UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2017

or

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file Number: 000-32891

1ST CONSTITUTION BANCORP

(Exact Name of Registrant as Specified in Its Charter)

New Jersey	22-3665653
(State of Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
2650 Route 130, P.O. Box 634, Cranbury, NJ	08512
(Address of Principal Executive Offices)	(Zip Code)

(609) 655-4500

(Issuer's Telephone Number, Including Area Code)

(Former name, former address and former fiscal year, if changed since last report)

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

Indicate by check mark whether the registrant has submitted electronically 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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

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

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

As of November 1, 2017, there were 8,073,155 shares of the registrant's common stock, no par value, outstanding.

1ST CONSTITUTION BANCORP

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

1ST Constitution Bancorp
Consolidated Balance Sheets
(Dollars in thousands)
(Unaudited)

	September 30, 2017	December 31, 2016
ASSETS		
Cash and Due From Banks	$ 15,657	$ 14,886
Total cash and cash equivalents	15,657	14,886
Investment Securities:		
Available for sale, at fair value	110,276	103,794
Held to maturity (fair value of $113,757 and $128,559 at September 30, 2017 and December 31, 2016, respectively)	111,554	126,810
Total investment securities	221,830	230,604
Loans Held for Sale	6,019	14,829
Loans	771,982	724,808
Less- Allowance for loan losses	(7,802)	(7,494)
Net loans	764,180	717,314
Premises and Equipment, Net	10,627	10,673
Accrued Interest Receivable	3,141	3,095
Bank-Owned Life Insurance	24,125	22,184
Other Real Estate Owned	356	166
Goodwill and Intangible Assets	12,591	12,880
Other Assets	10,868	11,582
Total assets	$ 1,069,394	$ 1,038,213
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES		
Deposits		
Non-interest bearing	$ 192,191	$ 170,854
Interest bearing	677,622	663,662
Total deposits	869,813	834,516
Borrowings	63,025	73,050
Redeemable Subordinated Debentures	18,557	18,557
Accrued Interest Payable	715	866
Accrued Expenses and Other Liabilities	5,674	6,423
Total liabilities	957,784	933,412
SHAREHOLDERS' EQUITY		
Preferred stock, no par value; 5,000,000 shares authorized, none issued	—	—
Common Stock, no par value; 30,000,000 shares authorized; 8,102,858 and 8,027,087 shares issued and 8,069,560 and 7,993,789 shares outstanding as of September 30, 2017 and December 31, 2016, respectively	72,584	71,695
Retained earnings	39,624	34,074
Treasury Stock, 33,298 shares at September 30, 2017 and December 31, 2016, respectively	(368)	(368)
Accumulated other comprehensive loss	(230)	(600)
Total shareholders' equity	111,610	104,801
Total liabilities and shareholders' equity	$ 1,069,394	$ 1,038,213

The accompanying notes are an integral part of these consolidated financial statements.

1[ST] Constitution Bancorp
Consolidated Statements of Income
(Dollars in thousands, except per share data)
(Unaudited)

	Three Months Ended September 30, 2017	Three Months Ended September 30, 2016	Nine Months Ended September 30, 2017	Nine Months Ended September 30, 2016
INTEREST INCOME				
Loans, including fees	$ 9,416	$ 9,054	$ 26,161	$ 25,088
Securities:				
Taxable	846	827	2,500	2,459
Tax-exempt	527	514	1,628	1,554
Federal funds sold and short-term investments	25	13	183	79
Total interest income	10,814	10,408	30,472	29,180
INTEREST EXPENSE				
Deposits	1,204	1,051	3,351	2,989
Borrowings	113	197	349	498
Redeemable subordinated debentures	134	107	380	311
Total interest expense	1,451	1,355	4,080	3,798
Net interest income	9,363	9,053	26,392	25,382
PROVISION/(CREDIT) FOR LOAN LOSSES	150	—	450	(300)
Net interest income after provision/(credit) for loan losses	9,213	9,053	25,942	25,682
NON-INTEREST INCOME				
Service charges on deposit accounts	142	185	445	558
Gain on sales of loans, net	1,329	876	3,936	2,525
Income on Bank-owned life insurance	131	113	391	414
Gain on sales of securities	24	—	128	—
Other income	490	586	1,385	1,392
Total non-interest income	2,116	1,760	6,285	4,889
NON-INTEREST EXPENSES				
Salaries and employee benefits	4,617	4,102	13,882	11,887
Occupancy expense	865	911	2,604	2,618
Data processing expenses	338	314	983	941
FDIC insurance expense	95	105	255	328
Other real estate owned expenses	11	12	26	76
Other operating expenses	1,691	1,218	5,204	3,875
Total non-interest expenses	7,617	6,662	22,954	19,725
Income before income taxes	3,712	4,151	9,273	10,846
INCOME TAXES	1,227	1,456	2,920	3,616
Net income	$ 2,485	$ 2,695	$ 6,353	$ 7,230
NET INCOME PER COMMON SHARE				
Basic	$ 0.31	$ 0.34	$ 0.79	$ 0.91
Diluted	$ 0.30	$ 0.33	$ 0.76	$ 0.89
WEIGHTED AVERAGE SHARES OUTSTANDING				
Basic	8,063,119	7,974,323	8,040,955	7,954,212
Diluted	8,328,252	8,185,840	8,309,363	8,159,419

The accompanying notes are an integral part of these consolidated financial statements.

1ST Constitution Bancorp
Consolidated Statements of Comprehensive Income
(Dollars in thousands)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	**2016**	**2017**	**2016**
Net income	$ 2,485	$ 2,695	$ 6,353	$ 7,230
Other comprehensive income:				
Unrealized holding gains/(losses) on securities available for sale	18	(211)	745	1,046
Tax effect	(7)	77	(275)	(380)
Net of tax amount	11	(134)	470	666
Reclassification adjustment for gains on securities available for sale (1)	(12)	—	(92)	—
Tax effect (2)	5	—	37	—
Net of tax amount	(7)	—	(55)	—
Pension liability	—	28	—	62
Tax effect	—	(11)	—	(25)
Net of tax amount	—	17	—	37
Reclassification adjustment for actuarial gains for unfunded pension liability				
Income (3)	(32)	(48)	(75)	(120)
Tax effect (2)	13	19	30	48
Net of tax amount	(19)	(29)	(45)	(72)
Total other comprehensive income	(15)	(146)	370	631
Comprehensive income	$ 2,470	$ 2,549	$ 6,723	$ 7,861

(1)Included in non-interest income on the consolidated statements of income
(2)Included in income taxes on the consolidated statements of income
(3)Included in salaries and employee benefits expense on the consolidated statements of income

The accompanying notes are an integral part of these consolidated financial statements.

1ST Constitution Bancorp
Consolidated Statements of Changes in Shareholders' Equity
For the Nine Months Ended September 30, 2017 and 2016
(Dollars in thousands)
(Unaudited)

	Common Stock	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance, January 1, 2016	$ 70,845	$ 25,589	$ (344)	$ (130)	$ 95,960
Exercise of stock options (3,564 shares)	19	—	—	—	19
Share-based compensation	530	—	—	—	530
Treasury stock purchased (2,000 shares)	—	—	(24)	—	(24)
Dividends on common stock ($0.05 per share)	—	(399)	—	—	(399)
Net income for the nine months ended September 30, 2016	—	7,230	—	—	7,230
Other comprehensive income	—	—	—	631	631
Balance, September 30, 2016	$ 71,394	$ 32,420	$ (368)	$ 501	$ 103,947
Balance, January 1, 2017	$ 71,695	$ 34,074	$ (368)	$ (600)	$ 104,801
Exercise of stock options (18,790 shares)	150	—	—	—	150
Share-based compensation	739	—	—	—	739
Dividends on common stock ($0.10 per share)	—	(803)	—	—	(803)
Net income for the nine months ended September 30, 2017	—	6,353	—	—	6,353
Other comprehensive income	—	—	—	370	370
Balance, September 30, 2017	$ 72,584	$ 39,624	$ (368)	$ (230)	$ 111,610

The accompanying notes are an integral part of these consolidated financial statements.

1ST Constitution Bancorp
Consolidated Statements of Cash Flows
(Dollars in thousands)
(Unaudited)

	Nine Months Ended September 2017	Nine Months Ended September 2016
OPERATING ACTIVITIES:		
Net income	$ 6,353	$ 7,230
Adjustments to reconcile net income to net cash provided by operating activities-		
Provision/(credit) for loan losses	450	(300)
Depreciation and amortization	1,037	970
Net amortization of premiums and discounts on securities	678	864
Gains on sales of securities	(128)	—
Gains on sales of other real estate owned	(14)	(31)
Gains on sales of loans held for sale	(3,936)	(2,525)
Originations of loans held for sale	(83,754)	(55,090)
Proceeds from sales of loans held for sale	96,500	51,928
Income on bank-owned life insurance	(391)	(414)
Share-based compensation expense	739	530
Increase in accrued interest receivable	(46)	(2)
(Increase)/decrease in other assets	(114)	829
Decrease in accrued interest payable	(151)	(52)
(Decrease)/increase in accrued expenses and other liabilities	(824)	874
Net cash provided by operating activities	16,399	4,811
INVESTING ACTIVITIES:		
Purchases of securities -		
Available for sale	(29,729)	(28,157)
Held to maturity	(16,460)	(16,591)
Proceeds from maturities and payments of securities -		
Available for sale	15,892	17,034
Held to maturity	30,538	18,432
Proceeds from sales of securities available for sale	7,602	—
Proceeds from sales of securities held to maturity	1,033	—
Proceeds from bank-owned life insurance benefits paid	—	248
Net redemption/(purchase) of restricted stock	494	(1,740)
Net increase in loans	(47,771)	(67,315)
Capital expenditures	(575)	(319)
Cost of improvement to other real estate owned	(5)	(60)
Proceeds from sales of other real estate owned	284	1,033
Purchase of bank-owned life insurance	(1,550)	(300)
Net cash used in investing activities	(40,247)	(77,735)
FINANCING ACTIVITIES:		
Exercise of stock options	150	19
Purchase of treasury stock	—	(24)
Cash dividends paid to shareholders	(803)	—
Net increase in deposits	35,297	40,305
Net (decrease)/increase in short-term borrowings	(25)	38,203
Repayment of Federal Home Loan Bank advances	(10,000)	—
Net cash provided by financing activities	24,619	78,503
Increase in cash and cash equivalents	771	5,579
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	14,886	11,368
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 15,657	$ 16,947
SUPPLEMENTAL DISCLOSURES OF CASHFLOW INFORMATION		
Cash paid during the period for -		
Interest	$ 4,231	$ 3,850
Income taxes	2,572	3,656
Non-cash items: Transfer of loans to other real estate owned	455	142

The accompanying notes are an integral part of these consolidated financial statements.

(1) Summary of Significant Accounting Policies

The accompanying unaudited consolidated financial statements include 1ST Constitution Bancorp (the "Company"), its wholly-owned subsidiary, 1ST Constitution Bank (the "Bank"), and the Bank's wholly-owned subsidiaries, 1ST Constitution Investment Company of New Jersey, Inc., FCB Assets Holdings, Inc., 204 South Newman Street Corp., and 249 New York Avenue, LLC. 1st Constitution Capital Trust II, a subsidiary of the Company, is not included in the Company's consolidated financial statements, as it is a variable interest entity and the Company is not the primary beneficiary. All significant intercompany accounts and transactions have been eliminated in consolidation and certain prior period amounts have been reclassified to conform to current year presentation. The accounting and reporting policies of the Company and its subsidiaries conform to accounting principles generally accepted in the United States of America ("U.S. GAAP") and pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC"), including the instructions to Form 10-Q and Article 10 of Regulation S-X. Certain information and footnote disclosures normally included in financial statements have been condensed or omitted pursuant to such rules and regulations. These consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the notes thereto included in the Company's Form 10-K/A for the year ended December 31, 2016, filed with the SEC on March 20, 2017.

In the opinion of the Company, all adjustments (consisting only of normal recurring accruals) which are necessary for a fair presentation of the operating results for the interim periods have been included. The results of operations for periods of less than a year are not necessarily indicative of results for the full year.

During the review of the three months ended June 30, 2017, management became aware that during previously reported periods, the amortization of deferred loan origination costs was being recorded in other operating expenses and not as an adjustment to yield as required by the Financial Standards Accounting Board ("FASB") Accounting Standards Codification ("ASC") 310-20. As such, management has adjusted interest income and other operating expenses by $435,000 and $1.2 million for the three and nine months ended September 30, 2016, respectively.

The Company has evaluated events and transactions occurring subsequent to the balance sheet date of September 30, 2017 for items that should potentially be recognized or disclosed in these financial statements. The evaluation was conducted through the date these financial statements were issued.

On November 6, 2017, the Company and the Bank entered into an Agreement and Plan of Merger (the "Merger Agreement") with New Jersey Community Bank ("NJCB"), providing for the merger of NJCB with and into the Bank, with the Bank as the surviving entity (the "Merger"). See Note 10 - Subsequent Event - for further information.

(2) Net Income Per Common Share

Basic net income per common share is calculated by dividing net income by the weighted average number of common shares outstanding during each period. Diluted net income per common share is calculated by dividing net income by the weighted average number of common shares outstanding, as adjusted for the assumed exercise of dilutive common stock warrants and common stock options using the treasury stock method.

The following tables illustrate the reconciliation of the numerators and denominators of the basic and diluted earnings per common share (EPS) calculations. Dilutive securities in the tables below exclude common stock options and warrants with exercise prices that exceed the average market price of the Company's common stock during the periods presented. Inclusion of these common stock options and warrants would be anti-dilutive to the diluted earnings per common share calculation.

(Dollars in thousands, except per share data)	Three Months Ended September 30, 2017		
	Net Income	Weighted-average shares	Per share amount
Basic earnings per common share:			
Net income	$ 2,485	8,063,119	$ 0.31
Effect of dilutive securities:			
Stock options and warrants		265,133	
Diluted EPS:			
Net income plus assumed conversion	$ 2,485	8,328,252	$ 0.30

(Dollars in thousands, except per share data)	Three Months Ended September 30, 2016		
	Net Income	Weighted-average shares	Per share amount
Basic earnings per common share:			
Net income	$ 2,695	7,974,323	$ 0.34
Effect of dilutive securities:			
Stock options and warrants		211,517	
Diluted EPS:			
Net income plus assumed conversion	$ 2,695	8,185,840	$ 0.33

For the three months ended September 30, 2017 and 2016, 9,500 and 11,130 options, respectively, were anti-dilutive and were not included in the computation of diluted earnings per common share.

(Dollars in thousands, except per share data)	Nine Months Ended September 30, 2017		
	Net Income	Weighted-average shares	Per share amount
Basic earnings per common share:			
Net income	$ 6,353	8,040,955	$ 0.79
Effect of dilutive securities:			
Stock options and warrants		268,408	
Diluted EPS:			
Net income plus assumed conversion	$ 6,353	8,309,363	$ 0.76

(Dollars in thousands, except per share data)	Nine Months Ended September 30, 2016		
	Net Income	Weighted-average shares	Per share amount
Basic earnings per common share:			
Net income	$ 7,230	7,954,212	$ 0.91
Effect of dilutive securities:			
Stock options and warrants		205,207	
Diluted EPS:			
Net income plus assumed conversion	$ 7,230	8,159,419	$ 0.89

For the nine months ended September 30, 2017 and 2016, 9,500 and 20,060 options, respectively, were anti-dilutive and were not included in the computation of diluted earnings per common share.

(3) Investment Securities

Amortized cost, carrying value, gross unrealized gains and losses, and the fair value by security type are as follows:

September 30, 2017	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
(Dollars in thousands)				
Available for sale				
U.S. Treasury securities and obligations of U.S. Government sponsored corporations ("GSE") and agencies	$ 1,997	$ —	$ (10)	$ 1,987
Residential collateralized mortgage obligations- GSE	26,651	45	(117)	26,579
Residential mortgage backed securities – GSE	21,294	201	(35)	21,460
Obligations of state and political subdivisions	20,104	260	(34)	20,330
Trust preferred debt securities – single issuer	2,481	—	(124)	2,357
Corporate debt securities	24,940	153	(128)	24,965
Other debt securities	12,620	1	(23)	12,598
	$ 110,087	$ 660	$ (471)	$ 110,276

September 30, 2017	Amortized Cost	Other-Than-Temporary Impairment Recognized In Accumulated Other Comprehensive Loss	Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
(Dollars in thousands)						
Held to maturity						
U.S. Treasury securities and obligations of U.S. Government sponsored corporations ("GSE") and agencies	$ 3,446	$ —	$ 3,446	$ —	$ (60)	$ 3,386
Residential collateralized mortgage obligations – GSE	9,387	—	9,387	160	(103)	9,444
Residential mortgage backed securities – GSE	35,932	—	35,932	426	(40)	36,318
Obligations of state and political subdivisions	62,290	—	62,290	1,446	(37)	63,699
Trust preferred debt securities-pooled	657	(501)	156	411	—	567
Other debt securities	343	—	343	—	—	343
	$ 112,055	$ (501)	$ 111,554	$ 2,443	$ (240)	$ 113,757

December 31, 2016	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
(Dollars in thousands)				
Available for sale				
U.S. Treasury securities and obligations of U.S. Government sponsored corporations ("GSE") and agencies	$ 3,514	$ —	$ (35)	$ 3,479
Residential collateralized mortgage obligations- GSE	22,647	58	(145)	22,560
Residential mortgage backed securities - GSE	31,207	388	(119)	31,476
Obligations of state and political subdivisions	21,604	152	(356)	21,400
Trust preferred debt securities-single issuer	2,478	—	(206)	2,272
Corporate debt securities	21,963	10	(205)	21,768
Other debt securities	845	—	(6)	839
	$ 104,258	$ 608	$ (1,072)	$103,794

December 31, 2016	Amortized Cost	Other-Than-Temporary Impairment Recognized In Accumulated Other Comprehensive Loss	Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
(Dollars in thousands)						
Held to maturity						
U.S. Treasury securities and obligations of U.S. Government sponsored corporations ("GSE") and agencies	$ 3,727	$ —	$ 3,727	$ —	$ (116)	$ 3,611
Residential collateralized mortgage obligations-GSE	11,882	—	11,882	247	(130)	11,999
Residential mortgage backed securities - GSE	40,565	—	40,565	540	(113)	40,992
Obligations of state and political subdivisions	70,017	—	70,017	1,274	(255)	71,036
Trust preferred debt securities - pooled	657	(501)	156	303	—	459
Other debt securities	463	—	463	—	(1)	462
	$ 127,311	$ (501)	$126,810	$ 2,364	$ (615)	$ 128,559

Restricted stock is included in other assets at September 30, 2017 and December 31, 2016 and totaled $3.5 million and $4.0 million, respectively. Restricted stock consisted of $3.4 million of Federal Home Loan Bank of New York stock and $65,000 of Atlantic Community Bankers Bank stock at September 30, 2017 and $3.9 million of Federal Home Loan Bank of New York stock and $65,000 of Atlantic Community Bankers Bank stock at December 31, 2016.

