



183 Bayard Lane
Princeton, NJ 08540
609.921.1700

July 18, 2011

Dear Investor,

Founded in 2007, The Bank of Princeton (“the Bank”) is the first independent community bank to be headquartered in Princeton, New Jersey in over 50 years. We provide highly personalized banking services that reflect our responsiveness to customers’ needs. We listen, we jointly develop solutions, and in doing so, we help customers realize their financial goals.

In just over four years, the Bank has grown to include ten branches, has total assets in excess of \$500 million, and is comfortably profitable. In order to safely extend our growth, the Bank is offering to sell an additional 1.2 million shares of common stock at a price of \$13.75 per share.

If you have any specific questions about the offering, feel free to contact Stephen Distler at 609.216.7314.

We invite you to invest in The Bank of Princeton, grow with us, become a customer, and become part of our community. We will be holding two general investor meetings where we will discuss our results and strategy for extending this exciting opportunity. Both meetings will take place at Springdale Golf Club, 1895 Clubhouse Drive, Princeton, NJ 08540. Our meeting dates and times are:

Tuesday, July 26, 2011 6:00-7:30 PM	Thursday, August 4, 2011 6:00-7:30 PM
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To attend a meeting you may register at www.thebankofprinceton.com, or contact Sandra Isaac at 609.921.1700 or sisaac@thebankofprinceton.com. We look forward to meeting with you.

Sincerely,

Andrew Chon
Chairman

Stephen Distler
Vice Chairman

Steven C. Ackmann
President



OFFERING CIRCULAR

1,200,000 Shares



The Bank of Princeton

Bank Wisely.

Common Stock

We are offering shares of our common stock, par value \$5.00 per share, to our existing stockholders and the general public. There is no established public trading market for our common stock, and an established public trading market for our common stock may not develop.

The shares of common stock are not deposits or other obligations of The Bank of Princeton or any other bank or savings association, and are not insured or guaranteed by the Federal Deposit Insurance Corporation (the "FDIC"), the Deposit Insurance Fund or any other governmental entity.

Investing in our common stock involves significant risks. See "Risk Factors" beginning on page 6 of this offering circular.

	<u>Per Share</u>	<u>Total</u>
Public offering price	\$13.75	\$16,500,000
Proceeds to us, before estimated expenses	\$13.75	\$16,500,000

THESE SECURITIES ARE NOT DEPOSITS. THESE SECURITIES ARE NOT INSURED BY THE FDIC OR ANY OTHER AGENCY, AND ARE SUBJECT TO INVESTMENT RISK, INCLUDING THE POSSIBLE LOSS OF PRINCIPAL.

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE FEDERAL DEPOSIT INSURANCE CORPORATION NOR HAS THE FEDERAL DEPOSIT INSURANCE CORPORATION PASSED ON THE ADEQUACY OR ACCURACY OF THIS OFFERING CIRCULAR. ANY REPRESENTATION TO THE CONTRARY IS UNLAWFUL.

The date of this offering circular is June 30, 2011.

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TABLE OF CONTENTS

	PAGE
About This Offering Circular.....	i
Cautionary Statement Regarding Forward-Looking Statements	ii
Offering Circular Summary	1
Risk Factors	6
Use of Proceeds.....	12
Determination of Offering Price	12
Dilution	13
Market for Common Stock and Dividend Policy.....	13
Capitalization	14
Selected Consolidated Financial and Operating Data.....	15
Our Business	17
Description of Properties	27
Legal Proceedings.....	28
Management’s Discussion and Analysis of Financial Condition and Results of Operations	28
Management.....	48
Executive Compensation	51
Certain Relationships and Related Transactions.....	53
Security Ownership of Certain Beneficial Owners and Management	54
Description of Securities.....	55
Plan of Distribution.....	58
Transfer Agent and Registrar	58
Legal Matters	58
Independent Registered Public Accountants.....	59
Where You Can Find More Information.....	59
Index To Consolidated Financial Statements.....	F-1
Exhibit A—Form of Subscription Agreement.....	A-1

ABOUT THIS OFFERING CIRCULAR

You should rely only on the information contained in this offering circular and any offering circular supplement. We have not authorized anyone to provide you with different or additional information. If anyone provides you with different or additional information, you should not rely on it. We are not making an offer to sell the securities in any jurisdiction where the offer or sale is not permitted or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation. You should not assume that the information in this offering circular is accurate or complete as of any date other than the date of this offering circular. Our business, financial condition, liquidity, results of operations and prospects may have changed since those dates.

It is important for you to read and consider all of the information contained in this offering circular and any offering circular supplement before making your investment decision to purchase shares of our common stock in this offering. See “Where You Can Find More Information” in this offering circular for instructions on how you can access additional information.

Unless the context requires otherwise or unless otherwise noted, all references to the “Bank,” “we,” “our,” or “us” refer collectively to The Bank of Princeton and its subsidiaries.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

Certain statements included in this offering circular and any offering circular supplement are forward-looking statements. All statements other than statements of historical fact contained in this offering circular and any offering circular supplement, including statements regarding our plans, objectives, goals, strategies, capital expenditures, future events, future results, our competitive strengths, our business strategy and the trends in our industry are forward-looking statements. The words “believe,” “may,” “could,” “estimate,” “continue,” “anticipate,” “intend,” “should,” “plan,” “expect,” “appear,” “future,” “likely,” “probably,” “suggest,” “goal,” “potential” and similar expressions, as they relate to us, are intended to identify forward-looking statements.

Forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from those stated in, or which may be inferred from, forward-looking statements. For example, and in addition to the “Risk Factors” discussed elsewhere in this offering circular, risks and uncertainties can arise with changes in:

- our ability to implement our business plan and manage our growth;
- changes in interest rates, deposit flows and loan demand;
- adverse changes in our loan portfolio and credit risk-related losses and expenses;
- concentrations within our loan portfolio, including our exposure to commercial real estate loans, and to our primary service area;
- the adequacy of our allowance for loan losses and our methodology for determining such allowance;
- adverse conditions in the national and local economies and in the financial markets;
- the regulatory environment, including changes in legislation and regulation;
- business conditions in the financial services industry, including competitive pressure among financial services companies, new service and product offerings by competitors, price pressures, and similar items;
- our securities portfolio, the availability of attractive yields, and the valuation of our securities;
- changes in accounting principles, policies and guidelines as well as estimates and assumptions used in the preparation of our financial statements; and
- other economic, competitive, governmental, regulatory and technological factors affecting our operations, pricing, products and services.

You are cautioned not to place undue reliance on any forward-looking statement, which reflects management’s analysis only as of the date of the statement. Except as required by applicable law or regulation, we do not undertake, and specifically disclaim any obligation to update or revise any forward-looking statements to reflect any changed assumptions, any unanticipated events or any changes in the future.

In addition, you should refer to the “Risk Factors” section of this offering circular beginning on page 6 for a discussion of factors that may cause our actual results to differ materially from those which are stated in, or may be inferred from, our forward-looking statements. As a result of these factors, the forward-looking statements in this offering circular and any offering circular supplement may prove to be inaccurate. Furthermore, if our forward-looking statements prove to be inaccurate, the inaccuracy may be material. In light of the significant uncertainties in these forward-looking statements, you should not regard these statements as a representation or warranty by us or any other person that we will achieve our objectives and plans in any specified time frame, if at all. All subsequent written and oral forward-looking statements attributable to us or the persons acting on our behalf are expressly qualified in their entirety by these cautionary statements.

OFFERING CIRCULAR SUMMARY

The following summary highlights selected information contained in this offering circular. Because it is a summary, it does not contain all the information you should consider before investing in our common stock. Before making any investment decision, you should read the entire offering circular and any offering circular supplement carefully, including the “Risk Factors” section of this offering circular beginning on page 6, and the financial statements and notes to the financial statements beginning on page F-1.

The Bank

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

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

MoreBank, a Pennsylvania state-chartered bank, commenced operations in March 2006. We acquired MoreBank in a stock-for-stock merger on September 30, 2010. Additional information about this transaction is included in “Note 2 – Business Combinations” in our audited financial statements, which are included in this offering circular beginning at page F-1. This acquisition expanded our geographic presence to areas in Philadelphia, Delaware and Montgomery Counties in Pennsylvania. We continue to operate the former MoreBank branches as a division of The Bank of Princeton under the “MoreBank” name.

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

Risk Factors

Investing in our securities involves risks. You should carefully consider the information under “Risk Factors” beginning on page 6 before investing in our securities.

Summary Selected Consolidated Financial and Operating Data

The summary financial information presented below is derived in part from our consolidated financial statements. The following is only a summary and should be read in conjunction with the consolidated financial statements and notes beginning on page F-1. The following financial information as of and for the years ended December 31, 2010 and 2009 is derived in part from, and qualified by reference to, our audited consolidated financial statements and related notes appearing elsewhere in this offering circular. The following financial information as of and for the years ended December 31, 2008 and 2007 is derived in part from our audited consolidated financial statements and related notes not appearing in this offering circular. The following financial information as of and for the three months ended March 31, 2011 is derived in part from our unaudited consolidated financial statements and other financial data appearing elsewhere in this offering circular. The Bank of Princeton acquired MoreBank on September 30, 2010, and MoreBank financial information is included beginning as of the acquisition date. The following information should be read in conjunction with our consolidated financial statements and any related notes and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in this offering circular.

(Dollars in thousands, except per share data)	As of or for the three months ended March 31,	As of or for the Years Ended December 31,			
	2011	2010	2009	2008	2007
INCOME STATEMENT DATA					
Net interest income after provision for loan losses	\$ 3,809	\$ 7,770	\$ 6,413	\$ 2,610	\$ 1,281
Non-interest income	275	2,555	578	101	-
Non-interest expense	3,136	9,426	6,578	5,026	2,894
Income (loss) before income taxes	948	899	413	(2,315)	(1,613)
Income tax expense (benefit)	326	(1,488)	-	-	-
Net income (loss)	<u>\$ 622</u>	<u>\$ 2,387</u>	<u>\$ 413</u>	<u>\$ (2,315)</u>	<u>\$ (1,613)</u>
EARNINGS (LOSS) PER SHARE					
Basic	<u>\$ 0.16</u>	<u>\$ 0.69</u>	<u>\$ 0.14</u>	<u>\$ (0.77)</u>	<u>\$ (0.85)</u>
Diluted	<u>\$ 0.16</u>	<u>\$ 0.68</u>	<u>\$ 0.14</u>	<u>\$ (0.77)</u>	<u>\$ (0.85)</u>
BALANCE SHEET DATA					
Assets:					
Cash and cash equivalents	\$ 14,867	\$ 25,620	\$ 7,304	\$ 29,478	\$ 12,972
Securities	187,532	160,995	79,094	70,957	22,497
Loans, net	301,752	281,573	172,510	90,401	29,117
Other assets	19,352	20,068	5,753	3,536	1,877
Total assets	<u>\$ 523,503</u>	<u>\$ 488,256</u>	<u>\$ 264,661</u>	<u>\$ 194,372</u>	<u>\$ 66,463</u>
Liabilities:					
Deposits	\$ 462,745	\$ 425,813	\$ 218,628	\$ 166,597	\$ 37,751
Borrowings and federal funds purchased	16,882	19,058	17,138	-	-
Other	1,914	2,427	1,005	914	372
Total liabilities	481,541	447,298	236,771	167,511	38,123
Stockholders' equity	41,962	40,958	27,890	26,861	28,340
Total liabilities and stockholders' equity	<u>\$ 523,503</u>	<u>\$ 488,256</u>	<u>\$ 264,661</u>	<u>\$ 194,372</u>	<u>\$ 66,463</u>

(Dollars in thousands, except per share data)	As of or for the three months ended March 31,	As of or for the Years Ended December 31,			
	2011	2010	2009	2008	2007
PERFORMANCE RATIOS					
Return on average assets	0.49%	0.62%	0.17%	(1.97)%	*
Return on average equity	6.00%	6.78%	1.53%	(8.47)%	*
Net interest margin	3.28%	3.03%	3.33%	2.99%	*
Efficiency ratio	74.85%	75.35%	84.39%	145.85%	*
Cost of funds	1.43%	1.41%	1.83%	2.91%	*
ASSET QUALITY RATIOS					
Non-performing loans to total loans	3.05%	2.57%	4.04%	0.17%	*
Allowance for loan losses to total gross loans	1.26%	1.29%	1.23%	1.19%	*
LIQUIDITY AND CAPITAL RATIOS					
Tier 1 leverage ratio	7.85%	7.89%	9.92%	15.86%	*
Tier 1 risk-based capital ratio	10.95%	11.26%	14.44%	23.73%	*
Total risk-based capital ratio	12.00%	12.34%	15.60%	24.72%	*

* We commenced operations in April 2007 and believe these ratios, based on the partial year data available for 2007, would not present a meaningful comparison.

The Offering

Issuer	The Bank of Princeton
Securities offered in offering.....	1,200,000 shares of common stock (provided that our board may increase the number of shares offered by up to 300,000 shares).
Offering price	\$13.75 per share.
Common stock outstanding after this offering ⁽¹⁾	5,152,185 shares (or 5,452,185 if our board increases the number of shares offered by 300,000 shares), assuming the sale of all shares in this offering.
Use of proceeds	We estimate that the net proceeds of this offering (after deducting estimated offering expenses payable by us) will be approximately \$16,400,000 (or \$20,525,000 if our board increases the number of shares offered by 300,000 shares) , assuming the sale of all shares in this offering. We intend to use the net proceeds of this offering for working capital and general corporate purposes, including funding loans. We may also use a portion of the net proceeds of this offering to make acquisitions or invest in additional branch locations.
Subscription funds.....	Subscription funds will not be escrowed. As soon as practicable after completion of the offering, we will issue, or cause our transfer agent and registrar to issue, certificates representing the shares to the investors. See “Plan of Distribution.”
Offering period.....	The offering period is commencing on the date of this offering circular, and is expected to continue until August 14, 2011, but may be discontinued at an earlier date if all of the offered shares have been subscribed, or may be extended by our board of directors up to October 15, 2011. See “Plan of Distribution.”
Plan of distribution.....	We are offering the common stock to our existing stockholders and other potential investors. We are offering the common stock directly through our directors and executive officers. This offering is not being underwritten, and we have not employed any brokers, salespersons or other agents in connection with the offering of the shares.

You may subscribe for shares by completing and signing a subscription agreement in the form attached hereto as Exhibit A, and mailing or delivering the subscription agreement to us, together with payment in full for the total purchase price according to the instructions set forth in the subscription agreement. If we accept your subscription, in whole or in part, we will countersign the subscription agreement, indicating the number of shares for which your subscription has been accepted, and return a copy to you. We reserve the right to reject any subscription, in whole or in part, for any reason or for no reason. If you are interested in purchasing shares of common stock through a custodian bank, broker, dealer or other nominee, you should contact the custodian bank, broker, dealer or other

nominee as soon as possible to discuss the subscription process.

Market for common stockThere is no established public trading market for our common stock. Although the offered shares of common stock will be transferable immediately upon issuance, our common stock is not listed on any stock exchange or quoted in any over-the-counter securities market. Investors who subsequently wish to sell their shares may have to seek buyers and negotiate transaction prices by themselves. An established public trading market for our common stock may not develop.

Transfer agent and registrar.....Registrar and Transfer Company

Risk factorsInvestment in our common stock involves substantial risk. You should carefully review the “Risk Factors” beginning on page 6 prior to making a decision to subscribe for our common stock.

⁽¹⁾ The number of shares of our common stock to be outstanding after this offering is based on 3,952,185 shares outstanding on March 31, 2011. Unless otherwise indicated, the number of outstanding shares of common stock presented in this offering circular excludes: 381,066 shares of our common stock issuable upon exercise of outstanding options and warrants; and 63,634 shares of our common stock reserved for issuance upon exercise of future option awards under our 2007 Stock Option Plan.

RISK FACTORS

In addition to the other information included in this offering circular and any offering circular supplement, the following factors should be carefully considered in evaluating an investment in our common stock. Any of the following risks, either alone or taken together, could materially and adversely affect our business, financial condition, results of operations, or future prospects. If one or more of these or other risks or uncertainties materialize, or if our underlying assumptions prove to be incorrect, our actual results may be materially adversely affected. There may be additional risks that we do not presently know or that we currently believe are immaterial which could also materially adversely affect our business, financial condition, results of operations, or future prospects. In any such case, the value of our common stock could decline substantially and you could lose all or a part of your investment.

Risks Related to Our Business

We have a limited operating history.

We commenced operations in April 2007 and have a limited operating history. Our operations are subject to the risks inherent in the establishment of a new business and, specifically, of a new bank. At March 31, 2011, we had an accumulated deficit of \$1,046,000. Because of our limited operating history, we are only able to provide limited information regarding our historical operations. The information we are able to provide you is not indicative of future results.

Our success will depend in significant part on management's ability to execute our business plan.

We believe that we have a favorable market area, that our focus on personalized services will give us a competitive advantage, and that the experience and personal contacts of our directors and officers will provide us with the ability to successfully implement our business plan. If these views are not accurate, or if we are unable to execute this business plan, our business, financial condition, results of operations or future prospects would be materially adversely affected.

We may require additional capital in the future.

Our future capital requirements depend on many factors, including the success of this offering, our ability to attract new customers and provide additional services. To the extent that our capital resources are insufficient to fund future operating requirements, it may be necessary to raise additional funds through public or private financings. Any equity or debt financings, if available at all, may be on terms which are not favorable to us and, in the case of equity financings, could result in dilution of the interests of our then-existing stockholders. If adequate capital is not available, we will be subject to an increased level of regulatory supervision and our business, financial condition, results of operations or future prospects could be materially adversely affected.

We may not be successful in opening new branches or managing growth.

In May 2010, we acquired a new bank branch in Montgomery, New Jersey and, in September 2010, we acquired MoreBank and its three branches. In December 2010, we opened a new branch in Monroe Township, Middlesex County, New Jersey, and have received regulatory approvals to open a new branch in each of Lambertville, Hunterdon County and Princeton, Mercer County, New Jersey. We are also planning additional new branches in the future and may pursue additional acquisition opportunities. We may not obtain regulatory approval to open new branches or make acquisitions, or be successful in identifying, hiring and retaining qualified management to operate them. We anticipate that we will incur significant costs in order to open new branches. The organizational and overhead costs may be greater than we anticipate. New branches may take longer than expected to reach profitability, and we cannot assure that they will become profitable. The additional costs of starting new branches may adversely impact our financial condition and results of operations.

Our ability to successfully manage growth will depend on whether we can fund growth while maintaining cost controls and asset quality, as well as on factors beyond our control, such as national and regional economic conditions and

interest rate trends. If we are not able to control costs and maintain asset quality, such growth could adversely impact our financial condition and results of operations.

Economic conditions in our market area could unfavorably impact our operations.

Our operations are located in central New Jersey and the Philadelphia, Pennsylvania area. Our deposit and loan customers, and much of the real estate and other collateral securing our secured loans, are also principally located in this market area. Our operating results will depend largely on economic conditions in this and the surrounding area. Deterioration in economic conditions in our market area could unfavorably impact our operations and:

- increase loan delinquencies;
- increase problem assets and foreclosures;
- increase claims and lawsuits;
- decrease the demand for our products and services; and
- decrease the value of collateral for loans, especially real estate, in turn reducing customers' borrowing power, the value of assets associated with nonperforming loans and collateral coverage.

Unfavorable economic and financial market conditions may adversely affect our financial position and results of operations.

Economic and financial market conditions in the United States and around the world may remain challenging for the foreseeable future. Conditions such as slow or negative growth, low levels of liquidity in many financial markets, and volatility in credit, equity and fixed income markets could have various adverse effects on our business, including:

- increasing our credit risk, by increasing the likelihood that major customers of ours become insolvent and unable to satisfy their obligations to us;
- impairing our ability to originate loans, by making our customers and prospective customers less willing to borrow, and making loans that meet our underwriting criteria difficult to find; and
- limiting our interest income, by depressing the yields we are able to earn on our investment portfolio.

These potential effects are difficult to forecast and mitigate. Distress in the credit markets and issues relating to liquidity among financial institutions have resulted in the failure of some financial institutions and others have been forced to seek acquisition partners. The United States and other governments have taken unprecedented steps in an effort to stabilize the financial system, including investing in financial institutions. These efforts, however, may have limited success. Our business and our financial condition and results of operations could be materially adversely affected by continued or accelerated disruption and volatility in financial markets, continued capital and liquidity concerns regarding financial institutions, limitations resulting from further governmental action in an effort to stabilize or provide additional regulation of the financial system, and continued challenging conditions that remain deeper or more persistent than currently anticipated.

We must continue to attract and retain qualified personnel and maintain cost controls and asset quality.

Our ability to successfully manage growth will depend on our ability to continue to attract and retain senior management experienced in banking and financial services and familiar with the communities in our market area. As we grow, we must be able to attract and retain qualified additional management and loan officers with the appropriate level of experience and knowledge about our market areas to implement our operating strategy. The unexpected loss of services of any key management personnel, or the inability to recruit and retain qualified personnel in the future, could have an adverse effect on our business, financial condition and results of operations. Successful management of growth also depends on our ability to maintain cost controls and asset quality while attracting additional loans and deposits on favorable terms, as well as on factors beyond our control, such as economic conditions and competition. If we grow too quickly and are not able to attract qualified personnel, control costs and maintain asset quality, this rapid growth could materially adversely affect our results of operations and financial condition.

Changes in interest rates could reduce our income and cash flows.

Our operating income and net income depend to a great extent on our net interest margin, which is the difference between the interest yields we receive on loans, securities and other interest-earning assets and the interest rates we pay on interest-bearing deposits and other liabilities. These rates are highly sensitive to many factors beyond our control, including competition, general economic conditions and monetary and fiscal policies of various governmental and regulatory authorities, including those of the Federal Reserve System. If the rate of interest we pay on interest-bearing deposits and other liabilities increases more than the rate of interest received on loans, securities and other interest-earning assets, our net interest income and our net income could be materially adversely affected. Our net interest income and net income could also be materially adversely affected if the rates we receive on our loans and other investments fall more quickly than those we pay on our deposits and other liabilities.

We are subject to credit risk in connection with our lending activities, and our financial condition and results of operations may be negatively impacted by economic conditions and other factors that adversely affect our borrowers.

Our financial condition and results of operations are affected by the ability of our borrowers to repay their loans, and their ability to do so in a timely manner. Lending money is a significant part of the banking business. Borrowers, however, do not always repay their loans. The risk of non-payment is assessed through our underwriting and loan review procedures based on several factors including credit risks of a particular borrower, changes in economic conditions, the duration of the loan and, in the case of a collateralized loan, uncertainties as to the future value of the collateral and other factors. Despite our efforts, we do and will experience loan losses and our financial condition and results of operations will be materially adversely affected. At March 31, 2011 and December 31, 2010, respectively, we had nonperforming assets of approximately \$8,341,000 and \$7,649,000, an allowance for loan losses of approximately \$3,839,000 and \$3,693,000, and loans over 30 but less than 90 days past due of approximately \$5,553,000 and \$4,550,000.

Our concentration of commercial real estate loans could result in increased loan losses and costs of compliance.

A substantial portion of our loan portfolio—approximately 60% as of March 31, 2011—is comprised of commercial real estate loans. The commercial real estate market is cyclical and poses a greater risk of loss to us because of the concentration of commercial real estate loans in our loan portfolio. Banking regulators have been giving and continue to give commercial real estate lending greater scrutiny, and banks with larger commercial real estate loan portfolios are expected by their regulators to implement improved underwriting, internal controls, risk management policies and portfolio stress-testing practices to manage risks associated with commercial real estate lending. In addition, many commercial real estate lenders have made greater provisions for loan losses and sought higher capital levels as a result of commercial real estate lending exposures. Additional losses or regulatory requirements related to our commercial real estate loan concentration could materially adversely affect our business, financial condition and results of operations.

Our allowance for loan losses may not be sufficient to absorb actual loan losses.

We maintain an allowance for loan losses which management believes is adequate to absorb the losses inherent in our loan portfolio. The maintenance of our allowance for loan losses, however, requires management to make significant estimates and assumptions. Our allowance for loan losses is based on, among other things, historical loss experience and delinquency trends and national and regional economic conditions. Because we commenced operations in 2007, our historical loss experience is limited. We cannot predict loan losses with certainty, and cannot assure you that charge-offs in future periods will not exceed our allowance. If charge-offs exceed our allowance, we would need to make additional provisions for loan losses, and our financial condition and results of operations would be materially adversely affected. In addition, regulatory agencies, as an integral part of their examination process, review our allowance for loan losses and may require additional provisions based on their judgment of information available to them at the time of their examinations. Factors that require additional provisions for loan losses would adversely affect our financial condition and results of operations.

Competition from other banks and financial institutions in originating loans, attracting deposits and providing various financial services may adversely affect our business.

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

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

We operate in a highly regulated environment; changes in laws and regulations and accounting principles may adversely affect us.

The banking industry is heavily regulated, and such regulations are intended primarily for the protection of customers, depositors and the federal deposit insurance funds, not stockholders. Almost all aspects of our operations are governed by extensive regulation, supervision, and legislation. These laws and regulations could change at any time. Any changes to these laws or any applicable accounting principles may adversely affect our business, financial condition and results of operations.

In December 2010, the Basel Committee released its final framework for strengthening international capital and liquidity regulation, now officially identified by the Basel Committee as “Basel III.” Basel III, when implemented by the U.S. banking agencies and fully phased-in, will require bank holding companies and their bank subsidiaries to maintain substantially more capital, with a greater emphasis on common equity. Although Basel III is intended to be implemented by participating countries for large, internationally active banks, its provisions are likely to be considered by U. S. banking regulatory agencies in developing new regulations applicable to other banks in the United States, including us.

While we cannot predict what effect any presently contemplated or future changes in the laws or regulations or their interpretations would have, these changes could materially adversely affect us and our stockholders.

Recently enacted financial reform legislation will, among other things, create a new Consumer Financial Protection Bureau, tighten capital standards and result in new laws and regulations that are expected to increase our costs of operations.

On July 21, 2010, the Dodd-Frank Act became law. This new law will significantly change the current bank regulatory structure and affect the lending, deposit, investment, trading and operating activities of financial institutions and their holding companies. The Dodd-Frank Act requires various federal agencies to adopt a broad range of new implementing rules and regulations, and to prepare numerous studies and reports for Congress. These various federal agencies are given significant discretion in drafting the implementing rules and regulations, and consequently, many of the details and much of the impact of the Dodd-Frank Act may not be known for many months or years.

Effective one year after the date of enactment is a provision of the Dodd-Frank Act that eliminates the federal prohibitions on paying interest on demand deposits, thus allowing businesses to have interest-bearing checking accounts. Depending on competitive responses, this significant change to existing law could have an adverse affect on our interest expense.

The Dodd-Frank Act also broadens the base for FDIC deposit insurance assessments. Assessments will now be based on the average consolidated total assets less tangible equity capital of a financial institution, rather than deposits.

The Dodd-Frank Act will require publicly-traded companies to give stockholders a non-binding vote on executive compensation and so-called “golden parachute” payments, and authorizes the Securities and Exchange Commission to promulgate rules that would allow stockholders to nominate their own candidates using a company’s proxy materials. It also provides that the listing standards of the national securities exchanges shall require listed companies to implement and disclose “clawback” policies mandating the recovery of incentive compensation paid to executive officers in connection with accounting restatements. The legislation also directs the Federal Reserve Board to promulgate rules prohibiting excessive compensation paid to bank holding company executives, regardless of whether the company is publicly traded or not.

The Dodd-Frank Act creates a new Consumer Financial Protection Bureau with broad powers to supervise and enforce consumer protection laws. The Consumer Financial Protection Bureau has broad rule-making authority for a wide range of consumer protection laws that apply to all banks and savings institutions, including the authority to prohibit “unfair, deceptive or abusive” acts and practices. The Consumer Financial Protection Bureau has examination and enforcement authority over all banks and savings institutions with more than \$10 billion in assets. Banks with \$10 billion or less in assets will continue to be examined for compliance with these consumer protection laws by their primary bank regulators. The Dodd-Frank Act also weakens the federal preemption rules that have been applicable for national banks and federal savings associations, and gives state attorneys general the ability to enforce federal consumer protection laws.

It is difficult to predict what specific impact the Dodd-Frank Act and the yet-to-be-written implementing rules and regulations will have on community banks. However, it is expected that at a minimum they will increase our operating and compliance costs and could increase our interest expense.

Risks Related to this Offering and Our Shares

There is no established public trading market for our securities and this may make it difficult for you to resell shares of our common stock at times or at prices you find attractive.

While our common stock is transferable, there is no established public trading market for our common stock, and an established or a liquid trading market may not develop in the future. Stockholders wishing to sell their shares may have to find buyers through their own efforts, and buyers may not be available at all, or at a time or price that you would find attractive.

We have broad discretion in the use of the proceeds of this offering, which could result in our utilization of the proceeds in ways that may not yield a return to stockholders.

Our management will have broad discretion over the use and investment of the net proceeds from this offering, and accordingly, investors in this offering will need to rely upon the judgment of our management with respect to the use of proceeds. Our management may utilize a portion or all of the net proceeds from this offering in ways that our stockholders may not agree with or that may not yield a favorable return, if any. You will not have the opportunity to influence our decision on how the net proceeds from this offering are used. The failure of our management to apply the net proceeds from this offering effectively could harm our business, financial condition and results of operations.

Our ability to pay dividends is limited by regulatory and other requirements.

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

This offering is expected to be dilutive to earnings per share and ownership interests.

Giving effect to the issuance of common stock in this offering, we expect that this offering will have a dilutive effect on our expected earnings per common share. The actual amount of this dilution cannot be determined at this time and will be based on numerous factors. We currently have 10,000,000 shares of common stock authorized under our certificate of incorporation, and anticipate that no more than 5,596,885 shares of common stock will be issued and outstanding or reserved for issuance upon completion of this offering. Our issuance of shares of common stock in the future will dilute the ownership interests of our existing stockholders.

