOME</b>	\$ 13,806	\$ 10,142	\$ 14,708
Other comprehensive income (loss)			
Unrealized holdings gains (losses) arising during period on securities available-for-sale	2,126	1,549	(749)
Income tax effect on unrealized holding	(541)	(411)	198
Less: reclassification adjustment for gain on call/sale of securities available-for-sale <sup>1</sup>	(571)	(31)	(1)
Income tax effect on reclassification adjustment for gain on call/sale of securities available-for-sale <sup>2</sup>	147	8	-
Total other comprehensive income (loss)	<u>1,161</u>	<u>1,115</u>	<u>(552)</u>
<b>COMPREHENSIVE INCOME</b>	<u>\$ 14,967</u>	<u>\$ 11,257</u>	<u>\$ 14,156</u>

<sup>1</sup> Amounts are included in gain on call/sale of securities available-for-sale on the Consolidated Statement of Income as a separate element within total non-interest income.

<sup>2</sup> Amounts are included in income tax expense on the Consolidated Statement of Income.

See notes to consolidated financial statements

## The Bank of Princeton

### CONSOLIDATE STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY (Dollars in thousands)

	Common stock	Paid-in Capital	Retained Earnings	Accumulated other comprehensive (loss) income	Total
Balance, January 1, 2018	\$ 32,756	\$ 76,350	\$ 59,122	\$ 67	\$ 168,295
Net income	-	-	14,708	-	14,708
Other comprehensive income	-	-	-	(552)	(552)
Stock options exercised (97,850 shares)	490	883	-	-	1,373
Directors compensation (6,430 shares)	32	168	-	-	200
Dividends declared \$0.03 per share	-	-	(200)	-	(200)
Stock-based compensation expense	-	494	-	-	494
Balance, December 31, 2018	<u>\$ 33,278</u>	<u>\$ 77,895</u>	<u>\$ 73,630</u>	<u>\$ (485)</u>	<u>\$ 184,318</u>
Net income	-	-	10,142	-	10,142
Other comprehensive income	-	-	-	1,115	1,115
Adoption of ASU Topic 842	-	-	(219)	-	(219)
Stock options exercised (98,852 shares)	494	848	-	-	1,342
Directors compensation (7,082 shares)	35	165	-	-	200
Dividends declared \$0.26 per share	-	-	(1,280)	-	(1,280)
Stock-based compensation expense	-	307	-	-	307
Balance, December 31, 2019	<u>\$ 33,807</u>	<u>\$ 79,215</u>	<u>\$ 82,273</u>	<u>\$ 630</u>	<u>\$ 195,925</u>
Net income	-	-	13,806	-	13,806
Other comprehensive income	-	-	-	1,161	1,161
Stock options exercised (21,520 shares)	108	179	-	-	287
Directors compensation (5,388 shares)	27	93	-	-	120
Dividends declared \$0.40 per share	-	-	(2,709)	-	(2,709)
Dividend reinvestment plan (1,461 shares)	7	24	-	-	31
Stock-based compensation expense	-	197	-	-	197
Balance, December 31, 2020	<u>\$ 33,949</u>	<u>\$ 79,708</u>	<u>\$ 93,370</u>	<u>\$ 1,791</u>	<u>\$ 208,818</u>

See notes to consolidated financial statements



# The Bank of Princeton

## UNAUDITED CONSOLIDATED STATEMENT OF STATEMENTS OF CASH FLOWS (Dollars in thousands)

	Twelve Months Ended December 31,		
	2020	2019	2018
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net income	\$ 13,806	\$ 10,142	\$ 14,708
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses	5,225	4,800	665
Depreciation and amortization	1,159	792	638
Stock-based compensation expense	197	307	494
Amortization of premiums and accretion of discount on securities	201	243	328
Accretion of net deferred loan fees and costs	(3,021)	(1,026)	(969)
Gain on call/sale of securities available-for-sale	(571)	(31)	(1)
Increase in cash surrender value of bank-owned life insurance	(1,151)	(1,230)	(1,225)
Loss on sale/writedown of other real estate owned	-	7	540
Deferred income tax expense	(926)	(62)	(3,242)
Amortization of core deposit intangible	727	482	-
Stock-based directors compensation	120	200	200
Operating leases liability payments	(1,822)	(1,465)	-
Decrease in accrued interest receivable and other assets	2,116	1,000	3,913
Increase in accrued interest payable and other liabilities	2,036	2,905	972
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>18,096</u>	<u>17,064</u>	<u>17,021</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchases of available-for-sale securities	(28,332)	(47,233)	(9,145)
Principal repayments of securities available-for-sale	39,259	11,533	12,566
Maturities and calls of securities available-for-sale	16,636	16,375	5,545
Proceeds from sales of available-for-sale securities	11,046	-	-
Maturities, calls and principal repayments of securities held-to-maturity	7	6	36
Net increase in loans	(175,650)	(108,552)	(53,195)
Purchase of loans	-	-	(57,380)
Purchase of bank-owned life insurance	-	-	(3,700)
Purchases of premises and equipment	(3,096)	(3,982)	(960)
Proceeds on sale of other real estate owned	-	37	218
Cash from acquisition of bank branches	-	161,282	-
(Purchase) redemption of restricted bank stock	(120)	2,328	(2,596)
<b>NET CASH (USED IN) PROVIDED BY INVESTMENT ACTIVITIES</b>	<u>(140,250)</u>	<u>31,794</u>	<u>(108,611)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Net increase (decrease) increase in deposits	129,376	52,694	(21,421)
Net (decrease) increase in overnight borrowings	-	(55,400)	55,400
Dividend reinvestment program	31	-	-
Cash dividends	(2,709)	(1,280)	(200)
Proceeds from exercise of stock options	287	1,342	1,373
<b>NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES</b>	<u>126,985</u>	<u>(2,644)</u>	<u>35,152</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<u>4,831</u>	<u>46,214</u>	<u>(56,438)</u>
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	72,598	26,384	82,822
CASH AND CASH EQUIVALENTS, END OF PERIOD	<u>\$ 77,429</u>	<u>\$ 72,598</u>	<u>\$ 26,384</u>

See notes to consolidated financial statements

# The Bank of Princeton

## UNAUDITED CONSOLIDATED STATEMENT OF STATEMENTS OF CASH FLOWS -(Continued) (Dollars in thousands)

	Twelve Months Ended December 31,		
	2020	2019	2018
<b>SUPPLEMENTARY CASH FLOWS INFORMATION:</b>			
Interest paid	\$ 14,235	\$ 16,579	\$ 12,749
Income taxes paid	\$ 3,177	\$ 3,112	\$ 1,967
Recognition of operating lease right-of-use assets	\$ 5,768	\$ 17,716	\$ -
Recognition of operating leases liabilities	\$ 5,768	\$ 17,990	\$ -
Fair value of assets acquired	\$ -	\$ 168,944	\$ -
Fair value of liabilities assumed	\$ -	\$ 177,797	\$ -
<b>SUPPLEMENTARY SCHEDULE OF NONCASH ACTIVITIES</b>			
Transfers from loans receivable, net of OREO	\$ -	\$ -	\$ 802

See notes to consolidated financial statements



# The Bank of Princeton

## 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 21 branches, is generally an area within an approximate 50 mile radius of Princeton, NJ, including parts of Mercer, Somerset, Hunterdon, Ocean, Burlington, Camden, Gloucester 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.

### 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, the potential impairment of goodwill, and the valuation of deferred tax assets.

Management believes that the allowance for loan losses is adequate as of December 31, 2020 and 2019. 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.

### 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

# The Bank of Princeton

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

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. The outstanding balance of loan participations sold was \$28.7 million and \$30.6 million as of December 31, 2020 and 2019, respectively.

### 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 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 2020 and 2019, it was determined that there were no other-than-temporarily impaired investments.



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

**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/consumer loans and Payroll Protection Program loans (“PPP”) guaranteed by U.S. Small Business Administration.

For all segments of loans receivable, the accrual of interest is discontinued when the contractual payment of principal or interest is 90 days past due or management has serious doubts about further collectability of principal or interest, even though the loan is currently performing. A loan may remain on accrual status if it is in the process of collection and is either guaranteed or well-secured. When a loan is placed on nonaccrual status, unpaid interest credited to income in the current year is reversed and unpaid interest accrued in prior years is charged against the allowance for loan losses. Interest received on nonaccrual loans, including impaired loans, generally is either applied against principal or reported as interest income, according to management’s judgment as to the collectability of principal. Generally, loans are restored to accrual status when the obligation is brought current, has performed in accordance with the contractual terms for a reasonable period of time (generally six months) and the ultimate collectability of the total contractual principal and interest is no longer in doubt. The past due status of all segments of loans receivable is determined on contractual due dates for loan payments.

**Allowance for credit losses**

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

The allowance for loan losses is maintained at a level considered adequate to provide for probable losses. The Bank performs, at least quarterly, an evaluation of the adequacy of the allowance. The allowance is based on past loan loss experience (which is bound by the Bank’s limited operating history), known and inherent risks in the portfolio, adverse situations that may affect the borrower’s ability to repay, the estimated value of any underlying collateral, the composition of the loan portfolio, current economic conditions and other relevant factors. This evaluation is inherently subjective as it requires material estimates that may be susceptible to significant revision as more information becomes available.

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

The allowance consists of specific, general and unallocated components. The specific component relates to loans that are classified as impaired. For loans that are classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers pools of loans by loan segment, including loans not considered impaired, as well as smaller balance homogeneous loans, such as residential mortgage, home equity and consumer loans. These pools of loans are evaluated for loss exposure based upon historical loss rates for each of these loan segments, adjusted for qualitative factors. These qualitative risk factors include:

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

The Bank determines the allowance for loan losses by portfolio segment, which consists of commercial real estate loans, commercial and industrial loans, construction loans, residential first-lien mortgage loans, home equity and consumer loans. The Bank estimates the inherent risk of loss on all loans by portfolio segment, based primarily on the risk factors identified above and by applying a weight factor ranging from 4 bps (low risk) to 24 bps (severely high risk) to each element for each portfolio segment. The Bank does not apply any qualitative factors to the loans originated from PPP, based on the U.S. governments guarantee and the Coronavirus Aid, Relief and Economic Securities Act (“CARES’s”) requirement to classify these loans at 0.0% risk weighting asset in determining risk-based capital ratio.

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



## The Bank of Princeton

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

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.

PPP loans have a maturity term ranging between 2 to 5 years, but the borrower can apply for complete or partial forgiveness from the U. S. government after six months. Once the 6 month term expires, the borrower is required to commence making principle and interest payments until maturity.

An unallocated component of the allowance for loan losses is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

A loan is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired loans. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis for commercial real estate loans, commercial and industrial loans and construction loans by either the present value of expected future cash flows discounted at the loan's effective interest rate or the fair value of the loan collateral if the loan is collateral-dependent. An allowance for loan losses is established for an impaired loan if its carrying value exceeds its estimated fair value. The estimated fair values of substantially all of the Bank's impaired loans are measured based on the estimated fair value of the loan's collateral, less costs to sell the property.