During the third quarter of 2017, the Company sold five mortgage backed securities with a book value of $766,000 for a gain of $24,000. Three of the securities, with a book value of $415,000 and a gain of $12,000, were sold from the held to maturity portfolio and all securities had a principal balance of less than 15% of the original principal balance outstanding at the time of purchase. ASC 320-10-25-14 provides that sales of debt securities that are categorized as held to maturity and are sold after 85% of the principal outstanding at acquisition had been collected shall be equivalent to holding the security to maturity. Accordingly, the sales of the mortgage-backed securities that were classified as held to maturity were treated as held to maturity.

During the nine months ended September 30, 2017, the Company sold securities with a book value of $8.5 million for a net gain of $128,000. Included in the sales were $1.0 million of securities that were in the held to maturity portfolio and that resulted in a gain of $36,000 for the nine months ended September 30, 2017. All were mortgage backed securities with a remaining book value of less than 15% of the original principal balance at the time of purchase and, as allowed in ASC 320-10-25-14, were treated as held to maturity.

The following table sets forth certain information regarding the amortized cost, carrying value,fair value, weighted average yields and contractual maturities of the Company's investment portfolio as of September 30, 2017. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	September 30, 2017		
(Dollars in thousands)	Amortized Cost	Fair Value	Yield
Available for sale			
Due in one year or less	$ 4,259	$ 4,252	3.01%
Due after one year through five years	20,820	20,897	2.29%
Due after five years through ten years	30,969	31,120	2.67%
Due after ten years	54,039	54,007	2.65%
Total	$ 110,087	$ 110,276	2.60%
	Carrying Value	Fair Value	Yield
Held to maturity			
Due in one year or less	$ 25,413	$ 25,449	1.69%
Due after one year through five years	17,683	18,449	4.65%
Due after five years through ten years	18,861	19,390	3.55%
Due after ten years	49,597	50,469	3.18%
Total	$ 111,554	$ 113,757	3.14%

Gross unrealized losses on available for sale and held to maturity securities and the fair value of the related securities aggregated by security category and length of time that individual securities have been in a continuous unrealized loss position at September 30, 2017 and December 31, 2016 were as follows:

September 30, 2017		Less than 12 months		12 months or longer		Total	
(Dollars in thousands)	Number of Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasury securities and obligations of U.S. Government sponsored corporations (GSE) and agencies	2	$ 5,373	$ (70)	$ —	$ —	$ 5,373	$ (70)
Residential collateralized mortgage obligations –GSE	8	18,625	(191)	1,509	(29)	20,134	(220)
Residential mortgage backed securities-GSE	15	14,487	(75)	—	—	14,487	(75)
Obligations of state and political subdivisions	29	9,020	(54)	2,376	(17)	11,396	(71)
Trust preferred debt securities-single issuer	4	—	—	2,357	(124)	2,357	(124)
Corporate debt securities	4	3,803	(35)	4,906	(93)	8,709	(128)
Other debt securities	4	9,144	(22)	23	(1)	9,167	(23)
Total temporarily impaired securities	66	$ 60,452	$ (447)	$ 11,171	$ (264)	$ 71,623	$ (711)

December 31, 2016		Less than 12 months		12 months or longer		Total	
(Dollars in thousands)	Number of Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasury securities and obligations of U.S. Government sponsored corporations (GSE) and agencies	3	$ 7,090	$ (151)	$ —	$ —	$ 7,090	$ (151)
Residential collateralized mortgage obligations –GSE	7	17,242	(275)	—	—	17,242	(275)
Residential mortgage backed securities - GSE	29	26,581	(216)	3,542	(16)	30,123	(232)
Obligations of state and political subdivisions	74	25,545	(611)	—	—	25,545	(611)
Trust preferred debt securities-single issuer	4	—	—	2,272	(206)	2,272	(206)
Corporate debt securities	6	12,700	(204)	1,999	(1)	14,699	(205)
Other debt securities	3	—	—	1,276	(7)	1,276	(7)
Total temporarily impaired securities	126	$ 89,158	$ (1,457)	$ 9,089	$ (230)	$ 98,247	$ (1,687)

U.S. Treasury securities and obligations of U.S. Government sponsored corporations and agencies: The unrealized losses on investments in these securities were caused by increases in market interest rates. The Company does not intend to sell these investments and it is not more likely than not that the Company will be required to sell these investments before a market price recovery or maturity. Therefore, these investments are not considered other-than-temporarily impaired.

Residential collateralized mortgage obligations and residential mortgage backed securities: The unrealized losses on investments in residential collateralized mortgage obligations and mortgage backed securities were caused by increases in market interest rates. The contractual cash flows of these securities are guaranteed by the issuers, which are primarily government or government sponsored agencies. It is expected that the securities would not be settled at a price less than the amortized cost of the investment. The decline in fair value is attributable to changes in interest rates and not credit quality. The Company does not intend to sell these investments and it is not more likely than not that the Company will be required to sell these investments before a market price recovery or maturity. Therefore, these investments are not considered other-than-temporarily impaired.

Obligations of state and political subdivisions: The unrealized losses on investments in these securities were caused by increases in market interest rates. It is expected that the securities would not be settled at a price less than the amortized cost of the investment. None of the issuers have defaulted on interest payments. These investments are not considered to be other than temporarily impaired because the decline in fair value is attributable to changes in interest rates and not credit quality. The Company does not intend to sell these investments and it is not more likely than not that the Company will be required to sell these investments before a market price recovery or maturity. Therefore, these investments are not considered other-than-temporarily impaired.

Corporate debt securities: The unrealized losses on investments in corporate debt securities were caused by increases in market interest rates. None of the corporate issuers have defaulted on interest payments. The decline in fair value is attributable to changes in interest rates and not a decline in credit quality. The Company does not intend to sell these investments and it is not more likely than not that the Company will be required to sell these investments before a market price recovery or maturity. Therefore, these investments are not considered other-than-temporarily impaired.

Trust preferred debt securities – single issuer: The investments in these securities with unrealized losses are comprised of four corporate trust preferred securities issued by two large financial institutions that mature in 2027. The contractual terms of the trust preferred securities do not allow the issuer to settle the securities at a price less than the face value of the trust preferred securities, which is greater than the amortized cost of the trust preferred securities. One of the issuers continues to maintain an investment grade credit rating and neither has defaulted on interest payments. The decline in fair value is attributable to the widening of interest rate and credit spreads and the lack of an active trading market for these securities. The Company does not intend to sell these investments and it is not more likely than not that the Company will be required to sell these investments before a market price recovery or maturity. Therefore, these investments are not considered other-than-temporarily impaired.

Trust preferred debt securities – pooled: This trust preferred debt security was issued by a two issuer pool (Preferred Term Securities XXV, Ltd. co-issued by Keefe, Bruyette and Woods, Inc. and First Tennessee ("PRETSL XXV")) consisting primarily of debt securities issued by financial institution holding companies. During 2009, the Company recognized an other-than-temporary impairment of $865,000, of which $364,000 was determined to be a credit loss and charged to operations and $501,000 was recognized in the other comprehensive income (loss) component of shareholders' equity.

The primary factor used to determine the credit portion of the impairment loss recognized in the income statement for this security was the discounted present value of projected cash flow where that present value of cash flow was less than the amortized cost basis of the security. The present value of cash flow was developed using a model that considered performing collateral ratios, the level of subordination to senior tranches of the security, and credit ratings of and projected credit defaults in the underlying collateral.

On a quarterly basis, management evaluates the security to determine if any additional other-than-temporary impairment is required. As of September 30, 2017, the security was in an unrealized gain position.

(4) Allowance for Loan Losses and Credit Quality

The Company's primary lending emphasis is the origination of commercial business and commercial real estate loans and mortgage warehouse lines of credit. Based on the composition of the loan portfolio, the inherent primary risks are deteriorating credit quality, a decline in the economy, and a decline in New Jersey real estate market values. Any one, or a combination, of these events may adversely affect the loan portfolio and may result in increased delinquencies, loan losses and increased future provision levels.

The following table provides an aging of the loan portfolio by loan class at September 30, 2017:

(Dollars in thousands)	30-59 Days	60-89 Days	Greater than 90 Days	Total Past Due	Current	Total Loans Receivable	Recorded Investment > 90 Days Accruing	Non-accrual Loans
Commercial								
Construction	$ 96	$ —	$ —	$ 96	$ 127,508	$ 127,604	$ —	$ —
Commercial Business	568	148	379	1,095	92,936	94,031	—	3,476
Commercial Real Estate	315	—	2,583	2,898	288,484	291,382	—	2,583
Mortgage Warehouse Lines	—	—	—	—	193,535	193,535	—	—
Residential Real Estate	616	—	74	690	41,268	41,958	—	74
Consumer								
Loans to Individuals	—	70	116	186	22,425	22,611	—	378
Other	—	—	—	—	186	186	—	—
Total loans	$ 1,595	$ 218	$ 3,152	$ 4,965	$ 766,342	771,307	—	$ 6,511
Deferred loan fees and costs, net						675		
Total loans, net						$ 771,982		

The following table provides an aging of the loan portfolio by loan class at December 31, 2016:

(Dollars in thousands)	30-59 Days	60-89 Days	Greater than 90 Days	Total Past Due	Current	Total Loans Receivable	Recorded Investment > 90 Days Accruing	Non-accrual Loans
Commercial								
Construction	$ —	$ —	$ 186	$ 186	$ 95,849	$ 96,035	$ —	$ 186
Commercial Business	113	115	790	1,018	98,632	99,650	—	920
Commercial Real Estate	741	942	2,707	4,390	238,003	242,393	—	3,187
Mortgage Warehouse Lines	—	—	—	—	216,259	216,259	—	—
Residential Real Estate	564	—	392	956	43,835	44,791	—	544
Consumer								
Loans to Individuals	—	29	361	390	23,346	23,736	24	337
Other	—	—	—	—	207	207	—	—
Total loans	$ 1,418	$ 1,086	$ 4,436	$ 6,940	$ 716,131	723,071	$ 24	$ 5,174
Deferred loan fees and costs, net						1,737		
Total loans, net						$ 724,808		

As provided by ASC 310-30, the excess of cash flows expected at acquisition over the initial investment in the loan is recognized as interest income over the life of the loan. At September 30, 2017, there were no acquired loans with evidence of deteriorated credit quality that were non-performing while at December 31, 2016, there were $439,000 in acquired loans with evidence of deteriorated credit quality that were not classified as non-performing loans.

The Company's internal credit risk grades are based on the definitions currently utilized by the banking regulatory agencies. The grades assigned and definitions are as follows, and loans graded excellent, above average, good and watch list are treated as "pass" for grading purposes:

1. <u>Excellent</u> - Loans that are based upon cash collateral held at the Bank and adequately margined. Loans that are based upon "blue chip" stocks listed on the major exchanges and adequately margined.

2. Above Average - Loans to companies whose balance sheets show excellent liquidity and long-term debt is on well-spread schedules of repayment easily covered by cash flow. Such companies have been consistently profitable and have diversification in their product lines or sources of revenue. The continuation of profitable operations for the foreseeable future is likely. Management is comprised of a mix of ages, experience, and backgrounds, and management succession is in place. Sources of raw materials and, for service companies, the sources of revenue are abundant. Future needs have been planned for. Character and ability of individuals or company principals are excellent. Loans to individuals are supported by high net worths and liquid assets.

3. Good - Loans to companies whose balance sheets show good liquidity and cash flow adequate to meet maturities of long-term debt with a comfortable margin. Such companies have established profitable records over a number of years, and there has been growth in net worth. Operating ratios are in line with those of the industry, and expenses are in proper relationship to the volume of business done and the profits achieved. Management is well-balanced and competent in their responsibilities. Economic environment is favorable; however, competition is strong. The prospects for growth are good. Loans in this category do not meet the collateral requirements of loans in categories 1 and 2 above. Loans to individuals are supported by good net worth but whose supporting assets are illiquid.

3w. Watch - Included in this category are loans evidencing problems identified by Bank management that require closer supervision. Such problems have not developed to the point which requires a "special mention" rating. This category also covers situations where the Bank does not have adequate current information upon which credit quality can be determined. The account officer has the obligation to correct these deficiencies within 30 days from the time of notification.

4. Special Mention - A "special mention" loan has potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or in the Bank's credit position at some future date. Special mention loans are not adversely classified and do not expose the Bank to sufficient risk to warrant adverse classification.

5. Substandard - A "substandard" loan is inadequately protected by the current sound net worth and paying capacity of the obligor or by the collateral pledged, if any. Loans so classified must have a well-defined weakness, or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected.

6. Doubtful - A loan classified as "doubtful" has all the weaknesses inherent in one classified as substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently known facts, conditions and values, highly questionable and improbable.

7. Loss - A loan classified as "loss" is considered uncollectible and of such little value that its continuance on the books is not warranted. This classification does not mean that the loan has absolutely no recovery or salvage value, but rather it is not practical or desirable to defer writing off this loan even though partial recovery may be affected in the future.

The following table provides a breakdown of the loan portfolio by credit quality indicator at September 30, 2017:

(Dollars in thousands)

Commercial Credit Exposure - By Internally Assigned Grade	**Construction**	**Commercial Business**	**Commercial Real Estate**	**Mortgage Warehouse Lines**	**Residential Real Estate**
Grade:					
Pass	$ 127,277	$ 86,668	$ 271,440	$ 193,535	$ 40,994
Special Mention	327	3,574	13,888	—	673
Substandard	—	780	6,054	—	291
Doubtful	—	3,009	—	—	—
Total	$ 127,604	$ 94,031	$ 291,382	$ 193,535	$ 41,958

Consumer Credit Exposure - By Payment Activity	**Loans To Individuals**	**Other**
Performing	$ 22,233	$ 186
Non-performing	378	—
Total	$ 22,611	$ 186

The following table provides a breakdown of the loan portfolio by credit quality indicator at December 31, 2016:

(Dollars in thousands)

Commercial Credit Exposure - By Internally Assigned Grade	Construction	Commercial Business	Commercial Real Estate	Mortgage Warehouse Lines	Residential Real Estate
Grade:					
Pass	$ 95,548	$ 91,908	$ 223,435	$ 216,259	$ 43,950
Special Mention	301	7,102	14,334	—	244
Substandard	186	611	4,624	—	597
Doubtful	—	29	—	—	—
Total	$ 96,035	$ 99,650	$ 242,393	$ 216,259	$ 44,791

Consumer Credit Exposure - By Payment Activity	Loans To Individuals	Other
Performing	$ 23,375	$ 207
Non-performing	361	—
Total	$ 23,736	$ 207

Impaired Loans

Loans are considered to be impaired when, based on current information and events, it is determined that the Company will not be able to collect all amounts due according to the loan agreement, including scheduled interest payments. When a loan is placed on non-accrual status, it is also considered to be impaired. Loans are placed on non-accrual status when: (1) the full collection of interest or principal becomes uncertain or (2) they are contractually past due 90 days or more as to interest or principal payments unless the loans are both well secured and in the process of collection.

The following tables summarize the distribution of the allowance for loan losses and loans receivable by loan class and impairment method at September 30, 2017 and December 31, 2016:

September 30, 2017

(Dollars in thousands)	Construction	Commercial Business	Commercial Real Estate	Mortgage Warehouse Lines	Residential Real Estate	Loans to Individuals	Other	Unallocated	Total
Allowance for loan losses:									
Individually evaluated for impairment	$ —	$ 245	$ 79	$ —	$ —	$ —	$ —	$ —	$ 324
Loans acquired with deteriorated credit quality	—	—	—	—	—	—	—	—	—
Collectively evaluated for impairment	1,594	1,170	2,664	871	388	118	—	673	7,478
Ending Balance	$ 1,594	$ 1,415	$ 2,743	$ 871	$ 388	$ 118	$ —	$ 673	$ 7,802
Loans receivable:									
Individually evaluated for impairment	$ 231	$ 3,521	$ 5,846	$ —	$ 74	$ 378	$ —	$ —	$ 10,050
Loans acquired with deteriorated credit quality	—	258	596	—	—	—	—	—	854
Collectively evaluated for impairment	127,373	90,252	284,940	193,535	41,884	22,233	186	—	760,403
Ending Balance	$ 127,604	$ 94,031	$ 291,382	$ 193,535	$ 41,958	$ 22,611	$ 186	$ —	$ 771,307

December 31, 2016

(Dollars in thousands)	Construction	Commercial Business	Commercial Real Estate	Mortgage Warehouse Lines	Residential Real Estate	Loans to Individuals	Other	Unallocated	Total
Allowance for loan losses:									
Individually evaluated for impairment	$ 7	$ 101	$ 114	$ —	$ 38	$ —	$ —	$ —	$ 260
Loans acquired with deteriorated credit quality	—	—	—	—	—	—	—	—	—
Collectively evaluated for impairment	1,197	1,631	2,460	973	329	112	—	532	7,234
Ending Balance	$ 1,204	$ 1,732	$ 2,574	$ 973	$ 367	$ 112	$ —	$ 532	$ 7,494
Loans receivable:									
Individually evaluated for impairment	$ 391	$ 947	$ 3,817	$ —	$ 544	$ 337	$ —	$ —	$ 6,036
Loans acquired with deteriorated credit quality	—	191	930	—	—	—	—	—	1,121
Collectively evaluated for impairment	95,644	98,512	237,646	216,259	44,247	23,399	207	—	715,914
Ending Balance	$ 96,035	$ 99,650	$ 242,393	$ 216,259	$ 44,791	$ 23,736	$ 207	$ —	$ 723,071

The activity in the allowance for loan loss by loan class for the three and nine months ended September 30, 2017 and 2016 was as follows:

(Dollars in thousands)	Construction	Commercial Business	Commercial Real Estate	Mortgage Warehouse Lines	Residential Real Estate	Loans to Individuals	Other	Unallocated	Total
Balance - July 1, 2017	$ 1,455	$ 1,437	$ 2,991	$ 902	$ 385	$ 120	$ —	$ 417	$ 7,707
Provision charged/(credited) to operations	139	39	(252)	(31)	3	(4)	—	256	150
Loans charged off	—	(61)	—	—	—	—	—	—	(61)
Recoveries of loans charged off	—	—	4	—	—	2	—	—	6
Balance - September 30, 2017	$ 1,594	$ 1,415	$ 2,743	$ 871	$ 388	$ 118	$ —	$ 673	$ 7,802
Balance - July 1, 2016	$ 975	$ 1,230	$ 3,150	$ 1,190	$ 294	$ 119	$ —	$ 524	$ 7,482
Provision charged/(credited) to operations	190	486	(448)	(46)	5	(9)	—	(178)	—
Loans charged off	—	—	—	—	—	—	—	—	—
Recoveries of loans charged off	—	3	—	—	—	1	—	—	4
Balance - September 30, 2016	$ 1,165	$ 1,719	$ 2,702	$ 1,144	$ 299	$ 111	$ —	$ 346	$ 7,486

(Dollars in thousands)	Construction	Commercial Business	Commercial Real Estate	Mortgage Warehouse Lines	Residential Real Estate	Loans to Individuals	Other	Unallocated	Total
Balance - January 1, 2017	$ 1,204	$ 1,732	$ 2,574	$ 973	$ 367	$ 112	$ —	$ 532	$ 7,494
Provision charged/(credited) to operations	390	(259)	156	(102)	122	2	—	141	450
Loans charged off	—	(61)	—	—	(101)	—	—	—	(162)
Recoveries of loans charged off	—	3	13	—	—	4	—	—	20
Balance - September 30, 2017	$ 1,594	$ 1,415	$ 2,743	$ 871	$ 388	$ 118	$ —	$ 673	$ 7,802
Balance - January 1, 2016	$ 1,025	$ 2,005	$ 3,049	$ 866	$ 288	$ 109	$ —	$ 218	7,560
Provision charged/(credited) to operations	140	(190)	(665)	278	11	(2)	—	128	(300)
Loans charged off	—	(101)	(60)	—	—	—	—	—	(161)
Recoveries of loans charged off	—	5	378	—	—	4	—	—	387
Balance - September 30, 2016	$ 1,165	$ 1,719	$ 2,702	$ 1,144	$ 299	$ 111	$ —	$ 346	$ 7,486

When a loan is identified as impaired, the measurement of impairment is based on the present value of expected future cash flows, discounted at the loan's effective interest rate, except when the sole remaining source of repayment for the loan is the liquidation of the collateral. In such cases, the current fair value of the collateral less selling costs is used. If the value of the impaired loan is less than the recorded investment in the loan, the impairment is recognized through an allowance estimate or a charge to the allowance.