Additionally, the sale of substantial amounts of our common stock or securities convertible into or exchangeable or exercisable for our common stock, whether directly by us in this offering or future offerings or by existing common stockholders in the secondary market, the perception that such sales could occur or the availability for future sale of shares of our common stock or securities convertible into or exchangeable or exercisable for our common stock could, in turn, materially adversely affect any future market price of our common stock and our ability to raise capital through future offerings of equity or equity-related securities.

The financial information included in this offering circular at and for the three months ended March 31, 2011, has not been audited, and does not include comparative periods or notes.

As of the date of this offering circular, the financial information that we have readily available for the three months ended March 31, 2011 is limited to the management-prepared financial information beginning on page F-51. That information does not include comparative period information or any notes. Further, that information has not been audited. Accordingly, you should consider these facts in your review and evaluation of the financial information at and for the three months ended March 31, 2011.

Our directors and executive officers own a significant percentage of our common stock, are expected to purchase additional shares in this offering, and can significantly influence matters requiring approval by our stockholders.

As of June 15, 2011, our directors and executive officers, in the aggregate, beneficially owned approximately 16.3% of our common stock (which includes shares issuable upon exercise of certain outstanding options and warrants), and had the right to vote approximately 13.3% of our outstanding common stock. These stockholders, acting together, would be able to influence matters requiring approval by our stockholders, including the election of directors. This concentration of ownership might also have the effect of delaying or preventing a change in control of the company.

Our common stock is not insured by any governmental entity and, therefore, an investment in our common stock involves risk.

Our common stock is not a deposit account or other obligation of any bank, and is not insured by the FDIC or any other governmental entity, and is subject to investment risk, including possible loss.

USE OF PROCEEDS

Assuming we sell all 1,200,000 shares in this offering, after deducting estimated expenses payable by us, our net proceeds from this offering will be approximately \$16,400,000, or up to approximately \$20,525,000 if our board determines to increase the number of shares offered by 300,000 shares. We currently intend to use the net proceeds from the sale of our common stock for working capital and general corporate purposes, including funding loans. We may also use a portion of the net proceeds of this offering to acquire or invest in additional branch locations. We have not yet determined all of our anticipated expenditures and cannot estimate the amounts to be used for each of the purposes discussed above. The amounts and timing of any expenditure will vary depending on the amount of cash generated by our operations and other factors. Accordingly, our management will have broad discretion in applying the net proceeds from this offering.

DETERMINATION OF OFFERING PRICE

Our board of directors determined the per share price at which we are offering the shares of our common stock. There is no established trading market for our common stock from which a market price could be determined. Accordingly, prior to making its determination, our board of directors considered a number of other factors to determine the offering price, including:

- our financial condition and results of operations,
- our cash flows, capital resources and liquidity,
- our asset quality and our allowance for loan losses,
- our operating history, including our branch and bank acquisitions,
- our business plan and potential for future growth,
- our tangible book value at March 31, 2011, and select market data regarding the per share market price to tangible book value ratios of certain other financial institutions,
- our net income or earnings for the three months ended March 31, 2011 and the year ended December 31, 2010, and select market data regarding the price to earnings ratios of certain other financial institutions,
- our deposits at March 31, 2011, and select market data regarding the deposit premiums paid in certain recent acquisitions of financial institutions,
- available debt and equity financing alternatives,
- our ability to incent our stockholders and other potential investors to participate in the offering,
- our needs and potential uses for additional capital, and
- the interests of the Bank and our existing stockholders.

In determining the offering price, our board of directors considered and reviewed the offering and its terms with senior management. We did not engage any investment banker or financial advisor, or obtain a valuation of the Bank or an appraisal of any of our assets or liabilities.

The above discussion of the information and factors considered by our board of directors is not intended to be exhaustive, but indicates the material matters considered by our board of directors. In reaching its determination of the offering price, the board of directors did not quantify, rank or assign any relative or specific weight to the foregoing factors; individual directors may have considered various factors differently and may have given differing weights to different factors. Our board of directors did not undertake to make any specific determination as to whether any factor, or any particular aspect of any factor, supported or did not support its ultimate determination. Our board of directors based its determination on the totality of the information presented.

The offering price may not reflect the value of the shares or the price at which investors would be able to sell their shares in the future, if at all.

DILUTION

Our net tangible book value as of March 31, 2011 was \$41,387,000, or \$10.47 per share of common stock. Net tangible book value per share is calculated by subtracting our total liabilities from our total tangible assets, and dividing this amount by the number of shares of common stock outstanding. Our total tangible assets is our total assets less our core deposit intangible, which was \$575,000 and included in other assets at March 31, 2011.

After reflecting the sale of 1,200,000 shares of common stock offered by us in this offering at the public offering price of \$13.75 per share, less the estimated offering expenses payable by us, the adjusted net tangible book value of our common stock as of March 31, 2011 would have been approximately \$57,787,000, or \$11.22 per share. The change represents an immediate increase in the net tangible book value of our common stock of \$0.75 per share to existing stockholders and an immediate dilution in the net tangible book value of our common stock of \$2.53 per share to new investors participating in this offering. The following table illustrates this dilution on a per share basis:

Public offering price per share		\$13.75
Net tangible book value per share as of March 31, 2011	\$10.47	
Increase per share attributable to investors participating in this offering	<u>0.75</u>	
As-adjusted net tangible book value per share as of March 31, 2011		<u>11.22</u>
Dilution per share to investors participating in this offering		<u>\$ 2.53</u>

In the event our board of directors determines to increase the number of shares offered by 300,000 shares, after reflecting the sale of 1,500,000 shares of common stock offered by us in this offering at the offering price of \$13.75 per share, less the estimated offering expenses payable by us, the adjusted net tangible book value of our common stock as of March 31, 2011 would have been approximately \$61,912,000, or \$11.36 per share. The change represents an immediate increase in net tangible book value per share of our common stock of \$0.89 per share to existing stockholders and an immediate dilution in the net tangible book value of our common stock of \$2.39 per share to new investors participating in this offering.

The foregoing illustrations do not reflect potential dilution from the exercise of options and warrants. At March 31, 2011, there were outstanding options and warrants to purchase 381,066 shares of our common stock at a weighted average price of \$12.70 per share, and 63,634 shares reserved for issuance upon exercise of future option awards under our 2007 Stock Option Plan.

MARKET FOR COMMON STOCK AND DIVIDEND POLICY

No Trading Market

There is no established public trading market for our common stock. There can be no assurance that a trading market for our common stock will develop in the future, and stockholders wishing to sell common stock may have to seek buyers and negotiate a transaction price by themselves.

Holdings

As of June 15, 2011, the record number of The Bank of Princeton stockholders was 576.

Dividends

We were incorporated in 2007 and have not declared or paid any cash dividends to date. Our future dividend policy is subject to the discretion of our board of directors and will depend upon a number of factors, including our future financial condition, results of operations, capital resources, liquidity needs, and general business conditions. Additionally, under certain circumstances, approval of our regulators may be required with respect to the declaration and payment of dividends.

CAPITALIZATION

The following table sets forth our capitalization as of March 31, 2011 on an actual basis and on a pro forma basis, giving effect to the sale of shares of common stock in this offering at the offering price of \$13.75 per share.

The following data is qualified in its entirety by, and should be read in conjunction with, our financial statements included in this offering circular.

(in thousands)	Actual	Pro Forma ⁽¹⁾
Cash and cash equivalents	<u>\$ 14,867</u>	<u>\$ 31,267</u>
Stockholders' equity:		
Common stock ⁽²⁾	19,761	25,761
Paid-in capital	22,602	33,002
Accumulated deficit	(1,046)	(1,046)
Accumulated other comprehensive income	645	645
Total stockholders' equity	<u>\$ 41,962</u>	<u>\$ 58,362</u>

⁽¹⁾ Consolidated capitalization giving effect to the sale of 1,200,000 shares of common stock in this offering at a public offering price of \$13.75 per share, for total net proceeds, after estimated expenses, of approximately \$16,400,000.

⁽²⁾ At March 31, 2011, we had 10,000,000 shares of common stock, par value \$5.00 per share, authorized and 3,952,185 shares of common stock issued and outstanding.

In the event our board of directors determines to increase the number of shares offered by 300,000 shares, after reflecting the sale of 1,500,000 shares of common stock offered by us in this offering at the offering price of \$13.75 per share, less the estimated offering expenses payable by us, our pro forma cash and cash equivalents would be approximately \$35,392,000, our pro forma common stock would be approximately \$27,261,000, our pro forma paid-in capital would be approximately \$35,627,000, and our pro forma total stockholders' equity would be approximately \$62,487,000.

SELECTED CONSOLIDATED FINANCIAL AND OPERATING DATA

The summary financial information presented below is derived in part from our consolidated financial statements. The following is only a summary and should be read in conjunction with the consolidated financial statements and notes beginning on page F-1. The following financial information as of and for the years ended December 31, 2010 and 2009 is derived in part from, and qualified by reference to, our audited consolidated financial statements and related notes appearing elsewhere in this offering circular. The following financial information as of and for the years ended December 31, 2008 and 2007 is derived in part from our audited consolidated financial statements and related notes not appearing in this offering circular. The following financial information as of and for the three months ended March 31, 2011 is derived in part from our unaudited consolidated financial statements and other financial data appearing elsewhere in this offering circular. The Bank of Princeton acquired MoreBank on September 30, 2010, and MoreBank financial information is included beginning as of the acquisition date. The following information should be read in conjunction with our consolidated financial statements and related notes, as may be presented, and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” included in this offering circular.

(Dollars in thousands, except per share data)	As of or for the three months ended March 31,	As of or for the Years Ended December 31,			
	2011	2010	2009	2008	2007
INCOME STATEMENT DATA					
Interest income	\$ 5,614	\$ 16,201	\$ 11,424	\$ 5,969	\$ 2,176
Interest expense	1,677	5,130	3,807	2,621	540
Net interest income	<u>3,937</u>	<u>11,071</u>	<u>7,617</u>	<u>3,348</u>	<u>1,636</u>
Provision for loan losses	128	3,301	1,204	738	355
Net interest income after provision for loan losses	<u>3,809</u>	<u>7,770</u>	<u>6,413</u>	<u>2,610</u>	<u>1,281</u>
Non-interest income	275	2,555	578	101	-
Non-interest expense	<u>3,136</u>	<u>9,426</u>	<u>6,578</u>	<u>5,026</u>	<u>2,894</u>
Income (loss) before income taxes	948	899	413	(2,315)	(1,613)
Income tax expense (benefit)	<u>326</u>	<u>(1,488)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net income (loss)	<u>\$ 622</u>	<u>\$ 2,387</u>	<u>\$ 413</u>	<u>\$ (2,315)</u>	<u>\$ (1,613)</u>
EARNINGS (LOSS) PER SHARE					
Basic	<u>\$ 0.16</u>	<u>\$ 0.69</u>	<u>\$ 0.14</u>	<u>\$ (0.77)</u>	<u>\$ (0.85)</u>
Diluted	<u>\$ 0.16</u>	<u>\$ 0.68</u>	<u>\$ 0.14</u>	<u>\$ (0.77)</u>	<u>\$ (0.85)</u>
BALANCE SHEET DATA					
Assets:					
Cash and cash equivalents	\$ 14,867	\$ 25,620	\$ 7,304	\$ 29,478	\$ 12,972
Securities available for sale	186,142	159,601	70,423	70,455	21,994
Securities held to maturity	1,390	1,394	8,671	502	503
Loans, net	301,752	281,573	172,510	90,401	29,117
Bank-owned life insurance	6,084	6,032	-	-	-
Other assets	<u>13,268</u>	<u>14,036</u>	<u>5,753</u>	<u>3,536</u>	<u>1,877</u>
Total assets	<u>\$ 523,503</u>	<u>\$ 488,256</u>	<u>\$ 264,661</u>	<u>\$ 194,372</u>	<u>\$ 66,463</u>

(Dollars in thousands, except per share data)	As of or for the three months ended March 31,	As of or for the Years Ended December 31,			
	2011	2010	2009	2008	2007
Liabilities:					
Deposits	\$ 462,745	\$ 425,813	\$ 218,628	\$ 166,597	\$ 37,751
Borrowings and federal funds purchased	16,882	19,058	17,138	-	-
Other liabilities	1,914	2,427	1,005	914	372
Total liabilities	<u>481,541</u>	<u>447,298</u>	<u>236,771</u>	<u>167,511</u>	<u>38,123</u>
Stockholders' equity:					
Common stock	19,761	19,761	15,112	15,100	15,000
Additional paid-in-capital	22,602	22,515	15,765	15,517	15,253
Accumulated deficit	(1,046)	(1,667)	(4,054)	(4,467)	(2,152)
Accumulated other comprehensive income	645	349	1,067	711	239
Total stockholders' equity	<u>41,962</u>	<u>40,958</u>	<u>27,890</u>	<u>26,861</u>	<u>28,340</u>
Total liabilities and stockholders' equity	<u>\$ 523,503</u>	<u>\$ 488,256</u>	<u>\$ 264,661</u>	<u>\$ 194,372</u>	<u>\$ 66,463</u>

PERFORMANCE RATIOS

Return on average assets	0.49%	0.62%	0.17%	(1.97)%	*
Return on average equity	6.00%	6.78%	1.53%	(8.47)%	*
Net interest margin	3.28%	3.03%	3.33%	2.99%	*
Efficiency ratio	74.85%	75.35%	84.39%	145.85%	*
Cost of funds	1.43%	1.41%	1.83%	2.91%	*

ASSET QUALITY RATIOS

Non-performing loans to total loans	3.05%	2.57%	4.04%	0.17%	*
Allowance for loan losses to total gross loans	1.26%	1.29%	1.23%	1.19%	*

LIQUIDITY AND CAPITAL RATIOS

Leverage ratio	7.85%	7.89%	9.92%	15.86%	*
Tier 1 risk-based capital ratio	10.95%	11.26%	14.44%	23.73%	*
Total risk-based capital ratio	12.00%	12.34%	15.60%	24.72%	*

* We commenced operations in April 2007 and believe these ratios, based on the partial year data available for 2007, would not present a meaningful comparison.

OUR BUSINESS

General

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

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

Since we commenced operations, we have grown through both de novo branching and acquisitions. In May 2010, we acquired our Montgomery Township branch from The Provident Bank and, in September 2010, we acquired our three Pennsylvania branches through a merger with MoreBank. In December 2010, we opened a new branch in Monroe Township, Middlesex County, New Jersey, and have received regulatory approvals to open a new branch in each of Lambertville, Hunterdon County, and Princeton, Mercer County, New Jersey.

MoreBank Acquisition

MoreBank, a Pennsylvania state-chartered bank, commenced operations in March 2006. We acquired MoreBank in a stock-for-stock merger on September 30, 2010. Additional information about this transaction is included in “Note 2 – Business Combinations” in our audited financial statements, which are included in this offering circular beginning at page F-1. This acquisition expanded our geographic presence to areas in Philadelphia, Delaware and Montgomery Counties in Pennsylvania. We continue to operate the former MoreBank branches as a division of The Bank of Princeton under the “MoreBank” name.

Objectives

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

Our primary business objectives are:

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

We strive to serve the financial needs of our customers while providing an appropriate return to our stockholders, consistent with safe and sound banking practices. We expect that a financial strategy that utilizes variable rates and matching assets and liabilities will enable us to increase our net interest margin, while managing interest rate risk. We

also seek to generate fee income from various sources, subject to our desire to maintain competitive pricing within our market area.

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

Lending

General

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

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

Commercial Real Estate and Construction Loans

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

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

Residential First-Lien Mortgage Loans

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

Residential Second-Lien Mortgage Loans and Lines of Credit

We generate these loans and lines of credit primarily through direct marketing at our branch locations and, to a lesser extent, by targeted direct marketing programs such as mail and electronic mail.

Consumer Loans

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

Deposits

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

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

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

Other Services

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

Money orders	Direct deposit
Treasurer checks	Federal payroll tax deposits
Wire transfers	Safe deposit boxes
EE and I U.S. savings bonds	Night depository
Automated teller machines	Bank-by-mail
In-home banking	Automated telephone banking
On-line banking	Debit cards

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

Internet Banking

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

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

Fee Income

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

Bank Premises and Market Area

Our principal office and corporate headquarters is in a full-service banking facility located at 183 Bayard Lane, Princeton, New Jersey. We have eight additional branches in New Jersey and Pennsylvania, and have received regulatory approvals for two additional branches in New Jersey.

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

Competition

The banking business is highly competitive. We face substantial competition and potential future competition both in attracting deposits and in originating loans. We compete with local, regional and national commercial banks, savings banks, and savings and loan associations, most of which have assets, capital, and lending limits larger than ours. Other competitors include money market mutual funds, mortgage bankers and brokers, insurance companies, stock brokerage firms, regulated small loan companies, credit unions, and issuers of commercial paper and other securities.

Our larger competitors have greater name recognition and greater financial resources to finance wide-ranging advertising campaigns. Although we engage in limited media advertising, marketing efforts to introduce ourselves to prospective customers depend heavily upon referrals from our incorporators, directors and stockholders, as well as employee calling programs. We seek to compete for business principally on the basis of high quality, personal service to customers, customer access to decision-makers, and competitive interest rates and fees.

Staffing

As of June 15, 2011, we had 95 total employees and approximately 91 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 Federal Deposit Insurance Corporation. The Department and the FDIC have broad discretion to impose restrictions and limitations on our operations. This supervisory framework could materially impact the conduct and profitability of our activities.

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

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

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

Monetary Policy

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

Deposit Insurance

Our deposits are insured up to applicable limits per insured depositor by the FDIC. As an FDIC-insured bank, we are also subject to FDIC insurance assessments. Beginning in 2007, the FDIC adopted a revised risk-based assessment system to determine the assessment rates to be paid by insured institutions. Under a final rulemaking announced by the FDIC on March 4, 2009, and depending on the institution’s risk category, assessment rates range from 12 to 45 basis points. Institutions in the lowest risk category are charged a rate between 12 and 16 basis points; these rates increase to 22, 32 and 45 basis points, respectively, for the remaining three risk categories. These rates may be offset in the future by any dividends declared by the FDIC if the deposit reserve ratio increases above a certain amount. Given the state of the current economic environment, it is unlikely that the FDIC will lower these assessment rates, and such rates may in fact increase. Because FDIC deposit insurance premiums are “risk-based,” higher premiums would be charged to banks that have lower capital ratios or higher risk profiles. Consequently, a decrease in our capital ratios, or a negative evaluation by the FDIC, as our primary federal banking regulator, may also increase our net funding costs and reduce our net income.

On February 27, 2009, the FDIC adopted an interim rule that imposed a 20 basis point emergency special assessment on all insured depository institutions on June 30, 2009. The special assessment was collected on September 30, 2009, at the same time that the risk-based assessments for the second quarter of 2010 were collected. The interim rule also permitted the FDIC to impose an emergency special assessment of up to 10 basis points on all insured depository institutions whenever, after June 30, 2009, the FDIC estimated that the fund reserve ratio could fall to a level that the FDIC believed would adversely affect public confidence or to a level close to zero or negative at the end of a calendar quarter.

On May 22, 2009, the FDIC adopted a final rule imposing a 5 basis point special assessment on each insured depository institution’s assets minus Tier 1 capital as of June 30, 2009. This special assessment was collected on September 30, 2009.

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

On July 21, 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act) was signed into law. The Dodd-Frank Act changed the assessment base for federal deposit insurance from the amount of insured deposits held by the depository institution to the depository institution’s average total consolidated assets less average tangible equity, eliminating the ceiling on the size of the DIF and increasing the floor on the size of the DIF. The Dodd-Frank Act established a minimum designated reserve ratio (DRR) of 1.35 percent of the estimated insured deposits, mandates the FDIC adopt a restoration plan should the fund balance fall below 1.35 percent, and provides dividends to the industry should the fund balance exceed 1.50 percent.

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

The Final Rule changed the assessment base for insured depository institutions from adjusted domestic deposits to the average consolidated total assets during an assessment period less average tangible equity capital during that assessment period. Tangible equity is defined in the Final Rule as Tier 1 Capital and shall be calculated monthly, unless,

like us, the insured depository institution has less than \$1 billion in assets, then the insured depository institution will calculate the Tier 1 Capital on an end-of-quarter basis.

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

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

The Dodd-Frank Act makes permanent the \$250,000 limit for federal deposit insurance and increases the cash limit of Securities Investor Protection Corporation protection from \$100,000 to \$250,000 and provides unlimited federal deposit insurance until January 1, 2013 for noninterest-bearing demand transaction accounts at all insured depository institutions. In addition, the FDIC adopted an optional Temporary Liquidity Guarantee Program (TLGP) under which, for a fee, noninterest-bearing transaction accounts would receive unlimited insurance coverage until June 30, 2010, subsequently extended to December 31, 2010. The TLGP also included a debt component under which certain senior unsecured debt issued by institutions and their holding companies between October 13, 2008 and October 31, 2009 would be guaranteed by the FDIC through June 30, 2012, or in some cases, December 31, 2012. We opted to participate in the unlimited noninterest-bearing transaction account coverage and opted not to participate in the unsecured debt guarantee program.

In addition to the assessment for deposit insurance, institutions are required to make payments on bonds issued in the late 1980s by the Financing Corporation to recapitalize a predecessor deposit insurance fund. This payment is established quarterly and, during the four quarters ended June 30, 2010, averaged 1.04 basis points of assessable deposits.

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

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

Dividend Restrictions

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

Capital Adequacy Guidelines

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

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

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

The minimum ratio of total capital to risk-weighted assets (including certain off-balance sheet activities, such as standby letters of credit) is 8%. At least 4% of the total capital is required to be “Tier 1 Capital,” consisting of stockholders’ equity and qualifying preferred stock, less certain goodwill items and other intangible assets. The remainder, or “Tier 2 Capital,” may consist of: the allowance for loan losses of up to 1.25% of risk-weighted assets; excess of qualifying preferred stock; hybrid capital instruments; perpetual debt; mandatory convertible securities; and qualifying subordinated debt and intermediate-term preferred stock up to 50% of Tier 1 Capital. Total capital is the sum of Tier 1 Capital and Tier 2 Capital less reciprocal holdings of other banking organization’s capital instruments, investments in unconsolidated subsidiaries, and any other deductions as determined by the FDIC. At March 31, 2011, our tier 1 and total capital ratios were 10.95% and 12.00%, respectively.

In addition, the FDIC has established minimum leverage ratio requirements for the banking institutions it supervises. For banks that meet certain specified criteria, including having the highest regulatory rating and not experiencing significant growth or expansion, these requirements provide for a minimum leverage ratio of tier 1 capital to adjusted average quarterly assets equal to 3%. Other banks and bank holding companies generally are required to maintain a leverage ratio of 4 to 5%. At March 31, 2011, our leverage ratio was 7.85%.

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

Prompt Corrective Action

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

The prompt corrective action rules require an undercapitalized institution to file a written capital restoration plan, along with a performance guaranty by a holding company or a third party. In addition, an undercapitalized institution becomes subject to certain automatic restrictions including a prohibition on payment of dividends, a limitation on asset

growth and expansion, in certain cases, a limitation on the payment of bonuses or raises to senior executive officers, and a prohibition on the payment of certain “management fees” to any “controlling person.” Institutions that are classified as undercapitalized are also subject to certain additional supervisory actions, including: increased reporting burdens and regulatory monitoring; a limitation on the institution’s ability to make acquisitions, open new branch offices, or engage in new lines of business; obligations to raise additional capital; restrictions on transactions with affiliates; and restrictions on interest rates paid by the institution on deposits. In certain cases, bank regulatory agencies may require replacement of senior executive officers or directors, or sale of the institution to a willing purchaser. If an institution is deemed to be “critically undercapitalized” and continues in that category for four quarters, the statute requires, with certain narrowly limited exceptions, that the institution be placed in receivership.

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

Community Reinvestment Act

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

USA Patriot Act

Under the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism (USA PATRIOT) Act, or the “Act,” financial institutions are subject to prohibitions against specified financial transactions and account relationships as well as enhanced due diligence and “know your customer” standards in their dealings with foreign financial institutions and foreign customers. Under the Act, financial institutions must establish anti-money laundering programs meeting the minimum standards specified by the Act and implementing regulations. The Act also requires the federal banking regulators to consider the effectiveness of a financial institution’s anti-money laundering activities when reviewing bank mergers and bank holding company acquisitions.

We have implemented the required internal controls to ensure proper compliance with the USA PATRIOT Act.

Sarbanes-Oxley Act of 2002

The Sarbanes-Oxley Act of 2002 comprehensively revised the laws affecting corporate governance, auditing and accounting, executive compensation and corporate reporting for entities with equity or debt securities registered under the Securities Exchange Act of 1934, as amended (the Exchange Act). Among other things, Sarbanes-Oxley and its implementing regulations established membership requirements and responsibilities for audit committees, imposed restrictions on the relationship between an entity and its outside auditors (including restrictions on the types of non-audit services our auditors may provide to us), imposed responsibilities for external financial statements on the chief executive officer and chief financial officer, and expanded the disclosure requirements for certain insiders. The requirements are intended to allow stockholders to more easily and efficiently monitor the performance of companies and directors. Our class of common stock was registered under the Exchange Act effective June 29, 2011, which will require us to comply with these regulatory requirements, as well as rules and regulations relating to periodic reporting, reporting to stockholders, proxy solicitations, and insider-trading.

Dodd-Frank Act

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

Among other things, the Dodd-Frank Act creates the Bureau of Consumer Financial Protection (the “Bureau”), which will be an independent bureau within the Federal Reserve System with broad authority to regulate the consumer finance industry including regulated financial institutions, such as us, and non-banks and others who are involved in the consumer finance industry. The Bureau will have exclusive authority through rulemaking, orders, policy statements, guidance and enforcement actions to administer and enforce federal consumer finance laws, to oversee non-federally regulated entities, and to impose its own regulations and pursue enforcement actions when it determines that a practice is unfair, deceptive or abusive (UDA). The federal consumer finance laws are currently interpreted, administered and enforced by different federal agencies, including the FDIC, our current federal regulator. The Treasury Secretary has determined July 21, 2011 as the date when all of the functions and responsibilities of the Bureau are transferred to it. While the Bureau has the exclusive power to interpret, administer and enforce federal consumer finance laws and UDA, the Dodd-Frank Act provides that the FDIC will continue to have examination and enforcement powers over us relating to the matters within the jurisdiction of the Bureau because we have less than \$10 billion in assets. The Dodd-Frank Act also gives state attorneys general the ability to enforce federal consumer protection laws.

The Dodd-Frank Act also:

- Applies the same leverage and risk-based capital requirements to most bank holding companies (BHCs) that apply to insured depository institutions;
- Requires the FDIC to make its capital requirements for insured depository institutions countercyclical, so that capital requirements increase in times of economic expansion and decrease in times of economic contractions;
- Requires BHCs and banks to be both well-capitalized and well-managed in order to acquire banks located outside their home state and requires any BHC electing to be treated as a financial holding company to be both well-managed and well-capitalized;
- Changes the assessment base for federal deposit insurance from the amount of insured deposits held by the depository institution to the depository institution’s average total consolidated assets less tangible equity, eliminates the ceiling on the size of the DIF and increases the floor on the size of the DIF;
- Makes permanent the \$250,000 limit for federal deposit insurance and increases the cash limit of Securities Investor Protection Corporation protection from \$100,000 to \$250,000 and provides unlimited federal deposit insurance until January 1, 2013 for noninterest-bearing demand transaction accounts at all insured depository institutions;
- Eliminates all remaining restrictions on interstate banking by authorizing national and state banks to establish de novo branches in any state that would permit a bank chartered in that state to open a branch at that location; and
- Repeals the federal prohibitions on the payment of interest on demand deposits, effective July 21, 2011, thereby permitting depository institutions to pay interest on business transaction and other accounts.

Many of the provisions of the Dodd-Frank Act will require the federal banking agencies to promulgate hundreds of regulations to implement its provisions.

While designed primarily to reform the financial regulatory system, the Dodd Frank Act also contains a number of corporate governance provisions that will affect companies with securities registered under the Exchange Act. The Dodd-Frank Act requires the Securities and Exchange Commission to adopt rules which may affect our executive compensation policies and disclosure. It also exempts smaller issuers, such as us, from the requirement, originally enacted under Section 404(b) of the Sarbanes-Oxley Act of 2002, that our independent auditor also attest to and report on management’s assessment of internal control over financial reporting.

We continue to review the Dodd-Frank Act to determine its impact on us. The Dodd-Frank Act could require us to make material expenditures, in particular personnel training costs and additional compliance expenses, or otherwise adversely affect our business, financial condition, results of operations or cash flows. It could also require us to change certain of our business practices, adversely affect our ability to pursue business opportunities that we might otherwise consider, cause business disruptions and have other impacts that are as of yet unknown to us. Failure to comply with these laws or regulations, even if inadvertent, could result in negative publicity, fines or additional expenses, any of which could have an adverse effect on our business, financial condition, results of operations or cash flows.

Basel III

In December 2010, the Basel Committee released its final framework for strengthening international capital and liquidity regulation, now officially identified by the Basel Committee as “Basel III.” Basel III, when implemented by the U.S. banking agencies and fully phased-in, will require bank holding companies and banks to maintain substantially more capital, with a greater emphasis on common equity.

Although Basel III is intended to be implemented by participating countries for large, internationally active banks, its provisions are likely to be considered by U. S. banking regulators in developing new regulations applicable to other banks in the United States, including us.

For banks in the United States, among the most significant provisions of Basel III concerning capital are the following:

- A minimum ratio of common equity to risk-weighted assets reaching 4.5%, plus an additional 2.5% as a capital conservation buffer, by 2019 after a phase-in period.
- A minimum ratio of Tier 1 capital to risk-weighted assets reaching 6.0% by 2019 after a phase-in period.
- A minimum ratio of total capital to risk-weighted assets, plus the additional 2.5% capital conservation buffer, reaching 10.5% by 2019 after a phase-in period.
- An additional countercyclical capital buffer to be imposed by applicable national banking regulators periodically at their discretion, with advance notice.
- Restrictions on capital distributions and discretionary bonuses applicable when capital ratios fall within the buffer zone.
- Deduction from common equity of deferred tax assets that depend on future profitability to be realized.
- Increased capital requirements for counterparty credit risk relating to OTC derivatives, repos and securities financing activities.
- For capital instruments issued on or after January 13, 2013 (other than common equity), a loss-absorbency requirement such that the instrument must be written off or converted to common equity if a trigger event occurs, either pursuant to applicable law or at the direction of the banking regulator. A trigger event is an event under which the banking entity would become nonviable without the write-off or conversion, or without an injection of capital from the public sector. The issuer must maintain authorization to issue the requisite shares of common equity if conversion were required.