For commercial real estate loans, estimated fair values of the real estate collateral are determined primarily through third-party appraisals. When a real estate-secured loan becomes impaired, a decision is made regarding whether an updated appraisal of the real estate is necessary. This decision is based on various considerations,

## The Bank of Princeton

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

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. As part of the Bank's commitment to provide assistance during the COVID-19 pandemic, the Bank agreed to defer either the principal portion or both principal and interest payments for its customers who requested the deferral and were not delinquent prior to the government shut down. For reporting purposes, loans modified under this program were not classified as troubled debt restructuring.

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 tax exempted 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.

**Goodwill and Other Intangible Assets, Net**

Goodwill represents the excess cost over the identifiable net assets of businesses acquired. The Bank's intangible asset was derived from core deposits acquired that has a definitive life and is amortized over the estimated life. Both goodwill and the core deposit intangible asset is reviewed for impairment annually or when events and circumstances indicate that an impairment may have occurred. As a result of the COVID-19 pandemic and a broad decline in the market values of all banking company stock, the market price of the Bank's common stock and the resulting aggregate market capitalization of the Bank declined. During each of the quarterly periods ended March 31, 2020, June 30, 2020, September 30, 2020, and December 31, 2020, the Bank concluded that a triggering event occurred due to the decline in the Bank's stock price and market capitalization as a result of the COVID-19 pandemic. In each quarterly period, management concluded based on the results of a qualitative goodwill impairment analysis that the fair value of the reporting unit exceeded the carrying value and the goodwill was not impaired. At May 31, 2020, the Bank performed its annual quantitative goodwill impairment analysis determining the fair value of the reporting unit based on the income approach and market approach. The income approach uses a dividend discount analysis. This approach calculates cash flows based on anticipated financial results assuming a change of control transaction. This change of control assumes that an acquirer will achieve an expected base level of earnings, achieve integration cost savings and incur certain transaction costs (including such items as legal and financial advisors fees, contract cancellations, severance and employment obligations, and other transaction costs). The present value of all excess cash flows generated by the Bank (above the minimum tangible capital ratio) plus the present value of a terminal sale value is calculated to arrive at the fair value for the income approach. The market approach is used to calculate the fair value of a company by calculating median earnings and book value pricing multiples for recent actual acquisitions of companies of similar size and performance and then applying these multiples to our reporting unit. No company or transaction in the analysis is identical to our reporting unit and, accordingly, the results of the analysis are only indicative of comparable value. This technique uses historical data to create a current pricing level and is thus a trailing indicator. Results of the market approach need to be understood in this context, especially in periods of rapid price change and market uncertainty. The Bank applied the market valuation approach to our then current stock price adjusted by an appropriate control premium and also to a peer group adjusted by an appropriate control premium. In this analysis, the Bank determined that none of its goodwill was impaired. Also, the core deposit intangible was analyzed, and no impairment was recorded.

**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.

**Note 1 – Summary of Significant Accounting Policies (Continued)****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 \$1.4 million and \$1.2 million is carried at cost at December 31, 2020 and 2019, 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 Bancshares, Inc. ("ACBB") at December 31, 2020 and 2019.

Management believes no impairment charge is necessary related to the FHLB restricted stock or the ACBB restricted stock as of December 31, 2020 or 2019.

**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, 2020 and 2019. 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, 2020, tax years after 2017 are subject to federal examination and tax years after 2015 to state examination. Tax regulations are subject to interpretation of the related tax laws and regulations and require significant judgment to apply.

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

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

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



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

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.

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.

In December 2019, the State of New Jersey issued a clarifying technical bulletin related to the impact of the new tax legislation enacted in July 2018. This technical bulletin provided clarification to the combined income tax reporting for certain members of a unitary business group. Accordingly, this required a revaluation of some of the Bank's deferred tax assets. The Bank recorded state deferred tax expense in the amount of approximately \$117,000 during the year ended December 31, 2019.

On September 29, 2020, New Jersey Governor Phil Murphy signed into law A.4721, extending through December 31, 2023, the 2.5% surtax currently imposed on Corporation Business Tax (CBT) filers with allocated taxable net income over \$1 million. As originally enacted, the surtax rate was scheduled to decrease from 2.5% to 1.5% for privilege periods beginning on or after January 1, 2020 through December 31, 2021 and expire for privilege periods beginning on or after January 1, 2022. The change made by A.4721 takes effect immediately and applies retroactively to privilege periods beginning on or after January 1, 2020.

**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 \$166,000, \$163,000 and \$150,000, respectively during the years ended December 31, 2020, 2019 and 2018.

**Stock compensation plans**

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

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

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

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 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 December 15, 2019. ASU 2017-04 should be adopted on a prospective basis. The Bank completed its acquisition of five branches during the 2<sup>nd</sup> quarter of 2019, when the Bank recorded \$8.9 million in goodwill and \$4.2 million in core deposit intangible in connection with the transaction. The Bank adopted ASU 2017-04 on January 1, 2020. ASU 2017-04 did not have a material impact on the Bank's financial statements.

In August 2018, the FASB issued ASU No. 2018-13, *Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement*. This ASU eliminates, adds and modifies certain disclosure requirements for fair value measurements. Among the changes, entities will no longer be required to disclose the amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy, but will be required to disclose the range and weighted average used to develop significant unobservable inputs for Level 3 fair value measurements. ASU No. 2018-13 is effective for interim and annual reporting periods beginning after December 15, 2019; early adoption is permitted. The Bank adopted ASU 2018-13 on January 1, 2020. As ASU No. 2018-13 only revises disclosure requirements, it did not have a material impact on the Bank's financial statements.



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

## Accounting Standard Pending Adoption

In June 2016, the FASB 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. In October 2019, the FASB affirmed its decision to extend the deadline to implement this ASU. For public entities that are SEC filers, excluding Smaller Reporting Companies, the ASU is effective for fiscal years, and interim periods within those

fiscal years, beginning December 15, 2019. However, for Smaller Reporting Companies, such as the Bank, this ASU is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2022. Early adoption will be permitted for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. The Bank has formed a CECL committee, which has assessed our data and system needs, and has engaged a third-party vendor to assist in analyzing our data and developing a CECL model. The Bank, in conjunction with this vendor, has researched and analyzed modeling standards, loan segments, as well as external inputs to supplement our historical loss history. 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 ASU is effective, but cannot yet determine the magnitude of any such one-time or the overall impact of the ASUs on our consolidated financial statements.

In March 2020, the FASB issued ASU No. 2020-04, “Reference Rate Reform” (Topic 848), which provides optional expedients and exceptions for applying GAAP to loan and lease agreements, derivative contracts, and other transactions affected by the anticipated transition away from LIBOR toward new interest rate benchmarks. For transactions that are modified because of reference rate reform and that meet certain scope guidance (i) modifications of loan agreements should be accounted for by prospectively adjusting the effective interest rate and the modification will be considered “minor” so that any existing unamortized origination fees/costs would carry forward and continue to be amortized and (ii) modifications of lease agreements should be accounted for as a continuation of the existing agreement with no reassessments of the lease classification and the discount rate or re-measurements of lease payments that otherwise would be required for modifications not accounted for as separate contracts. ASU 2020-04 also provides numerous optional expedients for derivative accounting. ASU 2020-04 is effective March 12, 2020 through December 31, 2022. An entity may elect to apply ASU 2020-04 for contract modifications as of January 1, 2020, or prospectively from a date within an interim period that includes or is subsequent to March 12, 2020, up to the date that the financial statements are available to be issued. Once elected for a Topic or an Industry Subtopic within the Codification, the amendments in this ASU must be applied prospectively for all eligible contract modifications for that Topic or Industry Subtopic. We anticipate this ASU will simplify any modifications we execute between the selected start date (yet to be determined) and December 31, 2022 that are directly related to LIBOR transition by allowing prospective recognition of the continuation of the contract, rather than extinguishment of the old contract resulting in writing off unamortized fees/costs. We are evaluating the impacts of this ASU and have not yet determined whether LIBOR transition and this ASU will have material effects on our business operations and consolidated financial statements.

## Note 2 – Earnings Per Share

The following schedule presents earnings per share data:

	Years ended December 31,		
	2020	2019	2018
Net income applicable to common stock	\$ 13,806	\$ 10,142	\$ 14,708
Weighted average number of common shares outstanding	6,774	6,731	6,628
<b>Basic earnings per share</b>	<b>\$ 2.04</b>	<b>\$ 1.51</b>	<b>\$ 2.22</b>
Net income applicable to common stock	\$ 13,806	\$ 10,142	\$ 14,708
Weighted average number of common shares outstanding	6,774	6,731	6,628
Dilutive effect on common shares outstanding	94	165	244
Weighted average number of diluted common shares outstanding	6,868	6,896	6,872
<b>Diluted earnings per share</b>	<b>\$ 2.01</b>	<b>\$ 1.47</b>	<b>\$ 2.14</b>

Options and warrants to purchase 347,093 shares of common stock at a weighted average exercise price of \$16.03 were included in the computation of diluted earnings per share for the year ended December 31, 2020. Options to purchase 107,278 shares of common stock at a weighted average exercise price of \$32.35 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, 2020.

Options and warrants to purchase 360,750 shares of common stock at a weighted average exercise price of \$15.95 were included in the computation of diluted earnings per share for the year ended December 31, 2019. Options to purchase 101,875 shares of common stock at a weighted average exercise price of \$32.45 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, 2019.

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.



## The Bank of Princeton

### Note 3 – Investment Securities

The following summarizes the amortized cost and estimated fair value of securities available-for-sale at December 31, 2020 and December 31, 2019 with gross unrealized gains and losses therein:

	December 31, 2020			Fair Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
<b>Available-for-sale</b>				
Mortgage-backed securities - U.S.				
Government Sponsored Enterprises (GSEs)	\$ 24,487	\$ 626	\$ (1)	\$ 25,112
Obligations of state and political subdivisions	48,728	1,788	-	50,516
Total	<u>\$ 73,215</u>	<u>\$ 2,414</u>	<u>\$ (1)</u>	<u>\$ 75,628</u>

	December 31, 2019			Fair Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
<b>Available-for-sale</b>				
Mortgage-backed securities - U.S.				
Government Sponsored Enterprises (GSEs)	\$ 55,677	\$ 414	\$ (140)	\$ 55,951
Obligations of state and political subdivisions	55,777	794	(210)	56,361
Total	<u>\$ 111,454</u>	<u>\$ 1,208</u>	<u>\$ (350)</u>	<u>\$ 112,312</u>

The unrealized losses, categorized by the length of time in a continuous loss position, and the fair value of related securities available-for-sale as of December 31, 2020 and December 31, 2019 are as follows:

	Less than 12 Months		More than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
<b>December 31, 2020</b>						
Mortgage-backed securities - U.S.						
Government Sponsored Enterprises (GSEs)	\$ 2,126	\$ (1)	\$ -	\$ -	\$ 2,126	\$ (1)
Total	<u>\$ 2,126</u>	<u>\$ (1)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,126</u>	<u>\$ (1)</u>

	Less than 12 Months		More than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
<b>December 31, 2019</b>						
Mortgage-backed securities - U.S.						
Government Sponsored Enterprises (GSEs)	\$ 21,479	\$ (105)	\$ 3,148	\$ (35)	\$ 24,627	\$ (140)
Obligations of state and political subdivisions	12,650	(210)	-	-	12,650	(210)
Total	<u>\$ 34,129</u>	<u>\$ (315)</u>	<u>\$ 3,148</u>	<u>\$ (35)</u>	<u>\$ 37,277</u>	<u>\$ (350)</u>

## The Bank of Princeton

### Note 3 – Investment Securities (Continued)

At December 31, 2020, there were two mortgage-backed securities in the less-than-twelve-months category and zero securities in the more-than twelve-month category for the securities available-for-sale portfolio.