Impaired Loans Receivables (By Class) – September 30, 2017

(Dollars in thousands)				Three Months Ended September 30, 2017		Nine Months Ended September 30, 2017	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
With no allowance:							
Commercial:							
Construction	$ 231	$ 231	$ —	$ 231	$ 3	$ 201	$ 9
Commercial Business	675	675	—	693	25	725	123
Commercial Real Estate	3,465	3,465	—	2,880	18	2,808	128
Mortgage Warehouse Lines	—	—	—	—	—	—	—
Subtotal	4,371	4,371	—	3,804	46	3,734	260
Residential Real Estate	74	74	—	76	—	166	—
Consumer:							
Loans to Individuals	378	378	—	366	—	332	—
Other	—	—	—	—	—	—	—
Subtotal	378	378	—	366	—	332	—
With no allowance:	$ 4,823	$ 4,823	$ —	$ 4,246	$ 46	$ 4,232	$ 260
With an allowance:							
Commercial:							
Construction	$ —	$ —	$ —	$ —	$ —	$ 114	$ —
Commercial Business	3,104	3,104	245	3,045	44	2,745	171
Commercial Real Estate	2,977	2,977	79	3,092	44	2,764	129
Mortgage Warehouse Lines	—	—	—	—	—	—	—
Subtotal	6,081	6,081	324	6,137	88	5,623	300
Residential Real Estate	—	—	—	—	—	100	—
Consumer:							
Loans to Individuals	—	—	—	—	—	—	—
Other	—	—	—	—	—	—	—
Subtotal	—	—	—	—	—	—	—
With an allowance:	$ 6,081	$ 6,081	$ 324	$ 6,137	$ 88	$ 5,723	$ 300
Total:							
Construction	231	231	—	231	3	315	9
Commercial Business	3,779	3,779	245	3,738	69	3,470	294
Commercial Real Estate	6,442	6,442	79	5,972	62	5,572	257
Mortgage Warehouse Lines	—	—	—	—	—	—	—
Residential Real Estate	74	74	—	76	—	266	—
Consumer	378	378	—	366	—	332	—
Total	$ 10,904	$ 10,904	$ 324	$ 10,383	$ 134	$ 9,955	$ 560

Impaired Loans Receivables (By Class) – December 31, 2016

(Dollars in thousands

	Recorded Investment	Unpaid Principal Balance	Related Allowance
With no allowance:			
Commercial:			
Construction	$ 186	$ 186	$ —
Commercial Business	883	1,054	—
Commercial Real Estate	1,380	1,380	—
Mortgage Warehouse Lines	—	—	—
Subtotal	2,449	2,620	—
Residential Real Estate	244	244	—
Consumer:			
Loans to Individuals	337	337	—
Other	—	—	—
Subtotal	337	337	—
With no allowance	$ 3,030	$ 3,201	$ —
With an allowance:			
Commercial:			
Construction	$ 205	$ 205	$ 7
Commercial Business	255	255	101
Commercial Real Estate	3,367	3,367	114
Mortgage Warehouse Lines	—	—	—
Subtotal	3,827	3,827	222
Residential Real Estate	300	316	38
Consumer:			
Loans to Individuals	—	—	—
Other	—	—	—
Subtotal	—	—	—
With an allowance	$ 4,127	$ 4,143	$ 260
Total:			
Construction	391	391	7
Commercial Business	1,138	1,309	101
Commercial Real Estate	4,747	4,747	114
Mortgage Warehouse Lines	—	—	—
Residential Real Estate	544	560	38
Consumer	337	337	—
Total	$ 7,157	$ 7,344	$ 260

Impaired Loans Receivables (By Class) – September 30, 2016

(Dollars in thousands)	Three Months Ended September 30, 2016 Average Recorded Investment	Three Months Ended September 30, 2016 Interest Income Recognized	Nine Months Ended September 30, 2016 Average Recorded Investment	Nine Months Ended September 30, 2016 Interest Income Recognized
With no allowance:				
Commercial:				
Construction	$ 342	$ 2	$ 284	$ 5
Commercial Business	742	3	537	11
Commercial Real Estate	1,640	23	1,577	70
Mortgage Warehouse Lines	—	—	—	—
Subtotal	2,724	28	2,398	86
Residential Real Estate	259	—	885	(2)
Consumer:				
Loans to Individuals	263	—	263	—
Other	—	—	—	—
Subtotal	263	—	263	—
With no allowance:	$ 3,246	$ 28	$ 3,546	$ 84
With an allowance:				
Commercial:				
Construction	$ —	$ —	$ —	$ —
Commercial Business	345	—	233	13
Commercial Real Estate	3,372	11	3,681	34
Mortgage Warehouse Lines	—	—	—	—
Subtotal	3,717	11	3,914	47
Residential Real Estate	301	—	167	—
Consumer:				
Loans to Individuals	—	—	—	—
Other	—	—	—	—
Subtotal	—	—	—	—
With an allowance:	$ 4,018	$ 11	$ 4,081	$ 47
Total:				
Construction	342	2	284	5
Commercial Business	1,087	3	770	24
Commercial Real Estate	5,012	34	5,258	104
Mortgage Warehouse Lines	—	—	—	—
Residential Real Estate	560	—	1,052	(2)
Consumer	263	—	263	—
Total	$ 7,264	$ 39	$ 7,627	$ 131

Purchased Credit-Impaired Loans

Purchased credit-impaired loans ("PCI") are loans acquired at a discount that are due in part to credit quality. The following table presents additional information regarding purchased credit-impaired loans at September 30, 2017 and December 31, 2016:

(Dollars in thousands)	September 30, 2017	December 31, 2016
Outstanding balance	$ 1,016	$ 1,470
Carrying amount	$ 854	$ 1,121

Changes in accretable discount for purchased credit-impaired loans for the three and nine months ended September 30, 2017 and September 30, 2016 were as follows:

	Three months ended September 30,		Nine months ended September 30,	
(Dollars in thousands)	2017	2016	2017	2016
Balance at beginning of period	$ 171	$ 44	$ 30	$ 73
Transfer from non-accretable discount	—	—	161	—
Accretion of discount	(23)	(7)	(43)	(36)
Balance at end of period	$ 148	$ 37	$ 148	$ 37

Consumer Mortgage Loans Secured by Residential Real Estate in Process of Foreclosure

The following table summarizes the recorded investment in consumer mortgage loans secured by residential real estate in the process of foreclosure (dollars in thousands):

September 30, 2017		December 31, 2016	
Number of loans	Recorded Investment	Number of loans	Recorded Investment
—	$ —	4	$ 822

At September 30, 2017, there was one residential property with a fair value of $190,000 held in other real estate owned. At December 31, 2016, there were no residential properties held in other real estate owned.

Troubled Debt Restructurings

In the normal course of business, the Bank may consider modifying loan terms for various reasons. These reasons may include as a retention strategy to compete in the current interest rate environment or to re-amortize or extend a loan term to better match the loan's repayment stream with the borrower's cash flow. A modified loan would be considered a troubled debt restructuring ("TDR") if the Bank grants a concession to a borrower and has determined that the borrower is troubled (i.e., experiencing financial difficulties).

If the Bank restructures a loan to a troubled borrower, the loan terms (i.e., interest rate, payment, amortization period and maturity date) may be modified in various ways to enable the borrower to cover the modified debt service payments based on current financial statements and cash flow adequacy. If a borrower's hardship is thought to be temporary, then modified terms may only be offered for that time period. Where possible, the Bank would attempt to obtain additional collateral and/or secondary repayment sources at the time of the restructuring in order to put the Bank in the best possible position if the borrower is not able to meet the modified terms. The Bank will not offer modified terms if it believes that modifying the loan terms will only delay an inevitable permanent default. In evaluating whether a restructuring constitutes a troubled debt restructuring, applicable guidance requires that a creditor must separately conclude that the restructuring constitutes a concession and the borrower is experiencing financial difficulties.

There were no loans modified as a TDR during the three months ended September 30, 2017 and there was one commercial real estate loan with a pre- and post-modification recorded investment of $2.3 million that was modified as a TDR during the nine months ended September 30, 2017. The concession to the borrower was a change in monthly payments to interest only for a period of time. There were no loans modified as a TDR during the three months ended September 30, 2016 and one loan with a recorded investment of $456,000 that was modified as a TDR during the nine months ended September 30, 2016. This loan subsequently defaulted within twelve months of restructuring. There were no troubled debt restructurings that subsequently defaulted within twelve months of restructuring during the three and nine months ended September 30, 2017.

(5) Share-Based Compensation

The Company's share-based incentive plans ("Stock Plans") authorize the issuance of an aggregate of 485,873 shares of the Company's common stock (as adjusted for stock dividends) pursuant to awards that may be granted in the form of stock options to purchase common stock ("Options") and awards of shares of common stock ("Stock Awards").

As of September 30, 2017, there were 127,292 shares of common stock available for future grants under the Stock Plans.

The following table summarizes stock option activity during the nine months ended September 30, 2017:

(Dollars in thousands, except share amounts)	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding at January 1, 2017	165,819	$ 7.35		
Granted	9,900	18.65		
Exercised	(16,556)	8.05		
Forfeited	(1,630)	16.07		
Expired	—	—		
Outstanding at September 30, 2017	157,533	$ 7.93	4.4	$ 1,611
Exercisable at September 30, 2017	139,669	$ 7.14	4.0	$ 1,538

The fair value of each option and the significant weighted average assumptions used to calculate the fair value of the options granted for the nine months ended September 30, 2017 were as follows:

Fair value of options granted	$ 6.05
Risk-free rate of return	2.45%
Expected option life in years	7
Expected volatility	31.25%
Expected dividends [1]	1.19%

[1] The Company declared its first cash dividend on September 15, 2016.

Share-based compensation expense related to options was $16,000 and $11,000 for the three months ended September 30, 2017 and 2016, respectively. Share-based compensation expense related to options was $44,000 and $33,000 for the nine months ended September 30, 2017 and 2016, respectively. As of September 30, 2017, there was approximately $87,000 of unrecognized compensation cost related to non-vested stock options.

The following table summarizes the activity in non-vested restricted shares for the nine months ended September 30, 2017:

(Dollars in thousands, except share amounts)	Number of Shares	Average Grant-Date Fair Value
Non-vested at January 1, 2017	143,259	$ 9.02
Granted	61,900	17.96
Vested	(48,037)	10.60
Forfeited	(1,539)	12.49
Non-vested at September 30, 2017	155,583	$ 12.06

Share-based compensation expense related to stock grants was $239,000 and $157,000 for the three months ended September 30, 2017 and 2016, respectively. Share-based compensation expense related to stock grants was $695,000 and $497,000 for the nine months ended September 30, 2017 and 2016, respectively. As of September 30, 2017, there was approximately $1.8 million of unrecognized compensation cost related to non-vested stock grants.

(6) Benefit Plans

The Bank has a 401(k) plan which covers substantially all employees with six months or more of service. The Bank's 401(k) plan permits all eligible employees to make contributions to the plan up to the IRS salary deferral limit. The Bank's contributions to the 401(k) plan are expensed as incurred.

The Company also provides retirement benefits to certain employees under supplemental executive retirement plans. The plans are unfunded and the Company accrues actuarially determined benefit costs over the estimated service period of the employees in the plans. The Company recognizes the over-funded or under-funded status of a defined benefit post-retirement plan as an asset or liability on its balance sheet and recognizes changes in that funded status in the year in which the changes occur, through comprehensive income.

In connection with the benefit plans, the Bank has life insurance policies on the lives of its executives, directors and employees. The Bank is the owner and beneficiary of these policies. The cash surrender values of these policies totaled approximately $24.1 million and $22.2 million at September 30, 2017 and December 31, 2016, respectively.

The components of net periodic expense for the Company's supplemental executive retirement plans for the three and nine months ended September 30, 2017 and 2016 were as follows:

(Dollars in thousands)	Three Months Ended September 30, 2017	Three Months Ended September 30, 2016	Nine Months Ended September 30, 2017	Nine Months Ended September 30, 2016
Service cost	$ 67	$ 58	$ 178	$ 162
Interest cost	39	49	117	134
Actuarial gain recognized	(32)	(48)	(75)	(120)
Total	$ 74	$ 59	$ 220	$ 176

(7) Other Comprehensive Income (Loss) and Accumulated Other Comprehensive Income (Loss)

Other comprehensive income (loss) is the total of (1) net income (loss), and (2) all other changes in equity from non-shareholder sources, which are referred to as other comprehensive income (loss). The components of accumulated other comprehensive loss, and the related tax effects, are as follows:

(Dollars in thousands)	Before-Tax Amount	Income Tax Effect	Net-of-Tax Amount
September 30, 2017			
Unrealized net holding gains on available-for-sale securities	$ 189	$ (108)	$ 81
Unrealized impairment loss on held to maturity security	(501)	170	(331)
Unfunded pension liability - plan actuarial gains	34	(14)	20
Accumulated other comprehensive loss	$ (278)	$ 48	$ (230)
December 31, 2016			
Unrealized net holding losses on available-for-sale securities	$ (464)	$ 130	$ (334)
Unrealized impairment loss on held to maturity security	(501)	170	(331)
Unfunded pension liability - plan actuarial gains	$ 109	$ (44)	$ 65
Accumulated other comprehensive loss	$ (856)	$ 256	$ (600)

Changes in the components of accumulated other comprehensive income (loss) are as follows and are presented net of tax:

(Dollars in thousands)	Unrealized Holding Gains/ (Losses) on Available for Sale Securities	Unrealized Impairment Loss on Held to Maturity Security	Unfunded Pension Liability	Accumulated Other Comprehensive Income/(Loss)
Three Months Ended September 30, 2017:				
Balance, beginning of period	$ 77	$ (331)	$ 39	$ (215)
Other comprehensive income before reclassifications	11	—	—	11
Amounts reclassified from accumulated other comprehensive income	—	—	(19)	(19)
Reclassification adjustment for gain realized in income	(7)	—	—	(7)
Other comprehensive income/(loss)	4	—	(19)	(15)
Balance, end of period	$ 81	$ (331)	$ 20	$ (230)
Three Months Ended September 30, 2016:				
Balance, beginning of period	$ 890	$ (331)	$ 88	$ 647
Other comprehensive income/(loss) before reclassifications	(134)	—	17	(117)
Amounts reclassified from accumulated other comprehensive income	—	—	(29)	(29)
Other comprehensive loss	(134)	—	(12)	(146)
Balance, end of period	$ 756	$ (331)	$ 76	$ 501

(Dollars in thousands)	Unrealized Holding Gains/ (Losses) on Available for Sale Securities	Unrealized Impairment Loss on Held to Maturity Security	Unfunded Pension Liability	Accumulated Other Comprehensive Income/(Loss)
Nine Months Ended September 30, 2017:				
Balance, beginning of period	$ (334)	$ (331)	$ 65	$ (600)
Other comprehensive income before reclassifications	470	—	—	470
Amounts reclassified from accumulated other comprehensive income	—	—	(45)	(45)
Reclassification adjustment for gain realized in income	(55)	—	—	(55)
Other comprehensive income/(loss)	415	—	(45)	370
Balance, end of period	$ 81	$ (331)	$ 20	$ (230)
Nine Months Ended September 30, 2016:				
Balance, beginning of period	$ 90	$ (331)	$ 111	$ (130)
Other comprehensive income before reclassifications	666	—	37	703
Amounts reclassified from accumulated other comprehensive income	—	—	(72)	(72)
Other comprehensive gain/(loss)	666	—	(35)	631
Balance, end of period	$ 756	$ (331)	$ 76	$ 501

(8) Recent Accounting Pronouncements

ASU Update 2017-12 - Derivatives and Hedging: Targeted Improvements to Accounting for Hedging Activities

In August 2017, the FASB issued Accounting Standards Update ("ASU") 2017-12, "Derivatives and Hedging: Targeted Improvements to Accounting for Hedging Activities," which is intended to better align a company's financial reporting for hedging activities with the economic objectives of those activities. ASU 2017-12 is effective for public business entities for fiscal years beginning after December 15, 2018, with early adoption, including adoption in an interim period, permitted. ASU 2017-12 requires a modified retrospective transition method in which the Company will recognize the cumulative effect of the change on the opening balance of each affected component of equity in the statement of financial position as of the date of adoption. While the Company continues to assess all potential impacts of the standard, it does not expect the adoption of this guidance to have a material impact on the Company's consolidated financial statements.

