The Bank of Princeton®

Bank Wisely.

Making a Difference.

Established 2007

Annual Report 2013

At The Bank of Princeton...

We listen to you –

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

We understand –

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

We get it –

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

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

We make a difference.

Annual Report 2013

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Letter to the Shareholders

Dear Fellow Shareholders,

The Bank of Princeton (the "Bank") earned $8.8 million in 2013, an increase of 39% from 2012. We were able to build on our strong results from 2012 and continued to grow loans, deposits and net income in 2013. The solid commitment to our community banking roots allowed us to provide capital to many local business and non-profit organizations while supporting more than 200 local charities and community groups.

Total assets at year-end 2013 were $877 million, an increase of 14% from $769 million at year-end 2012. The resulting increase in assets was driven by growing organically through the Bank's existing branch network. Gross loans were $634 million at year-end 2013, an increase of $95 million, or 18% from year-end 2012. New deposit customers, drawn by our larger branch network and community bank focus, grew in-kind with loans during 2013. Deposit balances at year-end 2013 were $749 million, an increase of $77 million, or 11%, compared to year-end 2012 deposit balances of $672 million.

The growth in our net income was a direct result of our ability to grow our balance sheet by leveraging our existing network. Despite increased competition as the economy continued to recover, we were able to maintain our net interest margin at 3.89% in 2013 compared to 3.88% in 2012. Our cost of funds, a component of net interest margin, decreased to 0.95% in 2013, down 0.15% from 2012. The Bank's operating efficiency, or efficiency ratio, which measures our operating costs to revenue, was 56% in 2013, an improvement of 5% from 2012. The Bank remains focused on maintaining high-quality assets as evidenced by the continued decreasing trend in our non-performing assets to total assets ratio, which has declined from 1.80% in 2011, to 1.68% in 2012 and was 1.38% at the end of 2013. The collective result of strong performance in 2013 was never more evident than in our improvement in return on average equity, which increased to 14% in 2013 from 11% in 2012. We remain committed to improving our financial performance while remaining focused on high-quality asset growth in 2014 so that we may continue to increase value to our shareholders. We are especially delighted to report some of the Bank's major achievements in 2013. They include:

- Three of our original branch locations, Chambers Street, Hamilton and Bayard Lane have over $100 million in deposits.
- A campaign was launched in January of 2013 encouraging customers to Go Green by converting to e-statements.
- E-mail blasts were developed and delivered monthly providing useful information on product enhancements, customer service upgrades as well as special promotional offerings.
- We were once again selected as one of New Jersey's 50 fastest growing companies by NJBIZ for the third consecutive year.

Our concentration and commitment remains to the business communities we serve. As a Company, our passion is to support many of the local non-profit, community and business organizations. We continue to recognize that our success as an organization is the result of the dedication of our employees and the partnerships that we have formed within the communities we serve. We remain motivated by our core mission statement: "We listen to you, we understand and we make a difference." Your continued support is genuinely appreciated. Our Directors, Management and Staff would like to sincerely Thank You for your ongoing efforts.

Edward J. Dietzler, President

Andrew M. Chon, Chairman

FEDERAL DEPOSIT INSURANCE CORPORATION
Washington, D.C. 20429

FORM 10-K

(Mark One)
[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the Fiscal Year Ended December 31, 2013

- OR -

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from ________________________________ to ______________________________

FDIC Certificate Number: **58513**

THE BANK OF PRINCETON
(Exact name of Registrant as specified in its Charter)

New Jersey	**68-0645074**
(State or other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
183 Bayard Lane, Princeton, NJ	**08540**
(Address of Principal Executive Offices)	(Zip Code)

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

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

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or such shorter period that the registrant was required to submit and post such files). [ ] YES [ ] NO

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definition of "large accelerated filer", "accelerated filer", and "smaller reporting company" in Rule 12b-2 of the Exchange Act (Check one):

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

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

As of March 4, 2014 there were 4,578,745 shares of common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Bank's definitive proxy statement to be filed with the Federal Deposit Insurance Corporation in connection with its 2014 Annual Meeting of Stockholders to be held April 24, 2014 is incorporated by reference into Part III of this annual report on Form 10-K.

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Forward-Looking Statements

The Bank of Princeton (the "Bank") may from time to time make written or oral "forward-looking statements," including statements contained in the Bank's filings with the Federal Deposit Insurance Corporation (the "FDIC") (including this Annual Report on Form 10-K and the exhibits thereto), in its reports to stockholders and in other communications by the Bank, which are made in good faith by the Bank pursuant to the "safe harbor" provisions of Section 21E of the Securities Exchange Act of 1934, as amended (referred to as the "Exchange Act").

These forward-looking statements involve risks and uncertainties, such as statements of the Bank's plans, objectives, expectations, estimates and intentions that are subject to change based on various important factors (some of which are beyond the Bank's control). The following factors, among others, could cause the Bank's financial performance to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements: the strength of the United States economy in general and the strength of the local economies in which the Bank conducts operations; the effects of, and changes in monetary and fiscal policies and laws, including interest rate policies of the Board of Governors of the Federal Reserve System, inflation, interest rate, market and monetary fluctuations; market volatility; the value of our products and services as perceived by actual and prospective customers, including the features, pricing and quality compared to competitors' products and services; the willingness of customers to substitute competitors' products and services for the Bank's products and services; the impact of changes in applicable laws and regulations; the Bank's ability to satisfy the requirements of the FDIC consent order entered into on January 30, 2014 and other regulatory requirements applicable to the Bank; technological changes; acquisitions; changes in consumer spending and saving habits; and the success of the Bank at managing the risks involved in the foregoing.

The Bank cautions that the foregoing list of important factors is not exclusive. The Bank does not undertake to update any forward-looking statement, whether written or oral, that may be made from time to time by or on behalf of the Bank, except as required by applicable law or regulation.

Throughout this document, references to "we," "us," or "our" refer to the Bank and its consolidated subsidiaries.

PART I

Item 1. Business

General

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

Since we commenced operations, we have grown through both de novo branching and acquisitions. In May 2010, we acquired our Montgomery Township branch from The Provident Bank and, in September 2010, we acquired three Pennsylvania branches through a merger with MoreBank. We continue to operate two of the former MoreBank branches as a division of The Bank of Princeton under the "MoreBank" name and in the fourth quarter of 2012 we opened one additional branch within the MoreBank division in Philadelphia, Pennsylvania.

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

Competition

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

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

Lending Activities

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

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

Loan Portfolio Composition. The following table presents our loan portfolio by segment at December 31, 2013, 2012, 2011, 2010 and 2009:

	As of December 31,				
(in thousands)	**2013**	**2012**	**2011**	**2010**	**2009**
Commercial real estate	$ 372,273	$ 317,946	$ 233,504	$ 166,472	$ 89,959
Commercial and industrial	118,274	103,627	85,527	60,768	31,671
Construction	76,477	62,702	56,453	25,970	23,273
Residential first-lien mortgage	40,242	29,127	15,396	11,870	15,343
Home equity	28,204	25,617	19,341	19,285	13,681
Consumer	132	1,480	1,957	1,441	1,048
Total loans	635,602	540,499	412,178	285,806	174,975
Deferred fees and costs	(1,769)	(1,351)	(955)	(540)	(318)
Allowance for loan losses	(8,493)	(7,033)	(5,362)	(3,693)	(2,147)
Loans, net	$ 625,340	$ 532,115	$ 405,861	$ 281,573	$ 172,510

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

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

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

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

Home Equity Loans and Lines of Credit. We generate these loans and lines of credit primarily through direct marketing at our branch locations, referrals from local real estate brokers and, to a lesser extent, by targeted direct marketing programs such as mail and electronic mail.

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

Deposits

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

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

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

As of December 31, 2013, we had one customer whose deposits with us represented 5.4% of our total deposits and another customer whose deposits represented 5.1% of our total deposits. We believe we have sufficient liquidity to fund our operations should either or both of these customers withdraw their deposits. See the liquidity discussion within Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations within this Form 10-K for more information regarding our available funds. No other customers accounted for more than 5% of our total deposits as of December 31, 2012.

Other Services

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

Money orders	Direct deposit	Automated teller machines
Cashier's checks	Safe deposit boxes	On-line banking
Wire transfers	Night depository	Remote deposit capture
EE and I U.S. savings bonds redemption	Bank-by-mail	Automated telephone banking
Debit cards		

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

Internet Banking

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

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

Fee Income

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

Bank Premises and Market Area

Our principal office and corporate headquarters is in a full-service banking facility located at 183 Bayard Lane, Princeton, New Jersey. We have eleven additional branches in New Jersey and Pennsylvania, as well as an operations center in Princeton, New Jersey.

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

Staffing

As of December 31, 2013, we had 128 total employees and approximately 122 full-time equivalent employees.

Supervision and Regulation

Consent Order. On January 29, 2014, we entered into a Stipulation and Consent to the Issuance of a Consent Order with the FDIC that was countersigned by the FDIC on January 30, 2014 (the "Stipulation"), pursuant to which the Bank agreed to the issuance of a Consent Order by the FDIC (the "Consent Order"). We consented to the issuance of the Consent Order without admitting any charges of unsafe or unsound banking practices or violations of law, in order to resolve regulatory uncertainty over the adequacy of our compliance with laws relating to the Bank Secrecy Act ("BSA") and anti-money laundering ("AML").

The Consent Order arises from a routine safety and soundness examination of the Bank by the FDIC, which was conducted as of June 30, 2013. The Consent Order requires us to strengthen our BSA/AML program and our internal audit function, and to address other related matters. Among other things, it requires our board of directors to designate a committee to oversee the compliance with the Consent Order. We are also required to take certain actions to enhance our staff, including a BSA officer, and board and management oversight. Other requirements of the Consent Order include:

- develop, adopt and implement a revised BSA compliance program;

- perform periodic risk assessments consistent with the BSA/AML Examination Manual compiled by the Federal Financial Institutions Examination Council;
- revise internal controls designed to ensure compliance with BSA based on the results of the required risk assessments;
- establish independent testing programs for compliance with BSA and Office of Foreign Assets Control rules and regulations;
- develop, adopt and implement a BSA training program for directors, management and staff;
- perform a review of suspicious activity and suspicious activity reporting since January 1, 2011;
- develop an internal audit program consistent with the Interagency Policy Statement on the Internal Audit Function and its Outsourcing;
- furnish quarterly progress reports to the FDIC; and
- provide certain disclosures to our stockholders.

The provisions of the Consent Order will remain effective until modified, terminated, suspended or set aside by the FDIC. The foregoing descriptions of the Stipulation and the Consent Order are qualified in their entirety by reference to the Consent Order and the Consent Order, which are incorporated by reference as exhibits to this report.

BSA/AML requires financial institutions to assist United States government agencies in detecting and preventing money laundering and other types of suspicious activities. Specifically, BSA/AML requires financial institutions to keep records of cash purchases of negotiable instruments, file reports of cash transactions exceeding $10,000 (daily aggregate amount), and to report suspicious activity that might signify money laundering, tax evasion, or other criminal activities. It has been revised several times and has taken on increased importance in this era of heightened national security.

Our board of directors and management began proactively taking steps to address identified matters promptly following the FDIC examination, and will continue to work with the FDIC to address such matters. While we intend to take such actions as may be necessary to enable us to comply with the Consent Order, there can be no assurance that we will be able to fully comply with the provisions of the Consent Order, that our efforts to comply with the Consent Order will not have adverse effects on our operations and financial condition, or that we would not be subject to other regulatory enforcement actions in the future, including potential future actions that seek the imposition of civil money penalties.

We have also agreed to an Acknowledgement and Consent of FDIC Order with the Commissioner of Banking and Insurance for the State of New Jersey (the "Commissioner"), effective as of January 30, 2014, which makes the Consent Order binding between us and the Commissioner.

General. We are extensively regulated under both federal and state law. These laws restrict permissible activities and investments and require compliance with various consumer protection provisions applicable to lending, deposit, brokerage and fiduciary activities. They also impose capital adequacy requirements and conditions to our ability to repurchase stock or to pay dividends. We are also subject to comprehensive examination and supervision by the New Jersey Department of Banking and Insurance (the "Department") and the FDIC. The Department and the FDIC have broad discretion to impose restrictions and limitations on our operations. This supervisory framework could materially impact the conduct and profitability of our activities.

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

Our deposits have been insured by the FDIC Deposit Insurance Fund, or "DIF," for less than seven years and, therefore, are subject to the FDIC's Financial Institutions Letter 50-2009. Pursuant to this letter, we are examined on a 12 month risk management examination cycle, subjected to enhanced supervision for compliance examinations and Community Reinvestment Act, or "CRA," evaluations, and required to obtain prior approval from the FDIC for any material changes to our business plan. The seven year period ends for us in April, 2014.

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

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

Deposit Insurance. The Bank's deposits are insured up to applicable limits by the Deposit Insurance Fund of the FDIC. The Deposit Insurance Fund is the successor to the Bank Insurance Fund and the Savings Association Insurance Fund, which were merged in 2006. No institution may pay a dividend if in default of the federal deposit insurance assessment.

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

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

The Final Rule changed the assessment base for insured depository institutions from adjusted domestic deposits to the average consolidated total assets during an assessment period less average tangible equity capital during that assessment period. Tangible equity is defined in the Final Rule as Tier 1 Capital and shall be calculated monthly, unless, like us, the insured depository institution has less than $1 billion in assets, in which case the insured depository institution will calculate Tier 1 Capital on an end-of-quarter basis.

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

The Final Rule also creates a new rate schedule that intends to provide more predictable assessment rates to financial institutions. The revenue under the new rate schedule will be approximately the same. Moreover, it indefinitely suspends the requirement that it pay dividends from the DIF when it reaches 1.50 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 2.0 percent and 2.5 percent.

The Dodd-Frank Act made permanent the $250,000 limit for federal deposit insurance and increased the cash limit of Securities Investor Protection Corporation protection from $100,000 to $250,000.

In addition to the assessment for deposit insurance, institutions are required to make payments on bonds issued in the late 1980s by the Financing Corporation to recapitalize a predecessor deposit insurance fund. This payment is established quarterly and, during the four quarters ended December 31, 2013, averaged 0.77 basis points of average assets.

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

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

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

Risk-Based Capital Requirements. The federal banking regulators have adopted certain risk-based capital guidelines to assist in assessing capital adequacy of a banking organization's operations for both transactions reported on the balance sheet as assets and transactions, such as letters of credit, and recourse agreements, which are recorded as off-balance sheet items. Under these guidelines, nominal dollar amounts of assets and credit-equivalent amounts of off-balance sheet items are multiplied by one of several risk adjustment percentages, which range from 0% for assets with low credit risk, such as certain US Treasury securities, to 100% for assets with relatively high credit risk, such as business loans.

A banking organization's risk-based capital ratios are obtained by dividing its qualifying capital by its total risk adjusted assets. The regulators measure risk-adjusted assets, which include off-balance-sheet items, against both Tier 1 Capital and total qualifying capital, which is the sum of Tier 1 capital and limited amounts of Tier 2 capital.

- "Tier 1", or core capital, includes common equity, perpetual preferred stock and minority interest in equity accounts of consolidated subsidiaries, less goodwill and other intangibles, subject to certain exceptions.
- "Tier 2", or supplementary capital, includes, among other things, limited life preferred stock, hybrid capital instruments, mandatory convertible securities, qualifying subordinated debt, and the allowance for loan and lease losses, subject to certain limitations and less restricted deductions. The inclusion of elements of Tier 2 capital is subject to certain other requirements and limitations of the federal banking agencies.

Banks and bank holding companies subject to the risk-based capital guidelines are required to maintain a ratio of Tier 1 capital to risk-weighted assets of at least 4.00% and a ratio of total capital to risk-weighted assets of at least 8.00%. The appropriate regulatory authority may set higher capital requirements when particular circumstances warrant. At December 31, 2013, we met both requirements with Tier 1 and Total capital ratios of 10.2% and 11.4%. In addition to risk-based capital, banks and bank holding companies are required to maintain a minimum amount of Tier 1 capital to total assets, referred to as the leverage capital ratio, of at least 4.00%. At December 31, 2013, our leverage ratio was 7.8%.

Failure to meet applicable capital guidelines could subject a banking organization to a variety of enforcement actions including:

- limitations on its ability to pay dividends;
- the issuance by the applicable regulatory authority of a capital directive to increase capital, and in the case of depository institutions, the termination of deposit insurance by the FDIC, and the measures described under the Federal Deposit Insurance Corporation Improvement Act ("FDICIA") as applicable to undercapitalized depository institutions.

In addition, future changes in regulations or practices could further reduce the amount of capital recognized for purposes of capital adequacy. Such a change could affect our ability to grow and could restrict the amount of profits, if any, available for the payment of dividends.

Regulatory Capital Changes. In July 2013, the federal banking agencies issued final rules to implement the Basel III regulatory capital reforms and changes required by the Dodd-Frank Act. The phase-in period for community banking organizations begins January 1, 2015, while larger institutions (generally those with assets of $250 billion or more) began compliance on January 1, 2014. The final rules call for the following capital requirements:

- A minimum ratio of common equity tier 1 capital to risk-weighted assets of 4.5%.
- A minimum ratio of tier 1 capital to risk-weighted assets of 6%.
- A minimum ratio of total capital to risk-weighted assets of 8% (no change from the current rule).
- A minimum leverage ratio of 4%.

In addition, the final rules establish a common equity tier 1 capital conservation buffer of 2.5% of risk-weighted assets applicable to all banking organizations. If a banking organization fails to hold capital above the minimum capital ratios and the capital conservation buffer, it will be subject to certain restrictions on capital distributions and discretionary bonus payments. The phase-in period for the capital conservation and countercyclical capital conservation buffers for all banking organizations will begin on January 1, 2016.

Under the proposed rules, accumulated other comprehensive income ("AOCI") would have been included in a banking organization's common equity tier 1 capital. The final rules allow community banks to make a one-time election not to include these additional components of AOCI in regulatory capital and instead use the existing treatment under the general risk-based capital rules that excludes most AOCI components from regulatory capital. The opt-out election must be made in the first call report or FR Y-9 series report that is filed after the financial institution becomes subject to the final rule.

The final rules permanently grandfather non-qualifying capital instruments (such as trust preferred securities and cumulative perpetual preferred stock) issued before May 19, 2010 for inclusion in the tier 1 capital of banking organizations with total consolidated assets less than $15 billion as of December 31, 2009 and banking organizations that were mutual holding companies as of May 19, 2010.

The proposed rules would have modified the risk-weight framework applicable to residential mortgage exposures to require banking organizations to divide residential mortgage exposures into two categories in order to determine the applicable risk weight. In response to commenter concerns about the burden of calculating the risk weights and the potential negative effect on credit availability, the final rules do not adopt the proposed risk weights but retain the current risk weights for mortgage exposures under the general risk-based capital rules.