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, 2020 and 2019.

At December 31, 2019, there were 55 securities in the less-than-twelve-months category and 13 securities in the more-than twelve-month category for the securities available-for-sale portfolio. Included in the 55 securities in the less than twelve-months category are 23 mortgage-backed securities and 32 municipal debt obligations. Included in the 13 securities in the more-than twelve-month category are 13 mortgage-backed securities.

The amortized cost and estimated fair value of securities available-for-sale at December 31, 2020 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
Due in one year or less	\$ 290	\$ 290
Due after one year through five years	5,770	5,841
Due after five years through ten years	12,462	13,090
Due after ten years	30,206	31,295
Mortgage-backed securities (GSEs)	24,487	25,112
	<u>\$ 73,215</u>	<u>\$ 75,628</u>

The following summarizes the amortized cost and estimated fair value of securities held-to-maturity at December 31, 2020 and December 31, 2019 with gross unrealized gains and losses therein:

	December 31, 2020			Fair Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
<b>Held-to-maturity:</b>				
Mortgage-backed securities (GSEs)	\$ 215	\$ 22	\$ -	\$ 237

	December 31, 2019			Fair Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
<b>Held-to-maturity:</b>				
Mortgage-backed securities (GSEs)	\$ 222	\$ 14	\$ -	\$ 236

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

Proceeds from the sale of available-for-sale securities amounted to \$39.3 million for the twelve months ended December 31, 2020, which included approximately \$522,000 in gross realized gains. Proceeds from the calls and



## The Bank of Princeton

### Note 3 – Investment Securities (Continued)

maturities of securities available-for-sale amounted to \$11.0 million for the twelve months ended December 31, 2020, which included approximately \$49,000 in gross realized gains. There were no sales of securities available-for-sale for the twelve months ended December 31, 2019. Proceeds from the calls and maturities of securities available-for-sale amounted to \$16.4 million for the twelve months ended December 31, 2019, which included approximately \$31,000 in gross realized gains.

There were no securities pledged as collateral for NJ Governmental Unit Deposit Protection Act (“GUDPA”) deposits at December 31, 2020 or 2019.

### Note 4 – Loans Receivable

Loans receivable, net was comprised of the following:

	December 31, 2020	December 31, 2019
Commercial real estate	\$ 812,043	\$ 853,876
Commercial and industrial	40,597	43,504
Construction	263,032	189,789
Residential first-lien mortgage	66,857	89,067
Home equity/Consumer	9,929	13,753
Payroll Protection Program (“PPP”)	175,878	-
Total loans	1,368,336	1,189,989
Deferred fees and costs	(4,850)	(3,419)
Allowance for loan losses	(16,027)	(12,557)
Loans, net	<u>\$ 1,347,459</u>	<u>\$ 1,174,013</u>

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

	December 31, 2020	December 31, 2019
Commercial real estate	\$ 1,030	\$ 2,071
Commercial and industrial	132	-
Construction	370	371
Residential first-lien mortgage	144	-
Total nonaccrual loans	<u>\$ 1,676</u>	<u>\$ 2,442</u>

## The Bank of Princeton

### 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, 2020 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	\$ 7,520	\$ 7,433	\$ -	\$ 4,444	\$ 282
Commercial and industrial	1,156	1,037	-	625	47
Construction	-	-	-	-	-
Residential first-lien mortgage	151	144	-	314	17
Home equity/Consumer	140	141	-	94	15
Total with no related allowance	<u>\$ 8,967</u>	<u>\$ 8,755</u>	<u>\$ -</u>	<u>\$ 5,477</u>	<u>\$ 361</u>
With an allowance recorded:					
Commercial real estate	\$ 2,707	\$ 2,008	\$ 203	\$ 1,146	\$ 57
Commercial and industrial	194	132	6	59	7
Construction	370	370	219	216	-
Residential first-lien mortgage	-	-	-	-	-
Home equity/Consumer	-	-	-	-	-
Total with an allowance	<u>\$ 3,271</u>	<u>\$ 2,510</u>	<u>\$ 428</u>	<u>\$ 1,421</u>	<u>\$ 64</u>
Total:					
Commercial real estate	\$ 10,227	\$ 9,441	\$ 203	\$ 5,590	\$ 339
Commercial and industrial	1,350	1,169	6	684	54
Construction	370	370	219	216	-
Residential first-lien mortgage	151	144	-	314	17
Home equity/Consumer	140	141	-	94	15
Total	<u>\$ 12,238</u>	<u>\$ 11,265</u>	<u>\$ 428</u>	<u>\$ 6,898</u>	<u>\$ 425</u>



## The Bank of Princeton

### 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, 2019 and the year then ended:

	<u>Unpaid Principal Balance</u>	<u>Recorded Investment</u>	<u>Related Allowance</u>	<u>Average Recorded Investment</u>	<u>Interest Income Recognized</u>
	(Dollars in thousands)				
With no related allowance recorded:					
Commercial real estate	\$ 11,240	\$ 8,605	\$ -	\$ 9,868	\$ 325
Commercial and industrial	2,126	-	-	766	54
Construction	-	-	-	-	-
Residential first-lien mortgage	607	609	-	622	22
Home equity/Consumer	168	169	-	213	16
Total with no related allowance	<u>\$ 14,141</u>	<u>\$ 9,383</u>	<u>\$ -</u>	<u>\$ 11,469</u>	<u>\$ 417</u>
With an allowance recorded:					
Commercial real estate	\$ 2,299	\$ 2,173	\$ 220	\$ 2,605	\$ 50
Commercial and industrial	-	-	-	-	-
Construction	371	371	209	381	-
Residential first-lien mortgage	-	-	-	-	-
Home equity/Consumer	-	-	-	-	-
Total with an allowance	<u>\$ 2,670</u>	<u>\$ 2,544</u>	<u>\$ 429</u>	<u>\$ 2,986</u>	<u>\$ 50</u>
Total:					
Commercial real estate	\$ 13,539	\$ 10,778	\$ 220	\$ 12,473	\$ 375
Commercial and industrial	2,126	-	-	766	54
Construction	371	371	209	381	-
Residential first-lien mortgage	607	609	-	622	22
Home equity/Consumer	168	169	-	213	16
Total	<u>\$ 16,811</u>	<u>\$ 11,927</u>	<u>\$ 429</u>	<u>\$ 14,455</u>	<u>\$ 467</u>

## The Bank of Princeton

### 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, 2018 and the year then ended:

	<u>Unpaid Principal Balance</u>	<u>Recorded Investment</u>	<u>Related Allowance</u>	<u>Average Recorded Investment</u>	<u>Interest Income Recognized</u>
	(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/Consumer	246	247	-	276	16
Total with no related allowance	<u>\$ 8,254</u>	<u>\$ 8,290</u>	<u>\$ -</u>	<u>\$ 9,328</u>	<u>\$ 510</u>
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 with an allowance	<u>\$ 6,308</u>	<u>\$ 6,168</u>	<u>\$ 1,170</u>	<u>\$ 5,542</u>	<u>\$ 151</u>
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/Consumer	246	247	-	276	16
Total	<u>\$ 14,562</u>	<u>\$ 14,458</u>	<u>\$ 1,170</u>	<u>\$ 14,870</u>	<u>\$ 661</u>



## The Bank of Princeton

### Note 4 – Loans Receivable (Continued)

The performance and credit quality of the loan portfolio is also monitored by analyzing the age of the loan 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, 2020:

	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)							
With no related allowance recorded:							
Commercial real estate	\$ 952	\$ -	\$ 1,030	\$ 1,982	\$ 810,061	\$ 812,043	\$ -
Commercial and industrial	39	-	132	171	40,426	40,597	-
Construction	-	-	370	370	262,662	263,032	-
Residential first-lien mortgage	1,274	-	-	1,274	65,583	66,857	-
Home equity/Consumer	-	-	144	144	9,785	9,929	-
PPP	5	-	-	5	175,873	175,878	-
Total with no related allowance	<u>\$ 2,270</u>	<u>\$ -</u>	<u>\$ 1,676</u>	<u>\$ 3,946</u>	<u>\$ 1,364,390</u>	<u>\$ 1,368,336</u>	<u>\$ -</u>

The following table presents the segments of the loan portfolio summarized by the past due status as of December 31, 2019:

	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)							
With no related allowance recorded:							
Commercial real estate	\$ 566	\$ -	\$ 2,064	\$ 2,630	\$ 851,246	\$ 853,876	\$ -
Commercial and industrial	-	-	-	-	43,504	43,504	-
Construction	-	-	371	371	189,418	189,789	-
Residential first-lien mortgage	1,184	-	-	1,184	87,883	89,067	-
Home equity/Consumer	42	-	-	42	13,711	13,753	-
PPP	-	-	-	-	-	-	-
Total with no related allowance	<u>\$ 1,792</u>	<u>\$ -</u>	<u>\$ 2,435</u>	<u>\$ 4,227</u>	<u>\$ 1,185,762</u>	<u>\$ 1,189,989</u>	<u>\$ -</u>

## The Bank of Princeton

### 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, 2020:

	Pass	Special Mention	Substandard	Doubtful	Total
(Dollars in thousands)					
With no related allowance recorded:					
Commercial real estate	\$ 793,130	\$ 10,481	\$ 7,958	\$ 474	\$ 812,043
Commercial and industrial	38,840	615	1,142	-	40,597
Construction	262,662	-	370	-	263,032
Residential first-lien mortgage <sup>1</sup>	66,857	-	-	-	66,857
Home equity/Consumer <sup>1</sup>	9,929	-	-	-	9,929
PPP	175,878	-	-	-	175,878
Total with no related allowance	<u>\$ 1,347,296</u>	<u>\$ 11,096</u>	<u>\$ 9,470</u>	<u>\$ 474</u>	<u>\$ 1,368,336</u>

<sup>1</sup> The Bank does not assign a risk rating to residential real estate and consumer based loans.