ASU Update 2017-09 - Scope of Modification Accounting

In May 2017, the FASB issued ASU 2017-09 "Scope of Modification Accounting," which clarifies Topic 718 Compensation-Stock Compensation, such that an entity must apply modification accounting to changes in the terms or conditions of a share-based payment award unless all of the following criteria are met: (1) the fair value of the modified award is the same as the fair value of the original award immediately before modification. The standard indicates that if the modification does not affect any of the inputs to the valuation technique used to value the award, the entity is not required to estimate the value immediately before and after the modification; (2) the vesting conditions of the modified award are the same as the vesting conditions of the original award immediately before modification; and (3) the classification of the modification award as an equity instrument or a liability instrument is the same as the classification of the original award immediately before the modification.

The amendments are effective for all entities for fiscal years beginning after December 15, 2017, including interim periods within those years. Early adoption is permitted, including adoption in an interim period.

The Company does not expect the adoption of this guidance to have a material impact on its consolidated financial statements.

ASU Update 2017-08 - Premium Amortization on Purchased Callable Debt Securities

In March 2017, the FASB issued ASU 2017-08 "Premium Amortization on Purchased Callable Debt Securities," which shortens the amortization period for premiums on purchased callable debt securities to the earliest call date (i.e., yield-to-earliest call amortization) rather than amortizing over the full contractual term. The ASU does not change the accounting for securities held at a discount.

The amendments apply to callable debt securities with explicit, non-contingent call features that are callable at fixed prices and on preset dates. If a security may be prepaid based upon prepayments of the underlying loans and not because the issuer exercised a date specific call option, it is excluded from the scope of the new standard. However, for instruments with contingent call features, once the contingency is resolved and the security is callable at a fixed price and preset date, the security is within the scope of the amendments. Further, the amendments apply to all premiums on callable debt securities, regardless of how they were generated.

The amendments require companies to reset the effective yield using the payment terms of the debt security if the call option is not exercised on the earliest call date. If the security has additional future call dates, any excess of the amortized cost basis over the amount repayable by the issuer at the next call date should be amortized to the next call date.

The amendments are effective for public business entities for fiscal years beginning after December 15, 2018, including interim periods within those years. Early adoption is permitted, including adoption in an interim period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes the interim period.

The Company does not expect the adoption of this guidance to have a material impact on its consolidated financial statements.

ASU Update 2017-07 - Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost

In March 2017, the FASB issued ASU 2017-07 "Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost," which requires that an employer disaggregate the service cost component from the other components of net benefit costs as follows: (1) service cost must be presented in the same line item(s) as other employee compensation costs. These costs are generally included within income from continuing operations but in some cases, may be eligible for capitalization if certain criteria are met; and (2) all other components of net benefit cost must be presented in the income statement separately from the service cost component and outside a subtotal of income from operations, if one is presented. These generally include interest cost, actual return on plan assets, amortization of prior service cost included in accumulated other comprehensive income and gains or losses from changes in the value of the projected benefit obligation or plan assets.

The amendments are effective for public business entities for fiscal years beginning after December 15, 2017, including interim periods within those years. Early adoption is permitted as of the beginning of an annual period.

The Company does not expect the adoption of this guidance to have a material impact on its consolidated financial statements.

ASU Update 2017-04 - Intangibles-Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment

In January 2017, the FASB issued ASU 2017-04 "Intangibles-Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment," which simplifies how all entities assess goodwill for impairment by eliminating Step 2 from the goodwill impairment test. As amended, the goodwill impairment test will consist of one step comparing the fair value of a reporting unit with its carrying amount. An entity should recognize a goodwill impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value. The primary goal of this ASU is to simplify the goodwill impairment test and provide cost savings for all entities by removing the requirement to determine the fair value of individual assets and liabilities in order to calculate a reporting unit's "implied" goodwill under current U.S. GAAP.

The amendments have staggered effective dates: a public business entity that is an SEC filer should adopt the amendments for its annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019. The amendments should be adopted prospectively. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017.

The Company does not expect the adoption of this guidance to have a material impact on its consolidated financial statements.

ASU Update 2017-01 - Business Combinations (Topic 805): Clarifying the Definition of a Business

In January 2017, the FASB issued ASU 2017-01 "Business Combinations (Topic 805): Clarifying the Definition of a Business," which clarifies the definition of a business with the objective of adding guidance to assist companies and other reporting organizations with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The amendments in this ASU provide a more robust framework to use in determining when a set of assets and activities is a business. The current definition of a business is interpreted broadly and can be difficult to apply. Stakeholders indicated that analyzing transactions is inefficient and costly and the definition does not permit the use of reasonable judgment.

Under current implementation guidance, there are three elements of a business: inputs, processes and outputs. While an integrated set of assets and activities (collectively referred to as a "set") that is a business usually has outputs, outputs are not required to be present. Additionally, all the inputs and processes that a seller uses in operating a set are not required if market participants can acquire the set and continue to produce outputs, for example, by integrating the acquired set with their own inputs and processes.

The ASU introduces a "screen" to assist entities in determining when a set should not be considered a business. If substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets, the set is not considered a business. If the screen is not met, the ASU requires that to be considered a business, a set must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. Further, the ASU removes the evaluation of whether a market participant could replace missing elements (as required under current U.S. GAAP).

For public business entities, the ASU is effective for annual periods beginning after December 15, 2017, including interim periods within those periods. The amendments in this ASU should be applied prospectively on or after the effective date. No disclosures are required at transition.

The Company does not expect the adoption of this guidance to have a material impact on its consolidated financial statements.

ASU Update 2016-20 - Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers.

In December 2016, the FASB issued ASU 2016-20 "Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers," amending the new revenue recognition standard that it jointly issued with the International Accounting Standards Board ("IASB") in 2014. The amendments do not change the core principles of the standard, but clarify certain narrow aspects of the standard, including its scope, contract cost accounting, disclosures, illustrative examples and other matters. The ASU becomes effective concurrently with ASU 2014-09 "Revenue from Contracts with Customers (Topic 606)."

The Company does not expect the adoption of this guidance to have a material impact on its consolidated financial statements.

ASU Update 2016-18 - Restricted Cash.

In November 2016, the FASB issued ASU 2016-18 "Restricted Cash," which updates Topic 230-Statement of Cash Flows, to require that restricted cash and restricted cash equivalents be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total cash amounts shown on the statement of cash flows. Consequently, transfers between cash and restricted cash will not be presented as a separate line item in the operating, investing or financing sections of the cash flow statement. The ASU includes examples of the revised presentation guidance, and additional presentation and disclosure requirements apply.

For public business entities, the amendments are effective for fiscal years beginning after December 15, 2017 and interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period.

The Company does not expect the adoption of this guidance to have a material impact on its consolidated financial statements.

ASU Update 2016-17 - Interests Held Through Related Parties That Are Under Common Control.

In October 2016, the FASB issued ASU 2016-17 "Interests Held Through Related Parties That Are Under Common Control," which amends the variable interest entity ("VIE") guidance within Topic 810. It does not change the two required characteristics for a single decision maker to be the primary beneficiary ("power" and "economics"), but it revised one aspect of the related analysis. The amendments change how a single decision maker of a VIE treats an indirect variable interest held through related parties that are under common control when determining whether it is the primary beneficiary of that VIE. The ASU requires consideration of such indirect interests on a proportionate basis instead of being the equivalent of direct interests in their entity, thereby making consolidation less likely.

For public business entities, the amendments are effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. Early adoption is permitted; however, if an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of that fiscal year.

The Company has adopted this guidance and it did not have a material impact on its consolidated financial statements.

ASU Update 2016-15 - Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments.

In August 2016, the FASB issued ASU 2016-15 "Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments," which clarifies whether the following items should be categorized as operating, investing or financing in the statement of cash flows: (1) debt prepayment and extinguishment costs, (2) settlement of zero-coupon debt, (3) settlement of contingent consideration, (4) insurance proceeds, (5) settlement of corporate-owned life insurance (COLI) and bank-owned life insurance (BOLI) policies, (6) distributions from equity method investees, (7) beneficial interests in securitization transactions and (8) receipts and payments with aspects of more than one class of cash flows.

For public business entities, the amendments are effective for fiscal years beginning after December 15, 2017 and interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. An entity that elects early adoption must adopt all of the amendments in the same period. The Company currently classifies cash flows related to BOLI in accordance with the guidance and does not expect the adoption of this guidance to have a material impact on its consolidated financial statements.

ASU Update 2016-13 Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments.

In June 2016, the FASB issued ASU 2016-13 "Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments," which requires credit losses on most financial assets to be measured at amortized cost and certain other instruments to be measured using an expected credit loss model (referred to as the current expected credit loss (CECL) model). Under this model, entities will estimate credit losses over the entire contractual term of the instrument (considering estimated prepayments but not expected extensions or modifications unless reasonable expectation of a troubled debt restructuring exists) from the date of initial recognition of that instrument.

The ASU also replaces the current accounting model for purchased credit impaired loans and debt securities. The allowance for credit losses for purchased financial assets with a more-than-insignificant amount of credit deterioration since origination ("PCD assets") should be determined in a similar manner to other financial assets measured on an amortized cost basis. Upon initial recognition, the allowance for credit losses is added to the purchase price ("gross up approach") to determine the initial amortized cost basis. The subsequent accounting for PCD assets will use the CECL model described above.

The ASU made certain targeted amendments to the existing impairment model for available-for-sale (AFS) debt securities. For an AFS debt security for which there is neither the intent nor a more-likely-than-not requirement to sell, an entity will record credit losses as an allowance rather than a write-down of the amortized cost basis.

For public business entities that are SEC filers, the amendments are effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted for all entities as of the fiscal year beginning after December 15, 2018, including interim periods within those fiscal years.

The Company is currently evaluating the impact of the pending adoption of the new standard on its consolidated financial statements.

ASU Update 2016-02: Leases.

In February 2016, the FASB issued ASU 2016-02 "Leases." From the lessee's perspective, the new standard establishes a right-of-use ("ROU") model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement for a lessee. From the lessor's perspective, the new standard requires a lessor to classify leases as either sales-type, finance or operating. A lease will be treated as a sale if it transfers all of the risks and rewards, as well as control of the underlying asset, to the lessee. If risks and rewards are conveyed without the transfer of control, the lease is treated as a financing. If the lessor doesn't convey risks and rewards or control, an operating lease results.

The new standard is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. A modified retrospective transition approach is required for lessors for sales-type, direct financing and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. In 2017, the Company plans to complete an evaluation of all of its leases to determine the potential impact on the Company's consolidated financial statements as a result of this new standard.

ASU Update 2016-01 Financial Instruments-Overall: Recognition and Measurement of Financial Assets and Financial Liabilities.

In January 2016, the FASB issued ASU 2016-01 "Financial Instruments-Overall: Recognition and Measurement of Financial Assets and Financial Liabilities." The guidance in the ASU, among other things, requires equity investments, with certain exceptions, to be measured at fair value with changes in fair value recognized in net income; simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment; eliminates the requirement for public business entities to disclose the methods and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet; requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes; requires an entity to present separately in other comprehensive income, the portion of the change in fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments; requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset on the balance sheet or the accompanying notes to the financial statements; and clarifies that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale securities. The guidance in this ASU is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Company does not expect the adoption of this guidance to have a material impact on its consolidated financial statements.

ASU 2014-9 Revenue from Contracts with Customers (Topic 606)

In May 2014, the FASB issued ASU 2014-9, deferred by ASU 2015-14, "Revenue from Contracts with Customers (Topic 606)." The amendments in this update establish a comprehensive revenue recognition standard for virtually all industries under U.S. GAAP, including those that previously followed industry specific guidance such as the real estate, construction and software industries. The revenue standard's core principle is built on the contract between a vendor and a customer for the provision of goods and services. It attempts to depict the exchange of rights and obligations between the parties in the pattern of revenue recognition based on the consideration to which the vendor is entitled. To accomplish this objective, the standard requires five basic steps: (1) identify the contract with the customer, (2) identify the performance obligations in the contract, (3) determine the transaction price, (4) allocate the transaction price to the performance obligations in the contract and (5) recognize revenue when (or as) the entity satisfies a performance obligation. This ASU is effective for interim and annual reporting periods beginning after December 15, 2017. Early adoption is permitted only as of annual reporting periods beginning after December 15, 2016, including interim periods within that year.

The Company's revenue is comprised of primarily interest income on interest-earning assets less interest expense on interest-bearing liabilities and non-interest income. The scope of this guidance excludes net interest income as well as other revenues associated with financial assets and liabilities (such as gains on the sale of loans, loan fees and loan servicing fees), including loans, leases and securities. Accordingly, a significant portion of the Company's revenues will not be affected. The Company is currently evaluating the impact that the guidance will have on its revenue derived from sales of other real estate owned, debit card interchange fees, customer service charges for wires, money orders, safe deposit box rentals and other services provided to customers.

(9) Fair Value Disclosures

U.S. GAAP has established a fair value hierarchy that prioritizes the inputs to valuation methods used to measure fair value. The 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.

A description of the valuation methodologies used for instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below. These valuation methodologies were applied to all of the Company's financial assets and financial liabilities carried at fair value.

In general, fair value is based upon quoted market prices, where available. If such quoted market prices are not available, fair value is based upon internally developed models that primarily use, as inputs, observable market-based parameters. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value. These adjustments may include amounts to reflect counterparty credit quality and counterparty creditworthiness, among other things, as well as unobservable parameters. Any such valuation adjustments are applied consistently over time. The Company's valuation methodologies may produce a fair value calculation that may not be indicative of net realizable value or reflective of future values. While management believes the Company's valuation methodologies are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

Securities Available for Sale. Securities classified as available for sale are reported at fair value utilizing quoted market prices on nationally recognized exchanges (Level 1) or by using Level 2 inputs. For Level 2 securities, the Company obtains fair value measurements from an independent pricing service. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayments speeds, credit information and the security's terms and conditions, among other things.

Impaired loans. Impaired loans are those which the Company has measured and recognized impairment, generally based on the fair value of the loan's collateral. Fair value is generally determined based upon independent third party appraisals of the collateral or discounted cash flows based on 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. The fair value consists of the loan balances less specific valuation allowances.

Other Real Estate Owned. Foreclosed properties are adjusted to fair value less estimated selling costs at the time of foreclosure in preparation for transfer from portfolio loans to other real estate owned ("OREO"), thereby establishing a new accounting basis. The Company subsequently adjusts the fair value of the OREO, utilizing Level 3 inputs on a non-recurring basis to reflect partial write-downs based on the observable market price, current appraised value of the asset or other estimates of fair value. The fair value of other real estate owned is determined using appraisals, which may be discounted based on management's review and changes in market conditions.

The following table summarizes financial assets and financial liabilities measured at fair value on a recurring basis segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

(Dollars in thousands)	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
September 30, 2017:				
Securities available for sale:				
U.S. Treasury securities and obligations of U.S. Government sponsored corporations ("GSE") and agencies	$ —	$ 1,987	$ —	$ 1,987
Residential collateralized mortgage obligations- GSE	—	26,579	—	26,579
Residential mortgage backed securities – GSE	—	21,460	—	21,460
Obligations of state and political subdivisions	—	20,330	—	20,330
Trust preferred debt securities – single issuer	—	2,357	—	2,357
Corporate debt securities	19,055	5,910	—	24,965
Other debt securities	—	12,598	—	12,598
Interest rate lock derivative	—	65	—	65
Total	$ 19,055	$ 91,286	$ —	$ 110,341

(Dollars in thousands)	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
December 31, 2016:				
Securities available for sale:				
U.S. Treasury securities and obligations of U.S. Government sponsored corporations ("GSE") and agencies	$ —	$ 3,479	$ —	$ 3,479
Residential collateralized mortgage obligations- GSE	—	22,560	—	22,560
Residential mortgage backed securities – GSE	—	31,476	—	31,476
Obligations of state and political subdivisions	—	21,400	—	21,400
Trust preferred debt securities – single issuer	—	2,272	—	2,272
Corporate debt securities	12,826	8,942	—	21,768
Other debt securities	—	839	—	839
Interest rate lock derivative	—	123	—	123
Total	$ 12,826	$ 91,091	$ —	$ 103,917

Certain assets and liabilities are measured at fair value on a nonrecurring basis; that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment). Assets and liabilities subject to fair value adjustments (impairment) on a nonrecurring basis for the nine months ended September 30, 2017 and the twelve months ended December 31, 2016 were as follows:

(Dollars in thousands)	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
September 30, 2017:				
Impaired loans	$ —	$ —	$ 7,261	$ 7,261
Other real estate owned	—	—	190	190
December 31, 2016:				
Impaired loans	$ —	$ —	$ 4,130	$ 4,130

Impaired loans measured at fair value and included in the above table at September 30, 2017 consisted of sixteen loans having an aggregate recorded investment of $7.6 million and specific loan loss allowances of $324,000. Impaired loans measured at fair value and included in the above table at December 31, 2016 consisted of nine loans having an aggregate balance of $4.4 million with a specific loan loss allowance of $255,000.

The following table presents additional qualitative information about assets measured at fair value on a nonrecurring basis, where there was evidence of impairment, and for which the Company has utilized Level 3 inputs to determine fair value:

(Dollars in thousands)	Fair Value Estimate	Valuation Techniques	Unobservable Input	Range (Weighted Average)
September 30, 2017				
Impaired loans	$ 7,261	Appraisal of collateral (1)	Appraisal adjustments (2)	1% - 16% (7.5%)
Other real estate owned	$ 190	Appraisal of collateral (1)	Appraisal adjustments (2)	—%
December 31, 2016				
Impaired loans	$ 4,130	Appraisal of collateral (1)	Appraisal adjustments (2)	3%-100% (29.1%)

(1) Fair value is generally determined through independent appraisals of the underlying collateral, which generally include various Level 3 inputs which are not identifiable.
(2) Includes qualitative adjustments by management and estimated liquidation expenses.

The following is a summary of fair value versus carrying value of all of the Company's financial instruments. For the Company and the Bank, as with most financial institutions, the bulk of assets and liabilities are considered financial instruments. Many of the financial instruments lack an available trading market as characterized by a willing buyer and willing seller engaging in an exchange transaction. Therefore, significant estimations and present value calculations were used for the purpose of this note. Changes in assumptions could significantly affect these estimates.

Estimated fair values have been determined by using the best available data and an estimation methodology suitable for each category of financial instruments as follows:

Cash and Cash Equivalents, Accrued Interest Receivable and Accrued Interest Payable. The carrying amounts reported in the balance sheet for cash and cash equivalents, accrued interest receivable and accrued interest payable approximate fair value.

Securities Held to Maturity. The fair values of securities held to maturity are determined in the same manner as for securities available for sale.

Loans Held For Sale. The fair values of loans held for sale are determined, when possible, using quoted secondary market prices. If no such quoted market prices exist, fair values are determined using quoted prices for similar loans, adjusted for the specific attributes of the loans.

Gross Loans Receivable. The fair values of loans, excluding impaired loans subject to specific loss reserves, are estimated using discounted cash flow analyses that use market rates as of 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 re-price frequently and with no significant change in credit risk, fair values are based on carrying values.