Consistent with the Dodd-Frank Act, the new rules replace the ratings-based approach to securitization exposures, which is based on external credit ratings, with the simplified supervisory formula approach in order to determine the appropriate risk weights for these exposures. Alternatively, banking organizations may use the existing gross-up approach to assign securitization exposures to a risk weight category or choose to assign such exposures a 1,250 percent risk weight.

Under the new rules, mortgage servicing assets ("MSAs") and certain deferred tax assets ("DTAs") are subject to stricter limitations than those applicable under the current general risk-based capital rule. The new rules also increase the risk weights for past-due loans, certain commercial real estate loans, and some equity exposures, and makes selected other changes in risk weights and credit conversion factors.

We are in the process of assessing the impact of these changes on our regulatory ratios and on our capital, operations, liquidity and earnings.

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 its Total risk-based capital ratio exceeds 10%. An institution will be deemed to be "adequately capitalized" or better if it exceeds the minimum federal regulatory capital requirements. However, it will be deemed "undercapitalized" if it fails to meet the minimum capital requirements; "significantly undercapitalized" if it has a Total risk-based capital ratio that is less than 6%, a Tier 1 risk-based capital ratio that is less than 3%, or a leverage ratio that is less than 3%, and "critically undercapitalized" if the institution has a ratio of tangible equity to total assets that is equal to or less than 2%.

The prompt corrective action rules require an undercapitalized institution to file a written capital restoration plan, along with a performance guaranty by a holding company or a third party. In addition, an undercapitalized institution becomes subject to certain automatic restrictions including a prohibition on payment of dividends, a limitation on asset growth and expansion, in certain cases, a limitation on the payment of bonuses or raises to senior executive officers, and a prohibition on the payment of certain "management fees" to any "controlling person." Institutions that are classified as undercapitalized are also subject to certain additional supervisory actions, including: increased reporting burdens and regulatory monitoring; a limitation on the institution's ability to make acquisitions, open new branch offices, or engage in new lines of business; obligations to raise additional capital; restrictions on transactions with affiliates; and restrictions on interest rates paid by the institution on deposits. In certain cases, bank regulatory agencies may require replacement of senior executive officers or directors, or sale of the institution to a willing purchaser. If an institution is deemed to be "critically undercapitalized" and continues in that category for four quarters, the statute requires, with certain narrowly limited exceptions, that the institution be placed in receivership.

As of December 31, 2013, we met the criteria to be classified as "well capitalized." This classification is primarily for the purpose of applying the federal prompt corrective action provisions and is not intended to be and should not be interpreted as a representation of our overall financial condition or prospects.

Community Reinvestment Act. The Community Reinvestment Act, or "CRA," requires that banks meet the credit needs of all of their assessment area, as established for these purposes in accordance with applicable regulations based principally on the location of branch offices, including those of low income areas and borrowers. The CRA also requires that the FDIC assess all financial institutions that it regulates to determine whether these institutions are meeting the credit needs of the community they serve. Under the CRA, institutions are assigned a rating of "outstanding," "satisfactory," "needs to improve" or "unsatisfactory." Our record in meeting the requirements of the CRA is made publicly available and is taken into consideration in connection with any applications with federal regulators to engage in certain activities, including approval of a branch or other deposit facility, mergers and acquisitions, office relocations, or expansions into non-banking activities. As of December 31, 2013, we maintained a "satisfactory" CRA rating.

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

The Dodd-Frank Act creates the Bureau of Consumer Financial Protection (the "CFPB"), which is an independent bureau within the Federal Reserve System with broad authority to regulate the consumer finance industry, including regulated financial institutions such as us, and non-banks and others who are involved in the consumer finance industry. The CFPB has exclusive authority through rulemaking, orders, policy statements, guidance and enforcement actions to administer and enforce federal consumer finance laws, to oversee non-federally regulated entities, and to impose its own regulations and pursue enforcement actions when it determines that a practice is unfair, deceptive or abusive ("UDA"). The federal consumer finance laws and all of the functions and responsibilities associated with them were transferred to the CFPB on July 21, 2011. While the CFPB has the exclusive power to interpret, administer and enforce federal consumer finance laws and UDA, the Dodd-Frank Act provides that the FDIC continues to have examination and enforcement powers over us relating to the matters within the jurisdiction of the CFPB because we have less than $10 billion in assets. The Dodd-Frank Act also gives state attorneys general the ability to enforce federal consumer protection laws.

The Dodd-Frank Act also:

- 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; eliminates all remaining restrictions on interstate banking by authorizing national and state banks to establish de novo branches in any state that would permit a bank chartered in that state to open a branch at that location;
- Repeals Regulation Q, the federal prohibitions on the payment of interest on demand deposits, thereby permitting depository institutions to pay interest on business transaction and other accounts;
- Enhances the requirements for certain transactions with affiliates under Section 23A and 23B of the Federal Reserve Act, including an expansion of the definition of "covered transactions" and increasing the amount of time for which collateral requirements regarding covered transactions must be maintained;
- Expands insider transaction limitations through the strengthening of loan restrictions to insiders and the expansion of the types of transactions subject to the various limits, including derivative transactions, repurchase agreements, reverse repurchase agreements and securities lending or borrowing transactions. Restrictions are also placed on certain asset sales to and from an insider to an institution, including requirements that such sales be on market terms and, in certain circumstances, approved by the institution's board of directors; and
- Strengthens the previous limits on a depository institution's credit exposure to one borrower which limited a depository institution's ability to extend credit to one person (or group of related persons) in an amount exceeding certain thresholds. The Dodd-Frank Act expanded the scope of these restrictions to include credit exposure arising from derivative transactions, repurchase agreements, and securities lending and borrowing transactions.

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

Although a significant number of the rules and regulations mandated by the Dodd-Frank Act have been finalized, including rules regulating compensation of residential mortgage loan originators, residential mortgage loan servicing practices, and defining qualified mortgage loans and the ability to repay a mortgage loan, many of the new requirements called for have yet to be implemented and will likely be subject to implementing regulations over the course of several years. Given the uncertainty associated with the manner in which the provisions of the Dodd-Frank Act will be implemented by the various agencies, the full extent of the impact such requirements will have on financial institutions' operations is unclear. The Dodd-Frank Act could require us to make material expenditures, in particular personnel training costs and additional compliance expenses, or otherwise adversely affect our business, financial condition, results of operations or cash flow. It could also require us to change certain of our business practices, adversely affect our ability to pursue business opportunities that we might otherwise consider pursuing, cause business disruptions and/or have other impacts that are as of yet unknown to us. Failure to comply with these laws or regulations, even if inadvertent, could result in negative publicity, fines or additional expenses, any of which could have an adverse effect on our business, financial condition, results of operations or cash flow.

Jumpstart Our Business Startups (JOBS) Act. In April 2012, the JOBS Act became law. The JOBS Act is aimed at facilitating capital raising by smaller companies and banks and bank holding companies by implementing the following changes:

- Raising the threshold requiring registration under the Securities Exchange Act of 1934 (the "Exchange Act") for banks and bank holding companies from 500 to 2,000 holders of record;
- Raising the threshold for triggering deregistration under the Exchange Act for banks and bank holding companies from 300 to 1,200 holders of record;
- Raising the limit for Regulation A offerings from $5 million to $50 million per year and exempting some Regulation A offerings from state blue sky laws;
- Permitting advertising and general solicitation in Rule 506 and Rule 144A offerings;
- Allowing private companies to use "crowd funding" to raise up to $1 million in any 12-month period, subject to certain conditions; and,
- Creating a new category of issuer, called an "Emerging Growth Company," for companies with less than $1 billion in annual gross revenue, which will benefit from certain changes that reduce the cost and burden of carrying out an equity initial public offering ("IPO") and complying with public company reporting obligations for up to five years.

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

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

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

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

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

Item 1A. Risk Factors

As a smaller reporting company, the Bank is not required to provide the information otherwise required by this Item.

Item 1B. Unresolved Staff Comments

Not applicable.

Item 2. Properties

We conduct our operations from our headquarters and branch located at 183 Bayard Lane, Princeton, New Jersey, an operations center at 403 Wall Street, Princeton, New Jersey, and from eleven other branch locations in New Jersey and Pennsylvania. The following table sets forth certain information regarding the Bank's properties as of December 31, 2013:

Location	Leased or Owned	Date of Lease Expiration
Corporate Headquarters and Branch 183 Bayard Lane Princeton, NJ	Leased	October 31, 2018
Operations Center 403 Wall Street Princeton, NJ	Leased	May 31, 2021
Hamilton Branch 339 Route 33 Hamilton, NJ	Leased	October 31, 2015
Pennington Branch 2 Route 31 Pennington, NJ	Leased	April 30, 2017
Chambers Street Branch 21 Chambers Street Princeton, NJ	Leased	December 31, 2016
Monroe Branch 1 Rossmoor Drive, Suite 1200 Monroe Township, NJ	Leased	July 31, 2020
Montgomery Branch 1185 Route 206 North Princeton, NJ	Leased	April 30, 2015
Lambertville Branch 10-12 Bridge Street Lambertville, NJ	Owned	N/A
Nassau Street Branch 194 Nassau Street Princeton, NJ	Leased	November 30, 2021
New Brunswick Branch 1 Spring Street, Suite 102 New Brunswick, NJ	Leased	March 31, 2017
North Wales Branch (MoreBank Division) 1222 North Welsh Road North Wales, PA	Leased	September 30, 2016
Cheltenham Branch (MoreBank Division) 470 West Cheltenham Avenue Philadelphia, PA	Leased	January 25, 2016

Arch Street Branch (MoreBank Division) 921 Arch Street Philadelphia, PA	Leased	November 30, 2017

Item 3. Legal Proceedings

Effective January 30, 2014, we entered into a Consent Order with the FDIC, pursuant to which we agreed to the issuance of a Consent Order by the FDIC. We consented to the issuance of the Consent Order without admitting any charges of unsafe or unsound banking practices or violations of law or regulation. The Consent Order requires us to strengthen our BSA/AML program and internal audit function, and to address other related matters. We also agreed to an Acknowledgement and Consent of FDIC Order with the Commissioner of Banking and Insurance for the State of New Jersey (the "Commissioner"), effective as of January 30, 2014, which makes the Consent Order binding as between us and the Commissioner. Additional information regarding the Consent Order is included in Part I, Item 1 of this report, under the heading "Supervision and Regulation," and in Part II, Item 7 of this report.

From time to time, we may be a party to ordinary routine litigation incidental to our business. Except as disclosed above, there were no material legal proceedings to which we were a party or of which any of our property was the subject, pending or, to our knowledge, contemplated by governmental authorities, at December 31, 2013 or the date of this report.

Item 4. Mine Safety Disclosures

Not applicable.

PART II

Item 5. Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Market Information

There is no established public trading market for our common stock. Although shares of our common stock are transferable, our common stock is not listed on any stock exchange or quoted in any over-the-counter securities market. There can be no assurance that a trading market for our common stock will develop in the future, and stockholders wishing to sell common stock may have to seek buyers and negotiate a transaction price by themselves.

Holders

As of March 4, 2014, there were approximately 670 holders of our common stock.

Dividends

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

Securities Authorized for Issuance under Equity Compensation Plans

The following table summarizes our equity compensation plan information as of December 31, 2013.

Plan Category	Number of shares of common stock to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of shares of common stock remaining available for future issuance under compensation plans
Equity Compensation Plans approved by security holders:			
The Bank of Princeton 2007 Stock Option Plan	234,467	$11.74	18,333
The Bank of Princeton 2012 Stock Option Plan	193,350	$13.57	406,650
MoreBank 2004 Incentive Equity Compensation Plan	1,200	$25.00	-
Equity compensation plan not approved by security holders:			
Organizer warrants	97,500	$10.00	-
MoreBank Organizer options	46,000	$25.00	-
Total	572,517	$13.16	424,983

Item 6. Selected Financial Data

As a smaller reporting company, the Bank is not required to provide the information otherwise required by this Item.

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

The following discussion should be read in conjunction with "Part I—Item 1. Business" and our Consolidated Financial Statements and the notes thereto included in this Form 10-K. The following discussion should also be read in conjunction with the "Cautionary Note Regarding Forward-Looking Statements."

Our Management's Discussion and Analysis of Financial Condition and Results of Operations is presented in sections as follows:

- Overview and Strategy
- Comparison of Financial Condition at December 31, 2013 and December 31, 2012
- Comparison of Operating Results for the Years Ended December 31, 2013 and December 31, 2012
- Rate/Volume Analysis
- Liquidity, Commitments and Capital Resources
- Off-Balance Sheet Arrangements
- Impact of Inflation
- Return on Equity and Assets
- Critical Accounting Policies and Estimates
- Recently Issued Accounting Standards

Overview and Strategy

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

Our primary business objectives are:

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

We strive to serve the financial needs of our customers while providing an appropriate return to our stockholders, consistent with safe and sound banking practices. We expect that a financial strategy that utilizes variable rates and matching assets and liabilities will enable us to increase our net interest margin, while managing interest rate risk. We also seek to generate fee income from various sources, subject to our desire to maintain competitive pricing within our market area.

Our recognition of, and commitment to, the needs of the local community, combined with highly personalized and responsive customer service, differentiate us from our competition. We continue to capitalize upon the personal contacts and relationships of our organizers, directors, stockholders and officers to establish and grow our customer base.

Comparison of Financial Condition at December 31, 2013 and December 31, 2012

General. Our total assets increased from $769.0 million at December 31, 2012 to $877.4 million at December 31, 2013, an increase of $108.4 million, or 14%. This increase was primarily due to increases in loans receivable, net, securities available-for-sale and accrued interest receivable and other assets. Total liabilities increased from $706.7 million at December 31, 2012 to $813.2 million at December 31, 2013, an increase of $106.5 million, or 15%. This increase was primarily the result of a $76.6 million increase in total deposits and a $32.2 million increase in borrowings. Total stockholders' equity increased from $62.3 million at December 31, 2012 to $64.2 million at December 31, 2013, an increase of $2.0 million, or 3%. This increase was primarily attributable to net income of $8.8 million and an increase in additional paid-in capital of $472 thousand, partially offset by a decrease of $7.3 million in accumulated other comprehensive income. The growth of our balance sheet has been a direct result of the successful implementation of our business plan. Although we will continue to seek to grow our business through the continued implementation of our business plan, the growth experienced in the past may not be indicative of future results.

Cash and due from banks. Cash and cash equivalents increased from $24.6 million at December 31, 2012 to $27.4 million at December 31, 2013, an increase of $2.8 million, or 11%. The increase in cash was primarily attributable to the timing of cash payments and cash receipts.

Investment Securities. We hold securities that are available to fund increased loan demand or deposit withdrawals and other liquidity needs, and which provide an additional source of interest income. Securities are classified as held-to-maturity ("HTM") or available-for-sale ("AFS") at the time of purchase. Securities are classified as HTM if we have the ability and intent to hold them until maturity. HTM securities are carried at cost, adjusted for unamortized purchase premiums and discounts. Securities that are classified as AFS are carried at fair value with unrealized gains and losses, net of income taxes, reported as a component of equity within accumulated other comprehensive income.

The following table presents a summary of the amortized cost and fair value of our securities available-for-sale at December 31, 2013, 2012 and 2011.

	December 31,					
	2013		2012		2011	
(in thousands)	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
U.S. Treasury securities	$ 38,112	$ 35,689	$ 27,330	$ 28,268	$ -	$ -
U.S. Government agency securities	-	-	-	-	-	-
Mortgage-backed Securities-U.S. Government-sponsored Enterprises (GSEs)	72,680	73,084	88,340	90,887	117,395	119,612
Obligations of state and political subdivisions	88,697	84,541	65,532	66,886	53,589	54,639
Corporate securities	-	-	-	-	2,000	1,912
Total	$ 199,489	$ 193,314	$ 181,202	$ 186,041	$ 172,984	$ 176,163

Securities available-for-sale at fair value increased $7.3 million during the twelve months ended December 31, 2013. This increase was the result of additional security purchases as we utilized available cash to grow our investment securitities portfolio.

The following table presents a summary of the amortized cost and fair value of our securities held-to-maturity at December 31, 2013, 2012 and 2011.

	December 31,					
	2013		2012		2011	
(in thousands)	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Mortgage-backed Securities-U.S. Government-sponsored Enterprises (GSEs)	$ 423	$ 454	$ 600	$ 643	$ 1,074	$ 1,166

Securities held-to-maturity decreased minimally from December 31, 2012 to December 31, 2013. The decline in held-to-maturity securities is the result of maturities and our strategy to not purchase additional securities for the held-to-maturity portfolio as we manage our investment portfolio to allow for greater flexibility as our liquidity needs change.

The following table summarizes the maturity distribution schedule of the amortized cost of debt securities with corresponding weighted-average yields at December 31, 2013. Interest income presented in this Form 10-K for tax-advantaged obligations of state and political subdivisions has not been adjusted to reflect fully taxable-equivalent interest income. Weighted-average yields presented below have also not been computed on a fully taxable-equivalent basis. Expected maturities may differ from contractual maturities because the securities may be called without any penalties.

	December 31, 2013				
(in thousands)	One year or less	After one through five years	After five through ten years	After ten years	Total
Mortgage-backed Securities-U.S. Government-sponsored Enterprises (GSEs)	$ -	$ 1,984	$ 47,863	$ 60,946	$ 110,793
Obligations of state and political subdivisions	165	3,507	29,350	55,674	88,696
Total	$ 165	$ 5,491	$ 77,213	$ 116,620	$ 199,489
Weighted average yield	.70%	2.12%	2.28%	2.61%	2.47%

At December 31, 2013, there were no holdings of any one issuer, other than the U.S. government and its agencies, in an amount greater than 10% of our total stockholders' equity. See Note 3 - Investment Securities in the Notes to Consolidated Financial Statements within this Form 10-K for additional information regarding debt securities.

Loans receivable, net. Loans receivable, net increased $93.2 million from $532.1 million at December 31, 2012 to $625.3 million at December 31, 2013, an increase of 18%. The increase was attributable to our efforts to grow our loan portfolio through existing relationships and new business and was funded by a combination of an 11% year-over-year increase in our total deposits and $32.2 million of additional borrowings.

The following table details our loan maturities by loan class and interest rate type at December 31, 2013:

	December 31, 2013			
(in thousands)	Due in one year or less	Due after one through five years	Due after five years	Total
Commercial real estate	$ 8,869	$ 86,573	$ 276,831	$ 372,273
Commercial and industrial	29,051	44,632	44,591	118,274
Construction	12,560	16,053	47,864	76,477
Residential first-lien mortgage	1,236	-	39,006	40,242
Home equity	845	443	26,916	28,204
Consumer	11	71	50	132
Total loans	$ 52,572	$ 147,772	$ 435,258	$ 635,602
Type:				
Fixed rate loans	$ 15,319	$ 82,942	$ 23,735	$ 121,996
Floating rate loans	37,253	64,830	411,523	513,606
Total loans	$ 52,572	$ 147,772	$ 435,258	$ 635,602

The accrual of interest is discontinued when the contractual payment of principal or interest is 90 days past due or management has serious doubts about further collectability of the principal or interest, even if the loan is currently performing. A loan may remain on accrual status if it is in the process of collection and is either guaranteed or well-secured. The following table sets forth certain information regarding our nonaccrual loans, troubled debt restructurings, accruing loans 90 days or more past-due, and other real estate owned as of December 31, 2013, 2012, 2011, 2010 and 2009.