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, 2019:

	Pass	Special Mention	Substandard	Doubtful	Total
(Dollars in thousands)					
With no related allowance recorded:					
Commercial real estate	\$ 838,709	\$ 5,108	\$ 10,059	\$ -	\$ 853,876
Commercial and industrial	43,004	500	-	-	43,504
Construction	189,418	-	371	-	189,789
Residential first-lien mortgage <sup>1</sup>	89,067	-	-	-	89,067
Home equity/Consumer <sup>1</sup>	13,753	-	-	-	13,753
PPP	-	-	-	-	-
Total with no related allowance	<u>\$ 1,173,951</u>	<u>\$ 5,608</u>	<u>\$ 10,430</u>	<u>\$ -</u>	<u>\$ 1,189,989</u>

<sup>1</sup> The Bank does not assign a risk rating to residential real estate and consumer based loans.



## The Bank of Princeton

### Note 4 – Loans Receivable (Continued)

Allowance for loan losses on loans receivables at and for the year ended December 31, 2020:

	Commercial Real estate	Commercial and industrial	Construction	Residential first-lien mortgage	Home equity/ Consumer	PPP	Unallocated	Total
(Dollar in thousands)								
<b>Allowance for loan losses:</b>								
Beginning balance	\$ 8,168	\$ 1,182	\$ 2,048	\$ 355	\$ 78	\$ -	\$ 726	\$ 12,557
Provision	2,148	21	2,907	(31)	(17)	-	197	5,225
Charge-offs	(716)	(188)	(886)	-	-	-	-	(1,790)
Recoveries	35	-	-	-	-	-	-	35
Total	<u>\$ 9,635</u>	<u>\$ 1,015</u>	<u>\$ 4,069</u>	<u>\$ 324</u>	<u>\$ 61</u>	<u>\$ -</u>	<u>\$ 923</u>	<u>\$ 16,027</u>
<b>Ending Balance:</b>								
Individually evaluated for impairment	\$ 203	\$ 6	\$ 219	\$ -	\$ -	\$ -	\$ -	\$ 428
Collectively evaluated for impairment	\$ 9,432	\$ 1,009	\$ 3,850	\$ 324	\$ 61	\$ -	\$ 923	\$ 15,599

Recorded investment in loans receivables at December 31, 2020:

	Commercial Real estate	Commercial and industrial	Construction	Residential first-lien mortgage	Home equity/ Consumer	PPP	Unallocated	Total
(Dollars in thousands)								
<b>Loans:</b>								
Ending Balance:								
Individually evaluated for impairment	\$ 9,441	\$ 1,168	\$ 370	\$ 144	\$ 141	\$ -	\$ -	\$ 11,264
Collectively evaluated for impairment	802,602	39,429	262,662	66,713	9,788	175,878	-	1,357,072
Ending balance	<u>\$ 812,043</u>	<u>\$ 40,597</u>	<u>\$ 263,032</u>	<u>\$ 66,857</u>	<u>\$ 9,929</u>	<u>\$ 175,878</u>	<u>\$ -</u>	<u>\$ 1,368,336</u>

## The Bank of Princeton

### Note 4 – Loans Receivable (Continued)

Allowance for loan losses on loans receivables at and for the year ended December 31, 2019:

	Commercial Real estate	Commercial and industrial	Construction	Residential first-lien mortgage	Home equity/ Consumer	PPP	Unallocated	Total
(Dollars in thousands)								
<b>Allowance for loan losses:</b>								
Beginning balance	\$ 7,208	\$ 1,396	\$ 1,859	\$ 568	\$ 106	\$ -	\$ 807	\$ 11,944
Provision	3,335	1,598	189	(213)	(28)	-	(81)	4,800
Charge-offs	(2,597)	(1,895)	-	-	-	-	-	(4,492)
Recoveries	222	83	-	-	-	-	-	305
Total	<u>\$ 8,168</u>	<u>\$ 1,182</u>	<u>\$ 2,048</u>	<u>\$ 355</u>	<u>\$ 78</u>	<u>\$ -</u>	<u>\$ 726</u>	<u>\$ 12,557</u>
<b>Ending Balance:</b>								
Individually evaluated for impairment	\$ 220	\$ -	\$ 209	\$ -	\$ -	\$ -	\$ -	\$ 429
Collectively evaluated for impairment	\$ 7,948	\$ 1,182	\$ 1,839	\$ 355	\$ 78	\$ -	\$ 726	\$ 12,128

Recorded investment in loans receivables at December 31, 2019:

	Commercial Real estate	Commercial and industrial	Construction	Residential first-lien mortgage	Home equity/ Consumer	PPP	Unallocated	Total
(Dollars in thousands)								
<b>Loans:</b>								
Ending Balance:								
Individually evaluated for impairment	\$ 10,778	\$ -	\$ 371	\$ 609	\$ 169	\$ -	\$ -	\$ 11,927
Collectively evaluated for impairment	843,098	43,504	189,418	88,458	13,584	-	-	1,178,062
Ending balance	<u>\$ 853,876</u>	<u>\$ 43,504</u>	<u>\$ 189,789</u>	<u>\$ 89,067</u>	<u>\$ 13,753</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,189,989</u>

At December 31, 2020, six loans totaling \$8.7 million were considered troubled debt restructurings and classified as impaired. Troubled debt restructurings of \$6.5 million consisting of two commercial and industrial loans totaling \$152,000, one commercial real estate loan totaling \$6.2 million, and a \$140,000 HELOC loan were performing in accordance with their modified terms at December 31, 2020. Two loans to the same borrower totaling \$2.3 million had deferred their payments resulting from the COVID-19 loan deferral program.

At December 31, 2019, seven loans totaling \$9.3 million were considered troubled debt restructurings and classified as impaired. Troubled debt restructurings of \$7.0 million consisting of two commercial and industrial loans totaling \$129,000, one commercial real estate loan totaling \$6.3 million, one residential first-lien mortgage for \$451,000 and a \$168,000 HELOC loan were performing in accordance with their modified terms at December 31, 2019. Troubled debt restructurings of \$2.3 million consisting of one commercial and industrial loan totaling \$1 million and one commercial real estate loan totaling \$1.3 million were technically in default because both loans were 14 days past due. There were no troubled debt restructurings on non-accrual status as of December 31, 2019.



## The Bank of Princeton

### Note 4 – Loans Receivable (Continued)

The following table summarizes information with regards to new troubled debt restructurings for the year ended December 31, 2020 (Dollars in thousands):

	<u>Number of Contracts</u>	<u>Pre- Modification Outstanding Record Investment</u>	<u>Post- Modification Outstanding Record Investment</u>
Troubled debt restructurings:			
Commercial and industrial	2	\$ 269	\$ 269

As indicated above, the Bank modified two commercial and industrial loans totaling \$269,000 to the same borrower during 2020. At December 31, 2020, the outstanding balance was \$131,000, resulting from an \$138,000 charge-off recorded during the period. The Bank agreed to a concession by modifying the borrower's monthly payment to be interest only. In December 2020, the Bank charged-off approximately \$138,000 of the outstanding balance. As of December 31, 2020, there were no specific allowance on these modified loans.

The following table summarizes information with regards to new troubled debt restructurings for the year ended December 31, 2019 (Dollars in thousands):

	<u>Number of Contracts</u>	<u>Pre- Modification Outstanding Record Investment</u>	<u>Post- Modification Outstanding Record Investment</u>
Troubled debt restructurings:			
Commercial real estate	2	\$ 7,594	\$ 7,594
Commercial and industrial	2	\$ 1,161	\$ 1,161

As indicated above, the Bank modified four loans totaling \$8.8 million, of which two loans were with the same borrower one commercial real estate in the amount of \$1.3 million and the other commercial and industrial in the amount of \$1.0 million. The remaining commercial real estate loan was in the amount of \$6.4 million and the commercial and industrial loan was in the amount of \$144,000. The Bank granted a rate concession on this commercial and industrial loan in the amount of \$144,000 only. The remaining three loans the Bank granted a rate concession and extended the loan amortization. Troubled debt restructurings are impaired loans and therefore, in accordance with the Bank's policy, are individually evaluated for impairment. As of December 31, 2019, there were no specific allowance on these modified loans.

Two loans classified as troubled debt restructurings had payment defaults during 2019.

## The Bank of Princeton

### Note 4 – Loans Receivable (Continued)

**Loans to Related Party.** Included in total loans are loans due from directors and other related parties of \$6.1 million and \$5.6 million at December 31, 2020 and 2019, respectively. 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, 2020 and 2019.

	<u>2020</u>	<u>2019</u>
(Dollars in thousands)		
Outstanding related party loans at January 1,	\$ 5,562	\$ 9,476
New loans	729	-
Repayments	(212)	(3,914)
Outstanding related party loans at December 31,	<u>\$ 6,079</u>	<u>\$ 5,562</u>

No loans to related parties were nonaccrual, past due, restructured or potential problems at December 31, 2020 and 2019.

### Note 5 – Premises and Equipment

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

	<u>Estimated useful lives</u>	<u>2020</u>	<u>2019</u>
Land	N/A	\$ 1,468	\$ 1,468
Buildings	40 Yrs.	3,646	3,579
Leasehold improvements	10 Yrs.	11,204	8,603
Furniture, fixtures and equipment	3-7 Yrs.	6,684	5,278
Construction in progress		195	1,173
Total before accumulated depreciation and amortization		23,197	20,101
Accumulated depreciation and amortization		(10,483)	(9,324)
Total		<u>\$ 12,714</u>	<u>\$ 10,777</u>



## The Bank of Princeton

### Note 6 – Deposits

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

	December 31, 2020		December 31, 2019	
Demand, non-interest-bearing checking	\$ 215,381	15.75%	\$ 141,338	11.42%
Demand, interest-bearing checking	288,769	21.12%	212,552	17.17%
Savings	178,932	13.09%	154,756	12.50%
Money Market	305,290	22.33%	294,940	23.83%
Time deposits, \$250,000 and over	72,424	5.30%	132,622	10.71%
Time deposits, other	306,470	22.41%	301,682	24.37%
	<u>\$ 1,367,266</u>	<u>100.00%</u>	<u>\$ 1,237,890</u>	<u>100.00%</u>

Money market accounts totaling \$20.1 million and \$47.7 million at December 31, 2020 and 2019, respectively were originated through a reciprocal deposit relationship.

2021	\$ 191,087
2022	61,382
2023	37,683
2024	56,764
2025 and over	<u>31,978</u>
Total	<u>\$ 378,894</u>

At December 31, 2020, the scheduled maturities of certificates of deposit were as follows (Dollars in thousands):

The Bank's time deposits of \$100,000 or more represent 11.84% of total deposits at December 31, 2020 and are included in the table above. Approximately \$96.1 million and \$35.6 million at December 31, 2019 and 2018, respectively were originated through brokers.

Related party deposits were approximately \$4.3 million and \$4.4 million at December 31, 2020 and 2019 respectively.

Deposit overdrafts reclassified as loan balances were \$552,000 and \$590,000 at December 31, 2020 and 2019, 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, 2020 and 2019.

At December 31, 2020 and 2019, the Bank had no outstanding borrowings.