The Basel III provisions on liquidity include complex criteria establishing liquidity coverage and net stable funding ratios. Although Basel III is described as a “final text,” it is subject to the resolution of certain issues and to further guidance and modification, as well as to adoption by U. S. banking regulators, including decisions as to whether and to what extent it will apply to United States banks that are not large, internationally active banks.

Federal Home Loan Bank Membership

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

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

Other Laws and Regulations

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

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

Several recent regulatory initiatives were adopted that may have future impacts on our business and financial results. For instance, on September 24, 2010 the Board of Governors of the Federal Reserve System issued a final rule to regulate the compensation of mortgage loan originators and prohibits compensation to a mortgage loan originator that is based on the loan's terms or conditions, except for the amount of credit extended. The final rule is effective April 1, 2011. In addition, the federal banking agencies released a final rule on July 28, 2010 to implement the requirements of the Secure and Fair Enforcement for Mortgage Licensing Act of 2008 for the federal registration of mortgage loan originators (the Rule). Under the Rule, banks and employees of a bank who engage in the business of loan origination must, among other things, register with the National Mortgage Licensing System and Registry. The registration with the NMLS must be completed within 180 days of January 31, 2011.

Future Legislation and Regulation

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

DESCRIPTION OF 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 eight other branch locations in New Jersey and Pennsylvania. The New Jersey branches, all of which are operated under the name "The Bank of Princeton," are as follows:

- 339 Route 33, Hamilton (Mercer County), New Jersey 08619
- 2 Route 31, Pennington (Mercer County), New Jersey 08534
- 183 Bayard Lane, Princeton (Mercer County), New Jersey 08540
- 21 Chambers Street, Princeton (Mercer County), New Jersey 08542
- 1 Rossmoor Drive, Suite 1200, Monroe Township (Middlesex County), New Jersey 08831
- 1185 Route 206 North, Princeton (Montgomery Township, Somerset County), New Jersey 08540

We recently purchased the building situated at 10-12 Bridge Street in Lambertville (Hunterdon County), New Jersey 08530. The building is currently being built-out as a branch location. It is expected to be open for business in July 2011.

The Pennsylvania branches, all of which are operated under the name "MoreBank," are as follows:

- 7050 Terminal Square, Upper Darby (Delaware County), Pennsylvania 19082
- 1222 North Welsh Road, North Wales (Montgomery County), Pennsylvania 19454
- 470 West Cheltenham Avenue, Philadelphia (Philadelphia County), Pennsylvania 19126

LEGAL PROCEEDINGS

There are no material pending legal proceedings, other than ordinary routine litigation incidental to our business and that of our subsidiaries, to which we are a party or to which any of our property is subject.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis should be read in conjunction with our audited consolidated financial statements and related notes as of and for the years ended December 31, 2010 and 2009 and our unaudited consolidated financial statements as of and for the three months ended March 31, 2011, all of which are included in this offering circular beginning on page F-1.

This discussion and analysis contains forward-looking statements, which involve risks and uncertainties. These statements are not historical facts and include expressions about management's confidence, strategies, and expectations about new and existing programs, products, relationships, opportunities, technologies, and market conditions. These statements may be identified by the use of such words as "believe," "expect," "anticipate," "should," "may," "potential," or similar statements or variations of such terms. Examples of forward-looking statements include, but are not limited to, estimates with respect to our financial condition, results of operations, and business, that are subject to various factors which could cause actual results to differ materially from these estimates. These factors include: changes in general, economic and market conditions, both in our market area and nationally, legislative and regulatory conditions, the development of an interest rate environment which adversely affects our interest rate margin or other income anticipated from operations and investments, changes in monetary policy, the continued viability of our customers and a variety of other matters, most, if not at all of which, are beyond our control. You should not place undue reliance on any forward-looking statements, which only reflect management's analysis as of the date of this offering circular. We undertake no obligation to update forward-looking statements or to make any public announcement when we consider forward-looking statements in this offering circular to no longer be accurate, whether as a result of new information or future events.

Critical Accounting Policies

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 policies 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 Loan 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 its unfunded loan commitments and is recorded in other liabilities on the balance sheet. The allowance for credit 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. For a more detailed discussion of our allowance for loan loss methodology and the allowance for loan losses see the section titled "Analysis of the Allowance for Loan Losses" in this "Management's Discussion and Analysis of Financial Condition and Results Of Operations."

Acquired Loans

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

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

Income Taxes

We account for income taxes in accordance with income tax accounting guidance contained in FASB ASC Topic 740, Income Taxes. This includes guidance related to accounting for uncertainties in income taxes, which sets out a consistent framework to determine the appropriate level of tax reserves to maintain for uncertain tax positions. We had no material unrecognized tax benefits or accrued interest and penalties as of December 31, 2010 and 2009. 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 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 assets and liabilities 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.

Financial Condition and Results of Operations at and for the Three Months Ended March 31, 2011

Our unaudited results of operations for the three months ended March 31, 2011 resulted in net income of \$622 thousand, or \$0.16 per share. This was an increase of \$232 thousand, or 59%, compared to net income of \$390 thousand for the three months ended March 31, 2010. The increase in net income was primarily the result of the following items: increased net interest income after provisions for loan losses of approximately \$1.5 million attributable to increased year-over-year balances in the loan portfolio and increased non-interest income of \$235 thousand attributable to gains on sales of securities and increased fee income on an expanding deposit base. These increases were partially offset by increased non-interest expense, primarily higher compensation, occupancy and data processing expenses that resulted from growth. Income taxes also increased by \$326 thousand in the current quarter compared to the same period in the prior year primarily due to continuing growth in earnings and realization of net operating loss carryforwards. The quarter ended March 31, 2011, also reflected the acquisition of MoreBank on September 30, 2010, and the resulting impact of the material increase in our loan portfolio and total deposits.

We reported total assets of \$523.5 million at March 31, 2011 compared to total assets of \$488.3 million at December 31, 2010, an increase of approximately \$35 million. Higher balances were reported in the securities and loan

portfolios, funded by continued growth in deposit accounts. Equity grew by approximately \$1.0 million as the result of earnings and unrealized mark-to-market gains on the available for sale securities portfolio.

Our ratio of allowance for loan losses to total loans at March 31, 2011, was 1.25%, unchanged from December 31, 2010. We believe our regulatory capital ratios at March 31, 2011 remain strong, and qualify us as “well-capitalized” under the FDIC’s prompt corrective action rules.

Financial Condition and Results of Operations at and for the Years Ended December 31, 2010 and 2009

Results of Operations

We recorded net income of \$2.4 million, or \$0.69 basic earnings per common share and \$0.68 diluted earnings per common share, for the year ended December 31, 2010, compared to net income of \$0.4 million, or \$0.14 basic and diluted earnings per common share, for the year ended December 31, 2009 and a net loss of \$(2.3) million, or \$(0.77) basic and diluted earnings per common share, for the year ended December 31, 2008.

The return on average assets was 0.65% in 2010 compared to 0.17% in 2009 and (2.18)% in 2008. The return on average stockholders’ equity was 6.92% in 2010 compared to 1.53% in 2009 and (8.46)% in 2008.

We recorded net income of \$2.4 million for the year ended December 31, 2010, compared to net income of \$0.4 million for the year ended December 31, 2009. The change in our results of operations in 2010 were caused by increases of \$3.5 million in the components of net interest income, \$1.0 million in bargain purchase gain on the MoreBank acquisition and \$0.8 million from gains on sales of securities available-for-sale, offset by an increase of \$2.1 million in the provision for loan losses and across-the-board increases in non-interest expenses totaling \$2.8 million. Additionally, we recorded an income tax benefit of \$1.5 million in 2010 due to the reversal of the valuation allowance for deferred tax assets.

Net income for the year ended December 31, 2009 was \$0.4 million, compared to a net loss of \$(2.3) million for the year ended December 31, 2008. The change in our results of operations in 2009 were caused by increases of \$4.3 million in the components of net interest income and an increase of \$0.4 million from gains on sales of securities available-for-sale, offset by an increase of \$0.5 million in the provision for loan losses and across-the-board increases in non-interest expenses totaling \$1.5 million.

Details of the changes in the various components of net income (loss) are further discussed below.

Net Interest Income

Our largest source of earnings is net interest income, which is the difference between interest income on interest-earning assets, such as loans and investment securities, and interest expense paid on interest-bearing liabilities, such as deposits and borrowings. The primary factors that affect net interest income are changes in the average balances (volume) and interest rates (yields) on interest-earning assets and interest-bearing liabilities. Net interest income is also affected in part by our responses to changes in interest rates through our application of asset/liability management techniques.

Net interest income before provision for loan losses for 2010 totaled \$11.1 million compared to \$7.6 million in 2009, an increase of \$3.5 million, or 45.4%. This increase is primarily attributable to an increase in average interest-earning assets of \$119.7 million in 2010 compared to 2009 and a decrease in yield of 0.34%. Offsetting the effect of this increase in average interest-earning assets was an increase in interest-bearing liabilities of \$113.4 million with a decrease of 0.30% in our overall cost of funds. Consequently, the \$3.5 million increase in net interest income was comprised of a positive volume variance of \$3.6 million and a negative rate variance of \$0.1 million.

Provision for Loan Losses

The provision for loan losses was \$3.3 million, \$1.2 million and \$0.7 million for the years ended December 31, 2010, 2009 and 2008, respectively. The increase in the 2010 provision for loan losses resulted from the negative impact on our loan portfolio of the economic downturn that persisted across our markets. Our loan charge-offs, net of recoveries were \$1.8 million in 2010, compared to \$0.1 million in 2009 and \$0.0 million in 2008. Please see the section below 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.

Noninterest Income

Noninterest income has not been a major component of our earnings. In 2010, non-interest income included gains of \$1.2 million on sales of securities available-for-sale and a bargain purchase gain of \$1.0 million from the acquisition of MoreBank. In 2009, gains on sales of securities available-for-sale totaled \$0.4 million. Other than these items, non-interest income included nominal amounts of service charges and other fees earned in the normal course of banking operations.

Noninterest Expense

Noninterest expense totaled \$9.4 million, \$6.6 million and \$5.1 million in 2010, 2009 and 2008, respectively, resulting in increases of \$2.8 million, or 43.3%, in 2010 compared to 2009 and \$1.5 million, or 29.7%, in 2009 compared to 2008.

Salaries and employee benefits for the years ended December 31, 2010, 2009 and 2008 totaled \$4.7 million, \$3.7 million and \$2.8 million, respectively. The increase in 2010 compared 2009 was \$1.0 million, or 27.6%, while the increase in 2009 compared to 2008 was \$0.9 million, or 32.7%. The increases in salaries and employee benefits in 2010 and 2009 were primarily due to an increase in the number of full-time equivalent employees, which includes the impact of the MoreBank acquisition and is consistent with our overall growth. These increases included share-based compensation expense of approximately \$0.2 million in each of the years ended December 31, 2010, 2009 and 2008, respectively.

Occupancy and equipment expenses for the years ended December 31, 2010, 2009 and 2008 totaled \$1.6 million, \$1.3 million and 0.8 million, respectively. The increase in 2010 compared to 2009 was \$0.3 million, or 26.8%, while the increase in 2009 compared to 2008 was \$0.5 million, or 56.7%. The increases were due to expenses associated with additional corporate office space, primarily related to expenses associated with new branch locations, including those added through the MoreBank acquisition.

Professional fees for the years ended December 31, 2010, 2009 and 2008 totaled \$903 thousand, \$422 thousand and \$333 thousand, respectively. The increase in 2010 compared to 2009 was \$482 thousand, or 114.2%, while the increase in 2009 compared to 2008 was \$89 thousand, or 26.6%. The 2010 increase was partially the result of legal and consulting fees associated with the acquisition of MoreBank. The 2009 increase was primarily due to increases in internal audit and financial statement audit expenses.

Data processing and communications for the years ended December 31, 2010, 2009 and 2008 totaled \$663 thousand, \$438 thousand and \$336 thousand, respectively. The increase in 2010 compared to 2009 was \$226 thousand, or 51.5%, while the increase in 2009 compared to 2008 was \$102 thousand, or 30.4%. The 2010 increase was primarily due to incremental processing platform expenses of \$144 thousand due to increased seat licenses, which relates to the number of users that have access to the software, the number of customer accounts and additional communications expenses of \$24 thousand for new bank facilities. The 2009 increase was primarily due to incremental processing platform expenses of \$71 thousand due to increased seat licenses and account activity and additional communications expenses for one new branch facility.

Federal deposit insurance for the years ended December 31, 2010, 2009 and 2008 totaled \$453 thousand, \$410 thousand and \$31 thousand, respectively. The increase in 2010 compared to 2009 was \$44 thousand, a 10.6% increase due to deposit growth. The increase in 2009 compared to 2008 was \$378 thousand, a more than ten-fold increase. This increase was primarily the result of a special assessment levied by the FDIC in the second quarter of 2009 in an effort to rebuild the FDIC's Deposit Insurance Fund. We were required to prepay \$1.1 million for the years 2010, 2011 and 2012. We are expensing this prepayment on the basis of actual quarterly assessment data.

Advertising and promotion expense for the years ended December 31, 2010, 2009 and 2008 totaled \$199 thousand, \$154 thousand and \$448 thousand, respectively. The increase in 2010 compared to 2009 was \$46 thousand, a 29.6% increase due to branch expansion and post-acquisition promotion of MoreBank. The decrease in 2009 compared to

2008 was \$294 thousand, a 65.7% decrease. This decrease was due to the lack of branch expansion activities in 2009 compared to 2008.

Other expense for the years ended December 31, 2010, 2009 and 2008 totaled \$628 thousand, \$36 thousand and \$160 thousand, respectively. The increase in 2010 compared to 2009 was \$592 thousand, a seventeen-fold increase due to increases in insurance, employee training, subscriptions, publications and transfer agent fees. The decrease in 2009 compared to 2008 was \$124 thousand, a 77.5% decrease. This decrease was primarily due to reduced appraisal expenses.

The total of all other noninterest expenses for the years ended December 31, 2010, 2009 and 2008 that are not discussed above totaled \$239 thousand, \$143 thousand and \$160 thousand, respectively. Increases for 2010 were \$96 thousand, or 66.8%, and were primarily related to a loss on other real estate owned of \$80 thousand, while decreases for 2008 were \$17 thousand, or 10.5%, respectively.

Income Taxes

We recognized an income tax benefit of \$1.5 million for 2010. We did not recognize income tax expense or benefit in years prior to 2010. The 2010 income tax benefit of \$1.5 million was primarily due to the release of a deferred tax valuation allowance in the amount of \$1.4 million.

Our net deferred tax asset was \$3.2 million and our net deferred tax liability was \$0.5 million at December 31, 2010 and 2009, respectively, resulting in an increase in the net deferred tax items of \$3.7 million. The increase in deferred tax assets in 2010 compared to 2009 of \$3.3 million was primarily the result of increases in the allowance for loan losses of \$0.4 million, net operating loss carryforwards of \$0.9 million, acquisition accounting adjustments of \$0.4 million and the reversal of the deferred tax asset valuation allowance of \$1.4 million. The decrease in deferred tax liabilities in 2010 compared to 2009 of \$0.4 million was primarily the result of a decrease in unrealized gains on securities available-for-sale. Increases in the net operating loss carry-forwards and acquisition adjustments were the result of the MoreBank acquisition.

Average Balance Sheets

The following table presents our average assets and liabilities, interest earned on interest-earning assets and interest expense on interest-bearing liabilities and the related yields and costs of funds for the years ended December 31, 2010, 2009 and 2008:

(in thousands)	December 31, 2010			December 31, 2009		
	Average Balance	Interest Earned or Paid	Average Yield/Rate Paid	Average Balance	Interest Earned or Paid	Average Yield/Rate Paid
INTEREST-EARNING ASSETS:						
Interest-bearing deposits with banks	\$ 1,698	\$ 1	0.06%	\$ 841	\$ 1	0.07%
Federal funds sold	30,458	40	0.13	6,879	13	0.20
Debt and equity securities	107,027	3,153	2.95	91,843	3,943	4.29
Loans	<u>209,523</u>	<u>13,007</u>	<u>6.21</u>	<u>129,484</u>	<u>7,466</u>	<u>5.77</u>
Total interest-earning assets	<u>348,706</u>	<u>16,201</u>	<u>4.65%</u>	<u>229,047</u>	<u>11,423</u>	<u>4.99%</u>
NON-INTEREST-EARNING ASSETS:						
Cash and due from banks	11,078			5,004		
Allowance for loan losses	(2,556)			(1,501)		
Premises and equipment, net	2,572			2,167		
Other assets	<u>5,004</u>			<u>2,198</u>		
Total non-interest-earning assets	<u>16,098</u>			<u>7,868</u>		
Total assets	<u>\$ 364,804</u>			<u>\$ 236,915</u>		
INTEREST-BEARING LIABILITIES:						
Deposits:						
Savings, money markets, and interest bearing demand						
	\$ 197,156	2,626	1.33%	\$ 117,831	1,846	1.57%
Certificates of deposit of \$100,000 or more	43,127	992	2.30	28,459	731	2.57
Other time deposits	<u>50,628</u>	<u>1,169</u>	<u>2.31</u>	<u>40,834</u>	<u>1,101</u>	<u>2.70</u>
Total interest-bearing deposits	290,911	4,787	1.65	187,124	3,678	1.97
Short-term borrowings	27	1	0.60	44	1	1.27
Long-term borrowings	<u>16,037</u>	<u>342</u>	<u>2.13</u>	<u>6,449</u>	<u>128</u>	<u>1.99</u>
Total interest-bearing liabilities	<u>306,975</u>	<u>5,130</u>	<u>1.67%</u>	<u>193,617</u>	<u>3,807</u>	<u>1.97%</u>
NON-INTEREST-BEARING LIABILITIES:						
Demand deposits	20,623			14,628		
Other liabilities	2,712			1,615		
Stockholders' equity	<u>34,494</u>			<u>27,055</u>		
Total non-interest-bearing liabilities and stockholders' equity	<u>57,829</u>			<u>43,298</u>		
Total liabilities and stockholders' equity	<u>\$ 364,804</u>			<u>\$ 236,915</u>		
Net interest income and spread		\$ <u>11,071</u>	<u>2.98%</u>		\$ <u>7,616</u>	<u>3.02%</u>
Net interest margin			<u>3.17%</u>			<u>3.33%</u>
Interest-earning assets to interest-bearing liabilities	<u>1.14</u>			<u>1.18</u>		

December 31, 2008

(in thousands)	Average Balance	Interest Earned or Paid	Average Yield/ Rate Paid
INTEREST-EARNING ASSETS:			
Interest-bearing deposits with banks	\$ 76	\$ 1	0.95%
Federal funds sold	13,731	289	2.11
Debt and equity securities	37,320	2,108	5.65
Loans	50,254	3,571	7.11
Total interest-earning assets	<u>101,381</u>	<u>5,969</u>	<u>5.89%</u>
NON-INTEREST-EARNING ASSETS:			
Cash and due from banks	2,381		
Allowance for loan losses	(575)		
Premises and equipment, net	1,843		
Other assets	<u>1,018</u>		
Total non-interest-earning assets	<u>4,667</u>		
Total assets	<u>\$ 106,048</u>		
INTEREST-BEARING LIABILITIES:			
Deposits:			
Savings, money markets, and interest			
bearing demand	\$ 34,170	1,081	3.17%
Certificates of deposit of \$100,000 or more	19,034	724	3.80
Other time deposits	<u>18,362</u>	<u>816</u>	<u>4.44</u>
Total interest-bearing deposits	71,566	2,621	3.66
Short-term borrowings	-	-	-
Long-term borrowings	-	-	-
Total interest-bearing liabilities	<u>71,566</u>	<u>2,621</u>	<u>3.66%</u>
NON-INTEREST-BEARING LIABILITIES:			
Demand deposits	6,548		
Other liabilities	561		
Stockholders' equity	<u>27,373</u>		
Total non-interest-bearing liabilities			
and stockholders' equity	<u>34,482</u>		
Total liabilities and stockholders' equity	<u>\$ 106,048</u>		
Net interest income and spread		\$ <u>3,348</u>	<u>2.23%</u>
Net interest margin			<u>3.30%</u>
Interest-earning assets to interest-bearing liabilities	<u>1.42</u>		

Volume/Rate Analysis

Changes in interest income and interest expense can result from variances in both asset and liability volumes and their corresponding rates. The following table presents the relative impact on our net interest income to changes in our average outstanding balances of interest-earning assets and interest-bearing liabilities and the rates earned and paid by us on such assets and liabilities for 2010 compared to 2009 and 2009 compared to 2008:

(in thousands)	2010 vs. 2009 Increase (Decrease) Due to changes in:			2009 vs. 2008 Increase (Decrease) Due to changes in:		
	Volume	Rate	Total	Volume	Rate	Total
INTEREST-EARNING ASSETS:						
Interest-bearing deposits with banks	\$ -	\$ -	\$ -	\$ 1	\$ (1)	\$ -
Federal funds sold	32	(5)	27	(14)	(262)	(276)
Debt and equity securities	448	(1,238)	(790)	2,341	(506)	1,835
Loans	4,968	573	5,541	4,568	(673)	3,895
Total interest income	<u>5,448</u>	<u>(670)</u>	<u>4,778</u>	<u>6,896</u>	<u>(1,442)</u>	<u>5,454</u>
INTEREST-BEARING LIABILITIES:						
Deposits:						
Savings, money markets, and interest-bearing demand	(1,056)	276	(780)	(1,310)	546	(764)
Certificates of deposit of \$100,000 or more	(338)	77	(261)	(242)	234	(8)
Other time deposits	(226)	158	(68)	(606)	321	(285)
Total deposits	<u>(1,620)</u>	<u>511</u>	<u>(1,109)</u>	<u>(2,158)</u>	<u>1,101</u>	<u>(1,057)</u>
Short-term borrowings	-	-	-	(1)	-	(1)
Long-term borrowings	(205)	(9)	(214)	(128)	-	(128)
Total interest expense	<u>(1,825)</u>	<u>502</u>	<u>(1,323)</u>	<u>(2,287)</u>	<u>1,101</u>	<u>(1,186)</u>
Net interest income	<u>\$ 3,623</u>	<u>\$ (168)</u>	<u>\$ 3,455</u>	<u>\$ 4,609</u>	<u>\$ (341)</u>	<u>\$ 4,268</u>

We recorded net interest income of \$11.1 million in 2010 compared to \$7.6 million in 2009. The interest rate spread, which represents the rate earned on interest-earning assets less the rate paid on interest-bearing liabilities, was 2.98% in 2010, a decrease of 0.04% from the 2009 net interest spread of 3.02%.

Our interest income increased \$4.8 million, or 41.8%, in 2010 compared to 2009 primarily due to an increase in the average balance of interest-earning assets of \$119.7 million and a 0.34% decrease in yield on these assets. From an average balance perspective, debt and equity securities increased by 15.2 million while the yield decreased by 1.34%, and loans increased by \$80.0 million while yields increased by 0.44%.

Our interest expense increased \$1.3 million, or 34.8%, in 2010 compared to 2009 due to an increase in the average balance of interest-bearing liabilities of \$113.4 million and a decrease in our cost of funds on interest-bearing liabilities of 0.30%. From an average balance perspective, savings, demand deposit and money market deposit accounts increased by \$79.3 million, or 67.3%, time deposits increased by \$24.5 million, or 35.3%, and long-term borrowings increased by \$9.6 million, or 148.7%, in 2010.

Financial Condition

Our total assets at December 31, 2010 were \$488.3 million, an increase of \$223.6 million, or 84%, over total assets of \$264.7 million at December 31, 2009. This change was primarily due to increases in federal funds sold of \$14.2 million, investment securities available-for-sale of \$89.2 million, loans of \$109.1 million and all other assets classes of \$18.4 million. These increases were partially offset by decreases in investment securities held-to-maturity of \$7.3 million. Impacting these amounts were assets of \$75.6 million acquired in the MoreBank acquisition.

Our total liabilities at December 31, 2010 were \$447.3 million, an increase of \$210.5 million, or 88.9%, over total liabilities of \$236.8 million at December 31, 2009. This change was due to increases in deposits of \$207.2 million and all

other liability classes of \$3.3 million. Impacting these amounts were liabilities of \$69.0 million assumed in the MoreBank acquisition.

Our total stockholders' equity at December 31, 2010 was \$41.0 million, an increase of \$13.1 million, or 46.9%, over total stockholders' equity of \$27.9 million at December 31, 2009. The increase in stockholders' equity was attributable to net income of \$2.4 million, option and warrant exercises of \$5.6 million, stock issued in the acquisition of MoreBank of \$5.6 million and share-based compensation of \$0.2 million. These were offset by accumulated other comprehensive losses, net of tax of \$0.7 million.

Debt and Equity Securities

We hold debt securities available-for-sale and held-to-maturity. We have not held any debt securities classified as trading. We also hold equity investments comprised of required restricted stock in correspondent banks.

Securities available-for-sale are carried at market value, with unrealized holding gains and losses reported in other comprehensive income, net of tax. At December 31, 2010 and 2009, the market values of securities available-for-sale were \$159.6 million and \$70.4 million, respectively. The increase in investment securities at December 31, 2010 was primarily due to deployment of excess cash into interest-earning assets that will provide liquidity to our operations as higher-yielding lending opportunities present themselves. Securities available-for-sale are evaluated for other-than-temporary impairment at each reporting date.

Securities held-to-maturity are carried at amortized cost, and are evaluated for other-than-temporary impairment at each reporting date. At December 31, 2010 and 2009, the carrying amounts of securities held-to-maturity were \$1.4 million and \$8.7 million, respectively. The decrease in securities held-to-maturity at December 31, 2010 reflected our intent to allow the held-to-maturity portfolio to run-off.

As of the date of this offering circular, we anticipate that investment securities purchased during 2011 and beyond will be classified as available-for-sale.

Debt Securities Available-for-Sale

The following table presents a summary of the fair value of our securities available-for-sale at December 31, 2010, 2009 and 2008:

	December 31,					
	2010		2009		2008	
(in thousands)	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
U.S. Treasury securities	\$ 3,746	\$ 3,754	\$ -	\$ -	\$ -	\$ -
U.S. Government agency securities	15,052	15,042	2,501	2,498	17,995	18,501
U.S. Government-sponsored residential mortgage-backed securities	108,936	110,120	64,368	65,882	49,928	50,528
Obligations of state and political subdivisions	28,383	27,742	-	-	-	-
Corporate securities	2,955	2,943	1,937	2,043	1,454	1,426
Total	<u>\$ 159,072</u>	<u>\$ 159,601</u>	<u>\$ 68,806</u>	<u>\$ 70,423</u>	<u>\$ 69,377</u>	<u>\$ 70,455</u>

Debt Securities Held-to-Maturity

The following table presents a summary of the fair value of our securities held-to-maturity at December 31, 2010, 2009 and 2008:

(in thousands)	December 31,					
	2010		2009		2008	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
U.S. Government agency securities	\$ -	\$ -	\$ 6,008	\$ 5,990	\$ -	\$ -
U.S. Government-sponsored residential mortgage-backed securities	1,394	1,454	2,162	2,200	-	-
Obligations of state and political subdivisions	-	-	501	507	502	510
Total	<u>\$ 1,394</u>	<u>\$ 1,454</u>	<u>\$ 8,671</u>	<u>\$ 8,697</u>	<u>\$ 502</u>	<u>\$ 510</u>

Debt Securities Maturities

The following table summarizes the maturity distribution schedule of the amortized cost of debt securities available-for-sale with corresponding weighted-average yields at December 31, 2010. Interest income presented in this offering circular for tax-advantaged obligations of state and political subdivisions has not been adjusted to reflect fully taxable-equivalent interest income, which exceeded actual interest income recorded by approximately \$0.3 million. Consequently, data on a fully taxable-equivalent basis are only presented in the weighted average yield percentages below. Weighted-average yields have been computed on a fully taxable-equivalent basis using a tax rate of 34.0%.

The amortized costs of debt securities at December 31, 2010, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because the securities may be called without any penalties.

(in thousands)	December 31, 2010				
	One year or less	After one through five years	After five through ten years	After ten years	Total
U.S. Treasury securities	\$ -	\$ -	\$ 3,746	\$ -	\$ 3,746
U.S. government agency securities	-	15,052	-	-	15,052
Obligations of state and political subdivisions	536	809	8,416	18,622	28,383
Corporate securities	-	1,955	1,000	-	2,955
Total	<u>\$ 536</u>	<u>\$ 17,816</u>	<u>\$ 13,162</u>	<u>\$ 18,622</u>	<u>\$ 50,136</u>
Weighted average yield	<u>2.89%</u>	<u>1.82%</u>	<u>2.98%</u>	<u>3.00%</u>	<u>2.74%</u>

At December 31, 2010, there were no holdings of any one issuer, other than the U.S. government and its agencies, in an amount greater than 10% of our total stockholders' equity.

Loans

At December 31, 2010, our total loans, net of deferred fees and the allowance for loan losses, were \$281.6 million compared to \$172.5 million at December 31, 2009, an increase of \$109.1 million, or 63.2%. The MoreBank acquisition on September 30, 2010 increased our loan portfolio by \$49.2 million. Fair value for the loans acquired was estimated by using a methodology wherein loans with comparable characteristics were aggregated by type of collateral, remaining maturity and re-pricing terms. Cash flows for each pool were determined by estimating future credit losses and rates of prepayment. Projected monthly cash flows were then discounted to acquisition date value using a risk-adjusted market rate for similar loans. The MoreBank allowance for loan losses was not included in our accounting for this transaction as the loans were recorded at their fair values.