	December 31,				
(in thousands)	2013	2012	2011	2010	2009
Nonaccrual loans:					
Commercial real estate	$ 2,535	$ 2,690	$ 5,229	$ 3,488	$ 886
Commercial and industrial	5,127	4,596	2,135	1,782	1,000
Construction	-	892	892	-	427
Residential first-lien mortgage	182	-	-	-	-
Home equity	394	359	456	276	-
Consumer	-	11	-	-	-
Total nonaccrual loans	8,238	8,548	8,712	5,546	2,313
Troubled debt restructurings (TDRs) – performing	4,858	2,412	2,332	3,788	3,992
Accrual loans 90 days or more past due:					
Commercial real estate	-	-	-	-	-
Commercial and industrial	-	-	-	-	-
Construction	-	-	-	-	-
Residential first-lien mortgage	-	-	-	-	-
Home equity	-	-	-	-	-
Consumer	-	-	-	-	-
Total accrual loans 90 days or more past due	-	-	-	-	-
Total nonperforming loans and performing TDRs	13,096	10,960	11,044	9,334	6,305
Other real estate owned	927	1,550	919	1,140	227
Total nonperforming assets and performing TDRs	$ 14,023	$ 12,510	$ 11,963	$ 10,474	$ 6,532

See Note 4 - Loans Receivable in the Notes to Consolidated Financial Statements within this Form 10-K for additional information regarding our loans not classified as nonperforming assets as of December 31, 2013 for which we have classified the loans as having potential credit problems that could result in the loans being classified as nonaccrual, past-due 90 or more days or troubled debt restructurings in a future period.

Analysis of Allowance for Loan Losses. Our allowance for loan losses (the "allowance") is based on a documented methodology, which includes an ongoing evaluation of the loan portfolio, and reflects management's best estimate of probable losses in the loan portfolio as of the reporting date. The determination of the allowance for loan losses involves a high degree of judgment and complexity. In evaluating the adequacy of the allowance for loan losses, management gives consideration to current economic conditions, statutory examinations of the loan portfolio by regulatory agencies, loan reviews performed periodically by independent third parties, delinquency information, management's internal review of the loan portfolio, and other relevant factors. In determining and maintaining our allowance for loan losses, we comply with the Federal Financial Institutions Examination Council (FFIEC) *Interagency Policy Statements on the Allowance for Loan and Lease Losses and on Allowance for Loan and Lease Losses Methodologies and Documentation for Banks and Savings Associations*.

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

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

The allowance for loan losses increased from $7.0 million at December 31, 2012 to $8.5 million at December 31, 2013, an increase of $1.5 million or 21%. This increase was primarily attributable to applying our allowance methodology to our gross loans at December 31, 2013, which increased 18% from December 31, 2012 to December 31, 2013. The amount of allowance attributable to the adjustment of qualitative factors increased as we increased the allowance as a result of increasing concentrations within the construction and commercial real estate loan categories, as well as added qualitative adjustments to account for our relatively unseasoned loan portfolio as compared to peers.

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, 2013, 2012, 2011, 2010 and 2009:

	Year Ended December 31,				
(in thousands)	**2013**	**2012**	**2011**	**2010**	**2009**
Balance at beginning of year	$ 7,033	$ 5,362	$ 3,693	$ 2,147	$ 1,092
Charge offs:					
Commercial real estate	(73)	-	(286)	(1,251)	-
Commercial and industrial	(156)	(388)	(217)	(446)	(149)
Construction	(370)	-	(143)	(7)	-
Residential first-lien mortgage	-	-	-	-	-
Home equity	-	-	(80)	(52)	-
Consumer	-	(5)	-	-	-
Total charge offs	(599)	(393)	(726)	(1,756)	(149)
Recoveries:					
Commercial real estate	12	-	-	1	-
Commercial and industrial	15	95	18	-	-
Construction	-	-	-	-	-
Residential first-lien mortgage	-	-	-	-	-
Home equity	-	1	-	-	-
Consumer	-	-	-	-	-
Total recoveries	27	96	18	1	-
Net charge-offs	(572)	(297)	(708)	(1,755)	(149)
Additions charged to operations (provision for loan losses)	2,032	1,968	2,377	3,301	1,204
Balance at end of year	$ 8,493	$ 7,033	$ 5,362	$ 3,693	$ 2,147
Net charge offs to average loans outstanding	0.10%	0.06%	0.21%	0.84%	0.12%

Our allowance for loan losses is allocated to the various segments of our portfolio identified above. The unallocated component of the allowance for loan losses is maintained to cover uncertainties that could affect our estimate of probable losses. The unallocated component reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio. Additions to the allowance charged to operations are the result of applying our allowance methodology to the existing loan portfolio. Increases in the additions charged to operations were primarily the result of increases in the loan portfolio, combined with adjustments to qualitative factors impacting the allowance as discussed above.

The following table presents the allocation of the allowance for loan losses by portfolio segment for the years ended December 31, 2013, 2012, 2011, 2010 and 2009. The allocation of a portion of the allowance for loan losses to one category of loans does not preclude its availability to absorb losses in other categories.

	December 31,							
	2013		2012		2011		2010	
(in thousands)	Amount	% of Loans to Total Loans	Amount	% of Loans to Total Loans	Amount	% of Loans to Total Loans	Amount	% of Loans to Total Loans
Commercial real estate	$ 2,994	58.6%	$ 2,557	58.8%	$ 2,082	56.6%	$ 1,484	58.1%
Commercial and industrial	1,419	18.6	1,244	19.2	1,011	20.8	718	21.3
Construction	2,638	12.0	2,163	11.6	1,965	13.7	904	9.1
Residential first-lien mortgage	282	6.3	204	5.4	101	3.7	78	4.2
Home equity	282	4.5	256	4.7	179	4.7	178	6.8
Consumer	1	-	10	0.3	12	0.5	9	0.5
Unallocated	877	-	599	-	12	-	322	-
Total	$ 8,493	100.0%	$ 7,033	100.0%	$ 5,362	100.0%	$ 3,693	100.0%

	2009	
(in thousands)	Amount	% of Loans to Total Loans
Commercial real estate	$ 900	51.4%
Commercial and industrial	563	18.1
Construction	349	13.3
Residential first-lien mortgage	154	8.8
Home equity	171	7.8
Consumer	10	0.6
Unallocated	-	-
Total	$ 2,147	100.0%

See Note 4 Loans Receivable in the Notes to Consolidated Financial Statements within this Form 10-K for additional information regarding our allowance for loan losses.

Premises and equipment. Premises and equipment, net decreased slightly from December 31, 2012 to December 31, 2013 as depreciation expense was almost completely offset by additions to premises and equipment that were primarily the result of various leasehold improvements in our branches and purchasing additional computer equipment.

Other assets. Accrued interest receivable and other assets increased $6.1 million from December 31, 2012 to December 31, 2013, primarily due to increases of $4.2 million in our deferred tax asset and a $1.5 million increase in restricted investment in bank stocks. The increase in deferred tax asset was due to the tax effect of increased unrealized losses on investment securities available-for-sale. The increase in unrealized losses on available-for-sale investment securities carried at fair value was due to an increase in market interest rates from December 31, 2012 to December 31, 2013. We are required to own restricted investments in the form of stock of the FHLB-NY. The amount of FHLB-NY stock we are required to hold is determined in part by the amount of FHLB-NY borrowings outstanding. The restricted investments in bank stocks increased as a result of the 114% increase in FHLB-NY borrowings from December 31, 2012 to December 31, 2013.

Deposits. Total deposits increased from $672.4 million at December 31, 2012 to $749.0 million at December 31, 2013, an increase of $76.6 million or 11%. Non-interest-bearing deposits increased $30.8 million, or 40%, to $107.6 million at December 31, 2013, compared to $76.8 million at December 31, 2012. Interest-bearing deposits increased $45.8 million, or 8%, to $641.4 million at December 31, 2013, compared to $595.6 million in the prior year. Our deposit growth was primarily related to the competitive pricing of our deposit products coupled with the continued development of relationships with local small business and the high level of individualized customer service we provide.

The following table presents our time deposit maturities as of December 31, 2013.

	December 31, 2013				
(in thousands)	Three months or less	Over three through six months	Over six through twelve months	Over twelve months	Total
Time deposits of $100,000 or more	$ 14,400	$ 19,347	$ 28,081	$ 63,955	$ 125,783
Time deposits of less than $100,000	15,158	13,365	28,301	61,934	118,758
Total	$ 29,558	$ 32,712	$ 56,382	$ 125,889	$ 244,541

The following table presents the average balance of our deposit accounts for the years ended December 31, 2013, 2012 and 2011, and the average cost of funds for each category of our deposits.

	2013			2012			2011		
(in thousands)	Average Amount	Avg. Rate Paid	% of Average Total Deposits	Average Amount	Avg. Rate Paid	% of Average Total Deposits	Average Amount	Avg. Rate Paid	% of Average Total Deposits
Demand, non-interest-bearing checking	$ 99,650	0.00%	13.6%	$ 65,333	0.00%	10.3%	$ 37,429	0.00%	7.6%
Demand Interest-bearing	148,969	0.78	20.3	119,121	0.99	18.7	99,194	1.41	20.1
Money market	155,438	060	21.2	140,405	0.61	22.1	104,600	1.05	21.2
Savings deposits	89,044	0.86	12.1	87,604	0.77	13.8	80,704	1.22	16.3
Time deposits of $100,000 or more	120,504	1.71	16.3	103,222	2.32	16.2	76,934	2.13	15.6
Other time deposits	119,464	1.70	16.5	120,525	1.93	18.9	95,341	1.83	19.2
Total	$ 733,069	.95%	100.0%	636,210	1.17%	100.0%	$494,202	1.39%	100.0%

Borrowings. Borrowings increased from $28.2 million at December 31, 2012 to $60.4 million at December 31, 2013, an increase of $32.2 million or 114%. This increase was due to increases of 18% and 4% in loans receivable, net and securities available-for-sale, respectively, from December 31, 2012 to December 31, 2013. The Bank utilizes its available capacity with FHLB-NY as an additional source of funding. The deposit growth experienced by the Bank during the year ended December

31, 2013 was not sufficient to fund our loan growth and investments in our securities available-for-sale, causing us to utilize our available capacity with the FHLB-NY in order to increase these interest-earning assets.

FHLB-Pittsburgh advances were among the liabilities assumed in connection with our acquisition of MoreBank in September 2010. The remaining FHLB-Pittsburgh advances are fixed-rate term advances that are being paid down in accordance with their terms. We do not have additional borrowing capacity with the FHLB-Pittsburgh and our relationship with them will terminate once the remaining advances are repaid.

Accrued interest payable and other liabilities. Accrued interest payable and other liabilities decreased from $6.1 million at December 31, 2012 to $3.8 million at December 31, 2013, a decrease of $2.3 million or 38%. This decrease was attributable to a decrease in accrued expenses and other liabilities of $2.5 million, partially offset by increases of $107,000 and $56,000 in accrued interest payable and accrued salary expense, respectively. The decrease in accrued expenses and other liabilities was primarily attributable to decreases in securities purchased and not yet settled, loan participation payments payable and income taxes payable. These decreases were attributable to the timing of cash payments at December 31, 2013 as compared to the prior year.

Stockholders' equity. Stockholders' equity increased from $62.3 million at December 31, 2012 to $64.2 million at December 31, 2013, an increase of $1.9 million or 3%. The increase in stockholders' equity was due to increases in retained earnings from current year net income, partially offset by a decrease in accumulated other comprehensive income from unrealized losses on securities available-for-sale during the year ended December 31, 2013.

Comparison of Operating Results for the Years Ended December 31, 2013 and December 31, 2012

General. Net income for the year ended December 31, 2013 was $8.8 million, an increase of approximately $2.5, or 39%, from $6.3 million for the year ended December 31, 2012. This increase was primarily attributable to an increase in net interest income after provision for loan losses and other income that were partially offset by increases in non-interest expense and income tax expense.

Net interest income. Net interest income after provision for loan losses increased $3.5 million, or 14%, to $28.0 million for the year ended December 31, 2013, compared to $24.5 million for the year ended December 31, 2012. While our interest rate spread and net yield on interest-earning assets remained relatively unchanged in the year ended December 31, 2013 compared to the prior year, our average interest earning assets increased $92.7 million, or 13%. The increase in average interest-earning assets was reflective of our ability to continue to increase the size of our loan and investment portfolios. The average cost of interest-bearing liabilities decreased 12 basis points. The average cost of interest-bearing liabilities for the years ending December 31, 2013 and 2012 was 1.08% and 1.20%, respectively.

Total interest and dividend income. Total interest and dividend income increased $3.4 million, or 10%, to $37.1 million for the year ended December 31, 2013, compared to $33.7 million for the prior year. The improvement in interest income resulted from an increase in the average balance of interest-earning assets as further discussed below.

Interest income and fees on loans increased $3.2 million, or 11%, to $32.3 million for the year ended December 31, 2013, compared to $29.1 million for the prior year. The increase was attributable to an increase in the average balance of loans of $93.4 million from $477.4 million in 2012 to $570.7 million in 2013. This increase was partially offset by a decrease in the average yield on loans, year-over-year of 44 basis points. The increase in average loans was due to increased loan production. The decrease in the average yield on loans was due to lower interest rates on new loan production that was caused primarily by increasing competition throughout the year ending December 31, 2013.

Interest income on securities available-for-sale increased $301,000, or 7%, for the year ended December 31, 2013, compared to the prior year. This increase was primarily attributable to a 19 basis point increase in the average yield for the year ended December 31, 2013 compared to the prior year period. The increase in average yield was partially offset by a $5.3 million decrease in the average balance of securities available-for-sale from an average balance of $212.5 million during the year ended December 31, 2012 to an average balance of $207.2 during the twelve months ended December 31, 2013. The increase in average yield was primarily attributable to an increase in overall market interest rates during 2013 as the ten-year treasury rate increased 127 basis points from December 31, 2012 to December 31, 2013.

Interest income on securities held-to-maturity changed minimally during the year ended December 31, 2013 compared to prior year period. We continue to maintain our strategy to not purchase additional securities for the held-to-maturity portfolio as we manage our investment portfolio to allow for greater flexibility as our liquidity needs change.

Interest Expense. Total interest expense decreased $139,000 for the year ended December 31, 2013, compared to the prior year period. The decrease was primarily due to an $8.4 million decrease in average borrowings, combined with a 12 basis point decrease the average cost of interest-bearing liabilities.

Interest expense on deposits decreased $29,000 for the year ended December 31, 2013 compared to the prior year. Average interest-bearing deposits increased $62.5 million, or 11%, to $633.4 million for the year ended December 31, 2013, compared to $570.9 million in 2012. The cost of interest-bearing deposits decreased 12 basis points from year to year. The Bank worked to grow its total deposits during 2013 through organic growth, average interest-bearing and savings deposits, average money market deposits and average time deposits increased for the year ended December 31, 2013 compared to the prior year period. The lower cost of interest-bearing deposits was reflective of the overall market trend as higher-rate time deposits matured and were replaced by lower-rate time deposits. Additionally, current market interest rates for other interest-bearing deposits continued to decrease, thereby allowing us to reduce the interest rate we pay on those deposits as well.

Provision for Loan Losses. The provision for loan losses increased $64,000 in 2013 compared to the prior year. The increase in the 2013 provision for loan losses reflected, among other things, our increase in the allowance for loan losses attributable to increasing concentrations within the commercial real estate and construction loan categories and the overall increase in our loan portfolio. Our loan charge-offs, net of recoveries were $572,000 in 2013, compared to $297,000 in 2012. See the section above titled "Financial Condition —Allowance for Loan Losses" for a discussion of our allowance for loan losses methodology, including additional information regarding the determination of the provision for loan losses.

Non-Interest Income. Non-interest income increased $91,000 in the year ended December 31, 2013 compared to the prior year. In 2013, non-interest income included gains of $259,000 on sales of securities available-for-sale, $1.1 million from service charges and other fees earned in the normal course of banking operations, $851,000 from gain from life insurance proceeds, $160,000 in other income and $264,000 from bank-owned life insurance. In 2012, non-interest income included gains of $897,000 on sales of securities available-for-sale, $1.2 million from service charges and other fees earned in the normal course of banking operations, $279,000 from bank-owned life insurance and $211,000 in other income. The gain from life insurance proceeds was the result of the death benefit paid to us on a life insurance policy covering one of our former employees that remained insured person our bank-owned life insurance program following his separation of employment.

Non-Interest Expense. Non-interest expense increased $826,000, or 5%, to $18.9 million in 2013, compared to $18.0 million in the prior year. The increase was due to the growth the Bank experienced during 2013.

Salaries and employee benefits increased $965,000, or 11%, to $9.8 million in 2013, compared to $8.9 million in the prior year. The increase in costs were related to an increase in average FTEs associated with the growth of the bank, including additional branch openings that occurred in the fourth quarter of 2012, combined with the additional personnel added within the compliance department. The additions to the compliance department were a result of our efforts in the fourth quarter of 2013 to enhance our BSA/AML compliance program in accordance with the Consent Order. We anticipate that future salary and employee benefit expenses will increase further as a result of the full-year impact of the additions to the compliance department with regards to enhancing our BSA/AML compliance program.

Occupancy and equipment expenses increased approximately $281,000, or 10%, to $3.2 million in 2013 compared to $2.9 million in the prior year. The increase was primarily attributable to the full-year impact of costs associated with the branch that was opened in the fourth quarter of 2012.

Data processing and communications expense increased $181,000, or 14%, to $1.5 million in 2013 compared to $1.3 million in 2012. The increase was attributable to an increase in the number of customer accounts we process as a direct result of continued growth in the number of loan and deposit accounts we service.

Our federal deposit insurance assessment during the year ended December 31, 2013 was $567,000, compared to $586,000 in the prior year. We anticipate that our federal deposit insurance assessment will increase substantially in 2014 as a result of entering into the Consent Order and there can be no guarantee that the elevated federal deposit insurance assessment will not last beyond 2014.

OREO, net decreased to $99,000 in 2013 compared to approximately $1.1 million in the prior year. The decrease was attributable to the write-down of two properties below their initial net realizable values in 2012.