At December 31, 2020, the Bank had a maximum borrowing capacity with the FHLB-NY, subject to certain collateral restrictions, of \$252.6 million, with \$195.5 million available. The Bank is also a shareholder in Atlantic Community Bancshares, Inc., the holding company of ACBB. As of December 31, 2020, the Bank had 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, 2020.

## The Bank of Princeton

### Note 8 – Commitments and Contingencies

#### Operating leases

The Bank has operating leases for nineteen 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):

2021	\$ 2,483
2022	2,106
2023	2,024
2024	1,758
2025	1,731
Thereafter	<u>13,593</u>
Total	<u>\$ 23,695</u>

Rental expense for the years ended December 31, 2020, 2019 and 2018 was \$2.8 million, \$2.1 million and \$1.7 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 \$306,000, \$305,000 and \$330,000 were made to this related party in each of the years ended December 31, 2020, 2019 and 2018, 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.



## The Bank of Princeton

### Note 8 – Commitments and Contingencies (Continued)

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

	<u>2020</u>	<u>2019</u>
Performance and standby letters of credit	\$ 2,165	\$ 2,353
Undisbursed loans-in-process	116,877	99,764
Commitments to fund loans	39,868	42,129
Unfunded commitments under lines of credit	4,079	4,494
Total	<u>\$ 162,989</u>	<u>\$ 148,740</u>

### Litigation

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

## The Bank of Princeton

### Note 9 – Income Taxes

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

	<u>2020</u>	<u>2019</u>	<u>2018</u>
	(Dollars in thousands)		
Current tax expense:			
Federal	\$ 3,158	\$ 1,638	\$ 5,917
State	1,252	586	325
Total Current	<u>4,410</u>	<u>2,224</u>	<u>6,242</u>
Deferred income tax benefit:			
Federal	(532)	(114)	(3,167)
State	(394)	52	(75)
Total Deferred	<u>(926)</u>	<u>(62)</u>	<u>(3,242)</u>
Total income tax expenses	<u>\$ 3,484</u>	<u>\$ 2,162</u>	<u>\$ 3,000</u>

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:

	<u>2020</u>	<u>2019</u>
	(Dollar in thousands)	
Deferred tax assets:		
Allowance for loan losses	\$ 4,119	\$ 3,233
Net operating loss carry-forward	468	515
Organization costs	25	55
Branch acquisition	28	109
Other	444	442
Depreciation	-	159
Core deposit intangible	197	-
Deferred PPP loans	555	-
Lease liability	4,879	3,871
Total deferred tax assets	<u>10,715</u>	<u>8,384</u>
Deferred tax liabilities:		
Depreciation	(342)	-
Deferred loan costs	(279)	(351)
ROU	(4,731)	(3,871)
Acquisition accounting adjustments	(7)	(7)
Goodwill Amortization	(240)	-
Section 481a Adj.	(35)	-
Unrealized gain on securities	(621)	(228)
Total deferred tax liabilities	<u>(6,255)</u>	<u>(4,457)</u>
Net deferred tax asset	<u>\$ 4,460</u>	<u>\$ 3,927</u>



## The Bank of Princeton

### 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:

	2020		2019		2018	
	Amount	Rate	Amount	Rate	Amount	Rate
			(Dollars in thousands)			
Federal income tax expense at statutory rate	\$ 3,631	21.0%	\$ 2,584	21.0%	\$ 3,719	21.0%
Increases (reduction) in taxes resulting from:						
State income taxes, net of federal benefit	678	3.9%	504	4.1%	198	1.1%
Tax-exempt income, net	(855)	-4.9%	(887)	-7.2%	(853)	-4.8%
Incentive stock options	22	0.1%	(101)	-0.8%	(98)	-0.6%
Non-deductible expenses	10	0.1%	13	0.1%	11	0.1%
Other	(2)	0.0%	48	0.4%	23	0.1%
Total income taxes applicable to pre-tax income	\$ 3,484	20.2%	\$ 2,161	17.6%	\$ 3,000	16.9%

The Bank had available federal net operating loss carry-forwards of approximately \$2.2 million and \$2.5 million at December 31, 2020 and 2019, 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 September 29, 2020, New Jersey Governor Phil Murphy signed into law A.4721, extending through December 31, 2023, the 2.5% surtax currently imposed on Corporation Business Tax (CBT) filers with allocated taxable net income over \$1 million. As originally enacted, the surtax rate was scheduled to decrease from 2.5% to 1.5% for privilege periods beginning on or after January 1, 2020 through December 31, 2021 and expire for privilege periods beginning on or after January 1, 2022. The change made by A.4721 takes effect immediately and applies retroactively to privilege periods beginning on or after January 1, 2020. The Bank recorded an additional \$63,000 in income tax expense related to the adjusted surtax during 2020. Effective in 2019, New Jersey has adopted combined income tax reporting for certain members of a commonly-controlled unitary business group.

On July 1, 2018, New Jersey Governor Phil Murphy signed into law changes to the corporate business tax laws. This legislation required a combined group to file combined returns for tax years beginning in 2019 and thereafter. However, due to technical issues and inconsistencies with existing tax law, it was determined that the tax law change did not have an impact on deferred taxes. In December 2019, the State of New Jersey issued a clarifying technical bulletin related to the impact of the new tax legislation enacted in July 2018. This technical bulletin provided clarification to the combined income tax reporting for certain members of a unitary business group. Accordingly, this required a revaluation of some of the Bank's deferred tax assets. The Bank recorded state deferred tax expense in the amount of approximately \$117,000 during the year ended December 31, 2019.

## The Bank of Princeton

### Note 10 – Revenue Recognition

The Bank adopted ASU No. 2014-09 "Revenue from Contracts with Customers" (Topic 606) on January 1, 2018.

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 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 Bank'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, 2020, 2019 and 2018 (Dollars in thousands).

	Twelve Months Ended December 31,		
	2020	2019	2018
Non-interest Income:			
In-scope of Topic 606			
Service charges on deposits accounts	\$ 1,493	\$ 969	\$ 542
Fees and charges	151	95	71
Other	69	88	68
Non-interest Income in-scope Topic 606	1,713	1,152	681
Non-interest Income out-scope Topic 606	3,093	2,240	1,981
Total non-interest income	\$ 4,806	\$ 3,392	\$ 2,662



## The Bank of Princeton

### Note 11 – Leases

On January 1, 2019, the Bank adopted FASB ASU No. 2016-02, “Leases (Topic 842).” Leases (Topic 842) establishes a right of use model that requires a lessee to record a right of use (“ROU”) and a lease liability for all leases with terms longer 12 months. The Bank has elected the short-term lease recognition exemption such that the Bank will not recognize ROU or lease liabilities for leases with a term less than 12 months from the commencement date. The Bank is obligated under 20 operating leases agreements for 19 branches and its corporate offices with terms extending through 2039. The Bank’s lease agreements include options to renew at the Bank’s discretion. The extensions are reasonably certain to be exercised, therefore it was considered in the calculations of the ROU asset and lease liability.

The following table represents the classification of the Bank’s right of use and lease liabilities (Dollars in thousands):

	Statement of Financial Condition Location	December 31, 2020	December 31, 2019
<b>Operating Lease Right of Use Asset:</b>			
Gross carrying amount		\$ 14,533	\$ 12,817
Increased asset from new lease		5,768	3,685
Prior lease liability		-	(274)
Hindsight practical expedient adjustment		-	(219)
Accumulated amortization		(1,893)	(1,476)
Net book value	Operating lease right-of-use asset	<u>\$ 18,408</u>	<u>\$ 14,533</u>
<b>Operating Lease liabilities:</b>			
Lease liabilities	Operating lease liability	<u>\$ 18,987</u>	<u>\$ 15,040</u>

For the year ended December 31, 2020, the weighted-average remaining lease terms for operating leases was 12.4 years and the weighted-average discount rate used in the measurement of operating lease liabilities was 2.95%. The Bank used current FHLB fixed rate advances at the time the lease was placed in service for the term most closely aligning with remaining lease term to determine the discount rate.

## The Bank of Princeton

### Note 11 – Leases (Continued)

	Year Ended December 31,	
	2020	2019
	(Dollars in thousands)	
<b>Lease cost:</b>		
Operating lease	\$ 2,789	\$ 2,149
Short-term lease cost	100	86
Total lease cost	<u>\$ 2,889</u>	<u>\$ 2,235</u>
<b>Other information:</b>		
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	<u>\$ 1,822</u>	<u>\$ 1,465</u>

Future minimum payments under operating leases with terms longer than 12 months are as follows at December 31, 2020 (Dollars in thousands):

	2020
Twelve months after ended December 31,	
2021	\$ 2,481
2022	2,104
2023	2,022
2024	1,756
2025	1,729
Thereafter	13,593
Total future operating lease payment	23,685
Amounts representing interest	(4,698)
Present value of net future lease payments	<u>\$ 18,987</u>

Future minimum payments under operating leases with terms longer than 12 months are as follows at December 31, 2019 (Dollars in thousands):

	2019
Twelve months after ended December 31,	
2020	\$ 2,063
2021	2,035
2022	1,583
2023	1,537
2024	1,289
Thereafter	9,501
Total future operating lease payment	18,008
Amounts representing interest	(2,968)
Present value of net future lease payments	<u>\$ 15,040</u>



## The Bank of Princeton

### Note 12 – Directors Fee 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 members of the board of directors to elect to receive up to 100% of their annual compensation in the form of Bank common stock. During the twelve months period ended December 31, 2020, 2019 and 2018, 5,388, 7,082 and 6,430 shares of common stock have been issued, respectively. These shares issued were valued at \$100,000, \$200,000 and \$200,000 and recorded in professional fees for the twelve months period ended December 31, 2020, 2019 and 2018, respectively.

### Note 13 – Goodwill and Core Deposit Intangible

On May 17, 2019, the Bank acquired five branches which were accounted for under FASB ASC 805, Business Combinations. The Bank assumed \$177.9 million of branch deposit for which it received net cash of \$159.9 million. The difference between the liabilities assumed and net cash received was allocated on the estimated fair value of the assets acquired and liabilities assumed.

In accordance with ASC 805, the Bank has expensed approximately \$627 thousand of direct acquisition cost and recorded \$8.9 million of goodwill along with \$4.2 million of core deposit intangible assets. The intangible assets are related to core deposits and are being amortized over 10 years, using some of the years digits. For tax purposes, goodwill totaling \$8.9 million is tax deductible and will be amortized over 15 years straight line. The following table summarizes the fair value of the total cash received as part of the branch acquisition as well as the fair value of identifiable assets acquired and liabilities assumed as of the effective date of the transaction (Dollars in thousands).