SBA servicing asset. Servicing assets do not trade in an active market with readily observable prices. The Company estimates the fair value of an SBA servicing asset using a discounted cash flow model, which incorporates assumptions based on observable discount rates and prepayment speeds.

Interest rate lock derivatives. Interest rate lock commitments do not trade in active markets with readily observable prices. The fair value of an interest rate lock commitment is estimated based upon the forward sales price that is obtained in the best efforts commitment at the time the borrower locks in the interest rate on the loan and the probability that the locked rate commitment will close.

Federal Home Loan Bank Stock. FHLB stock is carried at cost. The carrying value approximates fair value based upon the redemption price provision of the FHLB stock.

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

Borrowings and Subordinated Debt. The carrying amounts of short-term borrowings approximate their fair values. The fair values of long-term FHLB advances are estimated using discounted cash flow analysis, based on quoted or estimated interest rates for new borrowings with similar credit risk characteristics, terms and remaining maturity. For subordinated debt, which reprices quarterly, the fair value is based on inputs that are observable either directly or indirectly for similar debt obligations.

The estimated fair values and carrying amounts of financial assets and liabilities as of September 30, 2017 and December 31, 2016 were as follows:

September 30, 2017

(Dollars in thousands)	Carrying Value	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Fair Value
Cash and cash equivalents	$ 15,657	$ 15,657	$ —	$ —	$ 15,657
Securities available for sale	110,276	19,055	91,221	—	110,276
Securities held to maturity	111,554	—	113,757	—	113,757
Loans held for sale	6,019	—	6,262	—	6,262
Loans, net	764,180	—	—	764,426	764,426
SBA servicing asset	745	—	822	—	822
Interest rate lock derivative	65	—	65	—	65
Accrued interest receivable	3,141	—	3,141	—	3,141
FHLB stock	3,403	—	3,403	—	3,403
Deposits	(869,813)	—	(869,202)	—	(869,202)
Borrowings	(63,025)	—	(63,025)	—	(63,025)
Redeemable subordinated debentures	(18,557)	—	(12,166)	—	(12,166)
Accrued interest payable	(715)	—	(715)	—	(715)

December 31, 2016

(Dollars in thousands)	Carrying Value	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Fair Value
Cash and cash equivalents	$ 14,886	$ 14,668	$ —	$ —	$ 14,668
Securities available for sale	103,794	12,826	90,968	—	103,794
Securities held to maturity	126,810	—	128,559	—	128,559
Loans held for sale	14,829	—	15,103	—	15,103
Loans, net	717,314	—	—	721,285	721,285
SBA servicing asset	605	—	822	—	822
Interest rate lock derivative	123	—	123	—	123
Accrued interest receivable	3,095	—	3,095	—	3,095
FHLB stock	3,962	—	3,962	—	3,962
Deposits	(834,516)	—	(834,050)	—	(834,050)
Borrowings	(73,050)	—	(73,222)	—	(73,222)
Redeemable subordinated debentures	(18,557)	—	(11,922)	—	(11,922)
Accrued interest payable	(866)	—	(866)	—	(866)

Loan commitments and standby letters of credit as of September 30, 2017 and December 31, 2016 were based on fees charged for similar agreements; accordingly, the estimated fair value of loan commitments and standby letters of credit was nominal.

(10) Subsequent Event

On November 6, 2017, the Company and the Bank entered into an Agreement and Plan of Merger (the "Merger Agreement") with New Jersey Community Bank ("NJCB"), providing for the merger of NJCB with and into the Bank, with the Bank as the surviving entity (the "Merger"). The Merger is a stock and cash transaction valued at approximately $4.00 per share, or approximately $7.6 million in total consideration. The transaction has been unanimously approved by the boards of directors of both institutions, and is anticipated to be completed at the end of the first quarter of 2018. The Merger is subject to approval by the shareholders of NJCB, as well as regulatory approvals, and other customary closing conditions.

Under the terms of the Merger Agreement, NJCB shareholders will receive $1.60 in cash and 0.1333 shares of Company common stock, subject to adjustment as set forth in the Merger Agreement, for each share of NJCB common stock that they own. The Company expects to issue approximately 254,392 new shares of common stock in the Merger. This deal value equates to approximately 82% of NJCB's tangible book value as of September 30, 2017 and is anticipated to be accretive to the Company's earnings per share and tangible book value in 2018.

NJCB is headquartered in Freehold, New Jersey, and serves its customers and communities through two full-service locations in Freehold and Neptune City, New Jersey. NJCB has assets of approximately $104 million, loans of $83 million and deposits of $94 million as of September 30, 2017. Following consummation of the Merger, the Company will have approximately $1.2 billion in assets with 20 branch banking offices located in Bergen, Middlesex, Monmouth, Mercer and Somerset Counties, New Jersey.

A description and copy of the Merger Agreement is available in the Company's Current Report on Form 8-K filed on November 7, 2017.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

This discussion and analysis of the operating results for the three and nine months ended September 30, 2017 and financial condition at September 30, 2017 is intended to help readers analyze the accompanying financial statements, notes and other supplemental information contained in this document. Results of operations for the three and nine month periods ended September 30, 2017 are not necessarily indicative of results to be attained for any other periods.

This discussion and analysis should be read in conjunction with the consolidated financial statements, notes and tables included elsewhere in this report and Part II, Item 7 of the Company's Form 10-K/A (Management's Discussion and Analysis of Financial Condition and Results of Operation) for the year ended December 31, 2016, as filed with the SEC on March 20, 2017.

General

Throughout the following sections, the "Company" refers to 1ST Constitution Bancorp and, as the context requires, its wholly-owned subsidiary, 1ST Constitution Bank (the "Bank"), and the Bank's wholly-owned subsidiaries, 1ST Constitution Investment Company of New Jersey, Inc., FCB Assets Holdings, Inc., LLC, 204 South Newman Street Corp. and 249 New York Avenue, LLC. 1ST Constitution Capital Trust II ("Trust II"), a subsidiary of the Company, is not included in the Company's consolidated financial statements as it is a variable interest entity and the Company is not the primary beneficiary. Trust II, a subsidiary of the Company, was created in May 2006 to issue trust preferred securities to assist the Company in raising additional capital.

The Company is a bank holding company registered under the Bank Holding Company Act of 1956, as amended. The Company was organized under the laws of the State of New Jersey in February 1999 for the purpose of acquiring all of the issued and outstanding stock of the Bank, a full service commercial bank that began operations in August 1989, thereby enabling the Bank to operate within a bank holding company structure. The Company became an active bank holding company on July 1, 1999. Other than its ownership interest in the Bank, the Company currently conducts no other significant business activities.

The Bank operates 18 branches and manages an investment portfolio through its subsidiary, 1ST Constitution Investment Company of New Jersey, Inc. FCB Assets Holdings, Inc., a subsidiary of the Bank, is used by the Bank to manage and dispose of repossessed real estate.

On November 6, 2017, the Company and the Bank entered into an Agreement and Plan of Merger (the "Merger Agreement") with New Jersey Community Bank ("NJCB"), providing for the merger of NJCB with and into the Bank, with the Bank as the surviving entity (the "Merger"). See Note 10 - Subsequent Event - for further information.

When used in this Quarterly Report on Form 10-Q for the three and nine month period ended September 30, 2017 (this "Form 10-Q"), the words "the Company," "we," "our," and "us" refer to 1st Constitution Bancorp and its wholly-owned subsidiaries, unless we indicate otherwise.

Forward-Looking Statements

This report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). The Private Securities Litigation Reform Act of 1995 provides a "safe harbor" for forward-looking statements. When used in this and in future filings by the Company with the SEC, in the Company's press releases and in oral statements made with the approval of an authorized executive officer of the Company, the words or phrases "will," "will likely result," "could," "anticipates," "believes," "continues," "expects," "plans," "will continue," "is anticipated," "estimated," "project" or "outlook" or similar expressions (including confirmations by an authorized executive officer of the Company of any such expressions made by a third party with respect to the Company) are intended to identify forward-looking statements. The Company cautions readers not to place undue reliance on any such forward-looking statements, each of which speaks only as of the date made. Such statements are subject to certain risks and uncertainties that could cause actual results to differ materially from historical earnings and those presently anticipated or projected.

Factors that may cause actual results to differ from those results expressed or implied, include, but are not limited to, those listed under "Business", "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Company's Annual Report on Form 10-K/A for the year ended December 31, 2016 filed with the SEC on March 20, 2017, such as the overall economy and the interest rate environment; the ability of customers to repay their obligations; the adequacy of the allowance for loan losses; competition; significant changes in accounting, tax or regulatory practices and requirements; certain interest rate risks; risks associated with investments in mortgage-backed securities; risks associated with speculative construction lending; and risks associated with safeguarding information technology systems. Other risks and uncertainties that could cause actual results to differ from those described above include, but are not limited to, the following: (1) the occurrence of any event, change or other circumstances that could give rise to the termination of the Merger Agreement; (2) the risk that NJCB's shareholders may not adopt the Merger Agreement; (3) the risk that the necessary regulatory approvals may not be obtained or may be obtained subject to conditions that are not anticipated; (4) delays in closing the Merger or other risks that any of the closing conditions to the Merger may not be satisfied in a timely manner; (5) the inability to realize expected cost savings and synergies from the Merger in the amounts or in the timeframe anticipated; (6) the diversion of management's time from ongoing business operations due to issues relating to the Merger; (7) costs or difficulties relating to integration matters might be greater than expected; (8) material adverse changes in the Company's or NJCB's operations or earnings; (9) potential litigation in connection with the Merger; (10) an increase or decrease in the common stock price of the Company during the 10 day pricing period prior to the closing of the Merger, which could cause an adjustment to the exchange ratio or give NJCB the right to terminate the Merger Agreement under certain circumstances; (11) the inability to retain NJCB's customers and employees; and (12) the potential change in Federal tax law that could have a negative impact on the Company's tax benefits from the Merger.

Although management has taken certain steps to mitigate any negative effect of the aforementioned items, significant unfavorable changes could severely impact the assumptions used and could have an adverse effect on profitability. The Company undertakes no obligation to publicly revise any forward-looking statements to reflect anticipated or unanticipated events or circumstances occurring after the date of such statements, except as required by law.

RESULTS OF OPERATIONS

Three and Nine Months Ended September 30, 2017 Compared to Three and Nine Months Ended September 30, 2016

Summary

The Company reported net income of $2.5 million, or $0.30 per diluted share, for the three months ended September 30, 2017 compared to $2.7 million, or $0.33 per diluted share, for the three months ended September 30, 2016. For the nine months ended September 30, 2017, the Company reported net income of $6.4 million, or $0.76 per diluted share, compared to net income of $7.2 million, or $0.89 per diluted share, for the nine months ended September 30, 2016.

Return on average assets and return on average equity were 0.94% and 8.94%, respectively, for the three months ended September 30, 2017 compared to return on average assets and return on average equity of 1.03% and 10.45%, respectively, for the three months ended September 30, 2016. Return on average assets and return on average equity were 0.83% and 7.87%, respectively, for the nine months ended September 30, 2017 compared to return on average assets and return on average equity of 0.97% and 9.68%, respectively, for the nine months ended September 30, 2016. Book value and tangible book value per share were $13.83 and $12.27, respectively, at September 30, 2017 compared to $13.11 and $11.50, respectively, at December 31, 2016.

THIRD QUARTER 2017 HIGHLIGHTS

- Commercial business, commercial real estate and construction loans totaled $513.0 million at September 30, 2017 and increased $88.2 million, or 20.8%, compared to $424.8 million at September 30, 2016 and increased $74.9 million, or 17.1%, compared to $438.1 million at December 31, 2016. Total loans were $772.0 million at September 30, 2017.
- Net interest income was $9.4 million and the net interest margin was 3.85% on a tax equivalent basis.
- Non-interest income increased $356,000 to $2.1 million, which was driven primarily by a higher volume of sales of residential mortgages and SBA guaranteed loans.
- The Bank recorded a provision for loan losses of $150,000 and net charge-offs were $55,000.
- Non-performing assets were $6.9 million, or 0.64% of assets, and included $356,000 of OREO at September 30, 2017.

Earnings Analysis

The Bank's results of operations depend primarily on net interest income, which is primarily affected by the market interest rate environment, the shape of the U.S. Treasury yield curve and the difference between the yield on interest-earning assets and the rate paid on interest-bearing liabilities. Other factors that may affect the Bank's operating results are general and local economic and competitive conditions, government policies and actions of regulatory authorities.

Net Interest Income

Net interest income, the Company's largest and most significant component of operating income, is the difference between interest and fees earned on loans and other earning assets and interest paid on deposits and borrowed funds. This component represented 81.6% of the Company's net revenues (defined as net interest income plus non-interest income) for the three months ended September 30, 2017 compared to 83.7% of net revenues for the three months ended September 30, 2016. Net interest income as a percentage of total revenues was 80.8% and 83.8%, respectively, for the nine months ended September 30, 2017 and 2016. Net interest income also depends upon the relative amount of average interest-earning assets, average interest-bearing liabilities and the interest rate earned or paid on them, respectively.

The following tables set forth the Company's consolidated average balances of assets and liabilities and shareholders' equity, as well as interest income and expense on related items, and the Company's average yield or rate for the three and nine months ended September 30, 2017 and 2016. The average rates are derived by dividing interest income and expense by the average balance of assets and liabilities, respectively.

(Dollars in thousands)	Three months ended September 30, 2017			Three months ended September 30, 2016		
	Average Balance	Interest	Average Yield	Average Balance	Interest	Average Yield
Assets:						
Federal funds sold/short-term investments	$ 12,383	$ 25	0.80 %	$ 12,434	$ 13	0.40 %
Investment securities:						
Taxable	142,353	846	2.38 %	148,715	827	2.22 %
Tax-exempt [4]	89,034	781	3.51 %	79,917	760	3.81 %
Total investment securities	231,387	1,627	2.81 %	228,632	1,587	2.78 %
Loan portfolio: [1]						
Construction	123,822	1,895	6.07 %	89,682	1,248	5.54 %
Residential real estate	42,436	445	4.19 %	45,919	514	4.48 %
Loans to individuals	22,379	228	4.04 %	23,286	257	4.40 %
Commercial real estate	286,130	3,573	4.95 %	234,218	3,271	5.56 %
Commercial business	71,338	956	5.32 %	79,834	909	4.53 %
SBA loans	22,238	370	6.60 %	21,662	319	5.86 %
Mortgage warehouse lines	174,610	1,901	4.32 %	245,654	2,505	4.06 %
Loans held for sale	3,715	37	3.95 %	3,802	16	1.67 %
All other loans	1,526	11	2.86 %	2,683	15	2.22 %
Total loans	748,194	9,416	4.99 %	746,740	9,054	4.83 %
Total interest-earning assets	**991,964**	**$ 11,068**	**4.43%**	**987,806**	**$ 10,654**	**4.30%**
Allowance for loan losses	(7,770)			(7,552)		
Cash and due from bank	5,371			5,019		
Other assets	59,328			59,886		
Total assets	**$ 1,048,893**			**$ 1,045,159**		
Liabilities and shareholders' equity:						
Money market and NOW accounts	$ 324,940	$ 358	0.44 %	$ 296,554	$ 281	0.38 %
Savings accounts	208,548	338	0.64 %	209,703	316	0.60 %
Certificates of deposit	158,737	508	1.27 %	173,652	454	1.04 %
Other borrowed funds	27,533	113	1.63 %	64,463	197	1.22 %
Redeemable subordinated debentures	18,557	134	2.89 %	18,557	107	2.31 %
Total interest-bearing liabilities	**738,315**	**$ 1,451**	**0.78%**	**762,929**	**$ 1,355**	**0.71%**
Net interest spread [2]			**3.65%**			**3.59%**
Demand deposits	193,937			171,631		
Other liabilities	6,395			7,962		
Total liabilities	938,647			942,522		
Shareholders' equity	110,246			102,637		
Total liabilities and shareholders' equity	**$ 1,048,893**			**$ 1,045,159**		
Net interest income and net interest margin [3]		**$ 9,617**	**3.85%**		**$ 9,299**	**3.75%**

(1) Loan origination fees are considered an adjustment to interest income. For the purpose of calculating loan yields, average loan balances include non-accrual loans with no related interest income and the average balance of loans held for sale. Please refer to Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operation under the heading "Non-Performing Assets" for a discussion of the Bank's policy with regard to non-accrual loans.

(2) The net interest rate spread is the difference between the average yield on interest-earning assets and the average rate paid on interest-bearing liabilities.

(3) The net interest margin is equal to net interest income divided by average interest-earning assets.

(4) Tax-equivalent basis. The tax equivalent adjustment was $254 and $246 for the three months ended September 30, 2017 and September 30, 2016, respectively.

(Dollars in thousands)	Nine months ended September 30, 2017			Nine months ended September 30, 2016		
	Average Balance	Interest	Average Yield	Average Balance	Interest	Average Yield
Assets:						
Federal funds sold/short-term investments	$ 30,199	$ 183	0.81 %	$ 24,508	$ 79	0.43 %
Investment securities:						
Taxable	141,662	2,500	2.35 %	144,534	2,459	2.27 %
Tax-exempt [4]	92,341	2,409	3.48 %	80,203	2,299	3.82 %
Total investment securities	234,003	4,909	2.80 %	224,737	4,758	2.82 %
Loan portfolio: [1]						
Construction	111,436	4,817	5.78 %	92,795	3,673	5.29 %
Residential real estate	42,136	1,335	4.22 %	42,375	1,338	4.21 %
Loans to individuals	22,428	701	4.18 %	23,454	715	4.07 %
Commercial real estate	267,247	10,088	5.05 %	227,481	9,304	5.46 %
Commercial business	73,461	2,919	5.31 %	70,760	2,827	5.34 %
SBA loans	22,420	1,087	6.48 %	21,507	919	5.71 %
Mortgage warehouse lines	155,755	5,014	4.30 %	201,322	6,187	4.11 %
Loans held for sale	4,408	165	5.00 %	4,378	83	2.53 %
All other loans	1,828	35	2.56 %	2,282	42	2.47 %
Total loans	701,119	26,161	4.99 %	686,354	25,088	4.88 %
Total interest-earning assets	**965,321**	**$ 31,253**	**4.33%**	**935,599**	**$ 29,925**	**4.27%**
Allowance for loan losses	(7,646)			(7,534)		
Cash and due from bank	5,234			5,086		
Other assets	58,736			59,652		
Total assets	**$1,021,645**			**$ 992,803**		
Liabilities and shareholders' equity:						
Money market and NOW accounts	$ 329,089	$ 1,032	0.42 %	$ 295,776	$ 821	0.37 %
Savings accounts	210,056	992	0.63 %	206,355	888	0.57 %
Certificates of deposit	147,109	1,327	1.21 %	153,544	1,280	1.11 %
Other borrowed funds	20,494	349	2.28 %	46,257	498	1.44 %
Redeemable subordinated debentures	18,557	380	2.73 %	18,557	311	2.23 %
Total interest-bearing liabilities	**725,305**	**$ 4,080**	**0.75%**	**720,489**	**$ 3,798**	**0.70%**
Net interest spread [2]			**3.58%**			**3.57%**
Demand deposits	181,892			164,963		
Other liabilities	6,577			7,612		
Total liabilities	913,774			893,064		
Shareholders' equity	107,871			99,739		
Total liabilities and shareholders' equity	**$1,021,645**			**$ 992,803**		
Net interest income and net interest margin [3]		**$ 27,173**	**3.76%**		**$ 26,127**	**3.73%**

(1) Loan origination fees are considered an adjustment to interest income. For the purpose of calculating loan yields, average loan balances include non-accrual loans with no related interest income and the average balance of loans held for sale. Please refer to Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operation under the heading "Non-Performing Assets" for a discussion of the Bank's policy with regard to non-accrual loans.