Other non-interest expense increased $364,000, or 26%, to $1.7 million in 2013 compared to $1.4 million in the prior year. This increase was primarily attributable to an increase in foreclosure related loan expenses on one of our nonaccrual loans.

All other non-interest expenses changed minimally during 2013 as we sought to manage our non-interest expenses and maintain our operating efficiency as we continue to organically grow the bank.

Provision for Income Taxes. The provision for income taxes increased $290,000, or 11%, to $3.0 million in 2013 compared to $2.7 million in the prior year. The increase was due to an increase of 31% in pre-tax income, partially offset by a decrease in our effective tax rate from 30% in 2012 to 25% in 2013. The decrease in the effective tax rate was primarily due to the receipt of the tax-exempt gain from life insurance proceeds.

Average Balance Sheets. The average yields and costs of funds shown in the following table are derived by dividing income or expense by the daily average balance of assets or liabilities, respectively, for the periods presented. Nonaccrual loans are included in the average balance of loans receivable, net for all periods presented. No tax-equivalent adjustments have been made.

	For the Year Ended December 31,					
	2013			2012		
(in thousands)	Average Balance	Interest	Average Yield/Cost	Average Balance	Interest	Average Yield/Cost
Interest-earning assets:						
Loans receivable, net	$ 570,720	$ 32,285	5.66%	$ 477,366	$ 29,133	6.10%
Investment securities:						
Available-for-sale	207,227	4,670	2.25	212,464	4,369	2.06
Held-to-maturity	497	23	4.70	922	37	4.01
Other interest-earning assets	22,341	135	0.60	17,362	134	0.77
Total interest-earning assets	800,785	37,113	4.63	708,114	33,673	4.76
Non-interest-earning assets	27,017			26,977		
Total assets	$ 827,802			$ 735,091		
Interest-bearing liabilities:						
Demand, interest-bearing and savings deposits	$ 238,012	1,925	0.81	$ 206,725	1,859	0.90
Money market	155,438	936	0.60	140,405	863	0.61
Time deposits	239,968	4,091	1.71	223,747	4,259	1.90
Total interest-bearing deposits	633,418	6,952	1.10	570,877	6,981	1.22
Federal Home Loan Bank borrowings	25,903	163	0.63	34,273	273	0.80
Total interest-bearing liabilities	659,321	7,115	1.08%	605,150	7,254	1.20%
Non-interest-bearing liabilities	105,558			70,730		
Total liabilities	764,879			675,880		
Stockholders' equity	62,923			59,211		
Total liabilities and stockholders' equity	$ 827,802			$ 735,091		
Interest rate spread[1]			3.55%			3.56%
Net interest income		$ 29,998			$ 26,419	
Net yield on interest-earning assets[2]			3.75%			3.72 %
Ratio of average interest-earning assets to average interest-bearing liabilities			1.21x			1.17x

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

	For the Year Ended December 31, 2011		
(in thousands)	Average Balance	Interest	Average Yield/Cost
Interest-earning assets:			
Loans receivable, net	$ 336,003	$ 21,488	6.40 %
Investment securities:			
Available-for-sale	177,498	4,017	2.26
Held-to-maturity	1,308	59	4.49
Other interest-earning assets	17,037	109	0.64
Total interest-earning assets	531,846	25,673	4.82
Non-interest-earning assets	30,072		
Total assets	$ 561,918		
Interest-bearing liabilities:			
Demand, interest-bearing and savings deposits	$ 183,238	2,428	1.33
Money market	104,600	1,089	1.04
Time deposits	168,934	3,359	1.99
Total interest-bearing deposits	456,772	6,876	1.51
Federal Home Loan Bank borrowings	19,320	289	1.50
Total interest-bearing liabilities	476,092	7,165	1.50 %
Non-interest-bearing liabilities	40,877		
Total liabilities	516,969		
Stockholders’ equity	44,949		
Total liabilities and stockholders’ equity	$ 561,918		
Interest rate spread[1]			3.32 %
Net interest income		$ 18,508	
Net yield on interest-earning assets[2]			3.48 %
Ratio of average interest-earning assets to average interest-bearing liabilities			1.18x

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

Rate/Volume Analysis

The following table reflects the sensitivity of our interest income and interest expense to changes in volume and in yields on interest-earning assets and costs of interest-bearing liabilities during the periods indicated.

(in thousands)	Year Ended December 31, 2013 vs. 2012 Increase (Decrease) Due to			Year Ended December 31, 2012 vs. 2011 Increase (Decrease) Due to		
	Volume	Rate	Net	Volume	Rate	Net
Interest and dividend income:						
Loans receivable	$ 5,281	$ (2,129)	$ 3,152	$ 8,627	$ (982)	$ 7,645
Investment securities:						
Available-for-sale	54	247	301	854	(502)	352
Held-to-maturity	(20)	6	(14)	(15)	(7)	(22)
Other interest-earnings assets	30	(29)	1	2	23	25
Total interest-earning assets	$ 5,345	$ (1,905)	$ 3,440	$ 9,468	$ (1,468)	$ 8,000
Interest expense:						
Demand, interest-bearing and savings	$ 253	$ (187)	$ 66	$ 211	$ (780)	$ (569)
Money market	90	(18)	72	220	(446)	(226)
Time deposits	277	(444)	(167)	1,044	(144)	900
Federal Home Loan Bank borrowings	(53)	(57)	(110)	119	(135)	(16)
Total interest-bearing liabilities	$ 567	$ (706)	$ (139)	$ 1,594	$ (1,505)	$ 89
Change in net interest income	$ 4,778	$ (1,199)	$ 3,579	$ 7,874	$ 37	$ 7,911

Liquidity, Commitments and Capital Resources

Liquidity. Our liquidity, represented by cash and due from banks, is a product of our operating, investing and financing activities. Our primary sources of funds are deposits, principal repayments of securities and outstanding loans, and funds provided from operations. In addition, we invest excess funds in short-term interest-earnings assets such as overnight deposits or U.S. agency securities, which provide liquidity to meet lending requirements. While scheduled payments from the amortization of loans and securities and short-term investments are relatively predictable sources of funds, general interest rates, economic conditions and competition greatly influence deposit flows and repayments on loans and mortgage-backed securities.

We strive to maintain sufficient liquidity to fund operations, loan demand and to satisfy fluctuations in deposit levels. We are required to have enough investments that qualify as liquid assets in order to maintain sufficient liquidity to ensure safe and sound banking operations. Liquidity may increase or decrease depending upon the availability of funds and comparative yields on investments in relation to the return on loans. We attempt to maintain adequate but not excessive liquidity, and liquidity management is both a daily and long-term function of our business management. We manage our liquidity in accordance with a board of directors-approved asset liability policy, which is administered by our asset liability committee (ALCO). ALCO reports interest rate sensitivity, liquidity, capital and investment related matters on a quarterly basis to our board of directors.

We review cash flow projections regularly and update them in order to maintain liquid assets at levels believed to meet the requirements of normal operations, including loan commitments and potential deposit outflows from maturing certificates of deposit and savings withdrawals.

While deposits are our primary source of funds, we are also able to generate cash through borrowings from the FHLB-NY. At December 31, 2013, we had $58.1 million of advances outstanding from the FHLB-NY and $2.3 million of advances outstanding from the FHLB-Pittsburgh. At December 31, 2013, we had available capacity with FHLB-NY, subject to certain collateral restrictions, of $438.7 million. We have elected to allow the advances outstanding from FHLB-Pittsburgh that were assumed as part of the MoreBank acquisition to amortize in accordance with their terms. We do not have any additional borrowing capacity available with the FHLB-Pittsburgh.

Additionally, we are a member of the Atlantic Community Bankers Bank ("ACBB") and as of December 31, 2013, we had available capacity with ACBB of $10.0 million to provide short-term liquidity generally for a period of not more than fourteen days.

Contractual Obligations. We have non-cancelable operating leases for branch offices and our operations center. The following is a schedule by years of future minimum rental payments required under operating leases that have initial or remaining non-cancelable lease terms in excess of one year at December 31, 2013:

Years Ended December 31:	(in thousands)
2014	$ 1,292
2015	1,332
2016	1,199
2017	956
2018	807
Thereafter	1,466
Total minimum payments required	$ 7,052

Capital Resources. Consistent with our goals to operate as a sound and profitable financial institution, we actively seek to maintain our status as a well-capitalized institution in accordance with regulatory standards. As of December 31, 2013, we met the capital requirements to be considered "well capitalized". See Note 14 - Regulatory Capital Requirements in the Notes to Consolidated Financial Statements included within this Form 10-K for more information regarding our capital resources.

Off-Balance Sheet Arrangements

We are a party to financial instruments with off-balance sheet risk in the normal course of our business of investing in loans and securities as well as in the normal course of maintaining and improving our facilities. These financial instruments include significant purchase commitments, such as commitments related to capital expenditure plans and commitments to purchase investment securities or mortgage-backed securities, and commitments to extend credit to meet the financial needs of our customers.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the loan contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee by our customers. Our exposure to credit loss in the event of non-performance by the counterparty to the financial instrument for commitments to extend credit is represented by the contractual notional amount of those instruments. We use the same credit policies in making commitments and conditional obligations as we do for on-balance-sheet instruments. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements.

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

(in thousands)	2013	2012
Performance and standby letters of credit	$ 7,561	$ 2,378
Commitments to fund loans	76,027	67,317
Unfunded commitments under lines of credit	9,255	9,260
	$ 92,843	$ 78,955

For additional information regarding our outstanding lending commitments at December 31, 2013, see Note 10 – Commitments and Contingencies in the Notes to Consolidated Financial Statements contained in this Annual Report on Form 10-K.

Impact of Inflation

The financial statements included in this document have been prepared in accordance with accounting principles generally accepted in the United States of America. These principles require the measurement of financial position and results of operations in terms of historical dollars, without considering changes in the relative purchasing power of money, over time, due to inflation. Our primary assets and liabilities are monetary in nature. As a result, interest rates have a more significant impact on our performance than the effects of general levels of inflation. Interest rates, however, do not necessarily move in the same direction or with the same magnitude as the price of goods and services, since such prices are affected by inflation.

Return on Equity and Assets

The following table presents certain performance ratios for the years ended December 31, 2013, 2012 and 2011.

	2013	2012	2011
Return on Average Assets (ROA)	1.06%	0.86%	0.50%
Return on Average Equity (ROE)	13.99%	10.66%	6.15%
Average Equity to Average Assets	7.60%	8.05%	8.13%

Our dividend payout ratio was zero for all periods presented above as we did not declare or pay dividends during any of the years ended December 31, 2013, 2012 and 2011.

Critical Accounting Policies and Estimates

In the preparation of our financial statements, we have adopted various accounting policies that govern the application of accounting principles generally accepted in the United States and in accordance with general practices within the banking industry. Our significant accounting policies are described in our financial statements under Note 1- Summary of Significant Accounting Policies. While all of these policies are important to understanding the financial statements, certain accounting policies described below involve significant judgment and assumptions by management that have a material impact on the carrying value of certain assets and liabilities. We consider these accounting estimates to be critical accounting policies. The judgments and assumptions we use are based on historical experience and other factors, which we believe to be reasonable under the circumstances. Because of the nature of the judgments and assumptions we make, actual results could differ from these judgments and assumptions that could have a material impact on the carrying values of our assets and liabilities and our results of operations.

Allowance for Credit Losses. The allowance for credit losses consists of the allowance for loan losses and the reserve for unfunded lending commitments. The allowance for loan losses represents our estimate of losses inherent in the loan portfolio as of the balance sheet date and is recorded as a reduction to loans. The reserve for unfunded lending commitments represents our estimate of losses inherent in our unfunded loan commitments and is recorded in other liabilities on the balance sheet. The allowance for loan losses is increased by the provision for loan losses, and decreased by charge-offs, net of recoveries. Generally, loans deemed to be uncollectible are charged-off against the allowance for loan losses, and subsequent recoveries, if any, are credited to the allowance for loan losses. All, or part, of the principal balance of loans receivable are charged-off to the allowance for loan losses when it is determined that the repayment of all, or part, of the principal balance is highly unlikely. For a more detailed discussion of our allowance for loan loss methodology and the allowance for loan losses see the section titled "Analysis of the Allowance for Loan Losses" in this "Management's Discussion and Analysis of Financial Condition and Results of Operations."

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

The excess of cash flows expected at acquisition over the estimated fair value is referred to as the accretable discount or premium and is recognized in interest income over the remaining life of the loans. The difference between the contractually-required payments at acquisition and the cash flows expected to be collected at acquisition is referred to as the nonaccretable discount. The nonaccretable discount represents estimated future credit losses expected to be incurred over the life of the loans. Subsequent decreases to the expected cash flows require us to evaluate the need for an allowance for loan losses. Subsequent improvements in expected cash flows result in the reversal of a corresponding amount of the nonaccretable discount which we then reclassify as accretable discount that is recognized in interest income over the remaining life of the loan using the level-yield 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 Financial Accounting Standards Board ("FASB") Accounting Standards Codification Topic 740, *Income Taxes* ("ASC 740"). 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, 2013 and 2012. Our policy is to account for interest and penalties as a component of other expense.

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

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

Recently Issued Accounting Standards

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

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

As a smaller reporting company, the Bank is not required to provide the information otherwise required by this Item.

Item 8. Financial Statements and Supplementary Data

The following audited financial statements are set forth in this Annual Report on Form 10-K on the pages listed in the Index to Consolidated Financial Statements below.

THE BANK OF PRINCETON

INDEX TO
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

BDO

Tel: 215-564-1900
Fax: 215-564-3940
www.bdo.com

Ten Penn Center
1801 Market Street, Suite 1700
Philadelphia, PA 19103

Report of Independent Registered Public Accounting Firm

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

We have audited the accompanying consolidated statement of financial condition of The Bank of Princeton and subsidiaries (collectively the "Company") as of December 31, 2013 and the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our 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 Company 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 Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Bank of Princeton and subsidiaries at December 31, 2013, and the results of their operations and their cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

BDO USA, LLP

Philadelphia, Pennsylvania
March 25, 2014

ParenteBeard

Report of Independent Registered Public Accounting Firm

Board of Directors and
Stockholders of The Bank of Princeton

We have audited the accompanying consolidated statement of financial condition of The Bank of Princeton and subsidiaries (the "Company") as of December 31, 2012, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for the year then ended. The Company's management is responsible for these consolidated financial statements. Our responsibility is to express an opinion on these consolidated financial statements based on our 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 Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Bank of Princeton and subsidiaries as of December 31, 2012, and the results of their operations and their cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

ParenteBeard LLC

Reading, Pennsylvania
March 21, 2013

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

	December 31, 2013	December 31, 2012
ASSETS		
Cash and due from banks	$ 27,425	$ 24,619
Securities available-for-sale	193,314	186,041
Securities held-to-maturity (fair value of $454 and $643, respectively)	423	600
Loans receivable, net of allowance for loan losses of $8,493 and $7,033 at December 31, 2013 and 2012, respectively	625,340	532,115
Bank-owned life insurance	8,799	8,918
Other real estate owned (OREO)	927	1,550
Premises and equipment, net	5,772	5,841
Accrued interest receivable and other assets	15,428	9,318
TOTAL ASSETS	$ 877,428	$ 769,002
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES:		
Deposits:		
Non-interest-bearing	$ 107,616	$ 76,793
Interest-bearing	641,394	595,571
Total deposits	749,010	672,364
Borrowings	60,412	28,246
Accrued interest payable and other liabilities	3,774	6,109
TOTAL LIABILITIES	813,196	706,719
STOCKHOLDERS' EQUITY:		
Common stock, $5.00 par value, 10,000,000 authorized, 4,578,679 and 4,578,569 shares issued and outstanding at December 31, 2013 and 2012, respectively	22,893	22,893
Paid-in capital	29,011	28,539
Retained earnings	16,258	7,457
Accumulated other comprehensive (loss) income	(3,930)	3,394
TOTAL STOCKHOLDERS' EQUITY	64,232	62,283
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 877,428	$ 769,002

See notes to consolidated financial statements.

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

	For the Years Ended December 31, 2013	2012
INTEREST AND DIVIDEND INCOME		
Loans receivable, including fees	$ 32,285	$ 29,133
Available-for-sale debt securities:		
Taxable	2,417	2,660
Tax-exempt	2,253	1,709
Held-to-maturity debt securities	23	37
Other interest and dividend income	135	134
TOTAL INTEREST AND DIVIDEND INCOME	37,113	33,673
INTEREST EXPENSE		
Deposits	6,952	6,981
Borrowings	163	273
TOTAL INTEREST EXPENSE	7,115	7,254
NET INTEREST INCOME	29,998	26,419
Provision for loan losses	2,032	1,968
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	27,966	24,451
NON-INTEREST INCOME		
Gain on sale of securities available-for-sale, net	259	897
Income from bank-owned life insurance	264	279
Fees and service charges	1,141	1,197
Gain from life insurance proceeds	851	-
Other income	160	211
TOTAL NON-INTEREST INCOME	2,675	2,584
NON-INTEREST EXPENSE		
Salaries and employee benefits	9,844	8,879
Occupancy and equipment	3,154	2,873
Professional fees	1,438	1,305
Data processing and communications	1,478	1,297
Federal deposit insurance assessment	567	586
Advertising and promotion	208	296
Office expense	328	281
Other real estate owned, net	99	1,137
Other	1,749	1,385
TOTAL NON-INTEREST EXPENSE	18,865	18,039
INCOME BEFORE INCOME TAX EXPENSE	11,776	8,996
INCOME TAX EXPENSE	2,975	2,685
NET INCOME	$ 8,801	$ 6,311
Earnings per common share-basic	$ 1.92	$ 1.38
Earnings per common share-diluted	$ 1.90	$ 1.36

See notes to consolidated financial statements.

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

	For the Years ended December 31, 2013	For the Years ended December 31, 2012
NET INCOME	$ 8,801	$ 6,311
Other comprehensive (loss) income		
Unrealized holding (losses) gains arising during period on securities available-for-sale	(10,755)	2,557
Less: reclassification adjustment for gains on sales of securities available-for-sale, net included in net income	(259)	(897)
Income tax effect	3,690	(364)
Total other comprehensive (loss) income	(7,324)	1,296
COMPREHENSIVE INCOME	$ 1,477	$ 7,607

See notes to consolidated financial statements.

THE BANK OF PRINCETON
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
For the Years Ended December 31, 2013 and 2012
(in thousands, except share data)

	Common stock	Paid-in capital	Retained earnings	Accumulated other comprehensive (loss) income	Total
Balance, December 31, 2011	$ 22,892	$ 28,182	$ 1,146	$ 2,098	$ 54,318
Net income	-	-	6,311	-	6,311
Other comprehensive income	-	-	-	1,296	1,296
Stock options exercised (140 shares at $10.50 per share and 99 shares at $12.00 per share)	1	2	-	-	3
Stock-based compensation expense	-	355	-	-	355
Balance, December 31, 2012	22,893	28,539	7,457	3,394	62,283
Net income	-	-	8,801	-	8,801
Other comprehensive loss	-	-	-	(7,324)	(7,324)
Stock options exercised (60 shares at $10.50 per share and 50 shares at $12.00 per share)	-	1	-	-	1
Stock-based compensation expense	-	471	-	-	471
Balance, December 31, 2013	$ 22,893	$ 29,011	$ 16,258	$ (3,930)	$ 64,232

See notes to consolidated financial statements.