In addition to the large increase in loans from the MoreBank acquisition, we organically increased our loan portfolio by \$59.9 million, or 34.7%, from December 31, 2009. Both the MoreBank acquisition and our non-acquisition increases are consistent with our overall strategy to increase our investments in high-quality assets.

The following table presents our loan portfolio by segment at December 31, 2010, 2009, 2008 and 2007:

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

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

Loan Maturities and Sensitivities

The following table details our loan maturities by loan class and interest rate type at December 31, 2010:

(in thousands)	December 31, 2010			
	Due in one year or less	Due after one through five years	Due after five years	Total
Commercial real estate	\$ 11,763	\$ 28,633	\$ 126,076	\$ 166,472
Commercial and industrial	31,585	15,493	13,690	60,768
Construction	15,762	-	10,208	25,970
Residential first-lien mortgage	-	1,742	10,128	11,870
Residential second-lien mortgage	4,307	3,634	11,344	19,285
Consumer	1,050	276	115	1,441
Total	\$ 64,467	\$ 49,778	\$ 171,561	\$ 285,806
Type:				
Fixed rate loans	\$ 46,221	\$ 42,006	\$ 156,071	\$ 244,298
Floating rate loans	18,246	7,772	15,490	41,508
Total	\$ 64,467	\$ 49,778	\$ 171,561	\$ 285,806

Risk Elements

The following table sets forth certain information regarding our nonaccrual loans, troubled debt restructurings, accruing loans 90 days or more past-due, and other real estate owned as of December 31, 2010, 2009, 2008 and 2007.

(in thousands)	December 31,			
	2010	2009	2008	2007
Nonaccrual loans:				
Commercial real estate	\$ 3,488	\$ 886	\$ 155	\$ -
Commercial and industrial	1,782	1,000	-	-
Construction	-	427	-	-
Residential first-lien mortgage	-	-	-	-
Residential second-lien mortgage	276	-	-	-
Consumer	-	-	-	-
Total nonaccrual loans	5,546	2,313	155	-
Troubled debt restructurings (TDRs) – performing	3,788	3,992	-	-
Accrual loans 90 days or more past due:				
Commercial real estate	-	-	-	-
Commercial and industrial	-	-	-	-
Construction	-	-	-	-
Residential first-lien mortgage	-	-	-	-
Residential second-lien mortgage	-	-	-	-
Consumer	-	-	-	-
Total accrual loans 90 days or more past due	-	-	-	-
Total nonperforming loans and performing TDRs	9,334	6,305	155	-
Other real estate	1,140	227	-	-
Total nonperforming assets and performing TDRs	\$ 10,474	\$ 6,532	\$ 155	\$ -

Analysis of the Allowance for Loan Losses

Our allowance for loan losses is based on our ongoing evaluation of the loan portfolio and reflects an amount considered by management to be its best estimate of known and inherent losses in the portfolio as of the reporting date. The determination of the allowance for loan losses involves a high degree of judgment and complexity. In making the evaluation of the adequacy of the allowance for loan losses, management gives consideration to current economic conditions, statutory examinations of the loan portfolio by regulatory agencies, independent loan reviews performed periodically by third parties, delinquency information, management's internal review of the loan portfolio, and other relevant factors.

Our allowance for loan losses is maintained at a level considered adequate to provide for losses that can be reasonably anticipated. We perform a quarterly evaluation of the adequacy of the allowance. The allowance is based on our past loan loss experience (which is limited 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, composition of the loan portfolio, current economic conditions and other relevant factors. This evaluation is inherently subjective as it requires material estimates that may be susceptible to significant revision as more information becomes available.

The allowance consists of specific and general components. The specific component relates to loans that are classified as impaired. For loans that are classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers pools of loans by loan class including loans not considered impaired, as well as smaller balance homogeneous loans, such as residential mortgage and other consumer loans. These pools of loans are

evaluated for loss exposure based upon historical loss rates for each of these categories of loans, adjusted for qualitative factors. These qualitative risk factors include:

- Lending policies and procedures, including underwriting standards and collection, charge-off, and recovery practices.
- 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.
- Nature and volume of the portfolio and terms of loans.
- Experience, ability, and depth of lending management and staff.
- Volume and severity of past due, classified and nonaccrual loans, as well as other loan modifications.
- Quality of the Bank's loan review system and the degree of oversight by our board of directors.
- Existence and effect of any concentrations of credit and changes in the level of such concentrations.
- Effect of external factors, such as competition and legal and regulatory requirements.

Adjustments to the factors are supported through documentation of changes in conditions in a narrative accompanying the allowance for loan loss calculation.

We determine the allowance for credit losses by portfolio segment and classification. Segments consist of commercial real estate loans, commercial and industrial loans, construction loans, residential first-lien mortgage loans, residential second-lien mortgage loans and consumer loans and by their classification. We estimate the inherent risk of loss on all loans by portfolio segment, based primarily on the risk factors identified above and by applying a weight factor to each element for each portfolio segment.

Loan Segments

We identified the following loan segments within our loan portfolio at December 31, 2010: commercial real estate loans, commercial and industrial loans, construction loans, residential first-lien mortgage loans, residential second-lien mortgage loans and consumer loans. Following is a brief explanation of the loan segments and the risk associated with them.

Commercial real estate lending entails significant additional risks as compared with single-family residential property lending. Such loans typically involve large loan balances to single borrowers or groups of related borrowers. The payment experience on such loans is typically dependent on the successful operation of the real estate project. The success of such projects is sensitive to changes in supply and demand conditions in the market for commercial real estate as well as economic conditions generally.

Commercial business 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 and industrial loans are primarily secured by inventories and other business personal property assets. In many cases, we do not expect any repossessed collateral from a defaulted commercial and industrial loan to provide an adequate source of repayment of the outstanding loan balance.

Construction lending, other than residential real estate construction, is generally considered to involve a high degree of risk due to the concentration of principal in a limited number of loans and borrowers and the effects of general economic conditions on developers and builders. Moreover, a construction loan can involve additional risks because of the inherent difficulty in estimating both a property's value at completion of the project and the estimated cost (including interest) of the project. The nature of these loans is such that they are generally difficult to evaluate and monitor. In addition, certain construction loans to builders may be speculative, that is the projects which are being financed are not pre-sold and consequently these loans pose a greater potential risk to us than construction loans to individuals on their personal residences.

Residential first and second-lien mortgage loans involve certain risks such as interest rate risk and default risk. Adjustable-rate residential mortgage loans decrease the interest rate risk 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 materially adversely affected by a higher interest rate environment, as potential buyers would

face higher financing costs. Default risk can be affected by job loss, divorce, illness and personal bankruptcy of the borrower.

Consumer loans generally have shorter terms and higher interest rates than other loan segments 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 materially 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.

At December 31, 2010, we separated the loans acquired in the MoreBank acquisition from the remainder of our loan portfolio before applying our allowance for loan losses methodology. In accordance with the acquisition method of accounting, we recorded the loans acquired in the MoreBank acquisition at fair value, which includes market-driven assumptions for losses inherent in the loans at the acquisition date. Because we recorded the loans at an amount that included inherent losses, we were precluded from applying our allowance for loan losses methodology and any resulting duplicative allowance for loan losses for the loans at December 31, 2010. We evaluated the remaining, non-MoreBank loans in accordance with our allowance for loan losses methodology. As a result, the exclusion of MoreBank loans from our allowance for loan losses calculation and the inclusion of the MoreBank loans in the total loan portfolio at December 31, 2010 results in a lower ratio of allowance for loan losses to total loans.

Risk-Ratings and Classified Loans

We establish the allowances for probable losses on specific loans based on a regular analysis and evaluation of problem loans. We classify loans based on an internal credit risk grading process that evaluates, among other things: (i) a borrower's ability to repay a loan; (ii) the underlying collateral on a loan, if any; and (iii) the economic environment and industry in which the borrower operates. We perform this analysis for all commercial loans.

Loans are reviewed on a regular basis internally and at least annually by an external loan review group to ensure loans are graded appropriately. Credits are reviewed for past due trends, declining cash flows, significant decline in collateral value, weakened guarantor financial strength, management concerns, market conditions and other factors that could jeopardize the repayment performance of the loan. Documentation deficiencies to include collateral perfection and outdated or inadequate financial information are also considered in grading loans.

We grade loans with a risk grade scale of 1 through 9. Loans with a grade of 1 through 5 represent "pass" loans, with all ratings higher than 5 constituting our "criticized" loans. Our list of criticized loans is updated and reported to management and the loan committee of our board of directors on a monthly basis and our full board of directors on a quarterly basis.

Loans with a grade of 6 represent "special mention" loans, which are loans that have potential weaknesses that deserve management's close attention. If uncorrected, the potential weaknesses may result in deterioration of the repayment prospects.

Loans with a grade of 7 through 9 represent "classified" loans. When a loan has a calculated grade of 7 or higher, we analyze the loan to determine whether the loan is impaired and, if impaired, the need to specifically allocate a portion of the allowance for loan losses to the loan. We determine specific valuation allowances by analyzing a borrower's ability to repay amounts owed, collateral deficiencies, the relative risk grade of the loan and economic conditions affecting a borrower's industry, among other things.

Loans with a grade of 7 represent "substandard" loans, which are loans that have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They include loans that are inadequately protected by the then-current net worth and paying capacity of the obligor or of the collateral pledged, if any.

Loans with a grade of 8 represent "doubtful" loans, which are loans that 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 with a grade of 9 represent “loss” loans, which are loans that are considered uncollectible and are charged to the allowance for loan losses.

In addition, federal regulatory agencies, as an integral part of their examination process, periodically review our allowance for loan losses and may require us to recognize additions to the allowance based on their judgments about information available to them at the time of their examination, which may not be currently available to management. Based on our analysis of the loan portfolio, we believe the allowance for loan losses was adequate as of the reported dates.

Impaired Loans

A loan is considered impaired when, based on current information and events, it is probable that we 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 us 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. We determine 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 collateral if the loan is collateral-dependent.

A specific 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 our impaired loans are measured based on the estimated fair value of the loan’s collateral, which includes costs to sell.

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

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, we do not separately identify individual residential first-lien mortgage loans, residential second-lien mortgage loans and consumer loans for impairment disclosures, unless such loans are the subject of a troubled debt restructuring agreement.

Loans whose terms are modified are classified as troubled debt restructurings if we grant borrower concessions and it is deemed that those borrowers are experiencing financial difficulty. Concessions granted under a troubled debt restructuring generally involve a temporary reduction in interest rate or an extension of a loan’s stated maturity date. Nonaccrual troubled debt restructurings are restored to accrual status if principal and interest payments, under the modified terms, are current for six consecutive months after modification. Loans classified as troubled debt restructurings are designated as impaired.

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

(in thousands)	Year Ended December 31,			
	2010	2009	2008	2007
Balance at beginning of year	\$ 2,147	\$ 1,092	\$ 354	\$ -
Charge offs:				
Commercial real estate	(1,251)	-	-	-
Commercial and industrial	(446)	(149)	-	-
Construction	(7)	-	-	-
Residential first-lien mortgage	-	-	-	-
Residential second-lien mortgage	(52)	-	-	-
Consumer	-	-	-	-
Total charge offs	(1,756)	(149)	-	-
Recoveries:				
Commercial real estate	1	-	-	-
Commercial and industrial	-	-	-	-
Construction	-	-	-	-
Residential first-lien mortgage	-	-	-	-
Residential second-lien mortgage	-	-	-	-
Consumer	-	-	-	-
Total recoveries	1	-	-	-
Net charge offs	(1,755)	(149)	-	-
Additions charged to operations (provision for loan losses)	3,301	1,204	738	354
Balance at end of year	\$ 3,693	\$ 2,147	\$ 1,092	\$ 354
Net charge offs to average loans outstanding	0.84%	0.12%	-	-

Allocation of the Allowance for Loan Losses

Our allowance for loan losses is allocated to the various segments identified and discussed above under Loan Segments, with a portion of the allowance remaining unallocated.

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.

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

(in thousands)	As of December 31,					
	2010			2009		
	Amount	% of ALLL	% of Total Loans	Amount	% of ALLL	% of Total Loans
Commercial real estate	\$ 1,484	40.3 %	58.1 %	\$ 900	41.8 %	51.4 %
Commercial and industrial	718	19.4	21.3	562	26.2	18.1
Construction	904	24.5	9.1	349	16.3	13.3
Residential first-lien mortgage	78	2.1	4.2	154	7.2	8.8
Residential second-lien mortgage	179	4.8	6.8	171	8.0	7.8
Consumer	9	0.2	0.5	10	0.5	0.6
Unallocated	321	8.7	-	-	-	-
	<u>\$ 3,693</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>\$ 2,147</u>	<u>100.0 %</u>	<u>100.0 %</u>

At December 31, 2008 and 2007, our allowance for loan losses was comprised primarily of general reserves. Our allowances for loan losses were approximately \$1,092,000 and \$355,000 at December 31, 2008 and 2007, respectively, and our loans were approximately \$91,493,000 and \$29,471,000 at December 31, 2008 and 2007, respectively.

We evaluate and estimate off-balance sheet credit exposure at the same time and by a similar process that we estimate credit losses for loans. We record estimated credit losses in a separate liability account, and not as part of the allowance for loan losses, by a charge to income, if material. Loan commitments, unused lines of credit and standby letters of credit comprise the off-balance sheet items reviewed for potential credit losses. These estimated credit losses were not material at December 31, 2010 and 2009.

Nonperforming Assets

Nonperforming assets, which consist of nonaccrual loans, troubled debt restructurings (TDRs) and other real estate owned, totaled \$10.5 million at December 31, 2010, compared to \$6.5 million and \$0.2 million at December 31, 2009 and 2008, respectively. Nonperforming loans were \$5.5 million at December 31, 2010, an increase of \$3.2 million over nonaccrual loans of \$2.3 million at December 31, 2009. Nonaccrual loans increased significantly in 2010 compared to prior years as a result of the increase in the loan portfolio and the negative impact on our loan portfolio from the continued high unemployment, depressed housing market, depressed real estate values in our markets, and other relevant factors. Nonaccrual loans consisted primarily of commercial real estate loans and commercial and industrial loans which totaled \$3.5 million and \$1.8 million, or 62.9% and 32.1%, respectively, of nonaccrual loans at December 31, 2010.

At December 31, 2010, our “criticized loans” totaled \$13.7 million, compared to \$8.7 million at December 31, 2009. The future level of watch loans cannot be predicted but rather will be determined by several factors, including overall economic conditions in the markets served. It is our general policy to stop accruing interest income when a loan is placed on nonaccrual status and any interest previously accrued but not collected is reversed against current income. Generally, a loan is placed on nonaccrual status when it is over 90 days past due and there is reasonable doubt that all principal will be collected.

Interest that would have been recorded on nonaccrual loans for the years ended December 31, 2010, 2009 and 2008, had they performed in accordance with their original terms, totaled \$407,000, \$312,000 and \$6,000, respectively. There was no interest income on nonaccrual loans included in the results of operations for 2010, 2009 and 2008.

Included in nonperforming assets are nonaccruing loans whose terms have been modified in a TDR. At December 31, 2010 and 2009, nonaccruing TDR loans were \$2.2 million and \$0.9 million, respectively, both of which had no recorded allowance. During 2010, we did not record any charge-offs on TDRs. There were no TDRs on nonaccrual

status that were still accruing interest at December 31, 2010 and 2009. TDRs performing in accordance with their modified terms at December 31, 2010 and 2009 were \$1.6 million and \$3.1 million, respectively.

Deposits

We offer a broad range of deposit instruments, including personal and business checking accounts, individual retirement accounts, business and personal money market accounts and certificates of deposit, all at competitive interest rates. Deposit account terms vary according to the minimum balance required, the time periods the funds must remain on deposit and the interest rate, among other factors. We regularly evaluate the internal cost of funds, survey rates offered by competing institutions, review cash flow requirements for lending and liquidity and execute rate changes when deemed appropriate.

Our total deposits at December 31, 2010 were \$425.8 million, an increase of \$207.2 million, or 95%, over deposits of \$218.6 million at December 31, 2009. Our average deposits at December 31, 2010 were \$311.5 million, an increase of \$109.8 million, or 54.4%, over average deposits of \$201.8 million at December 31, 2009. The increase in each category of deposits was primarily related to the competitive pricing of our deposit products coupled with the continued development of relationships with local small businesses and the high level of individualized customer service that we provide.

The following table sets forth our December 31, 2010 time deposit maturities:

(in thousands)	December 31, 2010				Total
	Three months or less	Over three through six months	Over six through twelve months	Over twelve months	
Time deposits of \$100,000 or more	\$ 4,737	\$ 5,543	\$ 13,966	\$ 33,397	\$ 57,643
Time deposits of less than \$100,000	9,115	11,788	17,539	38,958	77,400
Total	<u>\$ 13,852</u>	<u>\$ 17,331</u>	<u>\$ 31,505</u>	<u>\$ 72,355</u>	<u>\$ 135,043</u>

The following table sets forth the average balance of our deposit accounts for the years ended December 31, 2010, 2009 and 2008, and the average cost of funds for each category of our deposits:

(in thousands)	2010			2009			2008		
	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
Non-interest-bearing demand deposits	\$ 20,623	0.00%	6.6%	\$ 14,628	0.00%	7.3%	\$ 6,548	0.00%	8.4%
Interest-bearing demand deposits	62,829	1.29	20.2	31,232	0.84	15.5	7,885	2.02	10.1
Money market deposits	86,699	1.29	27.8	78,115	1.90	38.7	23,316	3.79	29.8
Savings deposits	47,628	1.47	15.3	8,484	1.18	4.2	2,969	1.27	3.8
Time deposits of \$100,000 or more	43,127	2.30	13.8	28,459	2.57	14.1	19,034	3.80	24.4
Other time deposits	50,628	2.31	16.3	40,834	2.70	20.2	18,362	4.44	23.5
Total	<u>\$ 311,534</u>	<u>1.54%</u>	<u>100.0%</u>	<u>\$201,752</u>	<u>1.82%</u>	<u>100.0%</u>	<u>\$78,114</u>	<u>3.36%</u>	<u>100.0%</u>

Off-Balance Sheet Arrangements and Contractual Obligations

Information about our off-balance sheet risk exposure is presented in our financial statements under Note 10 – Financial Instruments with Off-Balance Sheet Risk. We currently do not participate in transactions that generate relationships with unconsolidated entities or financial partnerships, such as entities often referred to as special purpose

entities, which generally are established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes.

At December 31, 2010, we had \$57.5 million of loan commitments outstanding, \$8.1 million of pre-approved but unused lines of credit and \$2.6 million of standby letters of credit and financial guarantees. These commitments represent normal lending risk and will be funded from normal sources of liquidity.

Liquidity

Liquidity refers to the ability to manage future cash flows to meet the needs of depositors and borrowers and to fund operations. We strive to maintain sufficient liquidity to fund future loan demand and to satisfy fluctuations in deposit levels. In the past, we have met our liquidity needs through deposit-gathering operations, available lines of credit from various correspondent banks and the FHLB-NY, through the sale of securities in our investment portfolio, as needed, and short-term investments at correspondent banks in the form of federal funds sold. We have not made use of the brokered deposit market as a source of liquidity, although the acquisition of MoreBank resulted in the assumption of a small portfolio of brokered deposits. During the year ended December 31, 2009, we borrowed \$18.0 million from the FHLB-NY in the form of medium-term, amortizing advances. At December 31, 2010, we had combined outstanding borrowings from the FHLB-NY and the Federal Home Loan Bank of Pittsburgh (FHLB-Pittsburgh) of \$18.0 million. Included in our \$18.0 million of combined borrowings were \$5.3 million in advances from the FHLB-Pittsburgh, which we assumed in our acquisition of MoreBank and may allow to amortize in accordance with contractual terms. With the exception of the FHLB-Pittsburgh advances, access to which was available only to MoreBank pre-acquisition, we may access these various liquidity sources from time-to-time as we deem appropriate based upon prudent asset-liability management. At December 31, 2010, we had \$244.4 million of borrowing capacity at the FHLB-NY that was based upon available collateral at that date and we had \$6.0 million of federal funds available for purchase from Atlantic Central Bankers Bank, a correspondent bank.

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.

Capital

Our capital position is reflected in our stockholders' equity and, subject to certain adjustments for regulatory purposes, our regulatory capital ratios. Stockholders' equity on December 31, 2010 was \$41.0 million, compared to \$27.9 million at December 31, 2009, an increase of \$13.1 million, or 46.9%. This increase was attributable to comprehensive income of \$1.7 million, the issuance of common stock valued at \$5.6 million in the MoreBank acquisition, the exercise of warrants that resulted in proceeds of \$5.6 million and stock-based compensation awards of \$0.2 million.

Risk-based capital regulations adopted by the FDIC require banks to achieve and maintain specified ratios of capital to risk-weighted assets. The risk-based capital rules are designed to measure Tier 1 capital (generally consisting of common stockholders' equity, qualifying preferred stock and minority interests in consolidated subsidiaries, net of intangible assets, deferred tax assets in excess of certain thresholds and certain other items) and total capital (consisting of Tier 1 capital and Tier 2 capital, which generally includes certain preferred stock, mandatory convertible debt securities and term subordinated debt) in relation to the credit risk of both on and off-balance sheet items. Under the guidelines, one of four risk weights is applied to the different on-balance sheet items. Off-balance sheet items, such as loan commitments, are also subject to risk-weighting after conversion to on-balance sheet equivalent amounts. All banks must maintain a minimum total capital to total risk-weighted assets ratio of 8.00%, at least half of which must be in the form of Tier 1 capital. These guidelines also specify that banks experiencing internal growth or making acquisitions will be expected to maintain capital positions substantially above the minimum supervisory levels. At December 31, 2010, we satisfied our minimum regulatory capital requirements and were "well capitalized" within the meaning of federal regulatory requirements.

Return on Equity and Assets

The following table sets forth certain performance ratios for the years ended December 31, 2010, 2009 and 2008.

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Return on Average Assets (ROA)	0.62%	0.17%	(1.97)%
Return on Average Equity (ROE)	6.78%	1.53%	(8.47)%
Dividend Payout Ratio	-	-	-
Average Equity to Average Assets	9.46%	11.42%	25.81%

Impact of Inflation and Changing Prices

We have an asset and liability composition that is distinctly different from that of an entity with substantial investments in plant and inventory because the major portions of a commercial bank's assets are monetary in nature. As a result, our performance may be significantly influenced by changes in interest rates. Although we and the banking industry are more affected by changes in interest rates than by inflation in the prices of goods and services, inflation is a factor that may influence interest rates. However, the frequency and magnitude of interest rate fluctuations do not necessarily coincide with changes in the general inflation rate. Inflation does affect operating expenses in that personnel expenses and the cost of supplies and outside services tend to increase more during periods of high inflation.

Interest Rate Sensitivity

Our ALCO Committee actively evaluates and manages interest rate risk to recognize and control these risks within acceptable levels set by our board of directors. ALCO is also responsible for approving our asset/liability management policies, overseeing the formulation and implementation of strategies to improve balance sheet positioning and earnings, and reviewing our interest rate sensitivity position.

The primary measures that we use to evaluate short-term interest rate risk include:

- cumulative gap summary, which measures potential changes in cash flows should interest rates rise or fall;
- net interest income at risk, which projects the impact of different interest rate scenarios on net interest income over one-year and two-year time horizons;
- net income at risk, which projects the impact of different interest rate scenarios on net income over one-year and two-year time horizons; and
- economic value of equity at risk, which measures potential long-term risk in the balance sheet by valuing our assets and liabilities at "market" under different interest rate scenarios.

These measures have historically been calculated under a simulation model prepared by an independent third party assuming incremental 100 basis point shocks (or immediate parallel shifts) in interest rates up to a total increase or decrease of 300 basis points. The results help us develop strategies for managing our exposure to interest rate risk. Like any forecasting technique, interest rate simulation modeling is based on a large number of assumptions. In this case, the assumptions relate primarily to loan and deposit growth, asset and liability prepayments, interest rates and balance sheet management strategies. We believe that the assumptions are reasonable, both individually and in the aggregate. Nevertheless, the simulation modeling process produces only a sophisticated estimate, not a precise calculation of our exposure. Our overall interest rate risk management process is subject to annual review by an outside professional services firm to ascertain its effectiveness as required by federal regulations.

We are subject to interest rate risk to the degree that their interest-bearing liabilities, primarily deposits, mature or reprice more or less frequently, or on a different basis, than our interest-earning assets, primarily loans and investment securities. The match between the scheduled repricing and maturities of our interest-earning assets and liabilities within defined periods is referred to as "gap" analysis. At December 31, 2010, our cumulative one year gap was \$64.1 million, or 13.1% of total assets, indicating a net asset-sensitive position that is well within our ALCO policy guideline of 30%.

MANAGEMENT

Directors

The Bank is managed by our board of directors. The Banking Act and our certificate of incorporation provide that the number of directors constituting the entire board will not be less than 5 or more than 25, and further provide that the exact number will be fixed from time to time by our bylaws. Our bylaws provide that the number of directors constituting the entire board will be fixed from time to time by resolution of a majority of the full board of directors, or by resolution of the stockholders at any meeting at which directors are to be elected. The board of directors has fixed the number of directors constituting the entire board at 8.

Because our common stock is not listed on a national securities exchange or quoted in an inter dealer quotation system, we are not considered a listed issuer and certain listing standards regarding independence of directors do not apply to us. We have determined the independence of the members of our board of directors and board committees, however, by reference to the listing standards of The NASDAQ Stock Market LLC, or “NASDAQ.” Under the NASDAQ independence standards, all of our directors except for Andrew M. Chon, Stephen Distler and Steven C. Ackmann have been determined to be independent, and all of the members of our audit and human resource/compensation committees have been determined to be independent. A majority of the members of our nominating/advisory board committee have been determined to be independent.

The names of our directors and certain information about them are set forth below. Additional information regarding the compensation of our directors is included under the heading “Compensation of Directors” on page 53.

Andrew M. Chon, Chairman. Andrew M. Chon is the Chairman and CEO of Navitas Solutions, Inc.; a high-tech venture company specializing in R&D and commercialization of semiconductors and related software that enable energy storage system for transportation and utility industries. Prior to his current assignment, he was an Executive Vice President and General Manager of Samsung Electronics Co., Ltd. Mr. Chon had the worldwide responsibilities of new business development, digital convergence business and venture investment business. Prior to Samsung Electronics, he held various senior executive positions with Lucent Technologies, AT&T and NCR Corporation. His diverse management experience includes business development, strategic management, marketing & sales management, and technology & risk management. Mr. Chon is profoundly involved in community development activities. He currently serves as a member of the Board of Directors in non-profit organizations including Princeton Chamber of Commerce, Princeton Symphony Orchestra, Korean Community Center of Princeton and Korean Community Center Foundation. Mr. Chon graduated with a Bachelor’s degree in Economics from UMBC and earned an Executive MBA from J. L. Kellogg Graduate School of Management at Northwestern University. Mr. Chon is an elected member of the National Academy of Engineering of Korea. Andrew Chon is 54 years old, has served on our board of directors since 2007 and currently serves as Chairman. Mr. Chon is qualified to serve as a director due to his broad business, executive management and strategic development experience, his background in the financial services industry, his familiarity with our banking operations and his extensive ties to our business community.

Steven C. Ackmann, President. Steven C. Ackmann officially joined the Bank as President on August 2, 2010. Mr. Ackmann brings to the Bank nearly 40 years of banking experience. Steven is a financial services executive with an extensive depth of knowledge and a wide range of experience in all aspects of bank management. Mr. Ackmann was most recently President and Chief Executive Officer at The Fidelity Deposit and Discount Bank from July 2004 to September 2009. Prior to The Fidelity Deposit and Discount Bank, Steven was the Senior Executive Vice President and Chief Operating Officer at FNB of Pennsylvania. Before that, he served as President and Chief Operating Officer of Promistar Financial Corporation and President of Promistar Bank. Mr. Ackmann earned his MBA from the University of Pittsburgh – Katz School. He also holds degrees from Oklahoma University – National School of Commercial Lending, and did undergraduate work at Robert Morris College, Washington and Jefferson College and the University of Washington. Mr. Ackmann is active with several non-profit organizations and has served as a board member for various non-profit, community and business organizations. He was born in Everett, Washington and resides in Hopewell Township. Steven C. Ackmann is 59 years old and has served on our board of directors since 2010. Mr. Ackmann is qualified to serve as a director due to his nearly 40 years of banking experience and his substantial tenure in senior banking positions.

Stephen Distler. Stephen Distler spent 25 years in the financial services industry, mostly as Managing Director and Treasurer at Warburg Pincus, LLC, one of the world's pre-eminent private equity investment firms. He is an active venture investor and a member of the Board of Directors of Apex Learning, Inc. and Teachers Support Network, Inc., two for-profit education companies. He is also a member of the Board of Trustees of the University Medical Center of Princeton, where he currently serves as Chairman of the Oversight Committee for the \$500 million construction of a new hospital campus. Stephen Distler is 57 years old and has served on our board of directors since 2007. Mr. Distler is qualified to serve as a director due to the broad experience garnered during a lengthy career in the financial services industry, his business evaluation and development skills and his ties to the local business community.

Judith A. Giacin. Judith A. Giacin is a founding member of the Certified Public Accounting firm Horvath & Giacin, P.C. She has been a Certified Public Accountant for over 25 years helping clients to achieve both personal and corporate financial goals. She is currently a member of the New Jersey Society of Certified Accountants Peer Review Executive Committee and a member of the American Institute of Certified Public Accountant and the Mercer County Estate Planning Council. Ms. Giacin is an active board member of the Greater New Jersey Alzheimer Association. Ms. Giacin earned her Masters of Business Administration (MBA) from Rutgers University. Judith A. Giacin is 64 years old and has served on our board of directors since 2007. Ms. Giacin is qualified to serve as a director due to her expertise and skills as a Certified Public Accountant, her familiarity with our operations, her business ties to our market and her involvement in local community activities.