(2) The net interest rate spread is the difference between the average yield on interest-earning assets and the average rate paid on interest-bearing liabilities.

(3) The net interest margin is equal to net interest income divided by average interest-earning assets.

(4) Tax-equivalent basis. The tax equivalent adjustment was $781 and $745 for the six months ended September 30, 2017 and September 30, 2016, respectively.

Three months ended September 30, 2017 compared to three months ended September 30, 2016

Net interest income was $9.4 million for the quarter ended September 30, 2017 and increased $310,000, or 3.4%, compared to net interest income of $9.1 million for the third quarter of 2016. The higher net interest income reflected increases in income from investment securities and loans, which were partially offset by an increase in interest paid on deposits.

Average interest-earning assets were $992.0 million and $987.8 million for the third quarters of 2017 and 2016, respectively. The increase in average interest-earning assets of $4.2 million from the third quarter of 2016 to the same quarter of 2017 was due primarily to increases in average loans and average investment securities balances.

Total interest income was $10.8 million for the three months ended September 30, 2017 compared to $10.4 million for the three months ended September 30, 2016, an increase of $406,000 due primarily to the increase in the yield on loans, which was partially offset by declines in the average balances of mortgage warehouse and commercial business loans.

For the third quarters of 2017 and 2016, the tax-equivalent yield on interest-earning assets was 4.43% and 4.30%, respectively. The higher yield on average interest-earning assets for the third quarter of 2017 when compared to the third quarter of 2016 was primarily due to the higher yield earned on the loan portfolio. The 75 basis point increase in the Federal Reserve targeted federal funds rate and the corresponding increase in the Bank's prime rate since December of 2016 have had a positive effect on the yields for construction, commercial business, SBA, home equity and warehouse loans with variable interest rate terms in the third quarter of 2017.

Average interest-bearing liabilities decreased $24.6 million, or 3.23%, to $738.3 million for the three months ended September 30, 2017 from $762.9 million for the same three months of 2016 due primarily to declines in other borrowed funds, savings accounts and certificates of deposit, which were partially offset by increases in money market and NOW accounts. FHLB borrowings of $10.0 million matured in the third quarter and total average borrowings declined by $36.9 million from the third quarter of 2016 to the third quarter of 2017. The increase in average non-interest bearing demand deposits of $22.3 million provided additional funding that partially offset the decrease in FHLB borrowings. Average certificates of deposit declined by $14.9 million, or 8.6%, to $158.7 million for the third quarter of 2017 from $173.7 million during the third quarter of 2016 , while average savings accounts declined $1.2 million to $208.5 million during the third quarter of 2017 from the same prior year quarter. Money market and NOW accounts averaged $324.9 million and $296.6 million for the third quarters of 2017 and 2016, respectively, which represented an increase of $28.4 million, or 9.57%.

Interest expense on average interest-bearing liabilities was $1.5 million, with an interest cost of 0.78%, for the third quarter of 2017 compared to $1.4 million, with an interest cost of 0.71%, for the third quarter of 2016. The increase of $96,000 in interest expense on interest-bearing liabilities for the third quarter of 2017 compared to the same quarter of 2016 primarily reflected higher interest costs on deposits and borrowings due to higher short-term market interest rates, which were partially offset by the decline in balances of other borrowings.

The net interest margin, on a tax-equivalent basis, increased to 3.85% for the three months ended September 30, 2017 compared to 3.75% for the three months ended September 30, 2016, primarily due to the higher yield on interest-earning assets.

Nine months ended September 30, 2017 compared to the nine months ended September 30, 2016

For the nine months ended September 30, 2017, the Company's net interest income increased by $1.0 million, or 3.98%, to $26.4 million compared to $25.4 million for the nine months ended September 30, 2016. This increase was due primarily to the increase in average interest-earning assets and an increase in the average yield on loans.

Average interest-earning assets increased $29.7 million to $965.3 million for the nine months ended September 30, 2017 compared to $935.6 million for the same period of 2016. The increase, when comparing 2017 with the prior year, was due primarily to increases in average loans, average short-term investments and average investment securities balances. Average loans were $701.1 million and $686.4 million for the nine months ended September 30, 2017 and 2016, respectively, an increase of $14.8 million, or 2.2%, year over year. Construction and commercial real estate loans recorded average increases of $18.6 million and $39.8 million, respectively, when comparing the nine months ended September 30, 2017 and 2016, while mortgage warehouse lines decreased by $45.6 million when comparing the same time periods. The Company experienced higher demand for construction and commercial real estate loans in 2017. Average mortgage warehouse loans declined as a result of lower volume of refinancing activity of residential mortgages in 2017 due to higher residential mortgage rates in 2017 than 2016. Average federal funds increased $5.7 million and average investment securities increased $9.3 million when comparing the nine months ended September 30, 2017 to the same nine months of 2016 due to the investment of excess cash.

For the nine months ended September 30, 2017 and 2016, total interest income was $30.5 million and $29.2 million, respectively, reflecting an increase of $1.3 million, or 4.43%, due primarily to the increases in construction loan, commercial real estate loan and investment average balances and the increase in yields on loans,which were partially offset by the decline in the average balance of mortgage warehouse loans.

The tax-equivalent yield on interest-earning assets was 4.33% for the nine months ended September 30, 2017 and 4.27% for the same nine-month period in 2016 and was primarily due to the higher yield earned on the loan portfolio. As noted above, the 75 basis point increase in the Federal Reserve targeted federal funds rate and the corresponding increase in the Bank's prime rate since December of 2016 have had a positive effect on the yields of most loan categories in 2017.

Average interest-bearing liabilities increased $4.8 million, or 0.67%, to $725.3 million for the nine months ended September 30, 2017 from $720.5 million for the same period of 2016 and was primarily due to the decline in other borrowed funds and certificates of deposit, which were partially offset by increases in money market, NOW and savings accounts. FHLB borrowings of $10.0 million matured in the third quarter of 2017 and total average borrowings declined by $25.8 million for the nine months ended September 30, 2017 compared to the nine months ended September 30, 2016. Year over year, average certificates of deposit declined by $6.4 million, or 4.19%, to $147.1 million during the nine months ended September 30, 2017 from $153.5 million during the nine months ended September 30, 2016. Average savings accounts increased $3.7 million, or 1.79%, to $210.1 million during the nine months ended September 30, 2017 from the same prior year period. For the nine months ended September 30, 2017 and 2016, money market and NOW accounts averaged $329.1 million and $295.8 million, respectively, which represented an increase of $33.3 million, or 11.26%.

Interest expense on interest-bearing liabilities was $4.1 million, with an interest cost of 0.75%, for the nine months ended September 30, 2017 compared to $3.8 million, with an interest cost of 0.70%, for the same nine months of 2016. The increase of $282,000 in interest expense on interest-bearing liabilities, when comparing the nine-month periods of 2017 and 2016, primarily reflected higher deposit and borrowings interest costs due to higher short-term market interest rates, which were partially offset by the decline in balances of other borrowings and certificate of deposits.

The net interest margin, on a tax-equivalent basis, increased to 3.76% for the nine months ended September 30, 2017 compared to 3.73% for the nine months ended September 30, 2016, primarily due to the higher yield on interest-earning assets.

Provision for Loan Losses

Management considers a complete review of the following specific factors in determining the provisions for loan losses: historical losses by loan category, the level of non-accrual loans and problem loans as identified through internal review and classification, collateral values and the growth, size and risk elements of the loan portfolio. In addition to these factors, management takes into consideration current economic conditions and local real estate market conditions.

In general, over the last three years, the Bank experienced an improvement in loan credit quality and achieved a steady resolution of non-performing loans and assets related to the severe recession, which was reflected in the current level of non-performing loans at September 30, 2017. Net charge-offs of commercial business and commercial real estate loans in 2017, 2016 and 2015 have declined significantly, which has resulted in a reduction of the historical loss factors for these segments of the loan portfolio that were applied by management to estimate the allowance for loan losses at September 30, 2017.

Three months ended September 30, 2017 compared to three months ended September 30, 2016

During the third quarter of 2017, the Bank recorded a provision for loan losses of $150,000, charge-offs of $61,000 and recoveries of loans previously charged-off of $6,000 compared to no recorded provision for loan losses, no charge-offs and recoveries of loans previously charged-off of $4,000 recorded during the third quarter of 2016. A provision for loan losses was recorded in the third quarter of 2017 due primarily to the growth and the change in the mix of loans in the loan portfolio. The allowance for loan losses was $7.8 million, or 1.01% of loans, at September 30, 2017 compared to $7.5 million, or 1.00% of loans, at September 30, 2016 and $7.5 million, or 1.03% of loans, at December 31, 2016.

Nine months ended September 30, 2017 compared to nine months ended September 30, 2016

The Company recorded a provision for loan losses of $450,000 for the nine months ended September 30, 2017 compared to a credit (negative) provision for loan losses in the amount of $300,000 for the nine months ended September 30, 2016. For the nine months ended September 30, 2017, the Company recorded charge-offs of $162,000 and recoveries of previously charged-off loans of $20,000, while charge-offs of $161,000 and recoveries of previously charged-off loans of $387,000 were recorded during the nine months ended September 30, 2016.

Non-Interest Income

Three months ended September 30, 2017 compared to three months ended September 30, 2016

Total non-interest income was $2.1 million and $1.8 million for the third quarters of 2017 and 2016, respectively, an increase of $356,000, or 20.2%, when the 2017 quarter is compared to the 2016 quarter and was due to increases in gain of sales of loans and income from Bank-owned life insurance ("BOLI"), which were partially offset by a decrease in service charge income and other income.

For the third quarters of 2017 and 2016, gains of sales of loans was $1.3 million and $876,000, respectively, an increase of $453,000. The Bank originates and sells commercial loans guaranteed by the SBA and residential mortgage loans in the secondary market. SBA guaranteed commercial lending activity and loan sales vary from period to period. In the third quarter of 2017, $5.8 million of SBA loans were sold and gains of $520,000 were recorded compared to $3.5 million of loans sold and gains of $347,000 recorded in the third quarter of 2016. At September 30, 2017, the pipeline of approved and committed SBA loans was $5.7 million with another $10.2 million in process.

Residential mortgages totaling $28.9 million were sold and $809,000 of gains were recorded in the third quarter of 2017 compared to $12.2 million of loans sold and $529,000 of gains recorded in the third quarter of 2016. Residential mortgage lending activity was higher in the third quarter of 2017 as compared to the third quarter of 2016 due primarily to the residential mortgage lending team that joined the Bank in August 2016.

Service charges on deposit accounts decreased $43,000, or 23.24%, to $142,000 for the third quarter of 2017 from $185,000 in the same quarter of 2016, primarily due to lower customer fees for insufficient funds.

Non-interest income also includes income from BOLI, which amounted to $131,000 for the three months ended September 30, 2017 compared to $113,000 for the three months ended September 30, 2016.

For the third quarter of 2017, the Company recorded other income of $490,000, representing a decrease of $96,000 from $586,000 for the third quarter of 2016, which included a recovery of $77,000 on an acquired loan during such period.

Nine months ended September 30, 2017 compared to nine months ended September 30, 2016

Total non-interest income for the nine months ended September 30, 2017 was $6.3 million and increased $1.4 million, or 28.6%, compared to total non-interest income of $4.9 million for the nine months ended September 30, 2016, primarily due to increases in gains on the sale of loans and securities, which were partially offset by decreases in service charge income and income from BOLI.

Gains on sales of loans originated for sale increased by $1.4 million to $3.9 million for the nine months ended September 30, 2017 compared to $2.5 million for the same nine-month period in 2016. The Bank sells both loans guaranteed by the SBA and residential mortgage loans in the secondary market. For the nine months ended September 30, 2017, SBA loan sales were $11.8 million and generated gains on sales of loans of approximately $1.1 million compared to SBA loan sales of $13.3 million that generated gains on sales of $1.3 million for the nine months ended September 30, 2016.

For the nine months ended September 30, 2017, the Bank's residential mortgage banking operation sold $92.3 million of residential mortgage loans, which generated gains from the sales of loans of $2.9 million, as compared to sales of $50.7 million of residential mortgage loans, which generated gains of $1.3 million, during the nine months ended September 30, 2016. As noted above, the increase in residential lending activity and gains on the sale of loans was due to the the addition of residential mortgage lending personnel in August 2016, resulting in a significant increase in the volume of loans originated and sold for the first nine months of 2017 compared to the same period of 2016.

The decrease in service charge revenues of $113,000 to $445,000 for the nine months ended September 30, 2017 compared to $558,000 for the nine months ended September 30, 2016 was primarily due to lower monthly service charges and lower overdraft fees collected on deposit accounts.

For the nine months ended September 30, 2017 and 2016, income from BOLI was $391,000 and $414,000, respectively. Other income for the nine months ended September 30, 2017 and 2016 was approximately $1.4 million.

Non-Interest Expenses

For the third quarter of 2017, non-interest expenses were $7.6 million compared to $6.7 million for the same quarter of 2016, an increase of $955,000, or 14.3%, primarily due to increases in salaries and employee benefits, regulatory, professional and other fees and other expenses, which were partially offset by decreases in FDIC insurance expense and occupancy expense.

The following table presents the major components of non-interest expenses for the three and nine months ended September 30, 2017 and 2016:

	Three months ended September 30,		Nine months ended September 30,	
(Dollars in thousands)	2017	2016	2017	2016
Salaries and employee benefits	$ 4,617	$ 4,102	$ 13,882	$ 11,887
Occupancy expense	865	911	2,604	2,618
Data processing expenses	338	314	983	941
FDIC insurance expense	95	105	255	328
Other real estate owned expenses	11	12	26	76
Equipment expense	151	98	436	346
Marketing	42	59	182	163
Regulatory, professional and other fees	625	413	1,762	1,230
Directors' fees	26	20	73	67
Amortization of intangible assets	96	101	289	303
Other expenses	751	527	2,462	1,766
Total	$ 7,617	$ 6,662	$ 22,954	$ 19,725

Three months ended September 30, 2017 compared to three months ended September 30, 2016

Salaries and employee benefits, which represent the largest portion of non-interest expenses, increased by $515,000, or 12.6%, to $4.6 million for the three months ended September 30, 2017 compared to $4.1 million for the three months ended September 30, 2016. The increase in salaries and employee benefits was due primarily to an increase of $199,000 in commissions paid to residential loan officers due to the higher volume of residential mortgages originated and sold in the third quarter of 2017 compared to the third quarter of 2016. Deferred loan origination costs, which are netted against salaries and employee benefits, were $292,000 and $430,000 for the third quarters of 2017 and 2016, respectively, declining $138,000 between periods. Merit increases, increases in employer payroll taxes and increases in employee benefits expense comprised the balance of the increase.

Occupancy expense decreased by $46,000, or 5.0%, to $865,000 for the third quarter of 2017 compared to $911,000 for the same quarter in 2016, primarily due to the closing of a branch office at the end of the first quarter of 2017.

The cost of data processing services increased $24,000 to $338,000 for the third quarter of 2017 as compared to $314,000 for the third quarter of 2016 due to increases in customers' accounts and higher transaction activity.

The Company recorded FDIC insurance expense of $95,000 and $105,000 for the third quarters of 2017 and 2016, respectively, a decrease of $10,000 primarily due to a lower assessment rate that reflected the improvement in asset quality and the improved financial performance of the Bank in the last two years and a lower assessment rate for smaller banks.

Regulatory, professional and other fees increased $212,000, or 51.3%, to $625,000 for the three months ended September 30, 2017 from $413,000 for the same period of 2016 primarily due to higher professional and consulting fees. For the third quarter of 2017 as compared to the third quarter of 2016, increases of $84,000 in consulting expense, primarily for marketing and loan collection costs, and $115,000 in legal expense, primarily for loan collection and related litigation costs, were incurred. The levels of regulatory, professional and consulting fees have also increased over the last several years due primarily to compliance with increased regulatory requirements, management of enterprise risk and information security and additional internal and external audit fees, including attestation requirements regarding internal controls over financial reporting as a result of the Company becoming an "Accelerated Filer" for SEC reporting purposes for the year ended December 31, 2016 and subsequent periods.

The Company recorded other expenses of $751,000 for the third quarter of 2017 as compared to $527,000 for the third quarter of 2016, an increase of $224,000 due to increases in various expense categories.

Nine months ended September 30, 2017 compared to nine months ended September 30, 2016

Salaries and employee benefits, which represent the largest portion of non-interest expenses, were $13.9 million and $11.9 million for the nine months ended September 30, 2017 and 2016, respectively, an increase of $2.0 million, or 16.8%. The increase in salary and employee benefits expense includes $741,000 of commissions paid to residential loan officers as a result of the higher volume of residential mortgage loans originated in the first nine months of 2017. The increase also includes $639,000 of salaries resulting from the employment of additional residential mortgage personnel and merit increases, as well as a $220,000 increase in benefits expense and an increase of $215,000 in share-based compensation expense. In addition, deferred loan origination costs were $174,000 lower for the nine months ended September 30, 2017 compared to the same period in 2016.

The cost of data processing services increased to $983,000 for the nine months ended September 30, 2017 from $941,000 for the nine months ended September 30, 2016 due to increases in customers' accounts and transaction activity. The Company recorded FDIC insurance expense of $255,000 and $328,000 for the nine months ended September 30, 2017 and 2016, respectively, a decline of $73,000, or 22.3%, when comparing the year over year periods, primarily as a result of a lower assessment rate, which reflected the lower level of net charge-offs, the lower level of non-performing assets and the improved financial performance of the Bank in the last two years.

Other real estate owned expenses decreased by $50,000 to $26,000 for the nine months ended September 30, 2017 when compared to $76,000 for the same nine months of 2016 due to different types and amounts of expenses that were associated with the OREO assets. At September 30, 2017, there was one multi-family residential property and one commercial real estate property with an aggregate carrying value of $356,000 compared to one commercial property with a carrying value of $166,000 as OREO at September 30, 2016.