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

	For the Years Ended December 31, 2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 8,801	$ 6,311
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	2,032	1,968
Depreciation and amortization	920	830
Stock-based compensation	471	355
Amortization of premiums and accretion of discounts on securities	(1,131)	(964)
Accretion of net deferred loan fees and costs	621	497
Amortization of premiums and accretion of discounts on deposits	59	59
Amortization of premiums on borrowings	(29)	(36)
Net realized gains on sale of securities available-for-sale	(259)	(897)
Increase in cash surrender value of bank-owned life insurance	(264)	(279)
Gain from life insurance proceeds	(851)	-
Loss on disposition of premises and equipment	-	58
Increase in deferred income taxes	(476)	(916)
Net loss on other real estate owned	51	928
Amortization of core deposit intangible	125	125
Increase in accrued interest receivable and other assets	(579)	(172)
(Decrease) increase in accrued interest payable and other liabilities	(2,335)	1,862
NET CASH PROVIDED BY OPERATING ACTIVITIES	7,156	9,729
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of available-for-sale securities	(64,313)	(101,952)
Maturities, calls and principal repayments of available-for-sale securities	37,159	51,155
Proceeds from sale of available-for-sale securities	10,257	45,040
Proceeds on sale of other real estate owned	1,635	796
Maturities, calls and principal repayments of held-to-maturity securities	177	483
Net increase in loans	(96,941)	(131,072)
Proceeds from bank-owned life insurance	1,234	-
Purchases of premises and equipment	(851)	(1,565)
Purchases of restricted bank stock	(1,490)	(884)
NET CASH USED IN INVESTING ACTIVITIES	(113,133)	(137,999)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in deposits	76,587	76,733
Net proceeds of overnight borrowings	35,900	22,200
Repayments of term borrowings	(3,705)	(5,262)
Proceeds from exercise of stock options	1	3
NET CASH PROVIDED BY FINANCING ACTIVITIES	108,783	93,674
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	2,806	(34,596)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	24,619	59,215
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 27,425	$ 24,619

See notes to consolidated financial statements.

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

	For the Years Ended December 31, 2013		For the Years Ended December 31, 2012	
SUPPLEMENTARY CASH FLOWS INFORMATION:				
Interest paid	$	7,008	$	7,349
Income taxes paid	$	4,392	$	3,112
SUPPLEMENTARY SCHEDULE OF NONCASH ACTIVITIES:				
Transfers from loans receivable, net to other real estate owned (OREO)	$	1,063	$	2,355
Securities purchased and not yet settled	$	-		610

See notes to consolidated financial statements.

THE BANK OF PRINCETON
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 – Summary of Significant Accounting Policies

Organization and Nature of Operations

The Bank of Princeton (the "Bank") was incorporated on March 5, 2007 under the laws of the State of New Jersey and is a New Jersey state-chartered banking institution. The Bank was granted its bank charter on April 17, 2007, commenced operations on April 23, 2007 and is a full-service bank providing personal and business lending and deposit services. As a state-chartered bank, the Bank is subject to regulation by the New Jersey Department of Banking and Insurance and the Federal Deposit Insurance Corporation ("FDIC"). The area served by the Bank, through its twelve branches, is generally an area within an approximate 50 mile radius of Princeton, NJ, including parts of Mercer, Somerset, Hunterdon, Monmouth and Middlesex Counties in central New Jersey, and additional areas in portions of Philadelphia, Montgomery and Bucks Counties in Pennsylvania.

The Bank offers traditional retail banking services, one-to-four-family residential mortgage loans, multi-family and commercial mortgage loans, construction loans, commercial business loans and consumer loans, including home equity loans and lines of credit. As of December 31, 2013, the Bank had 116 full-time employees and 12 part-time employees. The Bank maintains a website at www.thebankofprinceton.com.

Basis of Financial Statement Presentation

The consolidated financial statements include the accounts of the Bank and its wholly-owned subsidiaries: Bayard Lane, LLC, Bayard Properties, LLC, 112 Fifth Avenue, LLC, TBOP New Jersey Investment Company, TBOP Delaware Investment Company and TBOP REIT, Inc. All significant inter-company accounts and transactions have been eliminated in consolidation.

The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP").

Estimates

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Because of uncertainties associated with estimating the amounts, timing and likelihood of possible outcomes, actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, the determination of other-than-temporary impairment of securities and the valuation of deferred tax assets.

Management believes that the allowance for loan losses is adequate as of December 31, 2013 and 2012. While management uses current information to recognize losses on loans, future additions to the allowance for loan losses may be necessary based on changes in economic conditions in the market area or other factors.

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

Subsequent Events

Management evaluated subsequent events until the date of issuance of this report and concluded that no events occurred that were of a material nature.

THE BANK OF PRINCETON
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 – Summary of Significant Accounting Policies (Continued)

Significant group concentrations of credit risk

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

Transfers of financial assets

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

Cash and due from banks

Cash and due from banks include cash on hand, on deposit at other financial institutions and federal funds sold with original maturities of 90 days or less. Generally, federal funds are purchased for one-day periods.

Securities

Investments in debt securities that the Bank has the positive intent and ability to hold to maturity are classified as held-to-maturity securities and reported at amortized cost. Debt and equity securities that are bought and held principally for the purpose of selling them in the near term are classified as trading securities and reported at fair value, with unrealized holding gains and losses included in earnings. Debt and equity securities not classified as trading securities or as held-to-maturity securities are classified as available-for-sale securities and reported at fair value, with unrealized holding gains or losses, net of deferred income taxes, reported in the accumulated other comprehensive income component of stockholders' equity. The Bank held no trading securities at December 31, 2013 and 2012. Discounts and premiums are accreted and amortized, respectively, to income by use of the level-yield method. Gain or loss on sales of securities available-for-sale is based on the specific identification method.

Management evaluates securities for other-than-temporary-impairment ("OTTI") quarterly, and more frequently when economic or market conditions warrant such an evaluation. In determining OTTI under the ASC Topic 320, management considers many factors, including: (1) the length of time and the extent to which the fair value has been less than amortized cost; (2) the financial condition and near term prospects of the issuer; (3) whether the market decline was affected by macroeconomic conditions, and (4) whether the entity has the intent to sell the debt security or more likely than not will be required to sell the debt security before its anticipated recovery. The assessment of whether an OTTI decline exists involves a high degree of subjectivity and judgment and is based on information available to management at a point in time. OTTI is deemed to have occurred if there has been an adverse change in the remaining expected future cash flows.

When an OTTI of debt securities occurs, the amount of the OTTI recognized in earnings depends on whether the Bank intends to sell the security or more likely than not will be required to sell the security before recovery of its amortized cost basis. If the Bank intends to sell or more likely than not will be required to sell the security before recovery of its amortized cost basis, the OTTI shall be recognized in earnings at an amount equal to the difference between the security's amortized cost basis and its fair value at the balance sheet date. If the Bank does not intend to sell the security and it is not more

THE BANK OF PRINCETON
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 – Summary of Significant Accounting Policies (Continued)

likely than not that the Bank will be required to sell the security before recovery of its amortized cost basis, the OTTI shall be separated into the amount representing the credit loss and the amount related to all other factors. The amount of the total OTTI related to the credit loss is determined based on the present value of cash flows expected to be collected and is recognized in earnings. The amount of the total OTTI related to other factors shall be recognized in other comprehensive income, net of applicable tax benefit. The previous amortized cost basis less the OTTI recognized in earnings shall become the new amortized cost basis of the investment.

For held-to-maturity debt securities, the amount of an other-than-temporary impairment recorded in other comprehensive income for the noncredit portion of a previous other-than-temporary impairment will be amortized prospectively over the remaining life of the security on the basis of the timing of future estimated cash flows of the security.

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

Loans Receivable

Loans receivable 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, as applicable. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, and fair value adjustments under the acquisition method of accounting are deferred and recognized as an adjustment of the yield on the related loans. Premiums and discounts on purchased loans are amortized as adjustments to interest income using the level-yield method.

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

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

Allowance for credit losses

The allowance for credit losses consists of the allowance for loan losses and the reserve for unfunded lending commitments. The allowance for loan losses represents management's estimate of losses inherent in the loan portfolio as of the balance sheet date and is recorded as a reduction to loans. The reserve for unfunded lending commitments represents management's estimate of losses inherent in its unfunded loan commitments and is recorded in other liabilities on the statement of financial condition. The allowance for loan losses is increased by the provision for loan losses, and decreased by charge-offs, net of recoveries. Loans deemed to be uncollectible are charged against the allowance for loan losses, and subsequent recoveries, if any, are credited to the allowance. All, or part, of the principal balance of loans receivable are

THE BANK OF PRINCETON
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 – Summary of Significant Accounting Policies (Continued)

charged off to the allowance as soon as it is determined that the repayment of all, or part, of the principal balance is highly unlikely.

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

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

1. Lending policies and procedures, including underwriting standards and collection, charge-off, and recovery practices.

2. National, regional, and local economic and business conditions, as well as the condition of various market segments, including the value of underlying collateral for collateral-dependent loans.

3. Nature and volume of the portfolio and terms of loans.

4. Experience, ability, and depth of lending management and staff.

5. Volume and severity of past due, classified and nonaccrual loans, as well as other loan modifications.

6. Quality of the Bank's loan review system, and the degree of oversight by the Bank's board of directors.

7. Existence and effect of any concentrations of credit and changes in the level of such concentrations.

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

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

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

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

THE BANK OF PRINCETON
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 – Summary of Significant Accounting Policies (Continued)

and personal bankruptcy of the borrower.

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

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

Commercial and industrial lending is generally considered higher risk due to the concentration of principal in a limited number of loans and borrowers and the effects of general economic conditions on the business. Commercial business loans are primarily secured by inventories and other business assets. In most cases, any repossessed collateral for a defaulted commercial business loan will not provide an adequate source of repayment of the outstanding loan balance.

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

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

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

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 – Summary of Significant Accounting Policies (Continued)

impaired loans are measured based on the estimated fair value of the loan's collateral, less costs to sell the property.

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

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

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

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

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

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

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

THE BANK OF PRINCETON
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Note 1 – Summary of Significant Accounting Policies (Continued)

Bank-owned life insurance

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

Other real estate owned

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

Premises and equipment

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

Accrued interest receivable and other assets

Accrued interest receivable and other assets include accrued interest receivable, deferred tax asset, 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 $3.7 million and $2.2 million is carried at cost at December 31, 2013 and 2012, respectively.

Management's determination of whether these investments are impaired is based on an assessment of the ultimate recoverability of their cost, rather than by recognizing temporary declines in value. The determination of whether a decline affects the ultimate recoverability of cost is influenced by criteria such as (1) the significance of the decline in net assets of the FHLB as compared to the capital stock amount for the FHLB and the length of time this situation has persisted, (2) commitments by the FHLB to make payments required by law or regulation and the level of such payments in relation to the operating performance of the FHLB and (3) the impact of legislative and regulatory changes on institutions and, accordingly, on the customer base of the FHLB.

The Bank also held $100,000 of stock in Atlantic Community Bankers Bank ("ACBB") at December 31, 2013 and 2012.

Management believes no impairment charge is necessary related to the FHLB restricted stock or the ACBB restricted stock as of December 31, 2013 or 2012.

Intangible assets

The acquisition of MoreBank on September 30, 2010 and the acquisition of a branch in 2010 resulted in the Bank recording core deposit intangibles of $551,000 and $100,000, respectively. The core deposit intangible asset is amortized to expense on a straight-line basis over the expected period of benefit, which was established initially to be 5 years for the MoreBank acquisition and 10 years for the branch acquisition. The core deposit intangible, net of accumulated amortization, was $230,000 and $356,000 as of December 31, 2013 and 2012, respectively. Amortization expense is anticipated to be approximately $126,000 in 2014, $65,000 in 2015 and approximately $9,000 in 2016, 2017 and 2018, respectively.

THE BANK OF PRINCETON
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 – Summary of Significant Accounting Policies (Continued)

The recoverability of the carrying value of intangible assets will be evaluated whenever changes in circumstances indicate recoverability may be in doubt and there may be impairment. Permanent declines in value, if any, will be charged to expense. There were no impairment charges in the years ended December 31, 2013 and 2012.

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, 2013 and 2012. 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, 2013, tax year 2010 is subject to federal examination and tax years after 2009 for state examination. Tax regulations are subject to interpretation of the related tax laws and regulations and require significant judgment to apply.

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

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

Off-balance sheet financial instruments

In the ordinary course of business, the Bank has entered into off-balance sheet financial instruments consisting of commitments to extend credit and letters of credit. Such financial instruments are recorded in the statement of financial condition when they are funded.

Employee benefit plan

The Bank sponsors a 401(k) plan into which all employees are eligible to contribute the maximum allowed by the Internal Revenue Code of 1986, as amended. The Bank may make discretionary matching contributions. The Bank made matching contributions to employees of $71,000 and $32,000, respectively during the years ended December 31, 2013 and 2012.

Stock compensation plans

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

THE BANK OF PRINCETON
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Note 1 – Summary of Significant Accounting Policies (Continued)

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

Earnings per share

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

Advertising costs

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

Comprehensive income

Accounting principles generally require that recognized revenues, expenses, gains and losses be included in net income. Although certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale securities, are reported as a separate component of the equity section of the balance sheet, such items, along with net income, are components of comprehensive income. Accumulated comprehensive income is comprised of net unrealized holding losses, net of taxes, on available-for-sale securities of $3.9 million as of December 31, 2013. Accumulated comprehensive income was comprised of net unrealized holding gains, net of taxes, on available-for-sale securities of $3.4 million as of December 31, 2012. Gross unrealized holding losses on available-for-sale securities and the related tax effect were $6.2 million and $2.3 million, respectively as of December 31, 2013. Gross unrealized holding gains on available-for-sale securities and the related tax effect were $4.8 million and $1.4 million, respectively, at December 31, 2012. Realized gains or losses are reclassified out of accumulated comprehensive income when the underlying security is sold, based upon the specific identification method.

Reclassifications

Certain amounts as of and for the year ended December 31, 2012 have been reclassified to conform to the current year's presentation. These reclassifications did not have any impact on stockholders' equity, net income or cash flows.

Recently issued accounting standards

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

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Note 1 – Summary of Significant Accounting Policies (Continued)

In July 2013, the FASB issued ASU 2013-11 "Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists, Income Taxes (Topic 740)." An unrecognized tax benefit, or a portion of an unrecognized tax benefit, should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, except as follows. To the extent a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position or the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. The assessment of whether a deferred tax asset is available is based on the unrecognized tax benefit and deferred tax asset that exist at the reporting date and should be made presuming disallowance of the tax position at the reporting date. For example, an entity should not evaluate whether the deferred tax asset expires before the statute of limitations on the tax position or whether the deferred tax asset may be used prior to the unrecognized tax benefit being settled. The amendments in this Update do not require new recurring disclosures. The amendments in this Update are effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. The Bank does not expect the adoption of this FASB ASU to have a material impact on the consolidated financial statements.

In January 2014, the FASB issued ASU 2014-04 "Receivables-Troubled Debt Restructurings by Creditors (Subtopic 310-40." The amendments in this update clarify that an in substance repossession or foreclosure occurs, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either (1) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure or (2) the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. Additionally, the amendments require interim and annual disclosure of both (1) the amount of foreclosed residential real estate property held by the creditor and (2) the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure according to local requirements of the applicable jurisdiction. The amendments in this Update are effective for annual period and interim periods within those annual periods beginning after December 15, 2014. The Bank does not expect the adoption of this FASB ASU to have a material impact on the consolidated financial statements.

Note 2 – Earnings Per Share

The following schedule presents earnings per share data for the years ended December 31, 2013 and 2012:

	Twelve months ended December 31,	
	2013	**2012**
	(in thousands, except per share data)	
Net income applicable to common stock	$ 8,801	$ 6,311
Weighted average number of common shares outstanding	4,578	4,578
Basic earnings per share	$ 1.92	$ 1.38
Net income applicable to common stock	$ 8,801	$ 6,311
Weighted average number of common shares outstanding	4,578	4,578
Dilutive effect of potential common shares	63	63
Weighted average number of diluted common shares outstanding	4,641	4,641
Diluted earnings per share	$ 1.90	$ 1.36

THE BANK OF PRINCETON
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2 – Earnings Per Share (Continued)

Options and warrants to purchase 357,967 shares of common stock at a weighted average exercise price of $11.25 were included in the computation of diluted earnings per share for the year ended December 31, 2013. Options to purchase 222,900 shares of common stock at a weighted average exercise price of $16.37 were not included in the computation of diluted earnings per share because the exercise price equaled or exceeded the estimated fair value of our common stock at December 31, 2013.

Options and warrants to purchase 286,377 shares of common stock at a weighted average exercise price of $10.73 were included in the computation of diluted earnings per share for the year ended December 31, 2012. Options to purchase 198,800 shares of common stock at a weighted average exercise price of $16.67 were not included in the computation of diluted earnings per share because the exercise price equaled or exceeded the estimated fair value of our common stock at December 31, 2012.

Note 3 – Investment Securities

The following summarizes the amortized cost and estimated fair value of securities available-for-sale at December 31, 2013 and 2012 with gross unrealized gains and losses therein:

	December 31, 2013			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in thousands)			
Available-for-sale:				
U.S. Treasury securities	$ 38,112	$ -	$ (2,423)	$ 35,689
Mortgage-backed securities-U.S. Government Sponsored Enterprises (GSEs)	72,680	1,383	(979)	73,084
Obligations of state and political subdivisions	88,697	230	(4,386)	84,541
	$ 199,489	$ 1,613	$ (7,788)	$ 193,314

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

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Note 3 – Investment Securities (Continued)

The unrealized losses, categorized by the length of time in a continuous loss position, and the fair value of related securities available-for-sale as of December 31, 2013 are as follows:

	Less than 12 Months		More than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
			(in thousands)			
December 31, 2013:						
Mortgage-backed securities-U.S. Government Sponsored Enterprises (GSEs)	$ 22,960	$ (979)	$ -	$ -	$ 22,960	$ (979)
Obligations of state and political subdivisions	57,818	(4,013)	6,025	(373)	63,843	(4,386)
US Treasury securities	35,689	(2,423)	-	-	35,689	(2,423)
	$ 116,467	$ (7,415)	$ 6,025	$ (373)	$ 122,492	$ (7,788)

The unrealized losses, categorized by the length of time in a continuous loss position, and the fair value of related securities available-for-sale as of December 31, 2012 are as follows:

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

At December 31, 2013, the Bank's debt securities portfolio consisted of approximately 339 securities, of which 178 were in an unrealized loss position for less than twelve months and 14 were in a continuous loss position for more than twelve months. No OTTI charges were recorded for the year ended December 31, 2013. The Bank does not intend to sell these securities and it is not more likely than not that we will be required to sell these securities. Unrealized losses primarily relate to interest rate fluctuations and not credit concerns.