Total Cash Received	\$	159,941
Recognized amounts of identifiable assets and liabilities assumed:		
Cash	\$	1,341
Premises, furniture and equipment		3,386
Core deposit intangible		4,245
Other assets		31
Deposits - non-interest bearing		(31,847)
Deposits - interest bearing		(146,102)
Fair value of certificate of deposits		186
Other liabilities		(34)
Total identifiable net assets	\$	(168,794)
Goodwill	\$	8,853

## The Bank of Princeton

### Note 13 – Goodwill and Core Deposit Intangible (Continued)

The changes in the carrying amount of goodwill and core deposit intangible assets are summarized as follows (Dollars in thousands):

	Goodwill	Core Deposit Intangible
Balance at December 31, 2019	\$ 8,853	\$ 3,763
Amortization expense	-	(727)
Balance at December 31, 2020	\$ 8,853	\$ 3,036

As of December 31, 2020, the current fiscal year and future fiscal periods amortization for the core deposit intangible is (Dollars in thousands):

2021	\$ 643
2022	569
2023	492
2024	415
2025	338
Thereafter	579
Total	\$ 3,036

### Note 14 – Fair Value Measurements and Disclosure

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

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

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

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



## The Bank of Princeton

### Note 14 – Fair Value Measurements and Disclosure (Continued)

*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, 2020 were as follows:

Description	(Level 1) Quoted Price in Active Markets for Identical Assets	(Level 2) Significant Other Observable Inputs	(Level 3) Significant Unobservable Inputs	Total Fair Value December 31, 2020
	(dollars in thousands)			
Mortgage-backed securities -U.S.				
Government Sponsored Enterprise (GSEs)	\$ -	\$ 25,112	\$ -	\$ 25,112
Obligations of state and political subdivisions	-	50,516	-	50,516
Securities available-for-sale at fair value	\$ -	\$ 75,628	\$ -	\$ 75,628

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, 2019 were as follows:

Description	(Level 1) Quoted Price in Active Markets for Identical Assets	(Level 2) Significant Other Observable Inputs	(Level 3) Significant Unobservable Inputs	Total Fair Value December 31, 2019
	(dollars in thousands)			
Mortgage-backed securities -U.S.				
Government Sponsored Enterprise (GSEs)	\$ -	\$ 55,951	\$ -	\$ 55,951
Obligations of state and political subdivisions	-	56,361	-	56,361
Securities available-for-sale at fair value	\$ -	\$ 112,312	\$ -	\$ 112,312

## The Bank of Princeton

### Note 14 – Fair Value Measurements and Disclosure (Continued)

For assets measured at fair value on a nonrecurring basis, the fair value measurements by level within the fair value hierarchy used at December 31, 2020, were as follows:

Description	(Level 1) Quoted Price in Active Markets for Identical Assets	(Level 2) Significant Other Observable Inputs	(Level 3) Significant Unobservable Inputs	Total Fair Value December 31, 2020
	(dollars in thousands)			
Impaired loans	\$ -	\$ -	\$ 2,086	\$ 2,086
	\$ -	\$ -	\$ 2,086	\$ 2,086

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, 2019, were as follows:

Description	(Level 1) Quoted Price in Active Markets for Identical Assets	(Level 2) Significant Other Observable Inputs	(Level 3) Significant Unobservable Inputs	Total Fair Value December 31, 2019
	(dollars in thousands)			
Impaired loans	\$ -	\$ -	\$ 2,115	\$ 2,115
	\$ -	\$ -	\$ 2,115	\$ 2,115

The following table presents quantitative information with regards to Level 3 fair value measurements at December 31, 2020.

Description	Fair Value December 31, 2020	Valuation Technique	Unobservable Input	Range (Weighted Average)
	(dollars in thousands)			
Impaired loans	\$ 2,086	Collateral <sup>1</sup>	Discount adjustment	0.0% -29.1% (11.1%)

<sup>1</sup> Fair value is generally determined through independent appraisal of the underlying collateral, primarily using comparable sales.



## The Bank of Princeton

### Note 14 – Fair Value Measurements and Disclosure (Continued)

The following table presents quantitative information with regards to Level 3 fair value measurements at December 31, 2019.

Description	Fair Value December 31, 2019	Valuation Technique	Unobservable Input	Range (Weighted Average)
		(dollars in thousands)		
Impaired loans	\$ 2	Cashflow <sup>1</sup>	Discount adjustment	6.0% ( 6.0%)
Impaired loans	\$ 2,113	Collateral <sup>2</sup>	Discount adjustment	0.0% -23.8% ( 9.2%)

<sup>1</sup> Fair value for this loan was determined through calculating the present value of future cash flows.

<sup>2</sup> Fair value is generally determined through independent appraisal of the underlying collateral, primarily using comparable sales.

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.

#### 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 Bank of Princeton

### Note 14 – Fair Value Measurements and Disclosure (Continued)

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

	December 31, 2020				
	Carrying Amount	Estimated Fair Value	Level 1	Level 2	Level 3
<b>Financial assets:</b>					
Cash and cash equivalents	\$ 77,429	\$ 77,429	\$ 77,429	\$ -	\$ -
Securities available-for-sale at fair value	75,628	75,628	-	75,628	-
Securities held-to-maturity	215	237	-	237	-
Loans receivable, net	1,347,459	1,460,646	-	-	1,460,646
Restricted investments in bank stock	1,366	1,366	-	1,366	-
Accrued interest receivable	4,893	4,893	-	4,893	-
<b>Financial Liabilities:</b>					
Deposits	1,367,266	1,375,470	-	1,375,470	-
Accrued interest payable	\$ 2,476	\$ 2,476	\$ -	\$ 2,476	\$ -

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

	December 31, 2019				
	Carrying Amount	Estimated Fair Value	Level 1	Level 2	Level 3
<b>Financial assets:</b>					
Cash and cash equivalents	\$ 72,598	\$ 72,598	\$ 72,598	\$ -	\$ -
Securities available-for-sale at fair value	112,312	112,312	-	112,312	-
Securities held-to-maturity	222	236	-	236	-
Loans receivable, net	1,174,013	1,201,015	-	-	1,201,015
Restricted investments in bank stock	1,246	1,246	-	1,246	-
Accrued interest receivable	3,626	3,626	-	3,626	-
<b>Financial Liabilities:</b>					
Deposits	1,237,890	1,229,225	-	1,229,225	-
Accrued interest payable	\$ 3,885	\$ 3,885	\$ -	\$ 3,885	\$ -

#### Limitations

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

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



## The Bank of Princeton

### Note 14 – Fair Value Measurements and Disclosure (Continued)

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

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

### Note 15 – Stock-Based Compensation

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 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, 2020 there were 54,038 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 restricted stock, or restricted stock units to employees, directors, consultants and other individuals who provide services to the Bank. The 2018 Plan authorizes up to 321,456 shares of common stock. As of December 31, 2020, 7,454 restricted stock units (“RSU”) were granted under this plan.

## The Bank of Princeton

### Note 15 – 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, 2020:

	Number of Stock Options	Weighted Average Exercise Price	Weighted Avg. Remaining Contractual Life	Aggregate Intrinsic Value
Balance at January 1, 2020	462,625	\$ 19.58		
Granted	-	\$ -		
Granted (RSU)	7,454	\$ -		
Exercised	(21,520)	\$ 13.31		
Forfeited	(9,025)	\$ 27.49		
Expired	(100)	\$ 12.00		
Balance at December 31, 2020	439,434	\$ 19.40	4.10 Years	\$ 2,635,350
Exercisable at December 31, 2020	400,469	\$ 18.72	3.89 Years	\$ 2,460,852

The Bank granted 7,454 RSU’s during 2020, with a fair value of \$31.16, which reflected the market value of the Bank’s common stock on the date of the grant. Of the 7,454 RSU’s granted during 2020, 1,600 RSU’s have a vesting and period of two years and the remaining 5,854 RSU’s have three one-year vesting periods.

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, 2019:

	Number of Stock Options	Weighted Average Exercise Price	Weighted Avg. Remaining Contractual Life	Aggregate Intrinsic Value
Balance at January 1, 2019	578,152	\$ 18.72		
Granted	-	\$ -		
Exercised	(98,852)	\$ 13.58		
Forfeited	(9,650)	\$ 28.26		
Expired	(7,025)	\$ 21.39		
Balance at December 31, 2019	462,625	\$ 19.58	5.02 Years	\$ 5,753,984
Exercisable at December 31, 2019	400,469	\$ 17.79	4.58 Years	\$ 4,672,507



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

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 limited liquidity of the Bank’s stock 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, 2018:

	Number of Stock Options	Weighted Average 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	<u>578,152</u>	<u>\$ 18.72</u>	<u>5.58 Years</u>	<u>\$ 5,809,749</u>
Exercisable at December 31, 2018	<u>462,616</u>	<u>\$ 16.22</u>	<u>4.48 Years</u>	<u>\$ 5,537,840</u>

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	N/A
Risk-free interest rate	2.65%
Fair value	\$ 8.39

Stock option expenses included in salaries and employee benefits expense in the consolidated statements of income were \$278,000 (which includes RSU’s expense of \$81,000), \$261,000 and \$408,000 for the years ended December 31, 2020, 2019 and 2018, respectively. A tax benefit was recognized of \$59,000, \$55,000 and \$87,000 for the years ended December 31, 2020, 2019 and 2018, respectively. Stock option expenses recorded within other expenses were \$3,000, \$46,000 and \$86,000 for the years ended December 31, 2020, 2019 and 2018, respectively. A tax benefit was recognized of \$1,000, \$10,000 and \$18,000 for the years ended December 31, 2020, 2019 and 2018, respectively. At December 31, 2020, there was approximately \$309,000 of unrecognized expense related to outstanding stock options and RSU’s, which will be recognized over a period of approximately 1.58 years.

**Note 16 – 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 was phased in over four years, and became fully phased-in on January 1, 2019. At January 1, 2020, the Bank met all capital adequacy requirements on a fully phased-in basis.