Richard Gillespie. Dick Gillespie is the recently retired Founder and President of Gillespie, Inc. Started in 1973 with no clients and little capital, the agency grew to become one of the 75 largest advertising agencies in the United States with annual billings in excess of \$200 million. The agency was acquired by McCann-Erickson in 1998 and Dick served on both the North American and Worldwide Boards of the firm's direct marketing division. Highly experienced in financial services marketing, Dick has worked with many major banks and financial services companies including Capital One, The Bank of New York, Household and MBNA to name a few. He was elected to the New Jersey Advertising Hall of Fame. He presently serves as Vice Chairman of MediGuide America. Richard Gillespie is 67 years old and has served on our board of directors since 2007. Mr. Gillespie is qualified to serve as a director due to his previous board experience, his familiarity with the financial services industry and his business ties to our market.

Robert N. Ridolfi, Esq. Robert N. Ridolfi is the managing member of the law firm, Robert N. Ridolfi, LLC, specializing in land use and real estate law. He has been a licensed attorney in the State of New Jersey since 1974 and a member of U.S. District Court, District of New Jersey. He is a graduate of Princeton University and the Denver University College of Law. Mr. Ridolfi is a member of the New Jersey Bar Association and the Mercer County Bar Association where he served as Chairman of the real estate section for several years. He is currently on the Board of Trustees of the Princeton Symphony Orchestra and serves as the attorney for the Mercer County Planning Board. Mr. Ridolfi is also on the Board of Directors of the capital Health System Foundation, Inc. and acts as a Life Governor of the Board of Directors for the Princeton Charter Club. He has had significant experience in complex residential and commercial financing transactions. Throughout his career, Mr. Ridolfi has been active in numerous communities, charitable and educational organizations in the Hopewell area. Robert N. Ridolfi is 63 years old and has served on our board of directors since 2007. Mr. Ridolfi is qualified to serve as a director due to his skills in the area of real estate law, his familiarity with our operations and his deep ties to the local community.

Stephen Shueh. Stephen K. Shueh is a Managing Partner of Roundview Capital, a money management firm for high net worth families and institutions. Mr. Shueh received an A.B. with honors from Princeton University, and earned an M.B.A. from The Wharton School of the University of Pennsylvania where he was the recipient of the Dean's Award. He serves on the Board of Directors of the Princeton YMCA, Endowment Committee for the United Way of Greater Mercer County, and as President of his graduating class at Princeton University. He has served as Special Gifts Chair for Princeton's Annual Giving campaign and on the Executive Committee of the University's Alumni Council. He has also served as Vice Chairman of the Board of Trustees for the United Way of Greater Mercer County, as an appointed member of the New Jersey Supreme Court Office of Attorney Ethics, District VII Fee Arbitration Committee, and as a member of the Mercer County Planning Board. Stephen Shueh is 35 years old and has served on our board of directors since 2008. Mr. Shueh is qualified to serve as a director due to his business development skills, his familiarity with our operations and his ties to our market.

Ross Wishnick, Vice Chairman. Ross Wishnick was a homebuilder for 25 years specializing in the development of Active Adult Communities. He was a senior executive with Crestwood Village, Inc. a New Jersey developer and one of the pioneers in what is today one of the fastest growing segments of the homebuilding industry. Mr. Wishnick was a founding director of the New Jersey chapter of the Community Association Institute (CAI) and was a member of the New Jersey Alliance for Action, a consortium of business, labor, government and academic leaders dedicated to improving the State's economy by improving its infrastructure by helping to create a more cooperative atmosphere. In addition, Mr. Wishnick was a founding director of First Washington State Bank based in Windsor, New Jersey. For 15 years, he helped grow the bank from one branch to fifteen branches and from \$3 million in assets to \$500 million. He served on the loan, personnel and technology committees during his tenure. For the past three years, Mr. Wishnick has been a member of the Princeton Human Services Commission, a joint commission of Princeton Township and Princeton Borough residents that provides services to youths and seniors in civil rights and general assistance. And Mr. Wishnick is a member of the advisory board of the Princeton Education Foundation (PEF). PEF supports excellence in Princeton Regional Schools by contributing raised funds for capital improvements, educational programs and teacher support. Ross Wishnick is 59 years old, has served on our board of directors since 2007 and currently serves as Vice Chairman. Mr. Wishnick is qualified to serve as a director due to his commercial real estate development skills, his previous bank director experience and his ties to the local community.

Executive Officers

The names of our executive officers and certain information about them are set forth below. Additional information regarding the compensation of certain of our executive officers, referred to as our "named executive officers," is included under "Executive Compensation" following the below officer biographies.

Steven C. Ackmann, President. Steven C. Ackmann is the President of the Bank, as well as a member of our board of directors. Information regarding Mr. Ackmann is set forth under the heading "Directors" in this section "Management."

Douglas Conover, Executive Vice President, Chief Lending Officer. Doug Conover joined the Bank in September 2009 as Executive Vice President and Chief Lending Officer. He is a 34 year veteran banking executive who most recently led the commercial lending department at a \$250 million dollar community bank in Union County. Doug managed a team of lenders that successfully grew the loan department in excess of \$160 million. Previously he directed lending teams at Sovereign Bank, NatWest Bank and First Washington State Bank. Mr. Conover is 55 years old and has served The Bank of Princeton since 2009. Mr. Conover is a graduate of The College of New Jersey with a BS in Economics. During his banking career he has served on various boards including the Mercer County Chamber of Commerce, March of Dimes and the Rock Brook School Foundation.

Edward Dietzler, Executive Vice President, Chief Operating Officer. Edward Dietzler joined the Bank in September 2009 as Senior Vice President of Corporate Development and was promoted to Executive Vice President and Chief Operations Officer in March 2011. He is a veteran banking executive of 22 years who most recently was the Managing Director at Bear Stearns Bank and Trust in Princeton, NJ. While at Bear Stearns he was responsible for all aspects of banking and mortgage operations. Previously, he spent 5 years with Yardville National Bank as First Senior Vice President of Capital Markets, where he oversaw all aspects of balance sheet and capital management. Prior to that, Mr. Dietzler was with GMAC Mortgage as the Director of Risk Management and was responsible for derivative trading and balance sheet management. Mr. Dietzler is 46 years old and has served The Bank of Princeton since 2009. Mr. Dietzler is a graduate of Widener University where he earned a Masters degree in Business Administration. Throughout his career, Mr. Dietzler has been active in numerous community, charitable and educational organizations in the local area.

Michael J. Sanwald, CPA, Executive Vice President, Chief Financial Officer. Mr. Sanwald has over 25 years of progressive experience in accounting and finance, principally in the financial services industry. Before joining The Bank of Princeton in May 2011, Mr. Sanwald provided consulting services to various clients in the financial services industry in his role as Managing Director at Mirror Lake Partners, LLC from 2009 through 2010. Prior to that, he was a Managing Director at The Bear Stearns Companies, Inc. and the SVP and Chief Financial Officer at Bear Stearns' commercial bank, Custodial Trust Services, Inc., from 2006 through 2008 where he was responsible for all aspects of transitioning Bear Stearns' mortgage banking operations from the affiliate's fixed income business unit to the Bank as well as other new business initiatives. Mr. Sanwald also served as Vice President and Controller of GMAC Bank, the precursor to Ally

Bank, from 2000 through 2006 where he was responsible for all financial operations. Mr. Sanwald also held a number of other peer positions during his 9 years at GMAC Residential Holdings, Inc. and its affiliates. Prior to that, Mr. Sanwald was the senior financial officer for Canon Financial Services, Inc., the small-ticket leasing subsidiary of Canon U.S.A. Before that, Mr. Sanwald served as the Vice President and Controller of Hansen Savings Bank, FSB. Mr. Sanwald began his career at a large public accounting firm in Philadelphia, PA. Mr. Sanwald holds an active Certified Public Accountant license in the Commonwealth of Pennsylvania and is a graduate of La Salle University in Philadelphia, Pennsylvania.

EXECUTIVE COMPENSATION

Salary and other compensation types for selected executive officers are presented in the table and narrative that follows. These four executive officers are sometimes referred to as our “named executive officers.” On July 6, 2010, we hired Steven C. Ackmann as President of the Bank. In his role as President, Mr. Ackmann is our principal executive officer. Prior to Mr. Ackmann, our President and principal executive officer was Martin P. Melilli. Other than Messrs. Ackmann and Melilli, our two most highly compensated executive officers during 2010 were Edward Dietzler, Chief Operating Officer (COO), and Douglas Conover, Chief Lending Officer (CLO). Summary compensation information for the year ended December 31, 2010 is presented in the following tables:

2010 Summary Compensation Table

Name and Principal Position	Year	Salary (\$)	Bonus (\$)	Option awards (\$)¹	All other compensation (\$)²	Total (\$)
Steven C. Ackmann, President	2010	115,385	-	145,500	217	261,102
Martin P. Melilli, former President	2010	123,077	-	-	-	123,077
Edward Dietzler, COO	2010	150,000	11,500	-	50	161,550
Douglas Conover, CLO	2010	160,000	6,200	-	105	166,305

¹ This column reflects the total grant date fair value for all stock options awards granted in 2010. The assumptions used in the calculation of these amounts are described in our financial statements under Note 13 — Share-Based Compensation.

² Compensation in this column represents the 2010 economic benefit accruing to the named executive officers under Bank-Owned Life Insurance policies.

We seek to attract and retain executive officers through a compensation program which includes a competitive salary, the potential for bonus compensation and option awards, and health and welfare benefits. Health and welfare benefits, which are offered to all of our full-time employees, generally include items such as medical insurance, group term life insurance and a tax-deferred defined contribution retirement plan (the 401(k) plan). We are not party to any employment agreements with our executive officers. Compensation for our executive officers is established from time to time, typically on an annual basis, by our full board of directors, upon the recommendation of our human resources and compensation committee. We have not retained any outside compensation consultants.

The named executive officers listed in the Summary 2010 Compensation Table above receive various types of compensation that include a discretionary bonus award that is not tied to specific performance goals and discretionary share-based payment awards that are granted from time-to-time based upon the overall performance of the named executive officer in the estimation of our board of directors. Vesting periods are determined at the date of grant by our board of directors. Our named executive officers are not party to any employment agreements or change of control agreements.

In 2007, our board of directors and stockholders approved and adopted the 2007 Stock Option Plan (the Plan). The 2007 plan enables the board of directors to grant stock options to employees, directors, consultants, and other individuals who provide services to us. The shares subject to or related to options under the plan are authorized and

unissued shares of our common stock. The maximum number of shares that may be subject to options under the Plan is 300,000, all of which may be issued as incentive stock options, within the meaning of the Internal Revenue Code, and not more than 100,000 of which may be issued as nonqualified stock options. The Plan will terminate ten years from stockholder approval. Options may not be granted with an exercise price that is less than 100% of the fair market value of our common stock on the date of grant. Options may not be granted with a term longer than 10 years. Any incentive stock option granted to an employee who, at the time such option is granted, owns more than 10% of the voting power of all classes of our shares, may not have a term of more than five years. Options will vest and be exercisable at such time or times and subject to such terms and conditions as determined by our board of directors. Generally, options will vest over a vesting period of equal percentages each year over an initial term no shorter than two years. See “Note 13 – Stock-Based Compensation” in our audited financial statements, beginning at page F-1 of this offering circular, for additional information regarding our share-based awards, including the approach and assumptions used to value these awards.

During 2007, we established a 401(k) plan. Under the 401(k) plan, all employees are eligible to contribute the maximum allowed by the Internal Revenue Code. We may make discretionary matching contributions. During the year ended December 31, 2010, no matching contributions were made.

Outstanding equity awards at December 31, 2010

Name	Option Awards			
	Number of securities underlying unexercised options exercisable (#)	Number of securities underlying unexercised options unexercisable (#)	Option exercise price (\$)	Option expiration date
Steven C. Ackmann ¹	3,000	27,000	\$12.00	7/5/2020
Martin P. Melilli	-	-	-	-
Edward Dietzler ²	4,000	6,000	\$10.50	9/13/2019
Douglas Conover ³	4,000	6,000	\$10.50	9/21/2019

¹ Options granted on 7/6/2010 vest as follows: 10% on date of grant and 10% on each grant date anniversary through 7/6/2019.

² Options granted on 9/14/2009 vest as follows: 20% on date of grant and 20% on each grant date anniversary through 9/14/2013.

³ Options granted on 9/22/2009 vest as follows: 20% on date of grant and 20% on each grant date anniversary through 9/22/2013.

The named executive officers are eligible to participate in our 401(k) plan under the same terms and conditions as all of our employees.

Compensation of Directors

The following table presents all forms of compensation awarded to our non-employee directors for the year ended December 31, 2010.

Name	Fees earned or paid in cash (\$)	Option awards² (\$)	All other compensation (\$)	Total (\$)
Andrew M. Chon	-	72,832	55,408	128,240
Stephen Distler	-	6,200	-	6,200
Judith Giacin	-	6,200	-	6,200
Richard Gillespie	-	6,200	-	6,200
Janet Lasley ¹	-	-	-	-
Robert N. Ridolfi	-	6,200	-	6,200
Stephen Shueh	-	6,200	-	6,200
Ross Wishnick	-	6,200	-	6,200

¹ Janet Lasley, Deceased, ceased to be a director on May 13, 2010, as a result of her untimely passing.

² The number of outstanding options for each director as of December 31, 2010 was: Andrew M. Chon, 28,833; Stephen Distler, 6,938; Judith Giacin, 6,438; Richard Gillespie, 6,438; Robert N. Ridolfi, 6,688; Stephen Shueh, 4,938; Ross Wishnick, 6,938. The number of outstanding options for Janet Lasley, now held by her estate, was 4,438.

Our Chairman, Andrew M. Chon, provided both director and certain additional management services to us during the year ended December 31, 2010, and was compensated through a combination of cash and stock option awards. Cash compensation paid to Mr. Chon totaled \$55,408 in 2010 and two awards totaling 25,833 stock options were also granted in 2010. The total fair value of the options on the dates of grant was \$72,832, which is included in the table above under the column headed Option awards.

With the exception of the preceding discussion of Mr. Chon's compensation, director compensation has been limited to non-qualified stock option grants, normally awarded once per year. Option grants are discretionary and are authorized by our board of directors. The total fair value of all options issued to directors in 2010 was \$110 thousand.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

In April 2007, our organizers were issued a total of 97,500 "organizer warrants" for their efforts during our organization and start-up. These warrants were immediately exercisable, expire 10 years from the date of grant, and will enable the warrant holder to purchase one share of our common stock at \$10.00 per share for each warrant exercised.

Our principal office and corporate headquarters is in a full-service banking facility located at 183 Bayard Lane, Princeton, New Jersey, containing approximately 6,100 rentable square feet on the first and second floors of the building. We lease these facilities from JAT Holdings, LLC. JAT Holdings, LLC is 99% owned by Stephen Distler, one of our organizers and directors. The lease provides for an initial term of ten years. We have two five-year renewal options, which could extend the total lease term to a total of twenty years. The initial base annual rent was \$245,000. The base rent is subject to annual increases after the second year of the lease based on the Consumer Price Index, not to exceed four percent per year. The lease is "triple net," and we pay all utilities (gas and electric) and common area maintenance, real-estate taxes, insurance and other expenses normally associated with leasehold premises. Prior to entering into the lease, our disinterested organizers concluded the rental amount represented fair market rent.

We have had, and expect to have in the future, loan transactions in the ordinary course of business with our executive officers, directors, principal stockholders, their immediate families and affiliated companies (commonly referred to as related parties), on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable loans with others not related to us. None of such loans have involved more than normal risk of collectability or presented other unfavorable features. There were loans receivable from related parties in the amounts of \$\$3,376,103 and \$3,361,053 at March 31, 2011, and December 31, 2010, respectively. None of such loans were disclosed as nonaccrual or past due, a troubled debt restructuring, or a potential problem at March 31, 2011 or December 31, 2010.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth, as of June 15, 2011, certain information concerning the ownership of our shares of common stock by each person who is known by us to own beneficially more than five percent of the issued and outstanding shares, each of our directors, each named executive officer identified below in the section captioned “Executive Compensation,” and all directors and executive officers as a group.

<u>Name</u>	<u>Number of Shares Beneficially Owned (1)</u>	<u>Percentage of Ownership (2)</u>
Andrew M. Chon (3)	231,208	5.8%
Stephen Distler (4)	163,813	4.1%
Robert N. Ridolfi (5)	93,063	2.3%
Ross Wishnick (6)	59,063	1.5%
Richard Gillespie (7)	48,938	1.2%
Stephen Shueh (8)	29,938	*
Judith Giacin (9)	18,938	*
Steven C. Ackmann (10)	5,000	*
Douglas Conover (11)	10,500	*
Edward Dietzler (12)	6,000	*
Michael J. Sanwald (13)	<u>2,000</u>	<u>*</u>
All directors and executive officers as a group (11 persons)	<u>668,461</u>	<u>14.5%</u>

* Less than one percent (1%).

- (1) Any person who, directly or indirectly, through any contract, arrangement, understanding, relationship, or otherwise has or shares: voting power, which includes the power to vote, or to direct the voting of, our common stock; and/or, investment power, which includes the power to dispose, or to direct the disposition of, our common stock, is determined to be a beneficial owner of the common stock. Unless otherwise indicated, the beneficial owner has sole voting and investment power. Shares beneficially owned include warrants and options to purchase shares which are currently exercisable or which will be exercisable within 60 days of June 15, 2011.
- (2) Based on 3,952,185 shares issued and outstanding as of June 15, 2011. Percentage calculations presume that the identified individual or group exercises all of his, her or their respective warrants and options and that no other holders of warrants or options exercise their warrants or options.
- (3) Includes 44,875 shares with respect to which Mr. Chon shares voting and investment power, and warrants and options to purchase 56,333 shares.
- (4) Includes 136,875 shares with respect to which Mr. Distler shares voting and investment power, and warrants and options to purchase 21,938 shares.
- (5) Includes 37,375 shares with respect to which Mr. Ridolfi shares voting and investment power, and warrants and options to purchase 11,938 shares.
- (6) Includes 46,875 shares with respect to which Mr. Wishnick shares voting and investment power, and warrants and options to purchase 12,188 shares.
- (7) Includes 7,500 shares with respect to which Mr. Gillespie shares voting and investment power, and warrants and options to purchase 10,188 shares.
- (8) Includes 24,950 shares with respect to which Mr. Shueh shares voting and investment power, and options to purchase 4,938 shares.
- (9) Includes 12,500 shares with respect to which Ms. Giacin shares voting and investment power, and options to purchase 6,438 shares.
- (10) Includes options to purchase 4,000 shares.
- (11) Includes 5,500 shares with respect to which Mr. Conover shares voting and investment power, and options to purchase 5,000 shares.
- (12) Includes options to purchase 6,000 shares.
- (13) Includes options to purchase 2,000 shares.

DESCRIPTION OF SECURITIES

General

The following discussion describes certain rights of the holders of our common stock. While the following discussion summarizes certain provisions of our certificate of incorporation, any statements concerning the certificate of incorporation are qualified in their entirety by reference to that document. See “Where You Can Find More Information” on page 59 of this offering circular.

The class of our common stock does not have any conversion, sinking fund or redemption provisions, does not subject stockholders to liability for further capital calls, and does not restrict the stockholders’ ability to transfer shares. There are no provisions in our certificate of incorporation or our bylaws which discriminate against any person or entity based on his or its holdings of our securities.

Capital Structure

Our certificate of incorporation currently provides for authorized capital consisting of 10,000,000 shares of common stock, par value \$5.00 per share. At March 31, 2011, we had 3,952,185 shares of common stock issued and outstanding, 381,066 shares of our common stock issuable upon exercise of outstanding options and warrants, at a weighted average exercise price of \$12.70 per share; and 63,634 shares of our common stock reserved for issuance upon exercise of future option awards under our 2007 Stock Option Plan.

Dividend Rights

Each share of our common stock will be entitled to participate equally in dividends, which are payable when, as, and if declared by our board of directors, subject to the restrictions imposed by the Banking Act and certain regulatory requirements. Under the Banking Act, dividends may be paid only if, after the payment of the dividend, our capital stock will be unimpaired and either we will have a surplus of not less than 50% of our capital stock or the payment of the dividend will not reduce our surplus. Applicable regulations limit our ability to pay dividends as a result of requirements to maintain adequate capital ratios. A discussion of the regulations affecting us is set forth in “Description of Business – Supervision and Regulation” on page 20.

Our board of directors has the power to pay dividends from time to time, in whole or in part in stock, without approval or ratification of the stockholders.

Voting Rights

Under the Banking Act, each share of our common stock is entitled to one vote per share on each matter submitted to a vote of our stockholders. Among other things, the Banking Act requires the affirmative vote of two-thirds of the outstanding shares to approve any amendment to the certificate of incorporation to provide for the issuance of preferred stock, any merger or consolidation, or our acquisition by a bank holding company. Under the Banking Act and the certificate of incorporation, we are authorized to have a minimum of 5 and a maximum of 25 directors. Our certificate of incorporation does not provide for a classified board. Within the limits prescribed by the Banking Act, our certificate of incorporation and our bylaws authorize our board of directors to fix the exact number of directors. We currently have eight directors. Cumulative voting is not permitted under the Banking Act. The Banking Act requires that bylaws fixing the number of directors or the manner and time of determining such number, bylaws establishing the requirements for calling a special meeting of stockholders, and bylaws setting forth the manner in which the bylaws may be made, altered or repealed, be made, altered or repealed by a vote of the stockholders. Subject to the requirements of the Banking Act, our bylaws may be made, altered or repealed by our board of directors.

Liquidation Rights

In the event of our liquidation, dissolution or winding up of affairs, holders of our class of common stock are entitled to receive, on a pro rata per share basis, any assets distributable to stockholders, after the payment of debts and liabilities and after the distribution to holders of any outstanding shares hereafter issued which have prior rights upon liquidation.

Preemptive Rights

Under Section 6.3 of the Banking Act, a bank may issue authorized but unissued stock without first offering such stock to existing stockholders. Section 99 of the Banking Act provides that except as otherwise provided by law, upon an increase of the capital stock of a bank by an issue of additional shares, every stockholder shall have a right to purchase that proportion of the shares to be issued which the par value of the stock held by him bears to the aggregate par value of the capital stock of the bank before such increase, at such price, which may be in excess of par value, and within such time as shall be fixed by the resolution of the board of directors providing for the issue of such stock, unless such right is waived by him, or the certificate of incorporation otherwise provided at the time of the issue of the shares held by him. Our certificate of incorporation does not eliminate the preemptive rights set forth in Section 99 of the Banking Act and no waivers have been sought or obtained.

Appraisal Rights

Under the Banking Act, in connection with certain mergers or consolidations, or our acquisition by a bank holding company, our stockholders who dissent from any such transaction will have certain appraisal rights, if perfected, to obtain the fair value of their shares of common stock, as determined in accordance with the Banking Act, in cash.

Securities Authorized for Issuance under Equity Compensation Plans

The following table sets forth information, as of December 31, 2010, with respect to our equity compensation plans.

Plan Category	Number of shares of common stock to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of shares of common stock remaining available for future issuance under equity compensation plans
<i>Equity compensation plans approved by security holders:</i>			
The Bank of Princeton 2007 Stock Option Plan	188,216	\$10.95	111,784
MoreBank 2004 Incentive Equity Compensation Plan ¹	1,200	\$25.00	-
<i>Equity compensation plans not approved by security holders:</i>			
Organizer Warrants	97,500	\$10.00	-
MoreBank Organizer Options ¹	<u>46,000</u>	<u>\$25.00</u>	<u>-</u>
Total	<u>332,916</u>	<u>\$12.66</u>	<u>111,784</u>

¹ Refer to the section titled “MoreBank Acquisition” under “Description of Business” in this offering circular. Also refer to “Note 2 – Business Combinations” in our audited financial statements, which are included in this offering circular beginning at page F-1.

Recent Sales of Unregistered Securities

In connection with our initial capitalization, in April 2007, we offered and sold 3,000,000 shares of common stock and warrants to purchase 750,000 shares of common stock for gross proceeds of \$30 million. Each subscriber received one warrant for every four shares of our common stock. Each warrant represented the right to purchase one share of our common stock for a purchase price of \$12.00 per share at any time prior to April 17, 2010. In connection with our organization, we also issued 97,500 warrants to the organizers of the Bank, each such warrant representing the right to purchase one share of our common stock for a purchase price of \$10.00 per share at any time prior to April 17, 2017.

In September 2008, we sold 20,000 of our shares for gross proceeds of \$200,000 upon exercise of options by a former executive officer. In September and November 2010, we sold a total of 50 shares for gross proceeds of \$500 upon two exercises of options by a current employee.

Between December 2009 and April 2010, we issued 466,940 shares of our common stock for gross proceeds of \$5,603,280 upon exercise of warrants issued in our initial capitalization.

The warrants issued in our initial capitalization expired on April 17, 2010. All 97,500 organizer warrants were outstanding at June 15, 2011.

On September 30, 2010, we issued 465,195 shares of our common stock to the former stockholders of MoreBank in connection with our acquisition by merger of MoreBank. Then-outstanding options to purchase shares of MoreBank common stock were automatically converted into options to purchase shares of our common stock. Both the number of shares underlying each MoreBank option and the per-share exercise price were automatically adjusted based on the merger exchange ratio. The numbers of shares and weighted-average exercise prices presented reflect such conversion and adjustment. The merger agreement, which provided for the conversion and adjustment of the options, was approved by our stockholders.

Each offer and sale of our securities has been exempt from the registration requirements of the Securities Act pursuant to Section 3(a)(2) of the Securities Act, and we did not utilize an underwriter in connection with any such sale.

PLAN OF DISTRIBUTION

We are offering up to 1,200,000 shares of our common stock, subject to our right, in the sole and absolute discretion of our board of directors, to increase the number of shares offered by an additional twenty five percent, to 1,500,000, at an offering price of \$13.75 per share. We are offering the shares to our existing stockholders (including our directors and executive officers), including record holders and beneficial owners, and their respective family members and affiliates, as well as other potential investors. Each member of the board will subscribe to purchase additional shares in this offering. Offers to subscribe must be made for a minimum of 500 shares, provided that we reserve the right to accept subscriptions for fewer shares. We do not anticipate accepting any offers to subscribe for more than 250,000 shares or any other offers to subscribe which would require specific regulatory approval. Among other things, applicable regulations require any person who, together with any other persons acting in concert, would own, control, or have the power to vote 10 percent or more of our common stock, to obtain approval of his acquisition. We will not notify any subscribers of any waiver of the minimum or maximum subscription limits.

We are offering the shares directly on a “best efforts” basis. No commission will be paid on the sale of any shares made directly by us. We have not engaged the services of an underwriter or placement agent nor negotiated any arrangement with an underwriter or placement agent with respect to the sale of any of the shares offered pursuant to this offering circular. We do, however, reserve the right to engage the services of an underwriter or placement agent, if deemed necessary or appropriate by our board of directors, to sell all or a portion of the offered shares without notifying any subscriber. If the services of an underwriter or placement agent are used in connection with the sale of any of the offered shares, the underwriter or placement agent will receive a commission on such sales and the proceeds received by us from such sales will be reduced proportionately. None of our directors, executive officers or employees will receive any additional compensation in connection with the offering.

Subscriptions for the offered shares are not binding until accepted by us. We may reject in whole or in part, in our sole discretion, any offer to subscribe. In determining which subscriptions to accept, in whole or in part, we may take into consideration, among other things, the subscriber’s status as an existing stockholder of the Bank, or a family member or affiliate of a stockholder, and the order in which subscriptions are received. **Subscriptions for our shares should be made by completing and signing the accompanying subscription agreement, a form of which is included as part of this offering circular, and delivering it, together with the subscription price of \$13.75 per share, to The Bank of Princeton at the address specified on the subscription agreement.** The purchase price must be paid in United States currency by check, draft, or money order drawn to the order of “The Bank of Princeton.”

Subscriptions will be accepted until 5:00 P.M. on August 14, 2011, the expiration date, unless the offering is fully subscribed before then. We may elect to terminate the offering earlier than the expiration date, or extend the expiration date until October 15, 2011. No written notice of an earlier termination or extension of the expiration date need be given to any subscriber and any such earlier termination or extension will not alter the binding nature of subscriptions which have been accepted.

Your subscription amount will not be placed in escrow. As soon as practicable after we receive subscription funds for all of the offered shares, we will issue or cause our transfer agent and registrar to issue to you certificates representing your accepted subscription for shares of common stock.

TRANSFER AGENT AND REGISTRAR

Registrar and Transfer Company, Cranford, New Jersey, is the transfer agent and registrar for our common stock.

LEGAL MATTERS

The validity of the shares of common stock offered hereby will be passed upon for us by Pepper Hamilton LLP.

INDEPENDENT REGISTERED PUBLIC ACCOUNTANTS

The financial statements of The Bank of Princeton as of December 31, 2010 and 2009, and for each of the years in the two-year period ended December 31, 2010, included in this offering circular have been audited by ParenteBeard LLC, an independent registered public accounting firm whose report relating to the financial statements dated April 4, 2011 is also included in this offering circular.

WHERE YOU CAN FIND MORE INFORMATION

On May 2, 2011, we filed a registration statement under the Securities Exchange Act of 1934, as amended, (the “Exchange Act”), with the FDIC. This registration statement became effective June 29, 2011. Consequently, we are subject to the reporting requirements of the Exchange Act and will file annual, quarterly and current reports, proxy statements and other information with the FDIC. You may inspect the registration statement and the reports, proxy statements and other information that we will file at FDIC, Accounting and Securities Disclosure Section, Division of Supervision and Consumer Protection, 550 17th Street, NW, Washington, D.C.