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Note 3 – Investment Securities (Continued)

The amortized cost and estimated fair value of securities available-for-sale at December 31, 2013 by contractual maturity are shown below. Expected maturities will differ from contractual maturities as borrowers may have the right to call or prepay obligations with or without call or prepayment penalties:

	Amortized Cost	Fair Value
	(in thousands)	
Due in one year or less	$ 165	$ 165
Due after one year through five years	5,491	5,564
Due after five years through ten years	77,213	74,663
Due after ten years	116,620	112,922
Total	$ 199,489	$ 193,314

The following summarizes the amortized cost and estimated fair value of securities held-to-maturity at December 31, 2013 with gross unrealized gains and losses therein:

	December 31, 2013			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in thousands)			
Held-to-maturity:				
Mortgage-backed securities-U.S. Government Sponsored Enterprises (GSEs)	$ 423	$ 31	$ -	$ 454

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

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

	December 31, 2012			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in thousands)			
Held-to-maturity:				
Mortgage-backed securities-U.S. Government Sponsored Enterprises (GSEs)	$ 600	$ 43	$ -	$ 643

Proceeds from the sale of securities available-for-sale amounted to $10.0 million for the year ended December 31, 2013, which included realized gains of approximately $258,543. Proceeds from the sale of securities available-for-sale amounted to $45.0 million for the twelve months ended December 31, 2012, which included realized gains of approximately $903,000 and realized losses of approximately $6,000.

Approximately $1.2 million of securities available-for-sale were pledged as collateral for Federal Home Loan Bank of Pittsburgh borrowings at December 31, 2013. Approximately $102.8 million of securities available-for-sale and $454,341 of securities held-to-maturity were pledged as collateral for NJ Governmental Unit Deposit Protection Act ("GUDPA") deposits at December 31, 2013. Approximately $1.4 million of securities available-for-sale were pledged as collateral for business sweep accounts at December 31, 2013.

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Note 4 – Loans Receivable

Loans receivable, net at December 31, 2013 and 2012 were comprised of the following:

	December 31, 2013	December 31, 2012
	(in thousands)	
Commercial real estate	$ 372,273	$ 317,946
Commercial and industrial	118,274	103,627
Construction	76,477	62,702
Residential first-lien mortgage	40,242	29,127
Home equity	28,204	25,617
Consumer	132	1,480
Total loans	635,602	540,499
Deferred fees and costs	(1,769)	(1,351)
Allowance for loan losses	(8,493)	(7,033)
Loans, net	$ 625,340	$ 532,115

The following table presents nonaccrual loans by segment of the loan portfolio as of December 31, 2013 and 2012:

	December 31, 2013	December 31, 2012
	(in thousands)	
Commercial real estate	$ 2,535	$ 2,690
Commercial and industrial	5,127	4,596
Construction	-	892
Residential first-lien mortgage	182	-
Home equity	394	359
Consumer	-	11
Total	$ 8,238	$ 8,548

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

THE BANK OF PRINCETON
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4 – Loans Receivable (Continued)

The following table summarizes information in regards to impaired loans by loan portfolio segment segregated by those for which a related allowance was required and those for which a related allowance was not necessary, as of December 31, 2013 and the year then ended:

	Unpaid Principal Balance	Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized
			(in thousands)		
With no related allowance recorded:					
Commercial real estate	$ 3,270	2,719	$ -	$ 2,565	$ -
Commercial and industrial	5,805	5,542	-	3,900	-
Construction	-	-	-	1,544	-
Residential first-lien mortgage	700	703	-	214	23
Home equity	816	820	-	798	4
Consumer	-	-	-	4	-
	10,591	9,784	-	9,025	27
With an allowance recorded:					
Commercial real estate	-	-	-	22	-
Commercial and industrial	-	-	-	-	-
Construction	1,986	1,975	61	785	64
Residential first-lien mortgage	-	-	-	-	-
Home equity	-	-	-	-	-
Consumer	-	-	-	-	-
	1,986	1,975	61	807	64
Total:					
Commercial real estate	3,270	2,719	-	2,587	-
Commercial and industrial	5,805	5,542	-	3,900	-
Construction	1,986	1,975	61	2,329	64
Residential first-lien mortgage	700	703	-	214	23
Home equity	816	820	-	798	4
Consumer	-	-	-	4	-
	$ 12,577	$ 11,759	$ 61	$ 9,382	$ 91

THE BANK OF PRINCETON
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4 – Loans Receivable (Continued)

The following table summarizes information in regards to impaired loans by loan portfolio segment segregated by those for which a related allowance was required and those for which a related allowance was not necessary, as of December 31, 2012 and the year then ended:

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

At December 31, 2013, twelve loans totaling $7.7 million were considered troubled debt restructurings and classified as impaired. Troubled debt restructurings of $4.8 million were performing in accordance with their modified terms at December 31, 2013. The remaining $2.9 million of troubled debt restructurings were on non-accrual status at December 31, 2013.

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4 – Loans Receivable (Continued)

The performance and credit quality of the loan portfolio is also monitored by analyzing the age of the loans receivable by the length of time a recorded payment is past due. The following table presents the segments of the loan portfolio summarized by the past due status as of December 31, 2013:

	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 days	Total Past Due	Current	Total Loans Receivable	Loans Receivable >90 Days and Accruing
			(in thousands)				
Commercial real estate	$ 41	$ -	$ 2,508	$ 2,549	$ 369,724	$ 372,273	$ -
Commercial and industrial	572	400	2,143	3,115	115,159	118,274	-
Construction	4,247	-	-	4,247	72,230	76,477	-
Residential first-lien mortgage	-	-	182	182	40,060	40,242	-
Home equity	165	250	394	809	27,395	28,204	-
Consumer	-	-	-	-	132	132	-
Total	$ 5,025	$ 650	$ 5,227	$ 10,902	$ 624,700	$ 635,602	$ -

The following table presents the segments of the loan portfolio summarized by the past due status as of December 31, 2012:

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

The following table presents the segments of the loan portfolio summarized by the aggregate pass rating and the classified ratings of special mention, substandard and doubtful within the Bank's internal risk rating system as of December 31, 2013:

	Pass	Special Mention	Substandard	Doubtful	Total
			(in thousands)		
Commercial real estate	$ 368,022	$ 1,055	$ 3,169	$ 27	$ 372,273
Commercial and industrial	110,927	2,220	5,127	-	118,274
Construction	74,511	-	1,966	-	76,477
Residential first-lien mortgage	40,060	-	182	-	40,242
Home equity	27,385	425	394	-	28,204
Consumer	132	-	-	-	132
Total	$ 631,037	$ 3,700	$ 10,838	$ 27	$ 635,602

THE BANK OF PRINCETON
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4 – Loans Receivable (Continued)

The following table presents the segments of the loan portfolio summarized by the aggregate pass rating and the classified ratings of special mention, substandard and doubtful within the Bank's internal risk rating system as of December 31, 2012:

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

Allowance for loan losses on loans receivables at and for the year ended December 31, 2013:

	Commercial real estate	Commercial and industrial	Construction	Residential first-lien mortgage	Home equity	Consumer	Unallocated	Total
				(in thousands)				
Allowance for loan losses:								
Beginning balance	$ 2,557	$ 1,244	$ 2,163	$ 204	$ 256	$ 10	$ 599	$ 7,033
Provisions	498	316	845	78	26	(9)	278	2,032
Charge-offs	(73)	(156)	(370)	-	-	-	-	(599)
Recoveries	12	15	-	-	-	-	-	27
Ending Balance	$ 2,994	$ 1,419	$ 2,638	$ 282	$ 282	$ 1	$ 877	$ 8,493
Ending Balance:								
Individually evaluated for impairment	$ -	$ -	$ 61	$ -	$ -	$ -	$ -	$ 61
Collectively evaluated for impairment	$ 2,994	$ 1,419	$ 2,577	$ 282	$ 282	$ 1	$ 877	$ 8,432

Recorded investment in loans receivables at December 31, 2013:

	Commercial real estate	Commercial and industrial	Construction	Residential first-lien mortgage	Home equity	Consumer	Unallocated	Total
Loans:								
Ending Balance:								
Individually evaluated for impairment	$ 2,719	$ 5,542	$ 1,975	$ 703	$ 820	$ -	$ -	$ 11,759
Collectively evaluated for impairment	369,554	112,732	74,502	39,539	27,384	132	-	623,843
Ending Balance	$ 372,273	$ 118,274	$ 76,477	$ 40,242	$ 28,204	$ 132	$ -	$ 635,602

THE BANK OF PRINCETON
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4 – Loans Receivable (Continued)

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

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

Recorded investment in loans receivable at December 31, 2012:

	Commercial real estate	Commercial and industrial	Construction	Residential first-lien mortgage	Home equity	Consumer	Unallocated	Total
Loans:								
Ending Balance:								
Individually evaluated for impairment	$ 2,291	$ 4,526	$ 2,877	$ -	$ 667	$ 11	$ -	$ 10,372
Collectively evaluated for impairment	315,249	99,013	59,825	29,127	24,812	1,469	-	529,495
Loans acquired with deteriorated credit quality	406	88	-	-	138	-	-	632
Ending Balance	$ 317,946	$ 103,627	$ 62,702	$ 29,127	$ 25,617	$ 1,480	$ -	$ 540,499

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

The following table summarizes information in regards to troubled debt restructurings for the year ended December 31, 2013 (dollars in thousands):

	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Troubled debt restructurings:			
Commercial real estate	2	$ 266	$ 266
Commercial and industrial	1	$ 1,425	$ 2,124
Residential first-lien mortgage	1	$ 517	$ 519

THE BANK OF PRINCETON
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4 – Loans Receivable (Continued)

As indicated above, the Bank modified four loans during the year ended December 31, 2013 that were categorized as troubled debt restructurings. In modifying these loans, the Bank capitalized interest, extended the maturity and/or reduced the interest rate on the original loan. The troubled debt restructurings in the table above are performing in accordance with their modified terms. These troubled debt restructurings are impaired loans and therefore, in accordance with the Bank's policy, are individually evaluated for impairment. As of December 31, 2013, there is no specific allowance for any of these modified loans. There were no troubled debt restructurings executed within the year ended December 31, 2013 that subsequently defaulted during the year ended December 31, 2013.

The following table summarizes information in regards to troubled debt restructurings for the year ended December 31, 2012 (dollars in thousands):

	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Troubled debt restructurings:			
Commercial and industrial	1	$ 564	$ 564
Home equity	1	$ 100	$ 100

As indicated above, the Bank modified two loans during the twelve months ended December 31, 2012 that were categorized as troubled debt restructurings. In modifying these loans, the Bank capitalized interest, extended the maturity and/or reduced the interest rate on the original loan. Other than the modifications discussed further below, the remaining troubled debt restructurings in the table above are performing in accordance with their modified terms. These troubled debt restructurings are impaired loans and therefore, in accordance with the Bank's policy, are individually evaluated for impairment. As of December 31, 2012, there was no specific allowance for any of these modified loans.

The following table summarizes information in regards to troubled debt restructurings for the year ended December 31, 2012 that subsequently defaulted (dollars in thousands):

	Number of Contracts	Outstanding Recorded Investment
Troubled debt restructurings that subsequently defaulted:		
Commercial real estate	1	$ 564

Loans to Related Party. In 2008, the Bank made two commercial real estate loans to a member of its board of directors. In 2013, the Bank modified these two commercial real estate loans by lowering the interest rate on both loans. The terms of these modifications were reviewed and approved by the disinterested members of the Bank's board of directors. The modifications were made in the ordinary course of business, on substantially the same terms as those prevailing at the time for comparable loans with persons not related to the Bank and did not involve more than the normal risk of collectability or present other unfavorable features. One of the commercial real estate loans is secured by the building that houses the Bank's corporate headquarters and one of its branches that the Bank leases from a company that is 99% owned by this member of our board of directors. See Note 10- Commitments and Contingencies for additional information regarding the terms of the lease.

In 2011, the Bank made two commercial and industrial loans to a company for which one member of its board of directors is a partial owner, in the amount of $52,000. The terms of these commercial and industrial loans were reviewed and approved by the disinterested members of the Bank's board of directors. The loans were made in the ordinary course of business, on

THE BANK OF PRINCETON
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4 – Loans Receivable (Continued)

substantially the same terms, including interest rate and collateral, as those prevailing at the time for comparable loans with persons not related to the Bank and did not involve more than the normal risk of collectability or present other unfavorable features.

In 2012, the Bank made a commercial real estate loan to a member of its board of directors in the amount of $2.0 million. The terms of this commercial real estate loan were reviewed and approved by the disinterested members of the Bank's board of directors. The loan was made in the ordinary course of business, on substantially the same terms, including interest rate and collateral, as those prevailing at the time for comparable loans with persons not related to the Bank and did not involve more than the normal risk of collectability or present other unfavorable features.

The table below presents information regarding the loans to related parties for the years ended December 31, 2013 and 2012.

(in thousands)	2013	2012
Outstanding related party loans at January 1,	$ 5,179	$ 3,310
New loans	-	1,988
Repayments	(197)	(119)
Outstanding related party loans at December 31,	$ 4,982	$ 5,179

No loans to related parties were nonaccrual, past due, restructured or potential problems at December 31, 2013 and 2012.

Note 5 – Premises and Equipment

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

	Estimated useful lives	2013	2012
Land	N/A	$ 410	$ 410
Buildings	40 Yrs.	1,741	1,741
Leasehold improvements	10 Yrs.	4,568	3,271
Furniture, fixtures and equipment	3-7 Yrs.	3,492	2,613
Construction in progress		38	521
		10,249	8,556
Accumulated depreciation and amortization		(4,477)	(2,715)
Total		$ 5,772	$ 5,841

Note 6 – Accrued Interest Receivable and Other Assets

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

	2013	2012
Accrued interest receivable	$ 3,074	$ 2,849
Deferred tax asset, net	7,413	3,247
Restricted investments in bank stocks	3,811	2,321
Prepaid assets and other assets	1,130	901
Total	$ 15,428	$ 9,318

THE BANK OF PRINCETON
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 7 – Deposits

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

	2013	2012
Demand, non-interest-bearing checking	$ 107,616	$ 76,793
Demand, interest-bearing and savings	244,795	213,684
Money market	152,058	154,724
Time deposits, $100,000 and over	125,783	111,583
Time deposits, other	118,758	115,580
Total	$ 749,010	$ 672,364

As of December 31, 2013, one customer's deposits with the Bank represented 5.4% of total deposits and another customer's deposits represented 5.1% of total deposits. No other customer accounted more than 5% of total deposits as of December 31, 2013.

At December 31, 2013, the scheduled maturities of certificates of deposit were as follows (in thousands):

	Amounts
2014	$ 118,652
2015	40,585
2016	36,540
2017	26,829
2018	21,935
Total	$ 244,541

Note 8 – Borrowings

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

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

	2013	2012
FHLB-NY overnight advances	$ 58,100	$ 22,200
FHLB term advances	2,312	6,046
Total Borrowings	$ 60,412	$ 28,246

THE BANK OF PRINCETON
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 8 – Borrowings (Continued)

Average overnight advances outstanding during the year ended December 31, 2013 were $40.2 million. The maximum amount of overnight advances outstanding during the year ended December 31, 2013 was $58.1 million.

The following table is a schedule of the Bank's long-term debt as of December 31, 2013, consisting of FHLB-NY amortizing and FHLB-Pittsburgh term, fixed-rate advances with weighted average interest rates and maturities (dollars in thousands):

Weighted Average Interest Rate at December 31, 2013	Maturity	Balance at December 31, 2013
2.89 %	2014	2,312
		$ 2,312

At December 31, 2013, the Bank has available borrowing capacity with FHLB-NY, subject to certain collateral restrictions, of $438.7 million. The Bank is also a member of the Atlantic Community Bankers Bank ("ACBB"). As of December 31, 2013, the Bank has available borrowing capacity with ACBB of $10.0 million to provide short-term liquidity generally for a period of not more than fourteen days.

Note 9 – Accrued Interest Payable and Other Liabilities

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

	2013	2012
Accrued interest payable	$ 1,675	$ 1,568
Accrued salary expense	418	362
Accrued expenses and other liabilities	1,681	4,179
Total	$ 3,774	$ 6,109

Note 10 – Commitments and Contingencies

Operating leases

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

2014	$ 1,292
2015	1,332
2016	1,199
2017	956
2018	807
Thereafter	1,466
	$ 7,052

Rental expense for the years ended December 31, 2013 and 2012 was $1.4 million and $1.3 million, respectively.

THE BANK OF PRINCETON
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 10 – Commitments and Contingencies (Continued)

The Bank has an operating lease agreement with a member of the Bank's board of directors for a building containing the Bank's corporate headquarters and branch, which is included in the above lease schedule. 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, 2013 and 2012 was approximately $277,000 and $245,000, respectively.

Commitments to extend credit

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

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

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

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

Standby letters of credit written are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. The majority of these standby letters of credit expire within the next twelve months. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending other loan commitments. The Bank requires collateral supporting these letters of credit as deemed necessary. Management believes that the proceeds obtained through a liquidation of such collateral should be sufficient to cover the maximum potential amount under the corresponding guarantees. The current amount of the liability as of December 31, 2013 and 2012 for guarantees under standby letters of credit issued is not material.