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

### Note 16 – Regulatory Matters (Continued)

The Bank's actual capital amounts and ratios at December 31, 2020 and 2019 are presented below (Dollars in thousands):

	Actual		For capital adequacy purposes (including capital buffer requirement)		To be well capitalized under prom corrective action provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
(Dollars in thousands)						
December 31, 2020:						
Total capital (to risk-weighted assets)	\$ 211,165	16.03%	\$ 138,351	≥ 10.50%	\$ 131,762	≥ 10.00%
Tier 1 capital (to risk-weighted assets)	\$ 195,138	14.81%	\$ 111,998	≥ 8.50%	\$ 105,410	≥ 8.00%
Common equity tier 1 capital (to risk-weighted assets)	\$ 195,138	14.81%	\$ 92,234	≥ 7.00%	\$ 85,646	≥ 6.50%
Tier 1 leverage capital (to average assets)	\$ 195,138	12.48%	\$ 101,609	≥ 6.50%	\$ 78,161	≥ 5.00%
December 31, 2019:						
Total capital (to risk-weighted assets)	\$ 194,675	15.11%	\$ 135,294	≥ 10.50%	\$ 128,852	≥ 10.00%
Tier 1 capital (to risk-weighted assets)	\$ 182,118	14.13%	\$ 109,524	≥ 8.50%	\$ 103,082	≥ 8.00%
Common equity tier 1 capital (to risk-weighted assets)	\$ 182,118	14.13%	\$ 90,196	≥ 7.00%	\$ 83,754	≥ 6.50%
Tier 1 leverage capital (to average assets)	\$ 182,118	12.89%	\$ 91,810	≥ 6.50%	\$ 70,623	≥ 5.00%

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

## The Bank of Princeton

### Note 17 – Quarterly Financial Data (unaudited)

	Year Ended December 31, 2020			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	(Dollars in thousands)			
Total interest income	\$ 15,037	\$ 15,300	\$ 15,486	\$ 15,853
Total interest expense	4,535	3,295	2,709	2,287
Net interest income	10,502	12,005	12,777	13,566
Provision for loan losses	650	1,000	1,925	1,650
Net interest income after provision for loan losses	9,852	11,005	10,852	11,916
Total non-interest income	1,491	870	1,275	1,170
Total non-interest expenses	7,583	8,054	7,594	7,910
Income before income taxes	3,760	3,821	4,533	5,176
Income taxes	726	697	988	1,073
Net Income	3,034	3,124	3,545	4,103
Basis earnings per share	\$ 0.45	\$ 0.46	\$ 0.52	\$ 0.61
Diluted earnings per share	\$ 0.44	\$ 0.45	\$ 0.52	\$ 0.60

	Year Ended December 31, 2019			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	(Dollars in thousands)			
Total interest income	\$ 14,275	\$ 14,998	\$ 15,251	\$ 15,193
Total interest expense	4,364	4,635	4,486	4,781
Net interest income	9,911	10,363	10,765	10,412
Provision for loan losses	4,200	350	125	125
Net interest income after provision for loan losses	5,711	10,013	10,640	10,287
Total non-interest income	785	729	1,077	794
Total non-interest expenses	6,341	7,316	7,200	6,875
Income before income taxes	155	3,426	4,517	4,206
Income taxes	(74)	618	801	817
Net Income	229	2,808	3,716	3,389
Basis earnings per share	\$ 0.03	\$ 0.42	\$ 0.55	\$ 0.51
Diluted earnings per share	\$ 0.03	\$ 0.41	\$ 0.54	\$ 0.49



## The Bank of Princeton

### Note 18 – Subsequent Events

On March 9, 2021, the Board of Directors announced that it has adopted a stock repurchase program to commence on the later of April 1, 2021 or the date approval of such program is received from the New Jersey Department of Banking and Insurance. Under the stock repurchase program, management is authorized to repurchase up to 5% of the Bank's outstanding shares of common stock, with a total cost not to exceed \$10.4 million. As of today, the Bank had 6,795,779 shares of common stock outstanding and five percent of such amount would be 339,788 shares. The stock repurchase program does not obligate the Bank to acquire any particular amount of common stock, and it may be limited, suspended or terminated at any time without prior notice. This program has been approved by the FDIC.

On January 27, 2021, the Board of Directors declared a cash dividend of \$0.12 per share of common stock. The dividend was paid on March 1, 2021 to shareholders of record at the close of business on February 12, 2021.

### Note 19 – Risk and Uncertainties

On March 11, 2020, the World Health Organization declared the outbreak of COVID-19 as a global pandemic, which continues to spread throughout the United States and around the world. The COVID-19 pandemic has adversely affected, and continues to adversely affect economic activity globally, nationally and locally. Actions taken around the world to help mitigate the spread of COVID-19 include restrictions on travel, quarantines in certain areas, and forced closures for certain types of public places and businesses. COVID-19 and actions taken to mitigate the spread of it have had and are expected to continue to have an adverse impact on the economies and financial markets of many countries, including the geographical area in which the Bank operates. Due to the COVID-19 pandemic, market interest rates have declined significantly, with the 10-year Treasury bond falling below 1.00 percent on March 3, 2020 for the first time. Such events also have adversely affected business and consumer confidence, generally, and the Bank and its customers, and their respective suppliers, vendors and processors, have been adversely affected. On March 3, 2020, the Federal Open Market Committee reduced the targeted federal funds interest rate range by 50 basis points to 1.00 percent to 1.25 percent. This range was further reduced to 0 percent to 0.25 percent on March 16, 2020. On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) was enacted to, among other provisions, provide emergency assistance for individuals, families and businesses affected by the COVID-19 pandemic. These reductions in interest rates and other effects of the COVID-19 pandemic will likely adversely affect the Bank's financial condition, results of operations, liquidity and capital in future periods. It is unknown how long the adverse conditions associated with the COVID-19 pandemic will last and what the complete financial effect will be to the Bank. It is reasonably possible that estimates made in the financial statements could be materially and adversely impacted in the near term as a result of these conditions, including expected credit losses on loan receivables.

On March 22, 2020, the federal banking agencies issued an "Interagency Statement on Loan Modifications and Reporting for Financial Institutions Working with Customers Affected by the Coronavirus". This guidance encourages financial institutions to work prudently with borrowers that may be unable to meet their contractual obligations because of the effects of COVID-19. The guidance goes on to explain that in consultation with the FASB staff that the federal banking agencies conclude that short-term modifications (e.g. six months) made on a good faith basis to borrowers who were current as of the implementation date of a relief program are not Troubled Debt Restructurings ("TDRs"). Section 4013 of the CARES Act also addressed COVID-19 related modifications and specified that COVID-19 related modifications on loans that were current as of December 31, 2019 are not TDRs. The Bank is actively assisting customers by providing short-term modifications in the form of deferrals of interest, principal and/or escrow for terms ranging from one to six months. On December 27, 2020, the 2021 Consolidated Appropriations Act ("CAA") was signed into law, providing for, among other things, further suspension (ending on the earlier of January 1, 2022 or 60 days after the date the national emergency concerning COVID-19 terminates) of the exception for loan modifications to not be classified as TDRs if certain criteria are met. As of December 31, 2020, the Bank had 14 loans with a balance of \$45.0 million remaining on deferral. Since December 31, 2020, there have been no new borrower request to have their loan modified using the guidelines set forth in the CARES Act.

## The Bank of Princeton

### Note 19 – Risk and Uncertainties (Continued)

The Company has elected that loans temporarily modified for borrowers directly impacted by COVID-19 are not considered TDR, assuming the above criteria is met and as such, these loans are considered current and continue to accrue interest at its original contractual terms. The Bank determined, based on stress testing indicators, prudent underwriting policies and loan concentration diversification including but not limited to industries that were impacted by the pandemic, such as hospitality and restaurants, the Bank currently expects to be able to manage the economic risks and uncertainties associated with the pandemic. All of these factors were considered in our allowance for loan loss methodology in determining our allowance for loan losses as of December 31, 2020. At this time, we are unable to predict with any certainty the potential adverse effect these loans may have on the Bank, whether these borrowers will be able to resume making payments once the deferral period expires, and if they are able to resume payments, whether they will require a change in the terms of the loan to be able to do so.

The CARES Act included an allocation of \$349 billion for loans to be issued by financial institutions through the Small Business Administration ("SBA"). This program is known as the Paycheck Protection Program ("PPP"). PPP loans are forgivable, in whole or in part, if the proceeds are used for payroll and other permitted purposes in accordance with the requirements of the PPP. These loans carry a fixed rate of 1.00% and a term of two years, if not forgiven, in whole or in part. Payments are deferred for the first six months of the loan. The loans are 100% guaranteed by the SBA. The SBA pays the originating bank a processing fee ranging from 1% to 5%, based on the size of the loan. The SBA began accepting submissions for these PPP loans on Friday, April 3, 2020. As of December 31, 2020, the Bank held approximately 1,477 loans totaling \$175.9 million in PPP loans with \$3.5 million in deferred fees remaining to be accreted over the life of the loans. At December 31, 2020, the Bank had \$202.5 million of available borrowing capacity from our correspondent banks. In addition, the Federal Reserve has implemented a liquidity facility available to financial institutions participating in the PPP. As such, the Bank believes it has sufficient liquidity sources to fund all pending PPP loans and to continue to provide this important service to local businesses if additional funds are appropriated for the PPP.

### 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, 2020 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, 2020, 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.



## The Bank of Princeton

### 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, 2020. 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, 2020 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.

### 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, 2020 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, "MATTER NO. 1 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, 2020 in connection with the solicitation of proxies for its 2021 Annual Meeting of Stockholders and incorporated by reference.

### Item 11. Executive Compensation

The information required by this Item is set forth under the headings, "MATTER NO. 2 ADVISORY VOTE TO APPROVE OUR 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 - 2020 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, 2020 in connection with its 2021 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, 2020 in connection with its 2021 Annual Meeting of Stockholders and incorporated by reference.

## The Bank of Princeton

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

The information required by this Item is set forth under the headings, "MATTER NO. 3 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, 2020 in connection with its 2021 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, 2021," in the Bank's definitive proxy statement to be filed with the Federal Deposit Insurance Corporation not later than 120 days after December 31, 2020 in connection with its 2021 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” of this Annual Report:
- i. Consolidated Statements of Financial Condition as of December 31, 2020 and 2019
  - ii. Consolidated Statements of Income for the years ended December 31, 2020, 2019 and 2018
  - iii. Consolidated Statements of Comprehensive Income for the years ended December 31, 2020, 2019 and 2018
  - iv. Consolidated Statements of Changes in Stockholders’ Equity for the years ended December 31, 2020, 2019 and 2018
  - v. Consolidated Statements of Cash Flows for the years ended December 31, 2020, 2019 and 2018
  - vi. Notes to Consolidated Financial Statements

(b) Financial Statement Schedules

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

(c) Exhibits

Exhibit No.	Description
3.1	(J) Certificate of Incorporation, as amended.
3.2	Amended and Restated Bylaws
4.1	(A) Specimen form of stock certificate.
4.2	(D) Description of Capital Stock
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	(K) 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	(K) 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	Intentionally Omitted
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	(K) Branch Purchase and Assumption Agreement, dated February 2, 2019, between the Bank and Beneficial Bank (and its successor in interest)
10.16	(H) Employment Agreement between the Bank and George S. Rapp dated as of January 25, 2019*
10.17	(H) Employment Agreement between the Bank and Stephanie Adkins dated January 25, 2019*
10.18	(F) Employment Agreement between the Bank and Christopher Tonkovich dated February 25, 2019*
10.19	(I) The Bank of Princeton 2018 Director Fee Plan*

- 10.20 (D) Amendment to Employment Agreement between the Bank and Edward J. Dietzler dated as of December 18, 2019\*
- 10.21 (D) Amendment to Employment Agreement between the Bank and Daniel J. O’Donnell dated December 18, 2019\*
- 10.22 (C) 2020 Management Incentive Plan\*
- 10.23 Dividend Reinvestment and Stock Purchase 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

\* 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, to 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 10.1 to the Bank’s Current Report on Form 8-K filed with the FDIC on March 23, 2020.
- (D) Incorporated by reference to Exhibits 4.2, 10.20, and 10.21 as applicable to registrant’s Annual Report on Form 10-K, filed with the Federal Deposit Insurance Corporation on March 16, 2020.
- (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 March 25, 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.
- (J) Incorporated by reference to Exhibit 3.1 to registrant’s Quarterly Report on Form 10-Q, filed with the Federal Deposit Insurance Corporation on November 9, 2020.
- (K) Incorporated by reference to amendment on Form 10-K/A to registrant’s Annual Report on Form 10-K, filed with the Federal Deposit Insurance Corporation on March 25, 2019.