Copies of documents which we reference in this offering circular, including our certificate of incorporation, are available from us, without charge. You may obtain copies of these documents by writing to us at the following address or by calling us at the telephone number listed below:

The Bank of Princeton
183 Bayard Lane
Princeton, NJ 08540
Attention: Investor Relations
(609) 454-1700

We also maintain a web site at <http://www.thebankofprinceton.com>. The contents of that site are not incorporated by reference into or otherwise a part of this offering circular.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

	<u>Page</u>
Report of Independent Registered Public Accounting Firm	F-2
Balance Sheets as of December 31, 2010 and 2009	F-3
Statements of Operations	
for the years ended December 31, 2010 and 2009	F-4
Statements of Changes in Stockholders' Equity	
for the years ended December 31, 2010 and 2009	F-5
Statements of Cash Flows	
for the years ended December 31, 2010 and 2009	F-6
Notes to Financial Statements	F-7
Unaudited Balance Sheet as of March 31, 2011	F-51
Unaudited Statement of Operations	
for the three months ended March 31, 2011	F-52
Unaudited Statement of Changes in Stockholders' Equity	
for the three months ended March 31, 2011	F-53
Unaudited Statements of Cash Flows	
for the three months ended March 31, 2011	F-54

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
The Bank of Princeton

We have audited the accompanying balance sheet of The Bank of Princeton (the “Bank”) as of December 31, 2010, and the related statements of operations, stockholders’ equity, and cash flows for the year then ended. The Bank of Princeton’s management is responsible for these financial statements. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Bank is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank’s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

We audited the financial statements of The Bank of Princeton as of December 31, 2009 and for the year then ended in accordance with auditing standards generally accepted in the United States of America. In our report dated March 8, 2010 we expressed an unqualified opinion on those statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Bank of Princeton as of December 31, 2010 and 2009, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.



Philadelphia, Pennsylvania
April 4, 2011

The Bank of Princeton

Balance Sheet

December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Assets		
Cash and due from banks	\$ 11,256,625	\$ 7,155,513
Federal funds sold	14,363,000	148,000
	<u>25,619,625</u>	<u>7,303,513</u>
Cash and cash equivalents	25,619,625	7,303,513
Securities available for sale	159,600,616	70,423,247
Securities held to maturity (fair value 2010 - \$1,454,053; 2009 - \$8,696,634)	1,394,188	8,670,715
Loans, net of allowance for loan losses of \$3,693,369 and \$2,146,776 at December 31, 2010 and 2009, respectively	281,572,864	172,510,112
Bank-owned life insurance	6,032,322	-
Other real estate owned	1,140,000	227,283
Premises and equipment, net	4,153,278	2,007,505
Accrued interest receivable and other assets	8,742,773	3,518,160
	<u>888,255,666</u>	<u>264,660,535</u>
Total Assets	\$ 488,255,666	\$ 264,660,535
Liabilities and Stockholders' Equity		
Liabilities		
Deposits:		
Non-interest-bearing	\$ 30,669,037	\$ 16,576,817
Interest-bearing	395,143,988	202,051,536
	<u>425,813,025</u>	<u>218,628,353</u>
Total deposits	425,813,025	218,628,353
Federal funds purchased	1,044,000	-
Borrowings	18,014,131	17,137,823
Accrued interest payable and other liabilities	2,427,057	1,004,547
	<u>447,298,213</u>	<u>236,770,723</u>
Total liabilities	447,298,213	236,770,723
Stockholders' equity		
Common stock, \$5 par value; authorized 10,000,000 shares; issued and outstanding 2010 - 3,952,185 shares; 2009 - 3,022,375 shares	19,760,925	15,111,875
Paid-in capital	22,514,824	15,765,295
Accumulated deficit	(1,667,411)	(4,054,458)
Accumulated other comprehensive income	349,115	1,067,100
	<u>40,957,453</u>	<u>27,889,812</u>
Total stockholders' equity	40,957,453	27,889,812
	<u>\$ 488,255,666</u>	<u>\$ 264,660,535</u>
Total liabilities and stockholders' equity	\$ 488,255,666	\$ 264,660,535

See notes to financial statements.

The Bank of Princeton

Statement of Operations

Years Ended December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Interest and dividend income		
Loans receivable, including fees	\$ 13,007,001	\$ 7,465,677
Debt securities:		
Taxable	2,880,841	3,914,270
Tax-exempt	216,313	18,524
Other	96,676	24,922
	<u>16,200,831</u>	<u>11,423,393</u>
Interest expense		
Deposits	4,787,576	3,678,094
Borrowings	342,513	128,797
	<u>5,130,089</u>	<u>3,806,891</u>
Net interest income	11,070,742	7,616,502
Provision for loan losses	<u>3,301,108</u>	<u>1,203,583</u>
Net interest income after provision for loan losses	<u>7,769,634</u>	<u>6,412,919</u>
Non-interest income		
Gain on sale of securities available for sale	1,229,088	413,259
Gain on acquisition of MoreBank	1,014,476	-
Other income	311,435	164,634
	<u>2,554,999</u>	<u>577,893</u>
Non-interest expense		
Salaries and employee benefits	4,729,804	3,706,199
Occupancy and equipment	1,609,996	1,269,479
Professional fees	903,309	421,739
Data processing and communications	663,441	437,894
Federal deposit insurance	453,512	409,957
Advertising and promotion	199,430	153,830
Office expense	158,719	143,158
Loss on other real estate owned	80,000	-
Other	627,619	35,851
	<u>9,425,830</u>	<u>6,578,107</u>
Income before income tax	898,803	412,705
Income tax benefit	<u>(1,488,244)</u>	<u>-</u>
Net Income	<u>\$ 2,387,047</u>	<u>\$ 412,705</u>

See notes to financial statements.

The Bank of Princeton

Statement of Operations (Continued)

Years Ended December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Net income per common share - basic	<u>\$ 0.69</u>	<u>\$ 0.14</u>
Net income per common share - diluted	<u>\$ 0.68</u>	<u>\$ 0.14</u>

See notes to financial statements.

The Bank of Princeton

Statement of Stockholders' Equity Years Ended December 31, 2010 and 2009

	Common stock	Paid-in capital	Accumulated deficit	Accumulated other comprehen- sive income	Total
Balance - December 31, 2008	\$ 15,100,000	\$ 15,516,753	\$ (4,467,163)	\$ 711,681	\$ 26,861,271
Comprehensive income:					
Net income	-	-	412,705	-	412,705
Change in net unrealized gains on securities available for sale, net of reclassification adjustment and tax effect	-	-	-	355,419	355,419
Total comprehensive income					768,124
Warrants exercised (2,375 shares at \$12 per share)	11,875	16,625	-	-	28,500
Share-based compensation expense	-	231,917	-	-	231,917
Balance - December 31, 2009	15,111,875	15,765,295	(4,054,458)	1,067,100	27,889,812
Comprehensive loss:					
Net income	-	-	2,387,047	-	2,387,047
Change in net unrealized gains on securities available for sale, net of reclassification adjustment and tax effect	-	-	-	(717,985)	(717,985)
Total comprehensive income					1,669,062
Acquisition of MoreBank (465,195 shares at \$12 per share)	2,325,975	3,256,365	-	-	5,582,340
Acquisition of MoreBank (47,200 options at \$0.43 per option)	-	20,066	-	-	20,066
Warrants exercised (464,565 shares at \$12 per share)	2,322,825	3,251,955	-	-	5,574,780
Options exercised (50 shares at \$10 per share)	250	250	-	-	500
Share-based compensation expense	-	220,893	-	-	220,893
Balance - December 31, 2010	\$ 19,760,925	\$ 22,514,824	\$ (1,667,411)	\$ 349,115	\$ 40,957,453

See notes to financial statements.

The Bank of Princeton

Statement of Cash Flows

Years Ended December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Cash Flows from Operating Activities		
Net income	\$ 2,387,047	\$ 412,705
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	3,301,108	1,203,583
Depreciation and amortization	479,761	371,025
Income from bank-owned life insurance	(32,322)	-
Share-based compensation	220,893	231,917
Deferred income taxes	(1,555,782)	-
Accretion of deferred loan fees	(130,016)	(106,666)
Net amortization of securities premiums	647,502	246,843
Net realized gain on sale of securities available for sale	(1,229,088)	(413,259)
Gain on acquisition of MoreBank	(1,014,476)	-
Loss on other real estate owned	80,000	-
Increase in accrued interest receivable and other assets	(349,460)	(1,413,244)
Increase (decrease) in accrued interest payable and other liabilities	1,809,348	(91,459)
Net Cash Provided by Operating Activities	<u>4,614,515</u>	<u>441,445</u>
Cash Flows from Investing Activities		
Purchases of available for sale securities	(144,276,426)	(37,915,840)
Maturities, calls and repayments of available for sale securities	33,360,184	29,751,750
Proceeds from sales of available for sale securities	32,430,563	8,934,654
Purchases of held to maturity securities	-	(13,588,623)
Maturities, calls, and repayments of held to maturity securities	7,247,547	5,386,070
Net increase in loans	(64,074,733)	(83,433,151)
Purchases of bank-owned life insurance	(6,000,000)	-
Purchases of premises and equipment	(1,845,857)	(88,977)
Purchases of restricted bank stock	(40,200)	(859,000)
Net cash received from MoreBank acquisition	11,028,316	-
Net Cash Used in Investing Activities	<u>(132,170,606)</u>	<u>(91,813,117)</u>
Cash Flows from Financing Activities		
Net increase in deposits	143,659,729	52,030,972
Net increase in federal funds purchased	1,044,000	-
Proceeds from borrowings	-	18,000,000
Repayments of borrowings	(4,406,806)	(862,177)
Proceeds from exercise of stock warrants and options	5,575,280	28,500
Net Cash Provided by Financing Activities	<u>145,872,203</u>	<u>69,197,295</u>
Net Increase (Decrease) in Cash and Cash Equivalents	18,316,112	(22,174,377)
Cash and Cash Equivalents - Beginning	<u>7,303,513</u>	<u>29,477,890</u>
Cash and Cash Equivalents - Ending	<u>\$ 25,619,625</u>	<u>\$ 7,303,513</u>

See notes to financial statements.

The Bank of Princeton

Statement of Cash Flows (Continued)

Years Ended December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Supplementary Cash Flows Information		
Interest paid	<u>\$ 4,693,427</u>	<u>\$ 3,564,212</u>
Supplementary Schedule of Noncash Investing and Financing Activities		
Transfers from loans, net to other real estate owned	<u>\$ 992,717</u>	<u>\$ 227,283</u>
Assets from acquisition of MoreBank	<u>\$ 75,587,819</u>	<u>\$ -</u>
Liabilities from acquisition of MoreBank	<u>\$ 68,970,937</u>	<u>\$ -</u>

See notes to financial statements.

The Bank of Princeton

Notes to Financial Statements **December 31, 2010 and 2009**

Note 1 - Summary of Significant Accounting Policies

Organization and nature of operations

The Bank of Princeton (the “Bank”) was incorporated on July 17, 2006 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. The Bank commenced operations on April 23, 2007 and is a full-service bank providing personal and business lending and deposit services. As a state-chartered bank, the Bank is subject to regulation by the New Jersey Department of Banking and Insurance and the Federal Deposit Insurance Corporation. The area served by the Bank, through its nine branches, is primarily the Mercer County, New Jersey and certain Philadelphia, Pennsylvania metropolitan areas.

The Bank acquired MoreBank on September 30, 2010, which is more fully described in Note 2 – Business Combinations. In accordance with the terms of the plan of merger, the Bank issued shares of its common stock in exchange for all of the outstanding shares of MoreBank common stock. Upon issuance of these shares, the total number of shareholders of the Bank’s common stock exceeded 500 shareholders. Pursuant to requirements of Section 12(b) of the Securities Exchange Act of 1934, the Bank plans to file a registration statement with regulatory authorities within 120 days of December 31, 2010.

Subsequent events

Effective April 1, 2009, the Bank adopted Financial Accounting Standards Board (FASB) guidance now codified as FASB ASC Topic 855, *Subsequent Events*. This guidance establishes general standards for accounting and for disclosure of events that occur after the balance sheet date but before financial statements are issued. The subsequent event guidance sets forth the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition in the financial statements, identifies the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in the financial statements, and the disclosures that should be made about events or transactions that occur after the balance sheet date. Management evaluated subsequent events until the date of issuance of the report and concluded that no events occurred that were of a material nature.

Basis of financial statement presentation

The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (“GAAP”). In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the financial statements and revenues and expenses for the periods then ended. Actual results could differ significantly from those estimates.

The Bank of Princeton

Notes to Financial Statements

December 31, 2010 and 2009

Note 1 - Summary of Significant Accounting Policies (continued)

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 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 potential impairment of restricted stock, the valuation of deferred tax assets, and the determination of other-than-temporary impairment of securities.

A material estimate that is particularly susceptible to significant change relates to the determination of the allowance for loan losses. Management believes that the allowance for loan losses is adequate. While management uses the most current information available 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.

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 recognize 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 certain Philadelphia, Pennsylvania metropolitan areas. Note 3 describes the type of securities in which the Bank invests. Note 4 describes the types of lending in which the Bank engages. The Bank does not have any portion of its business dependent on a single or limited number of customers or industries, the loss of which would have a material adverse effect on its business. No substantial portion of loans is concentrated within a single industry or group of related industries, except that a significant majority of loans are secured by real estate. There are numerous risks associated with commercial and consumer lending that could impact the borrowers' ability to repay on a timely basis. They include, but are not limited to: the owner's business expertise, changes in local, national, and in some cases international economies, competition, governmental regulation, and the general financial stability of the borrowing entity.

Transfers of financial assets

Transfers of financial assets, including loan and loan participation sales, are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Bank, (2) the transferee obtains the right, free of conditions that constrain it from taking advantage of that right, to pledge or exchange the transferred assets, and (3) the Bank does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

The Bank of Princeton

Notes to Financial Statements

December 31, 2010 and 2009

Note 1 - Summary of Significant Accounting Policies (continued)

Business combinations

The Bank accounts for business combinations in accordance with FASB ASC Topic 805, *Business Combinations*, and, accordingly, records the net assets of companies acquired at estimated fair value at the acquisition date and includes the results of operations of the companies acquired in the statements of operations as of the acquisition date. The Bank recognizes the excess of net assets acquired over consideration transferred as a gain on acquisition and the excess of consideration transferred over net assets acquired as goodwill.

Cash and cash equivalents

Cash and cash equivalents include cash on hand and federal funds sold with original maturities of 90 days or less. Generally, federal funds are purchased for one-day periods.

Securities

Investments in debt securities that the Bank has the positive intent and ability to hold to maturity are classified as held to maturity securities and reported at amortized cost. Debt and equity securities that are bought and held principally for the purpose of selling them in the near term are classified as trading securities and reported at fair value, with unrealized holding gains and losses included in earnings. Debt and equity securities not classified as trading securities, nor as held to maturity securities are classified as available for sale securities and reported at fair value, with unrealized holding gains or losses, net of deferred income taxes, reported in the accumulated other comprehensive income component of stockholders' equity. The Bank held no trading securities at December 31, 2010 and 2009. Discounts and premiums are accreted and amortized, respectively, to income by use of the level-yield method. Gain or loss on sales of securities available for sale is based on the specific identification method.

Management considers, in determining whether other-than-temporary impairment exists, (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, and (3) the intent and ability of the Bank to retain the investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

Accounting guidance specifies that (a) if a company does not have the intent to sell a debt security prior to recovery and, (b) it is more likely than not that it will not have to sell the debt security prior to recovery, the security would not be considered other-than-temporarily impaired unless there is a credit loss.

The credit component of an other-than-temporary impairment of a debt security is recognized in earnings and the remaining portion in other comprehensive income. 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.

The Bank of Princeton

Notes to Financial Statements

December 31, 2010 and 2009

Note 1 - Summary of Significant Accounting Policies (continued)

For equity securities, when the Bank decides to sell an impaired available-for-sale security and the entity does not expect the fair value of the security to fully recover before the expected time of sale, the security is deemed other-than-temporarily impaired in the period in which the decision to sell is made. The Bank recognizes an impairment loss when the impairment is deemed other than temporary even if a decision to sell has not been made.

Loans

Loans receivable that the Bank has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at their outstanding unpaid principal balances, net of an allowance for loan losses, deferred fees and costs, and fair value adjustments under the acquisition method of accounting. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, and fair value adjustments under the acquisition method of accounting are deferred and recognized as an adjustment of the yield (interest income) on the related loans. The Bank is generally amortizing these amounts over the contractual life of the loan. Premiums and discounts on purchased loans are amortized as adjustments to interest income using the level yield method.

The loan receivable portfolio is segmented into commercial real estate, commercial and industrial, construction, residential first-lien mortgage, residential second-lien mortgage, and consumer loan classes.

For all classes of loans receivable, the accrual of interest is discontinued when the contractual payment of principal or interest has become 90 days past due or management has serious doubts about further collectibility 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 collectibility 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 collectibility of the total contractual principal and interest is no longer in doubt. The past due status of all classes of loans receivable is determined on contractual due dates for loan payments.

Allowance for loan losses

The allowance for credit losses consists of the allowance for loan losses and the reserve for unfunded lending commitments. The allowance for loan losses represents management's estimate of losses inherent in the loan portfolio as of the balance sheet date and is recorded as a reduction to loans. The reserve for unfunded lending commitments represents management's estimate of losses inherent in its unfunded loan commitments and is recorded in other liabilities on the balance sheet. The allowance for credit 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 Bank of Princeton

Notes to Financial Statements

December 31, 2010 and 2009

Note 1 - Summary of Significant Accounting Policies (continued)

The allowance for loan losses is maintained at a level considered adequate to provide for losses that can be reasonably anticipated. The Bank performs a quarterly evaluation of the adequacy of the allowance. The allowance is based on the Bank's past loan loss experience, 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, composition of the loan portfolio, current economic conditions and other relevant factors. This evaluation is inherently subjective as it requires material estimates that may be susceptible to significant revision as more information becomes available.

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

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

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.

The Bank of Princeton

Notes to Financial Statements

December 31, 2010 and 2009

Note 1 - Summary of Significant Accounting Policies (continued)

The Bank determines the allowance for credit losses by portfolio segment, which consists of commercial real estate loans, commercial and industrial loans, construction loans, residential first-lien mortgage loans, residential second-lien mortgage loans and consumer loans. The Bank estimates the inherent risk of loss on all loans by portfolio segment, based primarily on the risk factors identified above and by applying a weight factor to each element for each portfolio segment.

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

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

Construction lending is generally considered to involve a high risk due to the concentration of principal in a limited number of loans and borrowers and the effects of general economic conditions on developers and builders. Moreover, a construction loan can involve additional risks because of the inherent difficulty in estimating both a property's value at completion of the project and the estimated cost (including interest) of the project. The nature of these loans is such that they are generally difficult to evaluate and monitor. In addition, speculative construction loans to a builder are not necessarily pre-sold and thus pose a greater potential risk to the Bank than construction loans to individuals on their personal residences.

Commercial real estate lending entails significant additional risks as compared with single-family residential property lending. Such loans typically involve large loan balances to single borrowers or groups of related borrowers. The payment experience on such loans is typically dependent on the successful operation of the real estate project. The success of such projects is sensitive to changes in supply and demand conditions in the market for commercial real estate as well as economic conditions generally.

Commercial business 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. In most cases, any repossessed collateral for a defaulted commercial business loans will not provide an adequate source of repayment of the outstanding loan balance.

Consumer loans generally have shorter terms and higher interest rates than other lending but generally involve more credit risk because of the type and nature of the collateral and, in certain cases, the absence of collateral. In addition, consumer lending collections are dependent on the borrower's continuing financial stability, and thus are more likely to be adversely effected by job loss, divorce, illness and personal bankruptcy. In most cases, any repossessed collateral for a defaulted consumer loan will not provide an adequate source of repayment of the outstanding loan.

The Bank of Princeton

Notes to Financial Statements

December 31, 2010 and 2009

Note 1 - Summary of Significant Accounting Policies (continued)

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

The Bank further segregates the portfolio into original legacy loans and those loans acquired in the MoreBank merger. The loans acquired in the MoreBank merger were recorded at fair value with no carryover of the related allowance for loan losses.

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

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 certified appraisal of the real estate is necessary. This decision is based on various considerations, including the age of the most recent appraisal, the loan-to-value ratio based on the original appraisal and the condition of the property. Appraised values are discounted to arrive at the estimated selling price of the collateral, which is considered to be the estimated fair value. The discounts also include estimated costs to sell the property.

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

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

The Bank of Princeton

Notes to Financial Statements

December 31, 2010 and 2009

Note 1 - Summary of Significant Accounting Policies (continued)

Loans whose terms are modified are classified as troubled debt restructurings if the Bank grants borrower concessions and it is deemed that those borrowers are experiencing financial difficulty. Concessions granted under a troubled debt restructuring generally involve a temporary reduction in interest rate or an extension of a loan's stated maturity date. Nonaccrual troubled debt restructurings are restored to accrual status if principal and interest payments, under the modified terms, are current for six consecutive months after modification. Loans classified as troubled debt restructurings are designated as impaired.

The allowance calculation methodology includes further segregation of loan classes into risk-rating categories. The borrower's overall financial condition, repayment sources, guarantors and value of collateral, if appropriate, are evaluated annually for commercial loans or when credit deficiencies arise, such as delinquent loan payments, for commercial and consumer loans.

Credit quality risk ratings include regulatory classifications of special mention, substandard, doubtful and loss. Loans classified special mention have potential weaknesses that deserve management's close attention. If uncorrected, the potential weaknesses may result in deterioration of the repayment prospects. Loans classified substandard have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They include loans that are inadequately protected by the current sound net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans classified doubtful have all the weaknesses inherent in loans classified substandard with the added characteristic that collection or liquidation in full, on the basis of current conditions and facts, is highly improbable. Loans classified loss are considered uncollectible and are charged to the allowance for loan losses. Loan not classified are rated pass.

In addition, federal regulatory agencies, as an integral part of their examination process, periodically review the Bank's allowance for loan losses and may require the Bank to recognize additions to the allowance based on their judgments about information available to them at the time of their examination, which may not be currently available to management. Based on management's comprehensive analysis of the loan portfolio, management believes the current level of the allowance for loan losses is adequate.

Bank-owned life insurance

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

Other real estate owned

Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value less cost to sell at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are then recorded at the lower of carrying amount or fair value less cost to sell. Revenue and expenses from operations and changes in the valuation allowance are included in non-interest expense.

The Bank of Princeton

Notes to Financial Statements

December 31, 2010 and 2009

Note 1 - Summary of Significant Accounting Policies (continued)

Premises and equipment

Bank premises and equipment are stated at cost less accumulated depreciation. Depreciation is computed on the straight-line method over the shorter of the lease term or estimated useful lives of the related assets.

Accrued interest receivable and other assets

Accrued interest receivable and other assets are recorded at net realizable value and include accrued interest receivable, deferred tax assets, net, restricted investments in bank stocks, prepaid assets and other assets.

Federal law requires a member institution of the Federal Home Loan Bank (“FHLB”) system to hold restricted stock of its district Federal Home Loan Bank according to a predetermined formula. Restricted stock in the amount of \$1,322,000 and \$898,000 is carried at cost at December 31, 2010 and 2009, 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 and \$50,000 of stock in Atlantic Central Bankers Bank at December 31, 2010 and 2009, respectively. Management believes no impairment charge is necessary related to the FHLB restricted stock or the ACBB restricted stock as of December 31, 2010.

Intangible assets

The acquisition of MoreBank on September 30, 2010 resulted in the Bank recording a core deposit intangible of \$551,409. The core deposit intangible asset is amortized to expense on a straight-line basis over the expected period of benefit, which was established initially to be 5 years.

The recoverability of the carrying value of intangible assets will be evaluated whenever changes in circumstances indicate recoverability may be in doubt and there may be impairment. Permanent declines in value, if any, will be charged to expense. There were no impairment charges in 2010.

The Bank of Princeton

Notes to Financial Statements

December 31, 2010 and 2009

Note 1 - Summary of Significant Accounting Policies (continued)

Income taxes

The Bank accounts for income taxes in accordance with income tax accounting guidance contained in FASB ASC Topic 740, Income Taxes. This includes guidance related to accounting for uncertainty in income taxes, which sets out a consistent framework to determine the appropriate level of tax reserves to maintain for uncertain tax positions. The Bank had no material unrecognized tax benefits or accrued interest and penalties as of December 31, 2010 and 2009. 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, 2010, tax years 2007 through 2010 are subject to examination by various taxing authorities. Tax regulations are subject to interpretation of the related tax laws and regulations and require significant judgment to apply.

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

Deferred income tax expense or benefit is determined by recognizing deferred tax assets and liabilities 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.

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. Such financial instruments are recorded in the balance sheet when they are funded.

Employee benefit plan

The Bank has a 401(k) plan into which all employees are eligible to contribute the maximum allowed by the Internal Revenue Code of 1986, as amended. The Bank may make discretionary matching contributions. During the years ended December 31, 2010 and 2009, no matching contributions were made.

The Bank of Princeton

Notes to Financial Statements

December 31, 2010 and 2009

Note 1 - Summary of Significant Accounting Policies (continued)

Stock compensation plan

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

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

Earnings per share

Basic earnings per share amounts are calculated by dividing income available to common stockholders by the weighted average common shares outstanding during the period, and exclude any dilutive effects of vested and exercisable options and warrants. Diluted earnings per share amounts include the dilutive effects of vested and exercisable options and warrants whose exercise price is less than the market price of the Bank's shares. Diluted earnings per share amounts are calculated by dividing income available to common stockholders by the weighted average common shares outstanding during the period if options and warrants were exercised and converted into common stock, using the treasury stock method.

The Bank of Princeton

Notes to Financial Statements

December 31, 2010 and 2009

Note 1 - Summary of Significant Accounting Policies (continued)

The following table sets forth the computation of basic and diluted earnings per share for the years ended December 31, 2010 and 2009:

	<u>Income (numerator)</u>	<u>Shares (denominator)</u>	<u>Per share amount</u>
Year ended December 31, 2010:			
Basic earnings per share:			
Net income	\$ 2,387,047	3,481,571	<u>\$ 0.69</u>
Effect of dilutive securities:			
Stock options and warrants		<u>29,367</u>	
Dilutive earnings per share	<u>\$ 2,387,047</u>	<u>3,510,938</u>	<u>\$ 0.68</u>
Year ended December 31, 2009:			
Basic earnings per share:			
Net income	\$ 412,705	3,020,031	<u>\$ 0.14</u>
Effect of dilutive securities:			
Stock options and warrants		<u>3,446</u>	
Dilutive earnings per share	<u>\$ 412,705</u>	<u>3,023,476</u>	<u>\$ 0.14</u>

Advertising costs

The Bank charges the costs of advertising to expense as incurred.

Comprehensive income

Accounting principles generally require that recognized revenues, expenses, gains and losses be included in net income. Although certain changes in assets and liabilities, such as unrealized gains and losses on available for sale securities, are reported as a separate component of the equity section of the balance sheet, such items, along with net income, are components of comprehensive income.

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

	<u>2010</u>	<u>2009</u>
Unrealized holding gains on securities available for sale	\$ 141,232	\$ 951,772
Reclassification of gains included in net income	<u>(1,229,088)</u>	<u>(413,259)</u>
	(1,087,856)	538,513
Tax effect	<u>369,871</u>	<u>(183,094)</u>
Change in net unrealized gains on available for sale securities, net of reclassification adjustment and tax effect	<u>\$ (717,985)</u>	<u>\$ 355,419</u>

The Bank of Princeton

Notes to Financial Statements

December 31, 2010 and 2009

Note 1 - Summary of Significant Accounting Policies (continued)

Interest Rate Risk

The Bank is principally engaged in the business of attracting deposits from the general public and using these deposits, together with borrowings and other funds, to purchase securities and to make loans. The potential for interest rate risk exists as a result of the generally shorter duration of interest-sensitive liabilities compared to the generally longer duration of interest-sensitive assets. In a rising rate environment, liabilities re-price faster than assets, thereby reducing net interest income. For this reason, management regularly monitors the maturity structure of assets and liabilities in order to measure the level of interest rate risk and to plan for future volatility.

Reclassifications

Certain amounts as of and for the year ended December 31, 2009 have been reclassified to conform to the current year's presentation. These reclassifications did not have any impact on stockholders' equity or net income.

Recent accounting pronouncements

The FASB has issued the following updates to the FASB Accounting Standards Codification (ASC).

Accounting Standard Update (ASU) 2011-01

The amendments in this Update temporarily delay the effective date of the disclosures about troubled debt restructurings in Update 2010-20 for public entities. Under the existing effective date in Update 2010-20, public-entity creditors would have provided disclosures about troubled debt restructurings for periods beginning on or after December 15, 2010. The delay is intended to allow the FASB time to complete its deliberations on what constitutes a troubled debt restructuring. The effective date of the new disclosures about troubled debt restructurings for public entities and the guidance for determining what constitutes a troubled debt restructuring will then be coordinated. Currently, that guidance is anticipated to be effective for interim and annual periods ending after June 15, 2011. The Bank does not expect the adoption of these amendments to have a material effect on their financial position or results of operation. The deferral in this amendment is effective upon issuance.

ASU 2010-29

The objective of this Update is to address diversity in practice about the interpretation of the pro forma revenue and earnings disclosure requirements for business combinations. Paragraph 805-10-50-2(h) requires a public entity to disclose pro forma information for business combinations that occurred in the current reporting period. The disclosures include pro forma revenue and earnings of the combined entity for the current reporting period as though the acquisition date for all business combinations that occurred during the year had been as of the beginning of the annual reporting period. If comparative financial statements are presented, the pro forma revenue and earnings of the combined entity for the comparable prior reporting period should be reported as though the acquisition date for all business combinations that occurred during the current year had been as of the beginning of the comparable prior annual reporting period.

The Bank of Princeton

Notes to Financial Statements

December 31, 2010 and 2009

Note 1 - Summary of Significant Accounting Policies (continued)

ASU - 2010-20

In January 2011, the FASB issued ASU 2011-01, Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings in Update No. 2010-20. The amendments in this ASU temporarily delay the effective date of the disclosures about troubled debt restructurings in ASU 2010-20 for public entities. The delay is intended to allow the FASB time to complete its deliberations on what constitutes a troubled debt restructuring. The effective date of the new disclosures about troubled debt restructurings for public entities and the guidance for determining what constitutes a troubled debt restructuring will then be coordinated. Currently, that guidance is anticipated to be effective for interim and annual periods ending after June 15, 2011.