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

	2013	2012
Performance and standby letters of credit	$ 7,561	$ 2,378
Commitments to fund loans	76,027	67,317
Unfunded commitments under lines of credit	9,255	9,260
	$ 92,843	$ 78,955

Litigation

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

THE BANK OF PRINCETON
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 11 – Income Taxes

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

	2013	2012
	(in thousands)	
Current tax expense:		
Federal	$ 3,196	$ 2,892
State	255	709
Total current	3,451	3,601
Deferred income tax benefit:		
Federal	(377)	(731)
State	(99)	(185)
Total deferred	(476)	(916)
Total income tax expense	$ 2,975	$ 2,685

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities as of December 31 are as follows:

	2013	2012
	(in thousands)	
Deferred tax assets:		
Allowance for loan losses	$ 3,201	$ 2,597
Unrealized loss on securities	2,245	-
Net operating loss carry-forwards	1,287	1,363
Acquisition accounting adjustments	249	191
Organizational costs	231	260
Premises and equipment	48	-
Other	501	760
Total deferred tax assets	7,762	5,171
Deferred tax liabilities:		
Premises and equipment	-	(89)
Cash basis conversions	(1)	(91)
Unrealized gain on securities	-	(1,445)
Deferred loan costs	(348)	(299)
Total deferred tax liabilities	(349)	(1,924)
Net deferred tax asset	$ 7,413	$ 3,247

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

	2013	2012
	(in thousands)	
Federal income tax expense at statutory rate	$ 4,004	$ 3,058
Increases (reductions) in taxes resulting from:		
State income taxes, net of federal benefit	103	345
Bank-owned-life insurance death benefit	(847)	-
Tax-exempt income, net	(112)	(707)
Non-deductible expenses	15	14
Other	(188)	(25)
Total income taxes applicable to pre-tax income	$ 2,975	$ 2,685

THE BANK OF PRINCETON
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 11 – Income Taxes (Continued)

At December 31, 2013, the Bank had available federal net operating loss carryforwards of approximately $3.8 million, which expire between 2028 and 2030. There are currently no state net operating loss carryforwards available. The net operating loss carryforwards are amounts that were generated by MoreBank, which the Bank acquired on September 30, 2010. These net operating losses are subject to an annual Internal Revenue Code Section 382 limitation of approximately $222,000.

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

Note 12 – Fair Value Measurements and Disclosure

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

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

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

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

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

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

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

THE BANK OF PRINCETON
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 12 – Fair Value Measurements and Disclosure (Continued)

For financial assets measured at fair value on a recurring basis, the fair value measurements by level within the fair value hierarchy used at December 31, 2013 were as follows:

Description	(Level 1) Quoted Prices in Active Markets for Identical Assets	(Level 2) Significant Other Observable Inputs	(Level 3) Significant Unobservable Inputs	Total Fair Value December 31, 2013
		(in thousands)		
U.S. Treasury securities	$ 35,689	$ -	$ -	$ 35,689
Mortgage-backed securities-U.S. Government Sponsored Enterprises (GSE's)	-	73,084	-	73,084
Obligations of state and political subdivisions	-	84,541	-	84,541
Securities available-for-sale at fair value	$ 35,689	$ 157,625	$ -	$ 193,314

For financial assets measured at fair value on a recurring basis, the fair value measurements by level within the fair value hierarchy used at December 31, 2012 were as follows:

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

THE BANK OF PRINCETON
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 12 – Fair Value Measurements and Disclosure (Continued)

For assets measured at fair value on a nonrecurring basis, the fair value measurements by level within the fair value hierarchy used at December 31, 2013, were as follows:

	(Level 1) Quoted Prices in Active Markets for Identical Assets	(Level 2) Significant Other Observable Inputs	(Level 3) Significant Unobservable Inputs	Total Fair Value December 31, 2013
		(in thousands)		
Impaired loans	$ -	$ -	$ 3,778	$ 3,778
Real estate owned	-	-	199	199
	$ -	$ -	$ 3,977	$ 3,977

For assets measured at fair value on a nonrecurring basis, the fair value measurements by level within the fair value hierarchy used at December 31, 2012, were as follows:

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

The following table presents quantitative information with regards to Level 3 fair value measurements at December 31, 2013.

Description	Fair Value at December 31, 2013	Valuation Technique	Unobservable Input	Range (Weighted Average)
	(in thousands)			
Impaired loans	$ 3,778	Discounted appraisals	Discount adjustment	0.0%-83.6% (4.3%)
Real estate owned	$ 199	Discounted appraisal	Discount adjustment	0.0% (0.0%)

THE BANK OF PRINCETON
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 12 – Fair Value Measurements and Disclosure (Continued)

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

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

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

Cash and due from banks (carried at cost)

The carrying amounts reported in the statement of financial condition for cash and short-term instruments approximate those assets' fair values.

Investment Securities

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

Loans receivable (carried at cost)

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

Impaired loans (generally carried at fair value)

Impaired loans carried at fair value are those impaired loans in which the Bank has measured impairment generally based on the fair value of the related loan's collateral. Fair value is generally determined based upon independent third-party appraisals of the properties, or discounted cash flows based upon the expected proceeds. These assets are included as Level 3 fair values, based upon the lowest level of input that is significant to the fair value measurements.

Other real estate and other assets owned (carried at fair value)

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

THE BANK OF PRINCETON
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 12 – Fair Value Measurements and Disclosure (Continued)

Federal Home Loan Bank stock and ACBB stock (carried at cost)

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

Accrued interest receivable and payable (carried at cost)

The carrying amount of accrued interest receivable and accrued interest payable approximates its fair value.

Deposit liabilities (carried at cost)

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

Borrowings

Fair value of FHLB advances are determined by discounting the anticipated future cash payments by using the rates currently available to the Bank for debt with similar terms and remaining maturities.

Off-Balance sheet financial instruments (disclosed at cost)

Fair value for the Bank's off-balance sheet financial instruments (lending commitments and letters of credit) are based on fees currently charged in the market to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties' credit standing. The fair values of these off-balance sheet financial instruments are not considered material as of December 31, 2013 and December 31, 2012.

The carrying amounts and estimated fair value of financial instruments at December 31, 2013, are as follows:

	December 31, 2013				
	Carrying Amount	Estimated Fair Value	Level 1	Level 2	Level 3
	(in thousands)				
Financial assets:					
Cash and cash equivalents	$ 27,425	$ 27,425	$ 27,425	$ -	$ -
Securities available-for-sale at fair value	193,314	193,314	35,689	157,625	-
Securities held-to-maturity	423	454	-	454	
Loans receivable, net	625,340	643,519	-	-	643,519
Restricted investments in bank stocks	3,811	3,811	-	3,811	-
Accrued interest receivable	3,074	3,074	-	3,074	
Financial liabilities:					
Deposits	749,010	737,112	-	737,112	-
Borrowings	60,412	60,705	-	-	60,705
Accrued interest payable	1,675	1,675	-	1,675	-

THE BANK OF PRINCETON
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 12 – Fair Value Measurements and Disclosure (Continued)

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

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

Limitations

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

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

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

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

Note 13 – Stock Based Compensation

Organizers of the Bank were issued a total of 97,500 Organizer warrants for their efforts during the organization and start-up of the Bank. These warrants are immediately exercisable, expire 10 years after the grant date and will enable the warrant holder to purchase one (1) share of common stock at $10.00 per share for each warrant exercised. All 97,500 Organizer warrants were outstanding at December 31, 2013 and 2012 and will expire in 2017.

In 2007, the Bank adopted The Bank of Princeton 2007 Stock Option Plan (the "2007 Plan"), which was approved by our board of directors in August 2007 and by our stockholders in October 2007. The 2007 Plan enables the board of directors to grant stock options to employees, directors, consultants and other individuals who provide services to the Bank. The shares subject

THE BANK OF PRINCETON
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 13 – Stock Based Compensation (Continued)

to or related to options under the 2007 Plan are authorized and unissued shares of the Bank. The maximum number of shares that may be subject to options under the 2007 Plan is 300,000, all of which may be issued as Incentive Stock Options and not more than 100,000 of which may be issued as Non-Qualified Stock Options. Vesting periods range from immediate to four years from the date of grant. The 2007 Plan will terminate ten years from the date of stockholder approval.

In connection with the Bank's acquisition of MoreBank on September 30, 2010, all outstanding and unexercised options to acquire shares of MoreBank common stock became fully vested and exercisable and converted into fully vested and exercisable options to purchase shares of common stock of the Bank in an amount and at an exercise price based on the merger exchange ratio. These options remain subject to all of the other terms and conditions to which they were subject immediately prior to the effective time of the merger.

In 2012, the Bank adopted The Bank of Princeton 2012 Equity Incentive Plan (the "2012 Plan"), which was approved by our board of directors in February 2012 and by our stockholders in May 2012. The 2012 Plan enabled the board of directors to grant stock options or restricted shares of common stock to employees, directors, consultants and other individuals who provide services to the Bank. The shares subject to or related to options under the 2012 Plan are authorized and unissued shares of the Bank. In 2013, the Bank's board of directors and stockholders approved an amendment to the 2012 Plan that increased the maximum number of shares that may be subject to options under the 2012 Plan from 100,000 to 600,000, all of which may be issued as Incentive Stock Options or as Non-Qualified Stock Options. Vesting periods range from immediate to four years from the date of grant. The 2012 Plan will terminate ten years from the date of stockholder approval.

The following is a summary of the status of the Bank's stock option and warrant activity and related information for the year ended December 31, 2013:

	Number of Stock Options / Warrants	Weighted Avg. Exercise Price	Weighted Avg. Remaining Contractual Life	Aggregate Intrinsic Value
Balance at January 1, 2013	476,827	$ 13.21		
Granted	100,950	$ 13.41		
Exercised	(110)	$ 11.18		
Forfeited	(99)	$ 13.75		
Expired	(5,051)	$ 11.69		
Balance at December 31, 2013	572,517	$ 13.16	6.8 years	$ 837,886
Exercisable at December 31, 2013	373,278	$ 13.25	6.3 years	$ 767,880

THE BANK OF PRINCETON
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 13 – Stock Based Compensation (Continued)

The following is a summary of the status of the Bank's stock option and warrant activity and related information for the year ended December 31, 2012:

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

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:

	For the year ended December 31, 2013	2012
Expected life	5.00 years	5.58 years
Expected volatility	60.23%	26.42%
Forfeiture rate	3.63%	2.89%
Dividend yield	0.00%	0.00%
Risk-free interest rate	1.27 %	0.81%
Fair value	$ 6.91	$ 3.60

Stock option expenses included in salaries and employee benefits expense in the consolidated statements of income were $295,000 and $161,000 for the years ended December 31, 2013 and 2012, respectively. Stock option expense recorded within other expenses was $176,000 and $194,000 for the years ended December 31, 2013 and 2012, respectively. At December 31, 2013, there was approximately $488,000 of unrecognized expense related to outstanding stock options, which will be recognized over a period of approximately 1.44 years.

Note 14 – Regulatory Matters

Consent Order

On January 29, 2014, the Bank entered into a Stipulation and Consent to the Issuance of a Consent Order with the FDIC that was countersigned by the FDIC on January 30, 2014 (the "Stipulation"), pursuant to which the Bank agreed to the issuance of a Consent Order by the FDIC (the "Consent Order"). The Bank consented to the issuance of the Consent Order without admitting any charges of unsafe or unsound banking practices or violations of law, in order to resolve regulatory uncertainty over the adequacy of the Bank's compliance with laws relating to the Bank Secrecy Act ("BSA") and anti-money laundering ("AML").

The Consent Order arises from a routine safety and soundness examination of the Bank by the FDIC, which was conducted as of June 30, 2013. The Consent Order requires the Bank to strengthen its BSA/AML program and the Bank's internal audit

THE BANK OF PRINCETON
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 14 – Regulatory Matters (Continued)

function, and to address other related matters. Among other things, it requires the Bank's board of directors to designate a committee to oversee the compliance with the Consent Order.

The provisions of the Consent Order will remain effective until modified, terminated, suspended or set aside by the FDIC.

The Bank also agreed to an Acknowledgement and Consent of FDIC Order with the Commissioner of Banking and Insurance for the State of New Jersey (the "Commissioner"), effective as of January 30, 2014, which makes the Consent Order binding as between the Bank and the Commissioner.

The board of directors and management of the Bank began proactively taking steps to address identified matters promptly following the FDIC examination, and will continue to work with the FDIC to address such matters. While the Bank intends to take such actions as may be necessary to enable it to comply with the Consent Order, there can be no assurance that the Bank will be able to fully comply with the provisions of the Consent Order, that its efforts to comply with the Consent Order will not have adverse effects on the operations and financial condition of the Bank, or that the Bank would not be subject to other regulatory enforcement actions in the future, including potential future actions that seek the imposition of civil money penalties.

Regulatory Capital

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 operations and/or financial condition. 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, 2013, that the Bank meets all capital adequacy requirements to which it is subject.

The Bank's actual capital amounts and ratios at December 31, 2013 and 2012 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, 2013:						
Total capital (to risk-weighted assets)	$76,298	11.4%	$ 53,533	≥ 8.0%	$ 66,916	≥ 10.0%
Tier 1 capital (to risk-weighted assets)	$67,932	10.2%	$ 26,766	≥ 4.0%	$ 40,150	≥ 6.0%
Tier 1 capital (to average assets)	$67,932	7.8%	$ 34,637	≥ 4.0%	$ 43,297	≥ 5.0%
December 31, 2012:						
Total capital (to risk-weighted assets)	$65,567	11.5%	$ 45,622	≥ 8.0%	$ 57,027	≥ 10.0%
Tier 1 capital (to risk-weighted assets)	$58,534	10.3%	$ 22,811	≥ 4.0%	$ 34,216	≥ 6.0%
Tier 1 capital (to average assets)	$58,534	7.6%	$ 30,713	≥ 4.0%	$ 38,391	≥ 5.0%

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

THE BANK OF PRINCETON
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 15 – Quarterly Financial Data (unaudited)

	Year Ended December 31, 2013			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	(In thousands, except per share data)			
Interest and dividend income	$ 8,890	$ 9,041	$ 9,470	$ 9,712
Interest expense	1,743	1,765	1,809	1,798
Net Interest Income	7,147	7,276	7,661	7,914
Provision for loan losses	84	513	577	858
Net Interest Income after Provision for Loan Losses	7,063	6,763	7,084	7,056
Non-interest income	389	693	324	1,269
Non-interest expense	4,684	4,631	4,560	4,990
Income before Income Tax Expense	2,768	2,825	2,848	3,335
Income tax expense	788	755	785	647
Net Income	$ 1,980	$ 2,070	$ 2,063	$ 2,688
Earnings per common share				
Basic	$ 0.43	$ 0.45	$ 0.45	$ 0.59
Diluted	$ 0.43	$ 0.45	$ 0.44	$ 0.58

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

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

Not applicable.

Item 9A. Controls and Procedures

Disclosure Controls and Procedures

An evaluation was performed under the supervision, and with the participation of the Bank's management, including the President and Chief Financial Officer, of the effectiveness of the design and operation of the Bank's disclosure controls and procedures (as defined in Rule l3a-l5(e) promulgated under the Exchange Act) as of December 31, 2013. Based on such evaluation, the Bank's President and Chief Financial Officer have concluded that the Bank's disclosure controls and procedures are effective, as of December 31, 2013, to ensure that the information required to be disclosed by the Bank in the reports that the Bank files or submits under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in FDIC rules and forms.

Internal Control Over Financial Reporting

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

Management, with the participation of the Bank's President and Chief Financial Officer, evaluated the effectiveness of the Bank's internal control over financial reporting as of December 31, 2013 using the criteria in "Internal Control—Integrated Framework (1992)" issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on such evaluation, management assessed that the Bank's internal control over financial reporting was effective as of December 31, 2013.

Changes in Internal Control Over Financial Reporting

There was no change in the Bank's internal control over financial reporting identified during the quarter ended December 31, 2013 that has materially affected, or is reasonably likely to materially affect, the Bank's internal control over financial reporting.

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The Bank responds to this Item by incorporating by reference the material responsive to this Item in the Bank's definitive proxy statement to be filed with the Federal Deposit Insurance Corporation in connection with its 2014 Annual Meeting of Stockholders to be held April 24, 2014.

Item 11. Executive Compensation

The Bank responds to this Item by incorporating by reference the material responsive to this Item in the Bank's definitive proxy statement to be filed with the Federal Deposit Insurance Corporation in connection with its 2014 Annual Meeting of Stockholders to be held April 24, 2014.

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

The Bank responds to this Item by incorporating by reference the material responsive to this Item in the Bank's definitive proxy statement to be filed with the Federal Deposit Insurance Corporation in connection with its 2014 Annual Meeting of Stockholders to be held April 24, 2014.

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

The Bank responds to this Item by incorporating by reference the material responsive to this Item in the Bank's definitive proxy statement to be filed with the Federal Deposit Insurance Corporation in connection with its 2014 Annual Meeting of Stockholders to be held April 24, 2014.

Item 14. Principal Accountant Fees and Services

The Bank responds to this Item by incorporating by reference the material responsive to this Item in the Bank's definitive proxy statement to be filed with the Federal Deposit Insurance Corporation in connection with its 2014 Annual Meeting of Stockholders to be held April 24, 2014.

PART IV

Item 15. Exhibits, Financial Statement Schedules

(a) The following portions of the Bank's consolidated financial statements are set forth in Item 8 of this Annual Report:

- i. Consolidated Statements of Financial Condition as of December 31, 2013 and 2012
- ii. Consolidated Statements of Income for the years ended December 31, 2013 and 2012
- iii. Consolidated Statements of Comprehensive Income for the years ended December 31, 2013 and 2012
- iv. Consolidated Statements of Changes in Stockholders' Equity for the years ended December 31, 2013 and 2012
- v. Consolidated Statements of Cash Flows for the years ended December 31, 2013 and 2012
- vi. Notes to Consolidated Financial Statements

(b) Financial Statement Schedules

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

(c) Exhibits

Exhibit No.		Description
2.1	(A)	Agreement and Plan of Merger dated as of May 5, 2010 by and between The Bank of Princeton and MoreBank.
3.1	(A)	Certificate of Incorporation, as amended.
3.2	(A)	Amended and Restated Bylaws
4.1	(A)	Specimen form of stock certificate.
4.2		The Bank will furnish to the FDIC upon request copies of the instruments defining the rights of the Federal Home Loan Bank of New York and the Federal Home Loan Bank of Pittsburgh with respect to the Bank's long-term debt.
10.1	(A)	The Bank of Princeton 2007 Stock Option Plan*
10.2	(B)	The Bank of Princeton 2012 Equity Incentive Plan*
10.3	(C)	Amendment to The Bank of Princeton 2012 Equity Incentive Plan*
10.4	(A)	Form of Incentive Stock Option Agreement*
10.5	(A)	Form of Nonqualified Stock Option Agreement*
10.6	(A)	Warrant Agreement for Organizers*
10.7	(A)	Form of Warrant Certificate*
10.8	(A)	MoreBank 2004 Incentive Equity Compensation Plan*
10.9	(A)	Form of Incentive Stock Option Agreement*
10.10	(A)	Form of Nonqualified Stock Option*
10.11	(A)	Form of Option for the Purchase of Shares of the Par Value of $1.00 Per Share of MoreBank*
10.12	(D)	Stipulation and Consent to the Issuance of a Consent Order
10.13	(D)	Consent Order
21.1		Subsidiaries of the Registrant
31.1		Rule 13a-14(a) Certification of the Principal Executive Officer
31.2		Rule 13a-14(a) Certification of the Principal Financial Officer
32.1		Section 1350 Certifications

* Management contract or compensatory plan, contract or arrangement.

(A) Incorporated by reference to the exhibit to registrant's Form 10, General Form For Registration Of Securities, filed with the Federal Deposit Insurance Corporation on May 2, 2011.