**Item 16. Form 10-K Summary**

None.



## The Bank of Princeton

### 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 26, 2021.

#### The Bank of Princeton

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

#### The Bank of Princeton

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

## The Bank of Princeton

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.

<u>Signature</u>	<u>Capacity</u>	<u>Date</u>
<u>/s/ Richard Gillespie</u> Richard Gillespie	Chairman of the Board	March 26, 2021
<u>/s/ Stephen Distler</u> Stephen Distler	Vice Chairman of the Board	March 26, 2021
<u>/s/ Stephen Shueh</u> Stephen Shueh	Director	March 26, 2021
<u>/s/ Robert N. Ridolfi</u> Robert N. Ridolfi, Esq	Director	March 26, 2021
<u>/s/ Judith A. Giacin</u> Judith A. Giacin	Director	March 26, 2021
<u>/s/ Martin Tuchman</u> Martin Tuchman	Director	March 26, 2021
<u>/s/ Ross Wishnick</u> Ross Wishnick	Director	March 26, 2021
<u>/s/ Edward Dietzler</u> Edward Dietzler	President, Chief Executive Officer, Director (Principal Executive Officer)	March 26, 2021
<u>/s/ George S. Rapp</u> George S. Rapp	Executive Vice President, Chief Financial Officer (Principal Financial and Accounting Officer)	March 26, 2021



Exhibit 21.1

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

SUBSIDIARIES OF REGISTRANT

I, Edward Dietzler, certify that:

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

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 26, 2021

/s/ Edward Dietzler  
 Edward Dietzler  
 President and Chief Executive Officer  
 (Principal Executive Officer)



# The Bank of Princeton

## 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 26, 2021

/s/ George S. Rapp  
George S. Rapp  
Executive Vice President and Chief Financial Officer

# The Bank of Princeton

(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 ended December 31, 2020 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 26, 2021



# Who We Are

Board of Directors

Richard J. Gillespie  
Chairman



Stephen A. Distler  
Vice Chairman



Edward J. Dietzler  
President  
Chief Executive Officer



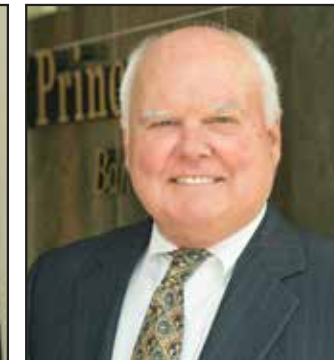
Ross E. Wishnick  
Vice Chairman



Judith A. Giacin



Robert N. Ridolfi, Esq.



Stephen K. Shueh



Martin Tuchman





# Who We Are

## Executive Management

## Our Team

**Edward J. Dietzler**  
President  
Chief Executive Officer



**Daniel J. O'Donnell, Esq.**  
Executive Vice President  
Chief Operating 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 first branch for business on the 23rd of April. Since then the Bank has grown to include twenty-four branch locations and a comprehensive Operations Center that serve the Mercer, Burlington, Camden, Gloucester, Hunterdon, Middlesex, Monmouth, Ocean, and Somerset counties in New Jersey along with four branches in the Montgomery County and Philadelphia markets in Pennsylvania.

### Marketing

Barbara A. Cromwell, SVP

### Human Resources

Anna Maria Miller, SVP

### Retail Administration

Debra L. Von Gonten, SVP

Rose Russo, AVP

Amy Zuccarello, AVP

### Information Technology

Matthew T. Clark, SVP

Kyndle E. Alig, VP

John Critelli, AVP

### Operations & Compliance

Karen D. Pfeifer, SVP

Angela Bancroft, VP

Jamie Wilson, VP

Justin Naidoo, AVP

### Security & Facilities

Keith R. Bitzel, VP

Ryan M. Cavicchio, AVP

### Loan Administration

Mary Beth Gorecki, SVP

Lukasz Gargas, VP

Michelle Goldstein, VP

Amela Muslic, VP

Stanley Plytynski, VP

Lana Tremblay, VP

Denise Youn, VP

Steven Beck, AVP

Theresa Harris-Norfleet, AVP

Ann Marie Hennelly, AVP

Eileen McBride, AVP

David Mulryne, AVP

Wanda Szymanski, AVP

Thomas Waszkiewicz, AVP

### Finance

Jeffrey T. Hanuscin, SVP

Carmen Lloja-MacKenzie, AVP

Rosemary Tumino, AVP

### Commercial Lenders

Arthur M. Birenbaum, SVP

William McCoy, SVP

Kris Muse, SVP

Paul Bencivengo, VP

William McDowell, VP

Michele Lewis-Fleming, AVP

### Market Managers

#### Princeton Region

Roseanne Maresma, AVP, RRM\*

Henry Polanco, Bayard Lane

Daniel Pereira, Lakewood

Patricia Kilgannon, Montgomery

Wendy J. Evans, Monroe

Darshana Jadav, Nassau Street

#### Central Region

Nedgine Douge, AVP, RRM\*

Paul Sabol, Bordentown

Donna Craddock, Browns Mills

Shannon Bennett, Chesterfield

Jeralyn H. Lang, Cream Ridge

Barbara Brehaut, Hamilton

Lourdes Pagan, Quakerbridge Road

#### Southern Region

Kelly Zane, AVP, RRM\*

ShaQuanna Moss, Arch Street

Sera Yu, Cheltenham

Sokha Eng, Chestnut Street

Christina Lerro, Deptford

Mi Kyung Kim, North Wales

Carole McGuirl, Sicklerville

#### Western Region

Karin van Garderen, AVP, RRM\*

Jonathan Collins, Lambertville

Yvette Windsor, Lawrenceville

Keisha Patrick-Davey, New Brunswick

Nathalie Cassion, Pennington

Miriam Colón, Piscataway

Rhoda Sundhar, Princeton Junction

\*Regional Retail Manager



*Bank Wisely.*





The greatness of a community  
is most accurately measured by the  
compassionate actions of its members.

— Coretta Scott King

- |   |  |   |
|---|--|---|
| 101 Foundation  | Housing Initiatives of Princeton                               | Philadelphia Chinatown                          |
| Aim2Place   | Hunterdon Healthcare Foundation                                | Development Corporation                         |
| Arm in Arm  | I Believe in Pink  | Planned Lifetime Assistance                     |
| Arts Council of Princeton   | Isles, Inc.  | Network of NJ                                   |
| Big Brothers Big Sisters<br>of Mercer County                        | Jamesburg Parent-Teacher Association                           | Police Unity Tour Inc., Chapter 10              |
| Bordentown Historical Society                                       | Jewish Family & Children's Service<br>of Greater Mercer County | Princeton Family YMCA                           |
| Calvary Chapel Gloucester County                                    | JFCS Mobile Food Pantry  | Princeton Mercer Regional Chamber               |
| Catholic Charities Diocese of Metuchen                              | Joint Effort - Princeton                                       | Princeton Public Library                        |
| Catholic Charities Diocese of Trenton                               | Safe Streets Weekend   | Princeton Senior Resource Center                |
| Central Jersey Housing Resource Center                              | KinderSmile Foundation   | Princeton University Summer<br>Chamber Concerts |
| Chapin School Princeton   | Korean American Association<br>of Greater Philadelphia         | Project Freedom                                 |
| Chesterfield Township School<br>District Parent-Teacher Association | Lambertville Area Education<br>Foundation                      | Puerto Rican Action Board                       |
| Clarifi   |  | Rebuilding Together Philadelphia                |
|   |  | Send Hunger Packing Princeton                   |

## Thank You to Our Community Partners for the Difference You Make.

- |   |   |   |
|---|---|---|
| Corner House Foundation   | Lambertville-West Amwell Youth<br>Baseball & Softball Association | Society of Saint Vincent de Paul  |
| Delaware River Steamboat Floating<br>Classroom, Inc., SPLASH          | Lawrence Township Education<br>Foundation                         | Sourland Conservancy  |
| Delaware River Towns Chamber<br>of Commerce & Visitors Bureau, The    | Lawrenceville Main Street<br>LifeTies, Inc.                       | Spread the Joy  |
| Downtown Bordentown Association                                       | Mainstage Center for the Arts                                     | Thomas Edison State University<br>Foundation  |
| Elijah's Promise  | Meals on Wheels in Greater<br>New Brunswick                       | Town Clock Community<br>Development Corporation   |
| Foundation for Bordentown<br>Traditions, Inc., The                    | Mercer County Community<br>College Foundation                     | Trenton Area Soup Kitchen, The  |
| Friendly Sons & Daughters of<br>St. Patrick of Mercer County, The     | Mercer County Turkey Trot   | Trenton Catholic Academy  |
| Girls on the Run  | Mercerville Fire Company  | Trinity Church  |
| Global Connections Foundation NJ Corp                                 | Middlesex County Regional<br>Chamber of Commerce                  | United Nations Association<br>of the United States of America,<br>Southern New Jersey Chapter |
| Gloucester Township Fire District #5                                  | Monroe Township Girls Softball                                    | United Way of Hunterdon County  |
| Grant Chapel AME Church   | Montgomery Baseball League  | Veterans of Foreign Wars Post #3525,<br>District #18  |
| Greater Philadelphia Asian<br>Social Services Center                  | Montgomery / Rocky Hill Rotary Club                               | West Windsor Arts Council   |
| Greater Philadelphia Coalition<br>Against Hunger                      | Montgomery Township -<br>Economic Development Commission          | West Windsor - Plainsboro<br>Regional School District   |
| Grounds for Sculpture   | Montgomery Township<br>Education Foundation                       | Yeshivas Ohr Hatorah  |
| Habitat for Humanity of Burlington<br>County and Greater Philadelphia | Montgomery Township Volunteer<br>Fire Company No. 1               | YMCA Camp Mason   |
| Habitat for Humanity Philadelphia                                     | Montgomery Township Volunteer<br>Fire Company No. 2               | YWCA Princeton  |
| Habitat for Humanity,<br>Raritan Valley Chapter                       | Morven Museum & Garden  |   |
| Hamilton Area YMCA  | Mount Carmel Guild of Trenton                                     |   |
| Hamilton Educational Foundation                                       | Notre Dame High School  |   |
| Hamilton Township Board of Education                                  | Parkinson Alliance, The   |   |
| Hatzola EMS of Central Jersey   | Pennington Public Library   |   |
| HomeFront   | Pennington Volunteer Fire Company                                 |   |
| Hopewell Valley Arts Council  | Philabundance   |   |
| Hopewell Valley Veterans Association                                  |   |   |
| Hopewell Valley YMCA  |   |   |



*Bank Wisely.*