In practice, some preparers have presented the pro forma information in their comparative financial statements as if the business combination that occurred in the current reporting period had occurred as of the beginning of each of the current and prior annual reporting periods. Other preparers have disclosed the pro forma information as if the business combination occurred at the beginning of the prior annual reporting period only, and carried forward the related adjustments, if applicable, through the current reporting period.

The amendments in this Update specify that if a public entity presents comparative financial statements, the entity should disclose revenue and earnings of the combined entity as though the business combination(s) that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period only.

The amendments in this Update also expand the supplemental pro forma disclosures under Topic 805 to include a description of the nature and amount of material, nonrecurring pro forma adjustments directly attributable to the business combination included in the reported pro forma revenue and earnings.

The amendments in this Update are effective prospectively for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2010. Early adoption was permitted. The adoption of this standard did not have a material impact on our balance sheet or statement of operations.

The Bank of Princeton

Notes to Financial Statements

December 31, 2010 and 2009

Note 2 - Business Combinations

Consistent with its plans for strategic growth, the Bank acquired all of the outstanding common stock of MoreBank, a Pennsylvania commercial bank, in a stock-for-stock transaction on September 30, 2010. MoreBank was merged into the Bank on this date. The Bank exchanged 465,195 of its common shares, valued at \$12 per share by a third-party valuation firm, for all outstanding MoreBank shares and also replaced outstanding and unexercised MoreBank options with 47,200 fully-vested options to purchase common stock of the Bank. Total consideration transferred by the Bank amounted to \$5,602,428 for net assets of \$6,616,904. The transaction included no contingent consideration arrangements.

The excess of net assets acquired over the consideration transferred of \$1,014,476 was recognized as a gain on acquisition. This gain resulted primarily from MoreBank deferred tax assets that were deemed unrealizable by MoreBank prior to the business combination. The Bank applied a “more likely than not” criterion on the date of acquisition in evaluating the need for a valuation allowance against these acquired deferred tax assets. It was determined that no valuation allowance was required, and, accordingly, these deferred tax assets will more likely than not be realized by the Bank.

Fair value for most loans acquired was estimated by using a methodology wherein loans with comparable characteristics were aggregated by type of collateral, remaining maturity and re-pricing terms. Cash flows for each pool were determined by estimating future credit losses and rates of prepayment. Projected monthly cash flows were then discounted to acquisition date value using a risk-adjusted market rate for similar loans. To estimate the fair value of the remaining loans, the underlying collateral for the loans was analyzed assuming the fair values of the loans were derived from the eventual sale of the collateral. The value of the collateral was based upon recent appraisals. Those values were discounted using market-derived rates of return, with consideration given to the period of time and costs associated with the foreclosure and disposition of the collateral. The MoreBank allowance for loan losses was not included in the Bank’s accounting for this transaction as the loans were recorded at their fair values.

The Bank acquired loans with evidence of deterioration of credit quality since origination for which it was probable, at the time of the acquisition, that the Bank would be unable to collect all contractually required payments due. In accordance with the “*Loans and Debt Securities Acquired with Deteriorating Credit Quality*” section of FASB ASC 310 “*Receivables*,” the Bank recorded a non-accretable, credit-related discount, which is defined as the loans’ contractually required payments receivable in excess of the amount of their cash flows expected to be collected. The Bank considered factors such as payment history, collateral values, and accrual status when determining whether there was evidence of deterioration of a loan’s credit quality at the acquisition date.

The Bank assumed transaction account deposits, time deposits and borrowings as part of the MoreBank acquisition. The fair value of these items was calculated by discounting the contractual rates and maturities using market rates for instruments with similar terms and maturities at the acquisition date.

Acquisition-related costs amounted to approximately \$155,000 and are presented in professional fees within the statements of operations. Valuation of MoreBank options and their replacement Bank options were shown to be equal, and, accordingly, no amounts were recorded to post-combination earnings.

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

The Bank of Princeton

Notes to Financial Statements

December 31, 2010 and 2009

Note 2 - Business Combinations (continued)

The following table summarizes the estimated fair value of the assets acquired and liabilities assumed as of the date of the acquisition:

Assets:	
Cash and cash equivalents	\$ 11,028,338
Securities available for sale	11,168,980
Loans, net	49,151,828
Premises and equipment, net	779,677
Core deposit intangible	551,409
Other assets	<u>2,907,609</u>
Total assets acquired	<u>75,587,841</u>
Liabilities:	
Deposits	63,524,943
Borrowings	5,283,114
Other liabilities	<u>162,880</u>
Total liabilities assumed	<u>68,970,937</u>
Net assets acquired	<u><u>\$ 6,616,904</u></u>

The following summarizes the unaudited pro forma results of operations for the year ended December 31, 2010, as if the Bank acquired MoreBank on January 1, 2010. The pro forma results for 2010 include merger costs, net of tax, of approximately \$80,000, or \$0.02 per diluted share.

Net interest income before provision for loan losses	\$ 13,042,000
Net income	\$ 1,936,000
Earnings-per-share – basic	\$ 0.58
Earnings-per-share – diluted	\$ 0.57

The Bank of Princeton

Notes to Financial Statements

December 31, 2010 and 2009

Note 3 - Securities

The amortized cost and approximate fair value of securities are summarized as follows:

	<u>Amortized cost</u>	<u>Gross Unrealized gains</u>	<u>Gross Unrealized losses</u>	<u>Fair value</u>
December 31, 2010:				
Securities available for sale:				
U.S. Treasury securities	\$ 3,745,854	\$ 17,321	\$ (9,275)	\$ 3,753,900
U.S. government agency securities	15,052,195	35,358	(45,493)	15,042,060
Residential mortgage-backed securities:				
U.S. government-sponsored	108,935,548	1,734,697	(550,308)	110,119,937
Obligations of state and political subdivisions	28,383,218	24,674	(665,653)	27,742,239
Corporate securities	2,954,839	7,721	(20,080)	2,942,480
	<u>\$ 159,071,654</u>	<u>\$ 1,819,771</u>	<u>\$ (1,290,809)</u>	<u>\$ 159,600,616</u>
Securities held to maturity:				
Mortgage-backed securities:				
U.S. government-sponsored	<u>\$ 1,394,188</u>	<u>\$ 59,865</u>	<u>\$ -</u>	<u>\$ 1,454,053</u>
December 31, 2009:				
Securities available for sale:				
U.S. government agency securities	\$ 2,500,972	\$ 11,193	\$ (14,060)	\$ 2,498,105
Residential mortgage-backed securities:				
U.S. government-sponsored	64,368,484	1,600,364	(86,999)	65,881,849
Corporate securities	1,936,973	106,320	-	2,043,293
	<u>\$ 68,806,429</u>	<u>\$ 1,717,877</u>	<u>\$ (101,059)</u>	<u>\$ 70,423,247</u>
Securities held to maturity:				
U.S. government agency securities	\$ 6,007,923	\$ 22,077	\$ (40,310)	\$ 5,989,690
Residential mortgage-backed securities:				
U.S. government-sponsored	2,162,190	38,163	-	2,200,353
Obligations of state and political subdivisions	500,602	5,989	-	506,591
	<u>\$ 8,670,715</u>	<u>\$ 66,229</u>	<u>\$ (40,310)</u>	<u>\$ 8,696,634</u>

The Bank of Princeton

Notes to Financial Statements

December 31, 2010 and 2009

Note 3 - Securities (continued)

The Bank had 88 securities available for sale in an unrealized loss position as of December 31, 2010, consisting of one U.S Treasury security with a fair value of \$1,881,720; four U.S. government agency securities with an aggregate fair value of \$4,920,597; 37 U.S. government-sponsored mortgage-backed securities and with an aggregate fair value of \$46,576,542; 44 obligations of state and political subdivisions with an aggregate fair value of \$23,265,972; and two corporate securities with an aggregate fair value of \$1,979,920. All had been in an unrealized loss position for less than 12 months at December 31, 2010.

The unrealized losses on the investments in U.S. government obligations and U.S. government agency securities were caused by interest rate increases. The contractual terms of these investments do not permit the issuer to settle the securities at a price less than the amortized cost bases of the investments. The Bank does not intend to sell these investments and it is not more likely than not that it will be required to sell these investments before recovery of their amortized costs bases; therefore, they are not deemed to be other-than-temporarily impaired.

The unrealized losses on the U.S government-sponsored mortgage-backed securities were caused by interest rate increases. The Bank purchased these investments at a discount relative to their face amount, and the contractual cash flows of these investments are guaranteed by an agency of the U.S. government. Accordingly, it is expected that the securities would not be settled at a price less than the amortized cost bases of the Bank's investments. Because the decline in market value is attributable to changes in interest rates and not credit quality, and because the Bank does not intend to sell the investments and it is not more likely than not that the Bank will be required to sell the investments before recovery of their amortized cost bases, the Bank does not consider these investments to be other-than-temporarily impaired.

The unrealized losses on the obligations of state and political subdivisions were caused by interest rate increases. The Bank purchased these investments at a discount relative to their face amount, and the contractual cash flows of these investments, which are primarily general obligation bonds of the issuers, are buoyed by the broad taxing authority of those issuers. Accordingly, it is expected that the securities would not be settled at a price less than the amortized cost bases of the Bank's investments. Because the decline in market value is attributable to changes in interest rates and not credit quality, and because the Bank does not intend to sell the investments and it is not more likely than not that the Bank will be required to sell the investments before recovery of their amortized cost bases, the Bank does not consider these investments to be other-than-temporarily impaired.

The unrealized losses on the corporate securities were caused by interest rate increases. The Bank purchased these investments at a discount relative to their face amount. It is expected that the securities would not be settled at a price less than the amortized cost bases of the Bank's investments. Because the decline in market value is attributable to changes in interest rates and not credit quality, and because the Bank does not intend to sell the investments and it is not more likely than not that the Bank will be required to sell the investments before recovery of their amortized cost bases, the Bank does not consider these investments to be other-than-temporarily impaired.

The Bank of Princeton

Notes to Financial Statements

December 31, 2010 and 2009

Note 3 – Securities (continued)

There were 12 securities in an unrealized loss position as of December 31, 2009, consisting of one U.S. government agency security available for sale with a fair value of \$985,940; eight U.S. government-sponsored mortgage-backed securities available for sale with an aggregate fair value of \$8,251,648; and three U.S. government agency securities held to maturity with an aggregate fair value of \$2,959,690. All were in an unrealized loss position for less than 12 months at December 31, 2009.

The amortized cost and fair value of securities as of December 31, 2010, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because the securities may be called without any penalties.

	Available for sale		Held to maturity	
	Amortized cost	Fair value	Amortized cost	Fair value
Due in one year or less	\$ 535,550	\$ 535,550	\$ -	\$ -
Due after one year through five years	17,816,335	17,806,104	-	-
Due after five years through ten years	13,161,814	12,930,350	-	-
Due after ten years	18,622,407	18,208,675	-	-
Mortgage-backed securities	108,935,548	110,119,937	1,394,188	1,454,053
	<u>\$ 159,071,654</u>	<u>\$ 159,600,616</u>	<u>\$ 1,394,188</u>	<u>\$ 1,454,053</u>

During 2010, the Bank sold 34 securities available for sale for total proceeds of \$32,430,563, resulting in gross realized gains of \$1,229,088. During 2009, the Bank sold securities available for sale for total proceeds of \$8,934,654, resulting in gross realized gains of \$413,259.

At December 31, 2010 and 2009, U.S. government agency, U.S. government-sponsored mortgage-backed securities of \$88,792,988 were pledged by the Bank to the Commissioner of Banking, State of New Jersey, for the purpose of securing public deposits under the Governmental Unit Deposit Protection Act. At December 31, 2010 and 2009, residential first-lien mortgage loans, residential second-lien mortgage loans, U.S. government-sponsored mortgage-backed securities of \$44,495,548 were pledged by the Bank to the FHLB-NY as collateral for long-term and short-term borrowings. At December 31, 2010, U.S. government-sponsored mortgage-backed securities of \$5,780,317 were pledged by the Bank to the FHLB-Pittsburgh as collateral for long-term and short-term borrowings. In addition, at December 31, 2010 and 2009, U.S. government-sponsored mortgage-backed securities of \$1,956,778 were pledged by the Bank to the FHLB-NY as collateral for the Bank's business sweep accounts held at the FHLB-NY.

The Bank of Princeton

Notes to Financial Statements

December 31, 2010 and 2009

Note 4 - Loans

The components of loans receivable at December 31 were as follows:

	2010	2009
Commercial real estate	\$ 166,472,102	\$ 89,959,353
Commercial and industrial	60,768,227	31,670,986
Construction	25,970,065	23,272,903
Residential first-lien mortgage	11,869,889	15,342,860
Residential second-lien mortgage	19,284,480	13,681,219
Consumer	1,441,365	1,047,871
Total loans	285,806,128	174,975,192
Deferred fees	(539,895)	(318,304)
Allowance for loan losses	(3,693,369)	(2,146,776)
Loans, net	<u>\$ 281,572,864</u>	<u>\$ 172,510,112</u>

Allowance for Possible Loan Losses

The allowance for loan losses is a reserve established through a provision for loan losses that is charged against earnings and represents the Bank's best estimate of probable losses in the loan portfolio at the balance sheet date. The allowance is necessary to reserve for estimated loan losses and risks inherent in the loan portfolio. The methodology is based on historical loss experience by type of credit and internal risk grade, specific homogeneous risk pools and specific loss allocations, with adjustments for current events and conditions.

The Bank's process for determining the appropriate level of the allowance for loan losses is designed to account for credit deterioration as it occurs. The provision for loan losses reflects loan quality trends, including the levels of and trends related to nonaccrual loans, past-due loans, potential problem loans, criticized loans and net charge-offs or recoveries, among other factors.

The amount of the provision reflects not only the necessary increases in the allowance for loan losses related to newly identified credit deterioration in the loan portfolio, but also reflects any necessary increases or decreases in required allowances for specific loans or loan pools. The level of the allowance reflects the Bank's continuing evaluation of industry concentrations, specific credit risks, loan loss experience, current loan portfolio quality, present economic, political and regulatory conditions and unidentified losses inherent in the current loan portfolio. Portions of the allowance may be allocated for specific credits; however, the entire allowance is available for any credit that, in the Bank's judgment, should be charged off.

While the Bank utilizes its best judgment based on currently available information, the ultimate adequacy of the allowance for loan losses is dependent upon a variety of factors beyond the Bank's control, including, among other things, the performance of the loan portfolio, the economy, changes in interest rates and the view of the regulatory authorities toward loan classifications.

The Bank of Princeton

Notes to Financial Statements

December 31, 2010 and 2009

Note 4 - Loans (continued)

The Bank's allowance for loan losses consists of three elements:

- (i) specific valuation allowances based on probable losses on specific loans;
- (ii) historical valuation allowances based on historical loan loss experience for similar loans with similar characteristics and trends, adjusted, as necessary, to reflect the impact of current conditions; and
- (iii) general valuation allowances based on general economic conditions and other qualitative risk factors, both internal and external.

The allowances established for probable losses on specific loans are based on a regular analysis and evaluation of problem loans. Loans are classified based on an internal credit risk grading process that evaluates, among other things: (i) a borrower's ability to repay a loan; (ii) the underlying collateral on a loan, if any; and (iii) the economic environment and industry in which the borrower operates. This analysis is performed for all commercial loans. When a loan has a calculated grade of 7 or higher, the Bank analyzes the loan to determine whether the loan is impaired and, if impaired, the need to specifically allocate a portion of the allowance for loan losses to the loan. Specific valuation allowances are determined by analyzing a borrower's ability to repay amounts owed, collateral deficiencies, the relative risk grade of the loan and economic conditions affecting a borrower's industry, among other things.

The following table details activity in the allowance for loan losses by portfolio segment for the year ended December 31, 2010. Allocation of a portion of the allowance to one category of loans does not preclude its availability to absorb losses in other categories.

The Bank of Princeton

Notes to Financial Statements

December 31, 2010 and 2009

Note 4 - Loans (continued)

	Commercial real estate	Commercial and industrial	Construction	Residential first-lien mortgage	Residential second-lien mortgage	Consumer	Unallocated	Total
Allowance for loan losses:								
Beginning balance	\$ 899,592	\$ 562,364	\$ 349,094	\$ 154,434	\$ 171,015	\$ 10,277	\$ -	\$ 2,146,776
Provisions	1,833,529	601,400	562,121	(76,185)	59,723	(1,673)	322,193	3,301,108
Charge-offs	(1,250,000)	(445,853)	(7,387)	-	(52,055)	-	-	(1,755,295)
Recoveries	780	-	-	-	-	-	-	780
Ending balance	<u>\$ 1,483,901</u>	<u>\$ 717,911</u>	<u>\$ 903,828</u>	<u>\$ 78,249</u>	<u>\$ 178,683</u>	<u>\$ 8,604</u>	<u>\$ 322,193</u>	<u>\$ 3,693,369</u>
Ending balance:								
Individually evaluated for impairment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Collectively evaluated for impairment	1,483,901	717,911	903,828	78,249	178,683	8,604	322,193	3,693,369
Loans acquired with deteriorated credit quality*	86,405	35,116	-	-	13,466	-	-	134,987
Total	<u>\$ 1,570,306</u>	<u>\$ 753,027</u>	<u>\$ 903,828</u>	<u>\$ 78,249</u>	<u>\$ 192,149</u>	<u>\$ 8,604</u>	<u>\$ 322,193</u>	<u>\$ 3,828,356</u>
Loans:								
Ending balance:								
Individually evaluated for impairment	\$ 4,913,794	\$ 1,395,182	\$ 1,991,048	\$ -	\$ 508,264	\$ -	\$ -	\$ 8,808,288
Collectively evaluated for impairment	160,604,975	58,985,599	23,979,017	11,869,889	18,627,645	1,441,365	-	275,508,490
Loans acquired with deteriorated credit quality	953,333	387,446	-	-	148,571	-	-	1,489,350
Ending balance	<u>\$ 166,472,102</u>	<u>\$ 60,768,227</u>	<u>\$ 25,970,065</u>	<u>\$ 11,869,889</u>	<u>\$ 19,284,480</u>	<u>\$ 1,441,365</u>	<u>\$ -</u>	<u>\$ 285,806,128</u>

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

The following is an analysis of the allowance for loan losses for the year ended December 31, 2009:

Beginning balance	\$ 1,092,258
Provision for loan losses	1,203,583
Charge-offs	(149,065)
Recoveries	-
Ending balance	<u>\$ 2,146,776</u>

The Bank of Princeton

Notes to Financial Statements

December 31, 2010 and 2009

Note 4 - Loans (continued)

A loan is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect all amounts due from the borrower in accordance with the contractual terms of the loan. Impaired loans include nonperforming commercial loans but also include loans modified in troubled debt restructurings where concessions have been granted to borrowers experiencing financial difficulties. These concessions could include a reduction in the interest rate on the loan, payment extensions, forgiveness of principal, forbearance or other actions intended to maximize collection.

The following table summarizes information on impaired loans by loan portfolio class as of December 31, 2010. There were no impaired loans for which a related allowance was necessary at December 31, 2010.

	Unpaid principal balance	Recorded investment	Related allowance	Average recorded investment	Interest income recognized
Commercial real estate	\$ 7,941,347	\$ 5,867,127	\$ -	\$ 6,796,824	\$ -
Commercial and industrial	2,961,280	1,782,628	-	3,003,329	-
Construction	1,998,435	1,991,048	-	1,991,048	-
Residential first-lien mortgage	-	-	-	-	-
Residential second-lien mortgage	720,235	656,835	-	715,393	-
Consumer	-	-	-	-	-
	<u>\$ 13,621,297</u>	<u>\$ 10,297,638</u>	<u>\$ -</u>	<u>\$ 12,506,594</u>	<u>\$ -</u>

Impaired loans include \$1,489,350 of loans, net of credit marks of \$134,987, which were acquired in the MoreBank acquisition.

The total recorded investment in impaired loans consisted of nonaccrual loans totaling \$2,313,239 as of December 31, 2009. The recorded investment in impaired loans not requiring an allowance for loan losses was \$2,083,622 at December 31, 2009. The recorded investment in impaired loans requiring an allowance for loan losses at December 31, 2009 was \$229,617 and the related allowance for loan losses was \$141,417. At December 31, 2009, included in impaired loans is an \$885,481 loan classified as a troubled debt restructuring. In addition to this amount, the Bank had troubled debt restructurings that were performing in accordance with their modified terms of \$3,991,827 at December 31, 2009.

At December 31, 2010, the Bank had nine loans totaling \$6,012,239 that were considered troubled debt restructurings and classified as impaired. Troubled debt restructurings of \$3,788,304 were performing in accordance with their modified terms at December 31, 2010. The remaining \$2,223,935 of troubled debt restructurings were on nonaccrual status at December 31, 2010.

The Bank of Princeton

Notes to Financial Statements

December 31, 2010 and 2009

Note 4 - Loans (continued)

The Bank recognizes income on impaired loans under the cash basis when the collateral on the loan is sufficient to cover the outstanding obligation to the Bank. Interest income that would have been recognized on these loans, had they been current in accordance with their original terms, totaled approximately \$407,000 for the year ended December 31, 2010. During 2009, interest income that would have been recognized on impaired loans had they been current in accordance with their original terms totaled approximately \$312,000. The amount of interest income that was actually recorded during 2009 with respect to such loans amounted to approximately \$154,000.

Nonaccrual and past-due loans

Loans are considered past-due if the required principal and interest payments have not been received as of the date such payments were due. Loans are placed on nonaccrual status at 90 days past-due, or when, in the Bank's opinion, the borrower may be unable to meet payment obligations as they become due, as well as when required by regulatory provisions. Loans may be placed on nonaccrual status regardless of whether or not such loans are considered past-due. At the time that 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 generally is either applied against principal or reported as interest income, according to management's judgment as to the collectibility 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 and the ultimate collectibility of the total contractual principal and interest is no longer in doubt.

The following table presents nonaccrual loans at December 31, 2010, segregated by loan portfolio class:

	<u>2010</u>
Commercial real estate	\$ 3,487,766
Commercial and industrial	1,782,628
Construction	-
Residential first-lien mortgage	-
Residential second-lien mortgage	275,821
Consumer	<u>-</u>
Total	<u><u>\$ 5,546,215</u></u>

The Bank of Princeton

Notes to Financial Statements

December 31, 2010 and 2009

Note 4 - Loans (continued)

The following table presents an aging analysis of past-due loans as of December 31, 2010, segregated by loan portfolio class:

	30-59 days past due	60-89 days past due	> than 90 days	Total past due	Current	Total loans receivables	Loans receivable > 90 days and accruing
Commercial real estate	\$ 1,689,605	\$ 1,915,890	\$ 2,174,642	\$ 5,780,137	\$160,691,965	\$166,472,102	\$ -
Commercial and industrial	460,157	-	1,679,762	2,139,919	58,628,308	60,768,227	-
Construction	323,188	-	-	323,188	25,646,877	25,970,065	-
Residential first-lien mortgage	-	-	-	-	11,869,889	11,869,889	-
Residential second-lien mortgage	-	160,873	127,250	288,123	18,996,357	19,284,480	-
Consumer	-	-	-	-	1,441,365	1,441,365	-
Total	<u>\$ 2,472,950</u>	<u>\$ 2,076,763</u>	<u>\$ 3,981,654</u>	<u>\$ 8,531,367</u>	<u>\$277,274,761</u>	<u>\$285,806,128</u>	<u>\$ -</u>

There were no loans past-due 90 days or more still accruing interest at December 31, 2009.

Credit quality indicators

As part of the on-going monitoring of the credit quality of the loan portfolio, the Bank tracks certain credit quality indicators including trends related to (i) the weighted-average risk grade of commercial loans, (ii) the level of classified commercial loans, (iii) net charge-offs and (iv) non-performing loans (see details above). The Bank utilizes a risk grading matrix to assign a risk grade to each of its commercial loans. Loans are graded on a scale of 1 to 8. A description of the general characteristics of the 8 risk grades is as follows:

Grade 1 - This grade includes “pass” loans to very high credit-quality borrowers. The borrowers in this grade generally have significant capital strength, moderate leverage and readily available financing alternatives.

Grades 2 to 4 - These grades include “pass” loans to borrowers of solid credit quality with moderate risk. The borrowers in these grades are differentiated from borrowers in grade 1 on the basis of size (capital and/or revenue), leverage, asset quality and the stability of the industry or market area.

Grade 5 - This grade includes “pass” loans to borrowers of acceptable credit quality and risk. The borrowers in this grade are differentiated from grades 1 to 4 in terms of size, secondary sources of repayment and/or lesser stature in other key credit metrics.

Grade 6 - This grade includes “special mention” loans in accordance with regulatory guidelines. This grade is intended to be temporary, and includes loans to borrowers whose credit quality has clearly deteriorated and are at risk of further decline unless active measures are taken to correct the situation.

The Bank of Princeton

Notes to Financial Statements

December 31, 2010 and 2009

Note 4 - Loans (continued)

Grade 7 - This grade includes “substandard” loans in accordance with regulatory guidelines. A “substandard” loan is defined as having particular weaknesses which make payment default or principal exposure likely but not yet certain. Such loans are usually dependent upon collateral liquidation, a secondary source of repayment or an event outside of the normal course of business.

Grade 8 - This grade includes “doubtful” loans in accordance with regulatory guidelines. These loans are placed on nonaccrual status and may be dependent upon collateral having a value that is difficult to determine or upon some near-term event which lacks certainty.

Grade 9 - This grade includes “loss” loans in accordance with regulatory guidelines. These loans are to be charged-off or charged-down when payment is acknowledged to be uncertain or when the timing or value of payments cannot be determined. “Loss” is not intended to imply that the entire loan or some portion of the loan will never be paid, nor does it in any way imply that there has been a forgiveness of debt. There were no loans rated loss at December 31, 2010.

The following table presents weighted-average risk grades and classified loans by loan portfolio class at December 31, 2010. Classified loans include loans in risk grades 7 (substandard) and 8 (doubtful).

	<u>Pass</u>	<u>Special mention</u>	<u>Substandard</u>	<u>Doubtful</u>	<u>Total</u>
Commercial real estate	\$ 160,368,904	\$ -	\$ 5,985,570	\$ 117,628	\$ 166,472,102
Commercial and industrial	57,203,731	1,557,894	2,006,602	-	60,768,227
Construction	22,457,832	-	3,512,233	-	25,970,065
Residential first-lien mortgage	11,869,889	-	-	-	11,869,889
Residential second-lien mortgage	18,768,108	79,678	436,694	-	19,284,480
Consumer	1,441,365	-	-	-	1,441,365
Total	<u>\$ 272,109,829</u>	<u>\$ 1,637,572</u>	<u>\$ 11,941,099</u>	<u>\$ 117,628</u>	<u>\$ 285,806,128</u>

The Bank of Princeton

Notes to Financial Statements

December 31, 2010 and 2009

Note 5 - Premises and Equipment

The components of premises and equipment at December 31 were as follows:

	Estimated useful lives	2010	2009
Leasehold improvements	10 Yrs.	\$ 2,126,556	\$ 1,451,557
Furniture, fixtures and equipment	3-7 Yrs.	1,678,208	1,269,246
Construction in progress		<u>1,544,470</u>	<u>2,896</u>
		5,349,234	2,723,699
Accumulated depreciation and amortization		<u>(1,195,956)</u>	<u>(716,194)</u>
Premises and equipment, net		<u>\$ 4,153,278</u>	<u>\$ 2,007,505</u>

Depreciation and amortization expense charged to operations amounted to \$479,761 and \$371,025 for the years ended December 31, 2010 and 2009, respectively.

Construction in progress represents costs for acquisition and fit-out of new branches. Total commitments for these purposes at December 31, 2010 were \$620,000.

Note 6 - Accrued Interest Receivable and Other Assets

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

	2010	2009
Accrued interest receivable	\$ 1,970,690	\$ 1,037,209
Deferred tax asset	3,165,739	-
Restricted investments in bank stocks	1,422,200	948,000
Prepaid assets and other assets	<u>2,184,144</u>	<u>1,532,951</u>
	<u>\$ 8,742,773</u>	<u>\$ 3,518,160</u>

The Bank of Princeton

Notes to Financial Statements

December 31, 2010 and 2009

Note 7 - Deposits

The components of deposits at December 31 were as follows:

	<u>2010</u>	<u>2009</u>
Demand, non-interest-bearing	\$ 30,669,037	\$ 16,576,817
Demand, interest-bearing and savings	159,474,898	65,285,222
Money market	100,626,289	77,004,979
Time deposits, \$100,000 and over	57,642,614	23,336,364
Time deposits, other	<u>77,400,187</u>	<u>36,424,971</u>
Total deposits	<u>\$ 425,813,025</u>	<u>\$ 218,628,353</u>

At December 31, 2010, the scheduled maturities of time deposits were as follows:

2011	\$ 62,688,335
2012	35,977,510
2013	6,108,281
2014	21,091,946
2015	<u>9,176,729</u>
	<u>\$ 135,042,801</u>

The Bank of Princeton

Notes to Financial Statements

December 31, 2010 and 2009

Note 8 - Borrowings

The following table is a schedule of the Bank's long-term debt as of December 31, 2010 and 2009, consisting of FHLB-NY and FHLB-Pittsburgh amortizing fixed-rate long-term advances by maturities:

Rate at December 31, 2010	Maturity	2010	2009
1.60%	8/8/2011	\$ 702,083	\$ -
2.34%	12/19/2011	1,470,644	-
1.93%	5/14/2012	1,023,061	-
1.82%	8/28/2012	1,769,860	2,756,204
1.66%	10/15/2012	1,289,232	1,945,778
2.61%	6/3/2013	1,032,235	-
2.23%	8/28/2013	2,091,055	2,820,230
2.05%	10/15/2013	1,474,410	1,959,983
2.70%	7/23/2014	1,492,753	1,874,893
3.30%	8/6/2014	1,033,678	-
2.61%	8/28/2014	3,048,341	3,812,141
2.40%	10/14/2014	1,586,779	1,968,594
		<u>\$ 18,014,131</u>	<u>\$ 17,137,823</u>

Maturities of long-term debt in years subsequent to December 31, 2010 are as follows:

2011	\$ 6,743,942
2012	5,311,545
2013	3,709,760
2014	<u>2,248,884</u>
	<u>\$ 18,014,131</u>

At December 31, 2010, federal funds purchased were \$1,044,000. There were no amounts outstanding at December 31, 2009.