Regulatory, professional and other fees increased by $532,000, or 43.3%, to $1.8 million for the nine months ended September 30, 2017 compared to $1.2 million for the nine months ended September 30, 2016 due to increases in consulting and legal expenses, primarily for marketing, loan collection and litigation costs, and internal and external professional audit fees, including attestation requirements regarding internal controls over financial reporting as a result of the Company becoming an "Accelerated Filer" for SEC purposes for the year ended December 31, 2016 and subsequent periods.

The Company recorded an increase in other expenses of $696,000 to $2.5 million for the nine months ended September 30, 2017 as compared to $1.8 million for the same nine-month period in 2016. During 2017, Management updated its deferred loan origination cost analysis and methodology, which resulted in the identification of approximately $500,000 of deferred loan origination costs at December 31, 2016 that were charged to expense in the first quarter of 2017. The balance of the increase was due to smaller increases in various expense categories.

Income Taxes

Three months ended September 30, 2017 compared to three months ended September 30, 2016

Pre-tax income was $3.7 million for the three months ended September 30, 2017 compared to $4.2 million for the three months ended September 30, 2016.

The Company recorded income tax expense of $1.2 million for the third quarter of 2017 as compared to $1.5 million for the same quarter of 2016. Income tax expense decreased primarily due to the decrease in pre-tax income. The effective income tax rate was 33.1% for the three months ended September 30, 2017 compared to 35.1% for the three months ended September 30, 2016. The effective tax rate decreased due to the higher percentage of tax-exempt interest income and income on bank-owned life insurance as compared to pre-tax income in the third quarter of 2017 compared to such percentage in the third quarter of 2016.

Nine months ended September 30, 2017 compared to nine months ended September 30, 2016

Pre-tax income was $9.3 million for the nine months ended September 30, 2017 compared to pre-tax income of $10.8 million for the nine months ended September 30, 2016.

The Company recorded income tax expense of $2.9 million and $3.6 million for the nine months ended September 30, 2017 and 2016, respectively, which resulted in an effective tax rate of 31.5% and 33.3%, respectively. Income tax expense decreased primarily due to the decrease in pre-tax income. The effective tax rate decreased due to the higher percentage of tax-exempt interest income and income on bank-owned life insurance as compared to pre-tax income for the nine months ended September 30, 2017 compared to such percentage in the nine months ended September 30, 2016.

Financial Condition

September 30, 2017 Compared with December 31, 2016

Total consolidated assets at September 30, 2017 were $1.07 billion, representing an increase of $31.2 million, or 3.0%, from total consolidated assets of $1.04 billion at December 31, 2016. The increase in assets was primarily attributable to an increase of $47.2 million in total loans, which was partially offset by decreases of $8.8 million in investment securities and $8.8 million in loans held for sale.

Cash and Cash Equivalents

Cash and cash equivalents at September 30, 2017 totaled $15.7 million compared to $14.9 million at December 31, 2016, an increase of $771,000. To the extent that the Bank does not utilize funds for loan originations or securities purchases, the cash inflows are invested in overnight deposits at the Federal Reserve Bank of New York.

Loans Held for Sale

Loans held for sale at September 30, 2017 were $6.0 million compared to $14.8 million at December 31, 2016. The amount of loans held for sale varies from period to period due to changes in the amount and timing of sales of residential mortgages.

Investment Securities

Investment securities represented approximately 20.7% of total assets at September 30, 2017 and approximately 22.2% of total assets at December 31, 2016. Total investment securities decreased $8.8 million, or 3.8%, to $221.8 million at September 30, 2017 from $230.6 million at December 31, 2016. Purchases of investment securities totaled $46.2 million during the nine months ended September 30, 2017, and proceeds from sales, calls, maturities and payments totaled $55.1 million during this period.

Securities available for sale are investments that may be sold in response to changing market and interest rate conditions or for other business purposes. Activity in this portfolio is undertaken primarily to manage liquidity and interest rate risk and to take advantage of market conditions that create economically attractive returns. At September 30, 2017, securities available for sale totaled $110.3 million, an increase of $6.5 million, or 6.2%, compared to securities available for sale totaling $103.8 million at December 31, 2016.

At September 30, 2017, the securities available for sale portfolio had net unrealized gains of $189,000 compared to net unrealized losses of $464,000 at December 31, 2016. These unrealized gains and losses were reflected, net of tax, in shareholders' equity as a component of accumulated other comprehensive income.

Securities held to maturity, which are carried at amortized historical cost, are investments for which there is the positive intent and ability to hold to maturity. At September 30, 2017, securities held to maturity were $111.6 million, a decrease of $15.3 million from $126.8 million at December 31, 2016. The fair value of the held to maturity portfolio at September 30, 2017 was $113.8 million.

Loans

The loan portfolio, which represents the Bank's largest asset, is a significant source of both interest and fee income. Elements of the loan portfolio are subject to differing levels of credit and interest rate risk. The Bank's primary lending focus continues to be financing mortgage warehouse lines, construction loans, commercial business loans, owner-occupied commercial mortgage loans and commercial real estate loans on income-producing assets.

The following table represents the components of the loan portfolio at September 30, 2017 and December 31, 2016:

	September 30, 2017			December 31, 2016		
(Dollars in thousands)		Amount	%		Amount	%
Construction loans	$	127,604	17%	$	96,035	13%
Residential real estate loans		41,958	5%		44,791	6%
Commercial business		94,031	12%		99,650	14%
Commercial real estate		291,382	38%		242,393	34%
Mortgage warehouse lines		193,535	25%		216,259	30%
Loans to individuals		22,611	3%		23,736	3%
Other loans		186	—%		207	—%
Gross loans		771,307			723,071	
Deferred loan costs, net		675			1,737	
Total loans	$	771,982	100%	$	724,808	100%

Total loans increased by $47.2 million, or 6.5%, to $772.0 million at September 30, 2017 compared to $724.8 million at December 31, 2016 due primarily to increases in commercial real estate and construction loans. Commercial business, commercial real estate and construction loans were $513.0 million at September 30, 2017 and increased $88.2 million, or 20.8%, compared to $424.8 million at September 30, 2016 and increased $74.9 million, or 17.1%, compared to $438.1 million at December 31, 2016.

Mortgage warehouse lines' outstanding balances decreased $22.7 million to $193.5 million at September 30, 2017 compared to $216.3 million at December 31, 2016, reflecting lower levels of residential mortgage originations by the Bank's mortgage banking customers that were primarily due to a lower level of residential mortgage loan refinancing activity as a result of higher mortgage interest rates in the first three quarters of 2017 compared to the first three quarters of 2016.

The Bank's mortgage warehouse funding group provides revolving lines of credit that are available to licensed mortgage banking companies. The warehouse line of credit is used by the mortgage banker to finance the origination of one-to-four family residential mortgage loans that are pre-sold to the secondary mortgage market, which includes state and national banks, national mortgage banking firms, insurance companies and government-sponsored enterprises, including the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation and the Government National Mortgage Association. On average, an advance under the warehouse line of credit remains outstanding for a period of less than 30 days, with repayment coming directly from the sale of the loan into the secondary mortgage market. Interest and a transaction fee are collected by the Bank at the time of repayment. The Bank funded $893.6 million of residential mortgages through customers' warehouse lines of credit in the third quarter of 2017 compared to $1.1 billion in the third quarter of 2016. For the nine months ended September 30, 2017, the Bank funded $2.6 billion of residential mortgages through customers' warehouse lines of credit compared to $2.9 billion for the nine months ended September 30, 2016.

Commercial business loans decreased $5.6 million, or 5.6%, to $94.0 million during the first nine months of 2017. Commercial business loans consist primarily of loans to small and middle market businesses and are typically working capital loans used to finance inventory, receivables or equipment needs. These loans are generally secured by business assets of the commercial borrower.

Commercial real estate loans increased $49.0 million, or 20.2%, to $291.4 million during the first nine months of 2017. Commercial real estate loans consist primarily of loans to businesses collateralized by real estate employed in the business and loans to finance income-producing properties.

Construction loans increased $31.6 million to $127.6 million during the first nine months of 2017. Construction financing is provided to businesses to expand their facilities and operations and to real estate developers for the acquisition, development and construction of residential properties and income-producing properties. First mortgage construction loans are made to developers and builders for single family homes or multi-family buildings that are presold or are to be sold or leased on a speculative basis. The Bank lends to developers and builders with established relationships, successful operating histories and sound financial resources.

The Bank also finances the construction of individual, owner-occupied single family homes. These loans are made to qualified individual borrowers and are generally supported by a take-out commitment from a permanent lender.

The ability of the Company to enter into larger loan relationships and management's philosophy of relationship banking are key factors in the Company's strategy for loan growth. The ultimate collectability of the loan portfolio and recovery of the carrying amount of real estate are subject to changes in the economic environment and real estate market in the Company's market region.

Non-Performing Assets

Non-performing assets consist of non-performing loans and other real estate owned. Non-performing loans are composed of (1) loans on a non-accrual basis and (2) loans which are contractually past due 90 days or more as to interest and principal payments but which have not been classified as non-accrual. Included in non-accrual loans are loans whose terms have been restructured to provide a reduction or deferral of interest and/or principal because of deterioration in the financial position of the borrower and which have not performed in accordance with the restructured terms.

The Bank's policy with regard to non-accrual loans is that, generally, loans are placed on a non-accrual status when they are 90 days past due, unless these loans are well secured and in process of collection or, regardless of the past due status of the loan, when management determines that the complete recovery of principal or interest is in doubt. Consumer loans are generally charged off after they become 120 days past due. Subsequent payments on loans in non-accrual status are credited to income only if collection of principal is not in doubt.

At September 30, 2017, non-performing loans increased by $1.3 million to $6.5 million from $5.2 million at December 31, 2016 and the ratio of non-performing loans to total loans increased to 0.84% at September 30, 2017 compared to 0.72% at December 31, 2016. During the third quarter of 2017, $365,000 in non-performing loans were resolved and a commercial loan with a balance of $775,000 and two residential second mortgages with combined balances of $78,000 were classified as non-accrual. The increase in non-performing loans was due primarily to a $4.0 million shared national credit syndicated loan that was placed on non-accrual in the first quarter of 2017. In the second quarter, the borrower was recapitalized through an equity contribution by new investors, the loan balance was reduced by $906,000 and all interest was paid current. The major segments of non-accrual loans consist of commercial business, commercial real estate and residential real estate loans, which are in the process of collection. The table below sets forth non-performing assets and risk elements in the Bank's portfolio for the periods indicated.

(Dollars in thousands)	September 30, 2017	December 31, 2016
Non-performing loans:		
Loans 90 days or more past due and still accruing	$ —	$ 24
Non-accrual loans	6,511	5,174
Total non-performing loans	6,511	5,198
Other real estate owned	356	166
Total non-performing assets	6,867	5,364
Performing troubled debt restructurings	3,538	864
Performing troubled debt restructurings and total non-performing assets	$ 10,405	$ 6,228
Non-performing loans to total loans	0.84%	0.72%
Non-performing loans to total loans excluding mortgage warehouse lines	1.13%	1.02%
Non-performing assets to total assets	0.64%	0.52%
Non-performing assets to total assets excluding mortgage warehouse lines	0.78%	0.65%
Total non-performing assets and performing troubled debt restructurings to total assets	0.97%	0.60%

Non-performing loans to total loans increased to 0.84% at September 30, 2017 from 0.72% at December 31, 2016 principally due to the increase in non-accrual loans.

Non-performing assets increased by $1.5 million to $6.9 million at September 30, 2017 from $5.4 million at December 31, 2016. Other real estate owned totaled $356,000 at September 30, 2017 compared to $166,000 at December 31, 2016. OREO at September 30, 2017 was comprised of one multi-family property and one commercial property.

At September 30, 2017, the Bank had eight loans totaling $5.3 million which were troubled debt restructurings. Two of these loans totaling $1.8 million are included in the above table as non-accrual loans and the remaining six loans totaling $3.5 million are considered performing. At December 31, 2016, the Bank had nine loans totaling $4.5 million that were troubled debt restructurings. Five of these loans totaling $3.6 million are included in the above table as non-accrual loans and the remaining four loans totaling $864,000 are considered performing.

As provided by ASC 310-30, the excess of cash flows expected at acquisition over the initial investment in the loan is recognized as interest income over the life of the loan. There were no loans acquired with evidence of deteriorated credit quality that were non-performing at September 30, 2017 compared to $439,000 at December 31, 2016, which were not classified as non-performing loans.

Non-performing assets represented 0.64% of total assets at September 30, 2017 compared to 0.52% of total assets at December 31, 2016.

Management takes a proactive approach in addressing delinquent loans. The Company's President and Chief Executive Officer meets weekly with all loan officers to review the status of credits past-due 10 days or more. An action plan is discussed for delinquent loans to determine the steps necessary to induce the borrower to cure the delinquency and restore the loan to a current status. In addition, delinquency notices are system-generated when loans are five days past-due and again at 15 days past-due.

In most cases, the Company's collateral is real estate. If the collateral is foreclosed upon, the real estate is carried at fair market value less the estimated selling costs. The amount, if any, by which the recorded amount of the loan exceeds the fair market value of the collateral, less estimated selling costs, is a loss that is charged to the allowance for loan losses at the time of foreclosure or repossession. Resolution of a past-due loan through foreclosure can be delayed if the borrower files a bankruptcy petition because a collection action cannot be continued unless the Company first obtains relief from the automatic stay provided by the United States Bankruptcy Reform Act of 1978, as amended.

Summary of Other Real Estate Owned Activity

(Dollars in thousands)	Three months ended September 30, 2017		Nine months ended September 30, 2017
Balance - June 30, 2017	$ 356	Balance - January 1, 2017	$ 166
Transfers into real estate owned	—	Transfer into real estate owned	455
Sale of real estate owned	—	Sale of real estate owned	(284)
Gain on sale of real estate owned	—	Gain on sale of real estate owned	14
Increase in carrying amount on real estate owned	—	Increase in carrying amount on real estate owned	5
Balance - September 30, 2017	$ 356	Balance - September 30, 2017	$ 356

During the three months ended September 30, 2017, there was no activity in other real estate owned. During the nine months ended September 30, 2017, one multi-family residential property with a fair value of $190,000 and one commercial real estate property with a fair value of $265,000 were transferred to other real estate owned and one residential property with a carrying value of $270,000 was sold.

Allowance for Loan Losses and Related Provision

The allowance for loan losses is maintained at a level sufficient to absorb estimated credit losses in the loan portfolio as of the date of the financial statements. The allowance for loan losses is a valuation reserve available for losses incurred or inherent in the loan portfolio and other extensions of credit. The determination of the adequacy of the allowance for loan losses is a critical accounting policy of the Company.

The Company's primary lending emphasis is the origination of commercial business, construction and commercial real estate loans and mortgage warehouse lines of credit. Based on the composition of the loan portfolio, the inherent primary risks are deteriorating credit quality, a decline in the economy, and a decline in New Jersey real estate market values. Any one, or a combination, of these events may adversely affect the loan portfolio and may result in increased delinquencies, loan losses and increased future provision levels.

All, or part, of the principal balance of commercial business and commercial real estate loans and construction loans are charged off against the allowance as soon as it is determined that the repayment of all, or part, of the principal balance is highly unlikely. Consumer loans are generally charged off no later than 120 days past due on a contractual basis, earlier in the event of bankruptcy, or if there is an amount deemed uncollectible. Because all identified losses are charged off, no portion of the allowance for loan losses is restricted to any individual loan or groups of loans and the entire allowance is available to absorb any and all loan losses.

Management reviews the adequacy of the allowance on at least a quarterly basis to ensure that the provision for loan losses has been charged against earnings in an amount necessary to maintain the allowance at a level that is adequate based on management's assessment of probable estimated losses. The Company's methodology for assessing the adequacy of the allowance for loan losses consists of several key elements and is consistent with U.S. GAAP and interagency supervisory guidance. The allowance for loan losses methodology consists of two major components. The first component is an estimation of losses associated with individually identified impaired loans, which follows ASC Topic 310. The second major component is an estimation of losses under ASC Topic 450, which provides guidance for estimating losses on groups of loans with similar risk characteristics. The Company's methodology results in an allowance for loan losses that includes a specific reserve for impaired loans, an allocated reserve and an unallocated portion.

When analyzing groups of loans under ASC Topic 450, the Bank follows the Interagency Policy Statement on the Allowance for Loan and Lease Losses. The methodology considers the Company's historical loss experience adjusted for changes in trends, conditions and other relevant factors that affect repayment of the loans as of the evaluation date. These adjustment factors, known as qualitative factors, include:

- Delinquencies and non-accruals
- Portfolio quality
- Concentration of credit
- Trends in volume of loans
- Quality of collateral
- Policy and procedures
- Experience, ability and depth of management
- Economic trends – national and local
- External factors – competition, legal and regulatory

The methodology includes the segregation of the loan portfolio into loan types with a further segregation into risk rating categories, such as special mention, substandard, doubtful and loss. This allows for an allocation of the allowance for loan losses by loan type; however, the allowance is available to absorb any loan loss without restriction. Larger-balance, non-homogeneous loans representing significant individual credit exposures are evaluated individually through the internal loan review process. It is this process that produces the watch list. The borrower's overall financial condition, repayment sources, guarantors and value of collateral, if appropriate, are evaluated. Based on these reviews, an estimate of probable losses for the individual larger-balance loans is determined, whenever possible, and used to establish specific loan loss reserves. In general, for non-homogeneous loans not individually assessed and for homogeneous groups of loans, such as residential mortgages and consumer credits, the loans are collectively evaluated based on delinquency status, loan type, and historical losses. These loan groups are then internally risk rated.

The watch list includes loans that are assigned a rating of special mention, substandard, doubtful and loss. Loans classified as 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 as 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 as doubtful have all the weaknesses inherent in loans classified as substandard with the added characteristic that collection or liquidation in full, on the basis of current conditions and facts, is highly improbable. Loans rated as doubtful in whole, or in part, are placed in non-accrual status. Loans classified as a loss are considered uncollectible and are charged-off against the allowance for loan losses.

The specific allowance for impaired loans is established for specific loans that have been identified by management as being impaired. These loans are considered to be impaired primarily because the loans have not performed according to payment terms and there is reason to believe that repayment of the loan principal in whole, or in part, is unlikely. The specific portion of the allowance is the total amount of potential unconfirmed losses for these individual impaired loans. To assist in determining the fair value of loan collateral, the Company often utilizes independent third party qualified appraisal firms, which employ their own criteria and assumptions that may include occupancy rates, rental rates, and property expenses, among others.