(B) Incorporated by reference to Exhibit B of registrant's definitive proxy statement for the 2012 annual meeting of stockholders, filed with the Federal Deposit Insurance Corporation on March 30, 2012.

(C) Incorporated by reference to Exhibit 10.1 to registrant's Quarterly Report on Form 10-Q, filed with the Federal Deposit Insurance Corporation on August 7, 2013.

(D) Incorporated by reference to the exhibit to registrant's Current Report on Form 8-K, filed with the Federal Deposit Insurance Corporation on February 5, 2014.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized as of March 25, 2014.

The Bank of Princeton

/s/Edward Dietzler

By: Edward Dietzler
President
(Principal Executive Officer)

The Bank of Princeton

/s/Michael J. Sanwald

By: Michael J. Sanwald
Executive Vice President and Chief Financial Officer
(Principal Financial and Accounting Officer)

Pursuant to the requirement of the Securities Exchange Act of 1934, this Report has been signed below on March 25, 2014 by the following persons on behalf of the Registrant and in the capacities indicated.

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

/s/Michael J. Sanwald
Michael J. Sanwald
Executive Vice President and Chief Financial Officer
(Principal Financial and Accounting Officer)

/s/Andrew M. Chon
Andrew M. Chon
Director, Chairman

/s/Stephen Shueh
Stephen Shueh
Director

/s/Stephen Distler
Stephen Distler
Director, Vice Chairman

/s/Robert N. Ridolfi, Esq
Robert N. Ridolfi, Esq
Director

/s/Judith A. Giacin
Judith A. Giacin
Director

/s/Ross Wishnick
Ross Wishnick
Director, Vice Chairman

/s/Richard Gillespie
Richard Gillespie
Director

EXHIBIT INDEX

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* Management contract or compensatory plan, contract or arrangement.

(A) Incorporated by reference to the exhibit to registrant's Form 10, General Form For Registration Of Securities, filed with the Federal Deposit Insurance Corporation on May 2, 2011.

(B) Incorporated by reference to Exhibit B of registrant's definitive proxy statement for the 2012 annual meeting of stockholders, filed with the Federal Deposit Insurance Corporation on March 30, 2012.

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Exhibit 21.1

SUBSIDIARIES OF REGISTRANT

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

Exhibit 31.1

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

I, Edward Dietzler, certify that:

1. I have reviewed this annual report on Form 10-K of The Bank of Princeton:

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of circumstances under which such statements were made, not misleading with respect to the period covered by this report.

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report.

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting

Date: March 25, 2014

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

Exhibit 31.2

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

I, Michael J. Sanwald, certify that:

1. I have reviewed this annual report on Form 10-K of The Bank of Princeton:

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of circumstances under which such statements were made, not misleading with respect to the period covered by this report.

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report.

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting

Date: March 25, 2014

/s/Michael J. Sanwald
Michael J. Sanwald
Executive Vice President and Chief Financial Officer
(Principal Financial and Accounting Officer)

Exhibit 32.1

SECTION 1350 CERTIFICATIONS

In connection with the Annual Report of The Bank of Princeton (the "Bank") on Form 10-K for the period ending December 31, 2013 as filed with the Federal Deposit and Insurance Corporation on the date hereof (the "Report"), the undersigned certify, pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities and Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Bank.

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

/s/Michael J. Sanwald
Michael J. Sanwald
Executive Vice President and Chief Financial Officer
(Principal Financial and Accounting Officer)

March 25, 2014

NOTES:

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Who We Are

Board of Directors

Andrew M. Chon, *Chairman*
Stephen Distler, *Vice Chairman*
Ross E. Wishnick, *Vice Chairman*
Edward J. Dietzler, *President*
Judith Giacin
Richard Gillespie
Robert N. Ridolfi, Esq.
Stephen K. Shueh

Advisory Board

J. Scott Needham, *Chairman*
George Bustin
Barbara Cuneo
Peter J. Dawson
Robert Dunn
Michael Goodman, Esq.
Yongkuen Joh
Martin Kahn
Emmett J. Lescroart
Lance Liverman
Jerry Maclean
Joseph Ridolfi
Chetan Shah
Scott Sipprelle

Incorporators

Gregg E. Chaplin
Andrew M. Chon
Peter M. Crowley
Stephen Distler
Richard Gillespie
Bumsung K. Han
John A. Horvath
Kevin R. Kenyon
W. Andrew Krusen, Jr.
Janet M. Lasley
Emmett J. Lescroat
Dennis M. Machulsky
Casey K. Min
J. Scott Needham
Henry S. Opatut
Robert N. Ridolfi, Esq.
James M. Riley
Jeffery H. Sands
Eric L. Steinfeldt
Ross E. Wishnick

Relationship Management

Community Banking Executives
Stephanie M. Adkins, *Chambers*
Kris Muse, *Nassau*
Steven J. Landau, *Montgomery/Lambertville*
William McDowell, *Pennington*
Paul M. Bencivengo, *Hamilton*
William D. Allan, *Monroe*
Stanley Federowicz, *Monroe*
William McCoy, *New Brunswick*

Retail Administrator
Carly Meyer, *Chambers*

Regional Market Manager
Suzanne M. Lippincott, *Hamilton*

Market Managers
Rose Russo, *Bayard*
Darshana Jadav, *Chambers*
Paul Sabol, *Nassau*
Roseanne Maresma, *Montgomery*
Rhoda Sundhar, *Pennington*
Connie Inverso, *Monroe*
Amy Lavery, *Lambertville*
Miriam I. Colón, *New Brunswick*
Young Soon Sim, *Cheltenham*
Hae Ran Hwangbo, *North Wales*
Sokha Eng, *Arch Street*

Management & Support

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

Marketing
Barbara A. Cromwell

Human Resources
Anna Maria Miller

Operations & Compliance
Karen D. Pfeifer
Stacy Miano

Loan Administration
Carol Safchinsky
Mary Beth Gorecki, Consumer Credit
Christopher Tonkovich, Commercial Credit

Finance
Edward P. Hassenkamp
William E. Fischer

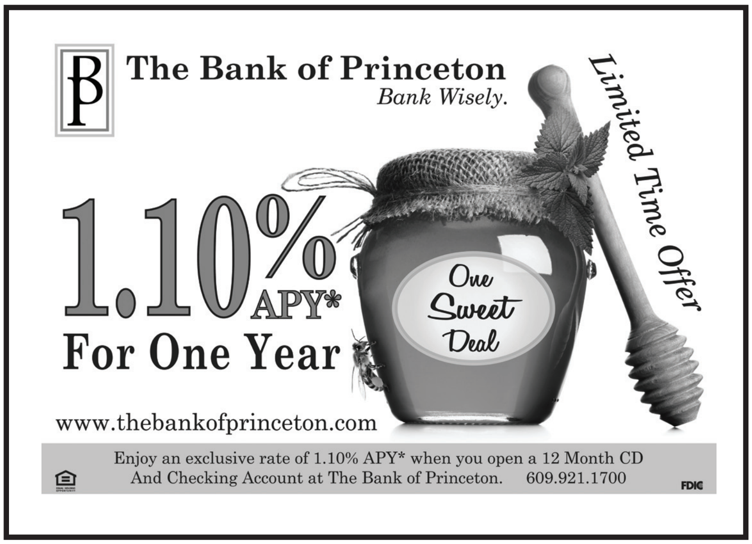
Listening...

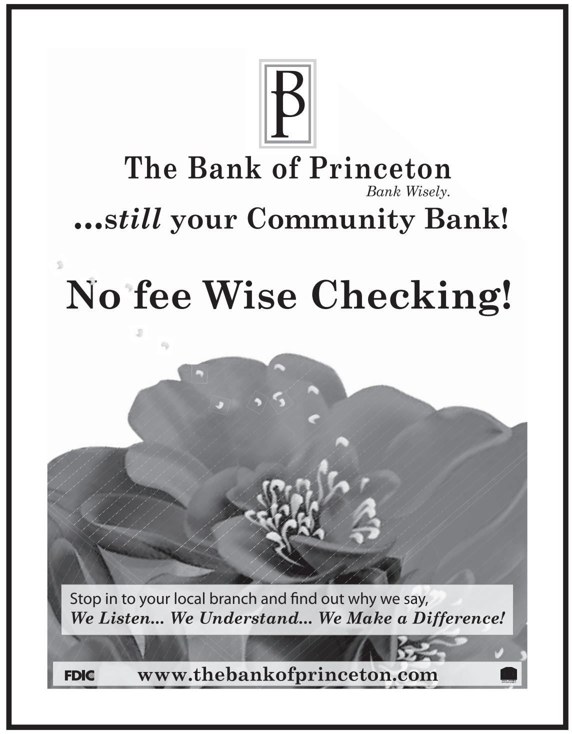
In 2013, our lending team successfully closed $250 million in commercial loans. Collectively, their efforts grew our loan portfolio by nearly $100 million to $634 million at year-end. Eleven commercial lenders are strategically positioned in the local markets that we serve.

Understanding...

Pictured below

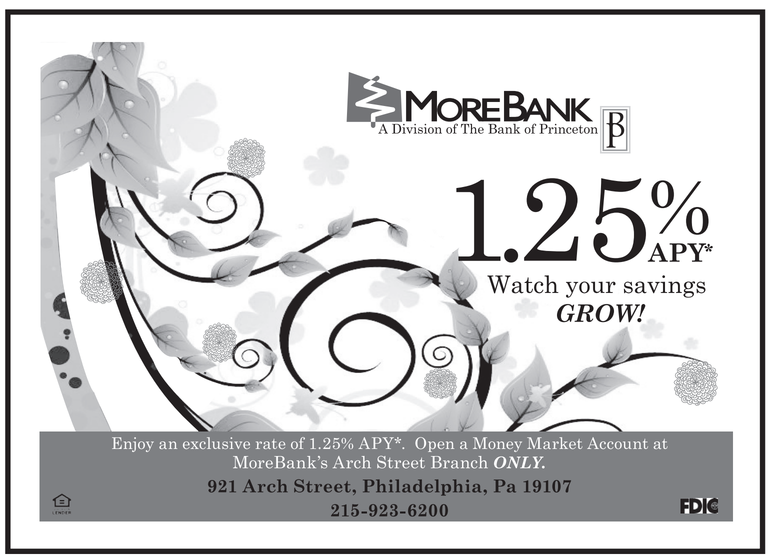
"One Sweet Deal," was an exclusive Certificate of Deposit offering in 2013. The promotion attracted significant new money and expanded existing relationships.





Pictured above

The Bank of Princeton and MoreBank continue to provide free checking services to our clients.



Pictured right

Another example of a special promotion in the Year 2013.

Making a Difference...

Pictured above (left to right)

Edward J. Dietzler, *President of The Bank of Princeton*; Carol R. Coles, *EVP Chief Credit Officer*; Michael J. Sanwald, *EVP Chief Financial Officer*; Paul Y. Hyon, *Regional President of MoreBank*; and Douglas Conover, *EVP Chief Lending Officer*.

The Bank of Princeton, with nine branch locations, serves Mercer, Hunterdon, Middlesex and Somerset Counties.

MoreBank, a division of The Bank of Princeton has three locations nearby in Pennsylvania. The merger of The Bank of Princeton and MoreBank occurred in 2010.

Useful Resources

The Bank of Princeton and MoreBank are proud to be active and partnering with many organizations to make a difference the communities we serve. Our staff can be found walking, running and volunteering to help raise money and awareness.
Join us at some of our upcoming events in 2014, which include:

Communiversity in Princeton - April
Shad Fest in Lambertville - April
Earth Day - Montgomery - April
Charity Walks - All locations - from Spring till Fall
Heritage Celebrations - All Locations - Spring 2014
Fireworks - Pennington, Montgomery & Lambertville - Summer 2014
Raritan River Festival - New Brunswick - Fall 2014

Upcoming Events

There's an App for that!

The Bank of Princeton and MoreBank have developed Apps to make life more convenient for our customers, business partners and shareholders.
Links to the Apps can be found on our website, in iTunes, or the Android Marketplace.

The Bank of Princeton and MoreBank are part of the AllPoint Network, which gives you access to 55,000 free ATM's worldwide.
In addition to the ATM locator on our website, you can also access this information on the AllPoint website (www.allpointnetwork.com) or download the AllPoint ATM Locator App

AllPoint Website

AllPoint App

Spotlight on Business

Deeply seated in the community, The Bank of Princeton and MoreBank continue to maintain a focus on the business community. Each quarter, a local business customer is featured at our branch locations in the specific market that they serve. All twelve Spotlight on Businesses for the quarter can be viewed on our website along with others from previous years.

www.thebankofprinceton.com/resources/spotlight-on-business.

What are these funny looking squares? They are QR codes.
QR code (Quick Response Code) is the trademark for a type of matrix barcode (or two-dimensional barcode).
You can download free QR code readers to your smartphone. Then just scan the code, and you will be taken directly to the source of information.

The Bank of Princeton®
Bank Wisely.

Allies, Inc.
Alzheimer's Association
American Cancer Society
American Heart Association
American Legion
American Red Cross
American Repertory Ballet
Anchor House
Arc Mercer
Arc of Hunterdon County
ART - Art Realization Technologies
Arts Council of Princeton
Asian Pacific American Bar Association
of Pennsylvania
Big Brothers Big Sisters of Mercer County
Bridge Academy, The
Bucks County Dragon Boat Association
Bucks County Playhouse
Building ONE New Jersey
Capital Health Foundation
Capital Region Minority
Chamber of Commerce
Catholic Charities Diocese of Metuchen
Catholic Charities Diocese of Trenton
Central Bucks Chamber of Commerce
Children's Home Society of New Jersey
Christ Church of New Brunswick
Christine's Hope for Kids Foundation
City Of New Brunswick
Community Options
Communiversity
Corner House Foundation
Crawford House
Dance Stop Studio
Delaware Township Schools,
Partners in Education
Dress for Success
Eden Autism Services Foundation
Edison Chamber of Commerce
Edison Family Day
Edison High School Career Fair
Elijah's Promise
Ewha Educational Foundation
Friendly Sons & Daughters of St. Patrick
of Mercer County
Friends of Ely Park
Friends of Princeton Charter School
George Street Playhouse
Greater Philadelphia Asian Social
Service Center
Greater Philadelphia Korean Association
of the Five Northern Provinces
Greater Southern New Jersey Korean
American Association
Greener New Jersey Productions
Hadassah Association
Hamilton Area YMCA
Hamilton Education Foundation
Hamilton Police Athletic League
Hamilton Post 31
Help Portrait - Princeton Chapter
HiTOPS
HomeFront
Hope for Tomorrow
Hopewell Elementary School
Science Fair
Hopewell Harvest Fair
Hopewell Valley Education Foundation
Hopewell Valley Pop Warner
Association, Inc.
Hopewell Valley Senior Citizens Picnic
Hopewell Valley September 11th and
Emergency Services Memorial
Hopewell Valley Soccer Association
Hopewell Valley Veterans Association
Hopewell Valley YMCA
Housing Initiatives of Princeton
Hunterdon County
Chamber of Commerce
Iron Mike Foundation
Jewish Family & Children Services
John Warms Montgomery High School
Alumni Association
Joint Effort Community Sports Program
Kappa Alpha Psi Fraternity
Korean American Association
of Greater Philadelphia
Korean American Institute of Princeton
Korean Community Center
of Greater Princeton
Lambertville Area Education Foundation
Lambertville Chamber of Commerce
Lambertville Historical Society
Lambertville Historical Society
House Tour
Lambertville - New Hope Fireworks
Lambertville - New Hope Winter Festival
Lambertville - West Amwell
Youth Association
Langhorne Athletic Association
Lewis School of Princeton
Lower Bucks Family YMCA
March of Dimes
Mary Jacobs Memorial Library
Foundation
Mercer County Community College
Foundation
Mercer County Turkey Trot
Mercer Street Friends Food Bank
Middlesex County Regional
Chamber of Commerce
MidJersey Chamber of Commerce
Mid-Summer Marketing Showcase
Minding Our Business
Montgomery Rocky Hill Rotary Club
Montgomery Township Economic
Development Commission
Montgomery Township Environmental
Commission Earth Day Fair
Montgomery Township Fireworks
Committee
National Association of Korean Schools
National Junior Tennis & Learning
of Trenton
New Brunswick 4-H Trunk or Treat
New Brunswick City Market

The Bank of Princeton®

Bank Wisely.

New Brunswick Community Food Alliance
New Brunswick Public Sculpture
New Brunswick Rotary Foundation
New Hope Chamber of Commerce
New Hope Film Festival
New Hope Historical Society
New Jersey Association of Community Providers
New Jersey Bankers Association
New Jersey Foundation for Aging
Operation Shoebox
Pan Asian Association
Pennington Business & Professional Association
Pennington Day Inc.
Pennington Montessori
PennSuburban Chamber of Commerce
Philadelphia Chinatown Development Corporation
PlanSmart NJ
Princeton Academy
Princeton Area Alumni Association
Princeton Education Foundation
Princeton Farmers Market
Princeton Family YMCA
Princeton High School Baseball, Basketball and Football Booster Clubs
Princeton Human Services Commission
Princeton in Africa Annual Benefit
Princeton Merchants Association
Princeton Nursery School
Princeton Peru Partnership
Princeton Pro Musica
Princeton Recreation Department
Princeton Regional Chamber of Commerce
Princeton Senior Resource Center
Princeton Symphony Orchestra
Princeton Tennis Program
Princeton TOTS/KIDS
Princeton University Summer Chamber Concerts
Princeton University Art Museum
Recreation Foundation of Hopewell Valley, Inc.
Riverside Symphonia
Rocky Hill Hook & Ladder Company #1
Ronald McDonald House
Rossmoor Charity
Rossmoor Community Trunk Sale
Rotary Club of Princeton
Robert Wood Johnson Hamilton Foundation
SERV Behavioral Health System, Inc.
Shad Festival
Simuel Whitfield Simmons Organization
Special Olympics New Jersey
Special Strides
Spring Street Business Partners
St. Francis Medical Center Foundation
South Hunterdon Regional High School
The Kalmia Club
The National Association for Korean Schools - Mid Atlantic Chapter

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

The Parkinson Alliance
The Sanctuary Guild of Our Lady of the Angels
Thomas Edison State College Foundation
Tom Giannattasio Jr. Memorial Fund
Trenton Area Soup Kitchen
Trenton Catholic Academy
Trinity Church
Trinity Counseling Service
Union Fire Company
United Way of Hunterdon County
Unity Square
VolunteerConnect
Waldorf School of Princeton
Watchung Hills Ponytail Softball League
West Amwell Elementary School
Womanspace, Inc.
Yeshivat Keter Torah
YMCA Camp Mason
YWCA of Trenton
YWCA Princeton

MOREBANK
A Division of The Bank of Princeton