At December 31, 2010, the Bank had federal funds available for purchase with the ACBB of \$6,000,000 at interest rates that adjust daily.

At December 31, 2010, the Bank also had \$244,381,500 of borrowing capacity with the FHLB-NY that is based upon collateral available at that date.

The Bank of Princeton

Notes to Financial Statements

December 31, 2010 and 2009

Note 9 - Accrued Interest Payable and Other Liabilities

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

	<u>2010</u>	<u>2009</u>
Accrued interest payable	\$ 1,092,169	\$ 627,264
Accrued expenses and other liabilities	<u>1,334,888</u>	<u>377,283</u>
	<u>\$ 2,427,057</u>	<u>\$ 1,004,547</u>

Note 10 - Financial Instruments with Off-Balance Sheet Risk

The Bank is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized on the balance sheet. The contract, or notional, amounts of those instruments reflect the extent of involvement the Bank has in particular classes of financial instruments.

The Bank's exposure to credit loss in the event of nonperformance by the other party (the "counterparty") to the financial instrument for commitments to extend credit and standby letters of credit written is represented by the contractual notional amount of those instruments. The Bank uses the same credit policies in making commitments and conditional obligations as they do for on-balance-sheet instruments.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee by the counterparty. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements.

The Bank evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation of the counterparty. Collateral held varies, but primarily includes residential and income-producing real estate.

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

	<u>2010</u>	<u>2009</u>
Performance and standby letters of credit	\$ 2,550,345	\$ 7,945,909
Commitments to grant loans	57,473,806	3,596,294
Unfunded commitments under lines of credit	<u>8,083,948</u>	<u>34,660,520</u>
	<u>\$ 68,108,099</u>	<u>\$ 46,202,723</u>

The Bank of Princeton

Notes to Financial Statements

December 31, 2010 and 2009

Note 11 - Commitments and Contingencies

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

2011	\$	877,417
2012		873,743
2013		840,451
2014		858,479
2015		840,395
Thereafter		<u>1,601,256</u>
	\$	<u>5,891,741</u>

Rental expense for the years ended December 31, 2010 and 2009 was \$748,272 and \$618,945, respectively.

The Bank has an operating lease agreement with a related party for its corporate headquarters and a branch. The lease terms were comparable to similarly outfitted office space in the Bank's market. The Bank is also required to pay a monthly fee for certain operating expenses, including real estate taxes, insurance, utilities, maintenance and repairs, in addition to the base rent. Rental expense to this related party for the years ended December 31, 2010 and 2009 was approximately \$284,000 in each year.

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

The Bank of Princeton

Notes to Financial Statements

December 31, 2010 and 2009

Note 12 - Income Taxes

The components of income tax expense (benefit) at December 31 were as follows:

	<u>2010</u>	<u>2009</u>
Current:		
Federal	\$ 38,326	\$ -
State	<u>29,212</u>	<u>-</u>
Total current	<u>67,538</u>	<u>-</u>
Deferred:		
Federal	(83,444)	195,085
State	<u>(35,692)</u>	<u>56,638</u>
Total deferred	<u>(119,136)</u>	<u>251,723</u>
Reversal of valuation allowance	<u>(1,436,646)</u>	<u>(251,723)</u>
Total income taxes applicable to pre-tax income	<u><u>\$ (1,488,244)</u></u>	<u><u>\$ -</u></u>

There was no provision for income taxes for the year ended December 31, 2009 due to net operating losses incurred.

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

	<u>2010</u>	<u>2009</u>
Federal income tax expense at statutory rate	\$ 305,593	\$ 140,320
Increases (reductions) in taxes resulting from:		
State income taxes, net of federal benefit	42,837	-
Tax-exempt income, net	(61,223)	(5,554)
Non-deductible expenses	105,123	86,908
Gain on acquisition	(344,922)	-
Decrease in valuation allowance	(1,436,646)	(251,723)
Other	<u>(99,006)</u>	<u>30,049</u>
Total	<u><u>\$ (1,488,244)</u></u>	<u><u>\$ -</u></u>

The Bank of Princeton

Notes to Financial Statements

December 31, 2010 and 2009

Note 12 - Income Taxes (continued)

The components of the net deferred tax liability at December 31 were as follows:

	<u>2010</u>	<u>2009</u>
Deferred tax assets:		
Allowance for loan losses	\$ 1,241,080	\$ 803,158
Net operating loss carry-forwards	1,586,820	729,659
Acquisition accounting adjustments	424,810	-
Organizational costs	367,420	354,864
Organizer warrants	-	109,656
Other	270,076	61,469
	<u>3,890,206</u>	<u>2,058,806</u>
Valuation allowance	<u>-</u>	<u>(1,436,646)</u>
Total deferred tax assets, net of valuation allowance	<u>3,890,206</u>	<u>622,160</u>
Deferred tax liabilities:		
Premises and equipment	(52,300)	(97,626)
Cash basis conversions	(269,780)	(375,767)
Unrealized gains on securities	(179,847)	(549,718)
Deferred loan costs	(222,530)	(98,836)
Discount accretion	(10)	(49,931)
	<u>(724,467)</u>	<u>(1,171,878)</u>
Net deferred tax asset (liability)	<u>\$ 3,165,739</u>	<u>\$ (549,718)</u>

At December 31, 2010, the Bank had available federal net operating loss carryforwards of approximately \$4,600,000, which expire between 2028 and 2030. There are currently no state net operating loss carryforwards available. Included in the net operating loss carryforwards are amounts that were generated by MoreBank, which the Bank acquired on September 30, 2010. These net operating losses are subject to an annual Internal Revenue Code Section 382 limitation of approximately \$220,000.

Based on projections of future taxable income over periods in which the deferred tax assets are deductible, management believes it is more likely than not that the Bank will realize the benefits of these deductible differences.

As a result of the acquisition of MoreBank, the Bank acquired net deferred tax assets of approximately \$1,800,000.

The Bank of Princeton

Notes to Financial Statements

December 31, 2010 and 2009

Note 13 - Share-Based Compensation

Organizers of the Bank were issued a total of 97,500 Organizer warrants for their efforts during the organization and start-up of the Bank. These warrants are immediately exercisable, expire in 10 years and will enable the warrant holder to purchase one (1) share of common stock at \$10.00 per share for each warrant exercised. All 97,500 Organizer warrants were outstanding at December 31, 2010 and 2009.

In 2007, the Bank adopted the 2007 Stock Option Plan (the “2007 Plan”), which was approved by the Board of Directors in August 2007 and by the 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. Incentive Stock Options are subject to limitations under Section 422 of the Internal Revenue Code. The Bank has reserved, for the purposes of the 2007 Plan, out of its authorized and unissued shares, such number of shares. The 2007 Plan will terminate ten years from the date of stockholder approval.

In accordance with the 2007 Plan, options may not be granted with an exercise price that is less than 100% of the fair market value of the Bank’s common stock on the date of grant. Options may not be granted with a term longer than 10 years. However, any Incentive Stock Option granted to any employee who, at the time such option is granted, owns more than 10% of the voting power of all classes of shares of the Bank, its parent or of a subsidiary may not have a term of more than five years. Options will vest and be exercisable at such time or times and subject to such terms and conditions as determined by the Board of Directors. Generally, options will vest over an initial term no shorter than three (3) years and includes an immediate vested amount and equal annual vesting amounts thereafter over the vesting term.

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

	2010	2009
Expected life	7 years	7 years
Expected volatility	24.57%	25.95%
Forfeiture rate	18.36%	0.00%
Dividend yield	0.00%	0.00%
Risk-free interest rate	2.52%	2.74%

The Bank of Princeton

Notes to Financial Statements

December 31, 2010 and 2009

Note 13 - Share-Based Compensation (continued)

The following is a summary of the Bank's share-based compensation activity and related information for the years ended December 31, 2010 and 2009:

	<u>Warrants and options</u>	<u>Weighted average exercise price</u>	<u>Weighted average remaining contractual term</u>	<u>Aggregate intrinsic value</u>
December 31, 2010:				
Outstanding - beginning of year	255,183	\$ 10.14		
Options granted	93,833	\$ 11.56		
Options issued in acquisition	47,200	\$ 25.00		
Exercised	(50)	\$ 10.00		
Forfeited	(63,250)	\$ 10.12		
Outstanding - end of year	<u>332,916</u>	<u>\$ 12.66</u>	<u>7.4 years</u>	<u>\$ 735,910</u>
Options exercisable - end of year	<u>261,352</u>	<u>\$ 13.03</u>	<u>7.0 years</u>	<u>\$ 687,057</u>
Weighted-average fair value of options granted and issued during the year		<u>\$ 2.49</u>		
December 31, 2009:				
Outstanding - beginning of year	219,700	\$ 10.10		
Options granted	60,266	\$ 10.28		
Exercised	-	-		
Forfeited	(24,783)	\$ 10.00		
Outstanding - end of year	<u>255,183</u>	<u>\$ 10.14</u>	<u>8.4 years</u>	<u>\$ -</u>
Options exercisable - end of year	<u>67,535</u>	<u>\$ 10.00</u>	<u>8.8 years</u>	<u>\$ -</u>
Weighted-average fair value of options granted during the year		<u>\$ 3.38</u>		

Total share-based compensation expense for the years ended December 31, 2010 and 2009 was \$220,893 and \$231,917, respectively, which related to stock options only.

As of December 31, 2010, there was \$305,224 of unrecognized compensation cost related to non-vested stock options granted in 2010 and prior years. The cost is expected to be recognized on a graded vesting method over a weighted-average period of 2.3 years.

The Bank of Princeton

Notes to Financial Statements

December 31, 2010 and 2009

Note 14 - Stockholders' Equity

During 2007, the bank sold 3,000,000 shares of common stock at \$10.00 per share, which resulted in net proceeds of \$29,943,478 (after offering costs of \$56,522) under an initial stock offering of 1,200,000 to 2,500,000 shares. The Bank reserved the right, in their sole and absolute discretion, to increase the number of shares offered by 20% over the maximum. For every four (4) shares of common stock purchased in the offering, one (1) warrant to purchase one (1) additional share of the Bank's common stock at \$12.00 was issued. These warrants were exercisable at any time up to their expiration date of April 17, 2010, three years from the date of issuance.

There were 747,625 of these warrants outstanding at December 31, 2009. There were 464,565 and 2,375 warrants exercised during the years ended December 31, 2010 and 2009, respectively. There were 283,060 warrants that expired during the year ended December 31, 2010.

Note 15 - Employment Agreement

The Bank entered into employment agreements with certain employees. The term of the agreements is one year, with automatic, one-year renewals. The agreements include minimum annual salary commitments and for certain employees change of control provisions. Upon resignation after a change in the control of the Bank, as defined in the agreement, the individual will receive monetary compensation in the amount set forth in the agreements.

Note 16 - Transactions with Executive Officers, Directors and Principal Stockholders

The Bank has had, and may be expected to have in the future, banking transactions in the ordinary course of business with its executive officers, directors, principal stockholders, their immediate families and affiliated companies (commonly referred to as related parties), on the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with others. There were loans receivable from related parties in the amount of \$3,361,053 and \$3,452,020 at December 31, 2010 and 2009, respectively. Deposits of related parties totaled \$11,637,045 and \$2,695,694 as of December 31, 2010 and 2009, respectively.

During 2010, no loans to related parties were originated. During 2009, loans originated to related parties totaled \$125,000. During 2010 and 2009, principal repayments on loans to related parties were \$90,967 and \$46,798, respectively.

The Bank of Princeton

Notes to Financial Statements

December 31, 2010 and 2009

Note 17 - Regulatory Matters

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet the minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by the federal banking agencies that, if undertaken, could have a direct material effect on the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk-weightings and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth below) of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets and of Tier 1 capital to average assets. Management believes, as of December 31, 2010, that the Bank meets all capital adequacy requirements to which it is subject.

The Federal Deposit Insurance Corporation requires that the Bank maintain a ratio of Tier 1 leverage capital to total assets of at least 8% during the first three years of operation, which ended on April 16, 2010.

The Bank's actual capital amounts and ratios at December 31, 2010 and 2009 are presented below:

	Actual		For capital adequacy purposes		To be well capitalized under prompt corrective action provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2010:						
Total capital (to risk-weighted assets)	\$ 42,030	12.3%	\$ 27,292	≥ 8.0%	\$ 34,115	≥ 10.0%
Tier 1 capital (to risk-weighted assets)	\$ 38,336	11.2%	\$ 13,646	≥ 4.0%	\$ 20,649	≥ 6.0%
Tier 1 capital (to average assets)	\$ 38,336	7.9%	\$ 24,331	≥ 5.0%	\$ 38,930	≥ 8.0%
December 31, 2009:						
Total capital (to risk-weighted assets)	\$ 29,073	15.7%	\$ 14,864	≥ 8.0%	\$ 18,580	≥ 10.0%
Tier 1 capital (to risk-weighted assets)	\$ 26,926	14.5%	\$ 7,432	≥ 4.0%	\$ 11,148	≥ 6.0%
Tier 1 capital (to average assets)	\$ 26,926	10.0%	\$ 21,635	≥ 8.0%	\$ 21,635	≥ 8.0%

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

The New Jersey Department of Banking and Insurance, in issuing a charter to the Bank, required an allocation of its initial capital to a reserve for organization expenses of \$325,000 and a reserve for contingencies of \$1,625,000, both to defray anticipated initial losses. Accordingly, \$1,950,000 of the Bank's surplus is reserved for this purpose.

The Bank of Princeton

Notes to Financial Statements

December 31, 2010 and 2009

Note 18 - Fair Values of Financial Instruments

The Bank uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. In accordance with FASB ASC Topic 820, *Fair Value Measurements and Disclosures*, the fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Bank's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument.

The recent fair value guidance provides a consistent definition of fair value, which focuses on an exit price in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. If there has been a significant decrease in the volume and level of activity for the asset or liability, a change in valuation technique or the use of multiple valuation techniques may be appropriate. In such instances, determining the price at which willing market participants would transact at the measurement date under current market conditions depends on the facts and circumstances and requires the use of significant judgment. The fair value is a reasonable point within the range that is most representative of fair value under current market conditions.

In accordance with this guidance, the Bank groups its financial assets and financial liabilities measured at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. These levels are:

Level 1: Valuation is based on unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 1 assets and liabilities generally include debt and equity securities that are traded in an active exchange market. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2: Valuation is based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. The valuation may be based on quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the asset or liability.

Level 3: Valuation is based on unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which determination of fair value requires significant management judgment or estimation.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The Bank of Princeton

Notes to Financial Statements

December 31, 2010 and 2009

Note 18 - Fair Values of Financial Instruments (continued)

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

Cash and cash equivalents (carried at cost)

The carrying amounts reported in the balance sheets for cash and short-term instruments approximate those assets' fair values.

Securities

The fair value of securities available for sale (carried at fair value) and held to maturity (carried at amortized cost) are determined by obtaining quoted market prices on nationally recognized securities exchanges (Level 1), or matrix pricing (Level 2), which is a mathematical technique used widely in the industry to value debt securities without relying exclusively on quoted market prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted prices.

Loans (carried at cost)

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

Impaired loans (generally carried at fair value)

Impaired loans are those in which the Bank has measured impairment generally based on the fair value of the loan's collateral. Fair value is generally determined based upon independent third-party appraisals of the properties, or discounted cash flows based upon the expected proceeds. These assets are included as Level 3 fair values, based upon the lowest level of input that is significant to the fair value measurements. At December 31, 2009, the fair value consists of the loan balances of \$229,617 net of a valuation allowance of \$141,417. There were no impaired loans measured at fair value at December 31, 2010.

Other real estate owned

Real estate owned assets are adjusted to fair value less estimated selling costs upon transfer of a loan to real estate owned. Subsequently, real estate owned assets are carried at the lower of carrying value or fair value. Fair value is based upon independent market prices, appraised values of the collateral or management's estimation of the value of the collateral. These assets are included as Level 3 fair values.

Restricted investments in bank stocks (carried at cost)

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

Accrued interest receivable and accrued interest payable (carried at cost)

The carrying amounts of accrued interest receivable and accrued interest payable approximate fair value.

The Bank of Princeton

Notes to Financial Statements

December 31, 2010 and 2009

Note 18 - Fair Values of Financial Instruments (continued)

Deposits (carried at cost)

The fair values disclosed for demand deposits (e.g., interest and noninterest checking, passbook savings and money market accounts) are, by definition, equal to the amount payable on demand at the reporting date (i.e., their carrying amounts). Fair values for fixed-rate certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered in the market on certificates of deposit to a schedule of aggregated expected monthly maturities on time deposits.

Federal funds purchased (carried at cost)

The carrying amounts of federal funds purchased approximate fair value.

Borrowings (carried at cost)

Fair values of FHLB-NY and FHLB-Pittsburgh advances are estimated using discounted cash flow analysis, based on quoted prices for new FHLB-NY and FHLB-Pittsburgh advances with similar credit risk characteristics, terms and remaining maturity. These prices obtained from this active market represent a market value that is deemed to represent the transfer price if the liability were assumed by a third party.

Off-balance sheet financial instruments (disclosed at cost)

Fair values for the Bank's off-balance-sheet financial instruments, comprised of letters of credit, lending commitments and lines of credit, are based on fees currently charged in the market to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties' credit standing.

The Bank of Princeton

Notes to Financial Statements

December 31, 2010 and 2009

Note 18 - Fair Values of Financial Instruments (continued)

For assets measured at fair value on a recurring basis, the fair value measurements by level within the fair value hierarchy at December 31, 2010 and 2009 were as follows:

Description	Total	(Level 1) quoted prices in active markets for identical assets	(Level 2) Significant other observable inputs	(Level 3) Significant unobservable inputs
December 31, 2010:				
U.S. Treasury securities	\$ 3,753,900	\$ 3,753,900	\$ -	\$ -
U.S. government agency securities	15,042,060	-	15,042,060	-
Mortgage-backed securities:				
U.S. government-sponsored entity issue	110,119,937	-	110,119,937	-
Obligations of state and political subdivisions	27,742,239	-	27,742,239	-
Corporate securities	2,942,480	2,942,480	-	-
Securities available for sale	\$ 159,600,616	\$ 6,696,380	\$ 152,904,236	\$ -
December 31, 2009:				
U.S. government agency securities	\$ 2,498,105	\$ -	\$ 2,498,105	\$ -
Mortgage-backed securities:				
U.S. government-sponsored entity issue	65,881,849	-	65,881,849	-
Corporate securities	2,043,293	2,043,293	-	-
Securities available for sale	\$ 70,423,247	\$ 2,043,293	\$ 68,379,954	\$ -

Certain assets and liabilities are measured at fair value on a non-recurring basis; that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment).

The Bank of Princeton

Notes to Financial Statements

December 31, 2010 and 2009

Note 18 - Fair Values of Financial Instruments (continued)

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

Description	Total	(Level 1) quoted prices in active markets for identical assets	(Level 2) Significant other observable inputs	(Level 3) Significant unobservable inputs
December 31, 2010:				
Other real estate owned	\$ 1,140,000	\$ -	\$ -	\$ 1,140,000
December 31, 2009:				
Impaired loans	\$ 88,200	\$ -	\$ -	\$ 88,200
Other real estate owned	227,283	-	-	227,283
Total	\$ 315,483	\$ -	\$ -	\$ 315,483

The estimated fair values, and related carrying amounts, of the Bank's financial instruments at December 31, 2010 and 2009 were as follows:

	2010		2009	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets:				
Cash and cash equivalents	\$ 25,619,625	\$ 25,619,625	\$ 7,303,513	\$ 7,303,513
Securities available for sale	159,600,616	159,600,616	70,423,247	70,423,247
Securities held to maturity	1,394,188	1,454,053	8,670,715	8,696,634
Loans, net	281,572,864	285,001,994	172,510,112	174,729,529
Restricted investments in bank stocks	1,422,200	1,422,200	948,000	948,000
Accrued interest receivable	1,970,690	1,970,690	1,037,209	1,037,209
Financial liabilities:				
Deposits	425,813,025	422,724,000	218,628,353	217,972,468
Federal funds purchased	1,044,000	1,044,000	-	-
Borrowings	18,014,131	18,048,000	17,137,823	17,341,491
Accrued interest payable	1,092,169	1,092,169	627,264	627,264

The Bank of Princeton
Unaudited Balance Sheet
As of March 31, 2011

Assets

Cash and due from banks	\$ 14,866,842
Federal funds sold	<u>-</u>
Cash and cash equivalents	14,866,842
Securities available for sale	186,141,783
Securities held to maturity (fair value - \$1,453,493)	1,389,913
Loans, net of allowance for loan losses of \$3,839,369	301,752,077
Bank-owned life insurance	6,083,601
Other real estate owned	1,140,000
Premises and equipment, net	4,189,031
Accrued interest receivable and other assets	<u>7,939,369</u>
Total Assets	<u>\$ 523,502,616</u>

Liabilities and Stockholders' Equity

Liabilities

Deposits:

Non-interest-bearing	\$ 36,609,706
Interest-bearing	<u>426,134,845</u>
Total deposits	462,744,551

Borrowings	16,881,539
Accrued interest and other liabilities	<u>1,914,366</u>

Total Liabilities	<u>481,540,456</u>
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Stockholders' Equity

Common stock, \$5 par value; authorized 10,000,000 shares; issued and outstanding 3,952,185 shares	19,760,925
Paid-in capital	22,601,824
Accumulated deficit	(1,045,601)
Accumulated other comprehensive income	<u>645,012</u>

Total Stockholders' Equity	<u>41,962,160</u>
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Total Liabilities and Stockholders' Equity	<u>\$ 523,502,616</u>
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The Bank of Princeton
Unaudited Statement of Operations
For the three months ended March 31, 2011

Interest and Dividend Income

Loans and fees	\$ 4,592,194
Securities held to maturity	16,871
Securities available for sale	980,741
Other interest and dividend income	24,223

Total Interest and Dividends	5,614,029
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Interest expense

Deposits	1,599,648
Borrowings	77,229

Total Interest Expense	1,676,877
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Net Interest Income	3,937,152
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Provision for Loan Losses	128,000
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Net Interest Income after Provision for Loan Losses	3,809,152
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Non-Interest income

Gain on sale of securities available for sale	113,067
Other income	161,603

Total Non-Interest Income	274,670
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Non-Interest Expense

Salaries and employee benefits	1,681,321
Occupancy and equipment	561,935
Professional fees	127,226
Data processing and communications	326,665
Federal deposit insurance	146,795
Advertising and promotion	34,527
Office expense	48,871
Other	208,579

Total Non-Interest Expense	3,135,919
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Income before income tax expense	947,903
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Income tax expense	326,093
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Net Income	\$ 621,810
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Net income per common share - basic	\$ 0.16
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Net income per common share - diluted	\$ 0.16
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The Bank of Princeton
Unaudited Statement of Changes In Stockholders' Equity
For the three months ended March 31, 2011

	Common Stock	Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Total
Balance, December 31, 2010	\$ 19,760,925	\$ 22,514,824	\$ (1,667,411)	\$ 349,115	\$ 40,957,453
Comprehensive income:					
Net income for the three months ended March 31, 2011	-	-	621,810	-	621,810
Other comprehensive income, net of taxes:					
Unrealized gain on available for sale securities, net of income taxes of \$152,432	-	-	-	295,897	295,897
Total comprehensive income				<u>917,707</u>	
Stock-based compensation expense	-	87,000	-	-	87,000
Balance, March 31, 2011	\$ 19,760,925	\$ 22,601,824	\$ (1,045,601)	\$ 645,012	\$ 41,962,160

The Bank of Princeton
Unaudited Statement of Cash Flows
For the three months ended March 31, 2011

Cash Flows from Operating Activities:

Net income	\$ 621,810
Adjustments to reconcile net income to net cash provided by (used in) operating activities:	
Provision for loan losses	128,000
Depreciation and amortization	170,532
Share-based compensation	87,000
Amortization of premiums and accretion of discounts on investment securities	234,587
Accretion of net deferred loan fees and discounts	78,697
Amortization of premiums and accretion of discounts on deposits	58,903
Amortization of premiums on borrowings	(21,413)
Net realized gain on sale of securities available for sale	(113,067)
Increase in cash surrender value of bank-owned life insurance	(51,279)
Decrease in deferred income taxes	246,604
Increase in accrued interest receivable and other assets	336,068
Increase in accrued interest payable and other liabilities	(512,691)

Net Cash Provided by Operating Activities 1,263,751

Cash Flows from Investing Activities:

Purchases of available for sale securities	(43,595,039)
Maturities, calls and principal repayments of available for sale securities	9,437,563
Proceeds from sales of available for sale securities	7,941,903
Purchases of held to maturity securities	-
Maturities, calls, and principal repayments of held to maturity securities	5,490
Net increase in loans	(20,385,910)
Purchases of premises and equipment	(206,285)
Redemptions (purchases) of restricted bank stock	68,300

Net Cash Used in Investing Activities (46,733,978)

Cash Flows from Financing Activities:

Net increase in deposits	36,872,623
Proceeds from borrowings	9,780,000
Repayments of borrowings	(11,935,179)

Net Cash Provided by Financing Activities 34,717,444

Net Increase (Decrease) in Cash and Cash Equivalents (10,752,783)

Cash and Cash Equivalents - Beginning 25,619,625

Cash and Cash Equivalents - Ending \$ 14,866,842

Supplementary Cash Flows Information

Interest paid	<u><u>\$ 1,740,065</u></u>
Income taxes paid	<u><u>\$ 124,500</u></u>

SUBSCRIPTION AGREEMENT

THE BANK OF PRINCETON

**1,200,000 Shares
of Common Stock**

**Price Per Share: \$13.75
(Par Value \$5.00 Per Share)**

IMPORTANT: This Subscription Agreement, completed and signed, together with full payment by check payable to the order of “**The Bank of Princeton**” for the shares subscribed, must be sent to: The Bank of Princeton, Attention: Investor Relations, 183 Bayard Lane, Princeton, NJ 08540.

<u>Number of shares</u>	x	<u>Price per Share</u>	=	<u>Total Purchase Price</u>
<hr/>		\$13.75		<hr/>
<i>(please complete)</i>				<i>(please complete)</i>

The undersigned acknowledges that it, he or she has received and reviewed the offering circular dated June 30, 2011 pertaining to the offering by The Bank of Princeton, a New Jersey state-chartered commercial bank (the Bank), of up to 1,200,000 shares of common stock, at a price of \$13.75 per share. Subject to the terms and conditions set forth herein and in the offering circular, the undersigned hereby irrevocably subscribes for and agrees to purchase up to the number of shares set forth above.

Unless all of the offered shares are fully subscribed prior to such time, subscriptions will be accepted until 5:00 p.m. on the expiration date, August 14, 2011, or the expiration date may be extended by the board of directors of the Bank, in its sole discretion, for an additional period up to October 15, 2011.

Acceptance of this Subscription Agreement by the Bank shall be effective when notice of acceptance executed by a duly authorized officer or agent of the Bank has been deposited in the United States mail, postage prepaid, addressed to the undersigned at the address given below.

The undersigned, if an individual, is a bona fide resident and domiciliary (not a temporary or transient resident) of, or, if an entity, has its principal place of business in, the State (Commonwealth) of _____ *(please complete)* and has no present intention of becoming a resident of, or relocating its principal place of business to, any other jurisdiction.

The undersigned, prior to the subscription and purchase of any additional shares in this offering, directly and indirectly, owns, controls, or holds with the power to vote, an aggregate of _____ *(please complete)* shares of the common stock of the Bank. The undersigned is / is not (*check one*) acting in concert, whether or not pursuant to an express agreement, with any other person with respect to the Bank.

The undersigned understands that no federal or state agency has passed on or made any recommendation or endorsement of the shares and that the Bank is relying on the truth and accuracy of the representations, declarations, and warranties made by the undersigned in offering the shares for sale to it, him or her.

When executed by the undersigned and received and accepted by the Bank, this Subscription Agreement will be binding upon and enforceable against the undersigned and its, his or her heirs, executors, administrators, successors, and assigns. The undersigned understands that this subscription may not be revoked, transferred or assigned, and that it, he or she will not be entitled to the return of any portion of the subscription funds, unless the Bank rejects this subscription, in part or in whole, requiring the Bank to return the rejected portion of the funds.

It is further agreed that, by executing this Subscription Agreement, the undersigned acknowledges and agrees to all of the terms and conditions of the offering as contained in the offering circular.

The undersigned acknowledges that the Bank reserves the right to reject any subscription, in part or in whole, in the event that the offering is oversubscribed by the initial offerees of the offering as contained in the offering circular. In the event the Bank rejects any portion of any subscription, the amount related to any rejected portion of the subscription will be returned without interest.

This Subscription Agreement shall be governed by and construed in accordance with the laws of the State of New Jersey. This Subscription Agreement constitutes the entire agreement among the parties hereto with respect to the subject matter hereof and may be amended only by a writing executed by the parties hereto.

(check one):

Individually

(Signature of Subscriber)

Tenants by the entireties
(each must sign)

(Print Name of Subscriber)

Joint tenants with right of survivorship
(each must sign)

(Title, if applicable)

Tenants in common
(each must sign)

(Address)

In Partnership

_____/_____
(Telephone – Day) / (Telephone – Evening)

As custodian, trustee
or agent for:

(Social Security or Federal ID No.)

(Print Name)

(Dated)

(Social Security or Federal ID No.)

Corporation

(Signature of Co-Subscriber)

LLC

(Print Name of Co-Subscriber)

Other _____

(Title, if applicable)

(Address)

_____/_____
(Telephone - Day) / (Telephone – Evening)

(Social Security or Federal ID No.)

(Dated)

**ACCEPTED FOR _____ SHARES:
THE BANK OF PRINCETON**
**By: _____
(Authorized Signature)**

(Date of Execution)

(Subscription Agreement No.)

1,200,000 Shares



The Bank of Princeton

Bank Wisely.

Common Stock

OFFERING CIRCULAR

June 30, 2011