The second category of reserves consists of the allocated portion of the allowance. The allocated portion of the allowance is determined by taking pools of outstanding loans that have similar characteristics and applying historical loss experience for each pool. This estimate represents the potential unconfirmed losses within the portfolio. Individual loan pools are created for commercial business loans, commercial real estate loans, construction loans, warehouse lines of credit and various types of loans to individuals. The historical estimation for each loan pool is then adjusted to account for current conditions, current loan portfolio performance, loan policy or management changes or any other qualitative factor that may cause future losses to deviate from historical levels.

The Company also maintains an unallocated allowance. The unallocated allowance is used to cover any factors or conditions that may cause a potential loan loss but are not specifically identifiable. It is prudent to maintain an unallocated portion of the allowance because no matter how detailed an analysis of potential loan losses is performed, these estimates, by definition, lack precision. Management must make estimates using assumptions and information that is often subjective and changing rapidly.

The following discusses the risk characteristics of each of our loan portfolio segments-commercial, mortgage warehouse lines of credit and consumer.

<u>Commercial</u>

The Company's primary lending emphasis is the origination of commercial business and commercial real estate loans. Based on the composition of the loan portfolio, the inherent primary risks are deteriorating credit quality, a decline in the economy and a decline in New Jersey real estate market values. Any one, or a combination, of these events may adversely affect the loan portfolio and may result in increased delinquencies, loan losses and increased future provision levels.

<u>Mortgage Warehouse Lines of Credit</u>

The Company's Mortgage Warehouse Unit provides revolving lines of credit that are available to licensed mortgage banking companies. The warehouse line of credit is used by the mortgage banker to originate one-to-four family residential mortgage loans that are pre-sold to the secondary mortgage market, which includes state and national banks, national mortgage banking firms, insurance companies and government-sponsored enterprises, including the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation and others. On average, an advance under the warehouse line of credit remains outstanding for a period of less than 30 days, with repayment coming directly from the sale of the loan into the secondary mortgage market. Interest and a transaction fee are collected by the Bank at the time of repayment.

As a separate segment of the total portfolio, the warehouse loan portfolio is individually analyzed as a whole for allowance for loan loss purposes. Warehouse lines of credit are subject to the same inherent risks as other commercial lending, but the overall degree of risk differs. While the Company's loss experience with this type of lending has been non-existent since the product was introduced in 2008, there are other risks unique to this lending that still must be considered in assessing the adequacy of the allowance for loan losses. These unique risks may include, but are not limited to, (i) credit risks relating to the mortgage bankers that borrow from the Bank, (ii) the risk of intentional misrepresentation or fraud by any of such mortgage bankers, (iii) changes in the market value of mortgage loans originated by the mortgage banker, the sale of which is the expected source of repayment of the borrowings under a warehouse line of credit, due to changes in interest rates during the time in warehouse or (iv) unsalable or impaired mortgage loans so originated, which could lead to decreased collateral value and the failure of a purchaser of the mortgage loan to purchase the loan from the mortgage banker.

These factors, along with the other qualitative factors such as economic trends, concentrations of credit, trends in the volume of loans, portfolio quality, delinquencies and non-accruals, are also considered and may have positive or negative effects on the allocated allowance. The aggregate amount resulting from the application of these qualitative factors determines the overall risk for the portfolio and results in an allocated allowance for warehouse lines of credit.

<u>Consumer</u>

The Company's consumer loan segment is comprised of home equity loans and other loans to individuals. Individual loan pools are created for the various types of loans to individuals.

In general, for homogeneous groups such as residential mortgages and consumer credits, the loans are collectively evaluated based on delinquency status, loan type and historical losses. These loan groups are then internally risk rated.

The Company considers the following credit quality indicators in assessing the risk in the loan portfolio:

- Consumer credit scores
- Internal credit risk grades
- Loan-to-value ratios
- Collateral
- Collection experience

The following table presents, for the periods indicated, an analysis of the allowance for loan losses and other related data:

(Dollars in thousands)	Nine Months Ended September 30, 2017	Year Ended December 31, 2016	Nine Months Ended September 30, 2016
Balance, beginning of period	$ 7,494	$ 7,560	$ 7,560
Provision (credit) charged to operating expenses	450	(300)	(300)
Loans charged off :			
Residential real estate loans	(101)	—	—
Commercial business and commercial real estate	(61)	(157)	(161)
All other loans	—	(1)	—
	(162)	(158)	(161)
Recoveries			
Commercial business and commercial real estate	16	386	383
Loans to individuals	4	6	4
	20	392	387
Net (charge offs) recoveries	(142)	234	226
Balance, end of period	$ 7,802	$ 7,494	$ 7,486
Loans :			
At period end	$ 771,982	$ 724,808	$ 749,436
Average during the period	696,711	691,180	681,976
Net (charge offs) recoveries to average loans outstanding	(0.02)%	0.03%	0.03%
Net (charge offs) recoveries to average loans outstanding, excluding mortgage warehouse loans	(0.02)%	0.05%	0.05%
Allowance for loan losses to :			
Total loans at period end	1.01 %	1.03%	1.00%
Total loans at period end excluding mortgage warehouse loans	1.20 %	1.28%	1.28%
Non-performing loans	119.83 %	144.17%	142.90%

The following table represents the allocation of the allowance for loan losses ("ALL") among the various categories of loans and certain other information as of September 30, 2017 and December 31, 2016, respectively. The allocation is made for analytical purposes and is not necessarily indicative of the categories in which future losses may occur. The total allowance is available to absorb losses from any segment of loans.

	September 30, 2017			December 31, 2016		
(Dollars in thousands)	Amount	As a % of Loan Class	Loans % of Loans	Amount	As a % of Loan Class	Loans % of Loans
Commercial real estate loans	$ 2,743	0.94%	38%	$ 2,574	1.06%	34%
Commercial business	1,415	1.50%	12%	1,732	1.74%	14%
Construction loans	1,594	1.25%	17%	1,204	1.25%	13%
Residential real estate loans	388	9.30%	5%	367	0.82%	6%
Loans to individuals	118	0.53%	3%	112	0.47%	3%
Subtotal	6,258	1.14%	75%	5,989	1.18%	70%
Mortgage warehouse lines	871	0.45%	25%	973	0.45%	30%
Unallocated reserves	673	—	—	532	—	—
Total	$ 7,802	1.01%	100%	$ 7,494	1.03%	100%

During the third quarter of 2017, the Bank recorded a provision for loan losses of $150,000, charge-offs of $61,000 and recoveries of loans previously charged-off of $6,000 compared to no recorded provision for loan losses, no charge-offs and recoveries of loans previously charged-off of $4,000 recorded during the third quarter of 2016. A provision for loan losses was recorded in the third quarter of 2017 due primarily to the growth and the change in the mix of loans in the loan portfolio.

The Company recorded a provision for loan losses of $450,000 for the nine months ended September 30, 2017 compared to a credit (negative) provision for loan losses in the amount of $300,000 for the nine months ended September 30, 2016. For the nine months ended September 30, 2017, the Company recorded charge-offs of $162,000 and recoveries of previously charged-off loans of $20,000, while charge-offs of $161,000 and recoveries of previously charged-off loans of $387,000 were recorded during the nine months ended September 30, 2016.

At September 30, 2017, the allowance for loan losses was $7.8 million, or 1.01% of loans, compared to $7.5 million, or 1.00% of loans, at September 30, 2016 and $7.5 million, or 1.03% of loans, at December 31, 2016. The allowance for loan losses was 120% of non-performing loans at September 30, 2017 compared to 144% of non-performing loans at December 31, 2016 and 143% at September 30, 2016. Management believes that the quality of the loan portfolio remains sound, considering the economic climate in the State of New Jersey and that the allowance for loan losses is adequate in relation to credit risk exposure levels and the estimated incurred and inherent losses in the loan portfolio.

Deposits

Deposits, which include demand deposits (interest bearing and non-interest bearing), savings deposits and time deposits, are a fundamental and cost-effective source of funding. The flow of deposits is influenced significantly by general economic conditions, changes in market interest rates and competition. The Bank offers a variety of products designed to attract and retain customers, with the Bank's primary focus on the building and expanding of long-term relationships.

The following table summarizes deposits at September 30, 2017 and December 31, 2016.

(Dollars in thousands)	September 30, 2017	December 31, 2016
Demand		
Non-interest bearing	$ 192,191	$ 170,854
Interest bearing	327,559	310,103
Savings	209,471	205,294
Time	140,592	148,265
Total	$ 869,813	$ 834,516

At September 30, 2017, total deposits were $869.8 million, an increase of $35.3 million, or 4.2%, from $834.5 million at December 31, 2016. Overall, the increase in deposits was due primarily to an increase of $21.3 million in non-interest bearing demand deposits, an increase of $17.5 million in interest-bearing demand deposits and a $4.2 million increase in savings deposits, which were partially offset by a decrease of $7.7 million in time deposits.

Borrowings

Borrowings are mainly comprised of Federal Home Loan Bank ("FHLB") borrowings and overnight funds purchased. These borrowings are primarily used to fund asset growth not supported by deposit generation. At September 30, 2017, the Company had $63.0 million of overnight borrowings from the FHLB compared to $73.1 million of total borrowings at December 31, 2016, which consisted of $63.1 million of overnight borrowings from the FHLB and $10.0 million of long-term FHLB borrowings, which matured in July 2017 and was repaid.

Liquidity

At September 30, 2017, the amount of liquid assets and the Bank's access to off-balance sheet liquidity remained at a level management deemed adequate to ensure that contractual liabilities, depositors' withdrawal requirements and other operational and customer credit needs could be satisfied.

Liquidity management refers to the Company's ability to support asset growth while satisfying the borrowing needs and deposit withdrawal requirements of customers. In addition to maintaining liquid assets, factors such as capital position, profitability, asset quality and availability of funding affect a bank's ability to meet its liquidity needs. On the asset side, liquid funds are maintained in the form of cash and cash equivalents, federal funds sold, investment securities held to maturity maturing within one year, securities available for sale and loans held for sale. Additional asset-based liquidity is derived from scheduled loan repayments as well as investment repayments of principal and interest. Investment securities and loans may also be pledged to the FHLB to collateralize additional borrowings. On the liability side, the primary source of liquidity is the ability to generate core deposits. Long-term and short-term borrowings are used as supplemental funding sources when growth in the core deposit base does not keep pace with that of interest-earning assets.

The Bank has established a borrowing relationship with the FHLB that further supports and enhances liquidity. The FHLB provides member banks with a fully secured line of credit of up to 50 percent of a bank's quarter-end total assets. Under the terms of this facility, the Bank's total credit exposure to the FHLB cannot exceed 50 percent of its total assets, or $535.0 million, at September 30, 2017. In addition, the aggregate outstanding principal amount of the Bank's advances, letters of credit, the dollar amount of the FHLB's minimum collateral requirement for off-balance sheet financial contracts and advance commitments cannot exceed 30 percent of the Bank's total assets, unless the Bank obtains approval from the FHLB's Board of Directors or its Executive Committee. These limits are further restricted by a member's ability to provide eligible collateral to support its obligations to the FHLB as well as the ability to meet the FHLB's stock requirement. At September 30, 2017, the Bank pledged collateral to the FHLB to support additional borrowing capacity of $109.0 million. The Bank also maintains unsecured federal funds lines of $46.0 million with two correspondent banks.

The Consolidated Statements of Cash Flows present the changes in cash from operating, investing and financing activities. At September 30, 2017, the balance of cash and cash equivalents was $15.7 million.

Net cash provided by operating activities totaled $16.4 million for the nine months ended September 30, 2017 compared to net cash provided by operating activities of $4.8 million for the nine months ended September 30, 2016. A source of funds is net income from operations adjusted for activity related to loans originated for sale and sold, the provision for loan losses, depreciation and amortization expenses and net amortization of premiums and discounts on securities. Net cash provided by operating activities for the nine months ended September 30, 2017 was higher than net cash provided by operating activities for the nine months ended September 30, 2016 due primarily to higher net proceeds from the origination and sale of loans of approximately $15.9 million.

Net cash used in investing activities totaled $40.2 million for the nine months ended September 30, 2017 compared to $77.7 million for the nine months ended September 30, 2016. The primary use of cash in investing activities for the first nine months of 2017 was a net increase in loans of $47.8 million compared to a net increase in loans of $67.3 million for the first nine months of 2016. The loans and securities portfolios are also a source of liquidity, providing cash flows from maturities and periodic payments of principal. For the nine months ended September 30, 2017 and September 30, 2016, payments and maturities of investment securities totaled $46.4 million and $35.5 million, respectively. Cash was used to purchase investment securities of $46.2 million for the nine months ended September 30, 2017 compared to purchases of $44.7 million of investment securities for the nine months ended September 30, 2016. Proceeds from the sale of investment securities totaled $8.6 million for the nine months ended September 30, 2017. There were no sales of investment securities in the prior year period.

Net cash provided by financing activities was $24.6 million for the nine months ended September 30, 2017 compared to $78.5 million for the nine months ended September 30, 2016. The primary source of funds for the 2017 period was the increase in deposits of $35.3 million, which was partially offset by the decrease in borrowings of $10 million and the payment of cash dividends of $803,000. The primary sources of funds in the 2016 period was the increase in deposits of $40.3 million and the increase in borrowed funds of $38.2 million.

Shareholders' Equity and Dividends

Shareholders' equity increased by $6.8 million, or 6.5%, to $111.6 million at September 30, 2017 from $104.8 million at December 31, 2016. Tangible book value per common share increased by $0.77 to $12.27 at September 30, 2017 from $11.50 at December 31, 2016. The ratio of average shareholders' equity to total average assets was 10.51% for the three months ended September 30, 2017 compared to 10.06% for the year ended December 31, 2016.

Shareholders' equity increased $6.8 million due primarily to an increase of $5.6 million in retained earnings, an increase of $889,000 from the exercise of options and share-based compensation and other comprehensive income of $370,000.

On September 15, 2016, the Board of Directors of the Company declared a cash dividend of $0.05 per common share. The cash dividend was paid on October 21, 2016 to all shareholders of record as of the close of business on September 28, 2016. This action represented the first cash dividend declared by the Company on its common shares. The Company also paid a $0.05 per common share dividend on January 24, 2017, April 25, 2017 and July 25, 2017. On October 26, 2017, the Company announced an increase in the quarterly cash dividend to $0.06 per common share payable on November 24, 2017 to shareholders of record on November 16, 2017. The timing and the amount of the payment of future cash dividends, if any, on the Company's common shares will be at the discretion of the Company's Board of Directors and will be determined after consideration of various factors, including the level of earnings, cash requirements, regulatory capital and financial condition.

The Company's common stock is quoted on the Nasdaq Global Market under the symbol "FCCY."

On January 21, 2016, the Board of Directors of the Company authorized a new common stock repurchase program. Under the new common stock repurchase program, the Company may repurchase in open market or privately negotiated transactions up to five (5%) percent of its common stock outstanding on the date of approval of the stock repurchase program, which limitation will be adjusted for any future stock dividends. This new repurchase program replaces the repurchase program authorized on August 3, 2005.

Disclosure of repurchases of shares of common stock of the Company that were made during the quarter ended September 30, 2017 is set forth under Part II, Item 2 of this report, "Unregistered Sales of Equity Securities and Use of Proceeds."

Actual capital amounts and ratios for the Company and the Bank as of September 30, 2017 and December 31, 2016 were as follows:

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provision	
(Dollars in thousands)	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of September 30, 2017						
Company						
Common equity Tier 1 (CET1)	$ 99,394	10.41%	$ 42,972	>4.5%	N/A	N/A
Total Capital to Risk Weighted Assets	125,196	13.11%	76,395	>8%	N/A	N/A
Tier 1 Capital to Risk Weighted Assets	117,394	12.26%	57,296	>6%	N/A	N/A
Tier 1 Leverage Capital	117,394	11.33%	41,458	>4%	N/A	N/A
Bank						
Common equity Tier 1 (CET1)	$ 114,730	12.01%	$ 42,972	>4.5%	$ 62,071	≥6.5%
Total Capital to Risk Weighted Assets	122,532	12.83%	76,395	>8%	95,493	≥10%
Tier 1 Capital to Risk Weighted Assets	114,730	12.01%	57,296	>6%	76,395	≥8%
Tier 1 Leverage Capital	114,730	11.07%	41,458	>4%	51,822	>5%
As of December 31, 2016						
Company						
Common equity Tier 1 (CET1)	$ 93,101	10.40%	$ 40,302	>4.5%	N/A	N/A
Total Capital to Risk Weighted Assets	118,595	13.24%	71,648	>8%	N/A	N/A
Tier 1 Capital to Risk Weighted Assets	111,101	12.41%	53,736	>6%	N/A	N/A
Tier 1 Leverage Capital	111,101	10.93%	40,658	>4%	N/A	N/A
Bank						
Common equity Tier 1 (CET1)	$ 108,606	12.13%	$ 40,302	>4.5%	$ 58,214	≥6.5%
Total Capital to Risk Weighted Assets	116,100	12.96%	71,648	>8%	89,560	>10%
Tier 1 Capital to Risk Weighted Assets	108,606	12.13%	53,736	>6%	71,648	≥8%
Tier 1 Leverage Capital	108,606	10.68%	40,658	>4%	50,823	>5%

In July 2013, the Federal Reserve Board and the FDIC approved revisions to their capital adequacy guidelines and prompt corrective action rules that implemented and addressed the revised standards of Basel III and addressed relevant provisions of the Dodd-Frank Act. The Federal Reserve Board's final rules and the FDIC's interim final rules (which became final in April 2014 with no substantive changes) apply to all depository institutions, top-tier bank holding companies with total consolidated assets of $500 million or more and top-tier savings and loan holding companies ("banking organizations"). Among other things, the rules established a common equity Tier 1 minimum capital requirement (4.5% of risk-weighted assets) and increased the minimum Tier 1 capital to risk-weighted assets requirement (from 4% to 6% of risk-weighted assets). Banking organizations are also required to have a total capital ratio of at least 8% and a Tier 1 leverage ratio of at least 4%.

The rules also limited a banking organization's ability to pay dividends, engage in share repurchases or pay discretionary bonuses if the banking organization does not hold a "capital conservation buffer" consisting of 2.50% of common equity Tier 1 capital to risk-weighted assets in addition to the amount necessary to meet its minimum risk-based capital requirements. The rules became effective for the Company and the Bank on January 1, 2015. The capital conservation buffer requirements began phasing in on January 1, 2016 at 0.625% of common equity Tier 1 capital to risk-weighted assets and will increase by that amount each year until fully implemented in January 2019 at 2.50% of common equity Tier 1 capital to risk-weighted assets. As of January 1, 2017, the Company and the Bank were required to maintain a capital conservation buffer of 1.25%. At September 30, 2017, the Company's and the Bank's common equity Tier 1 capital ratio of 10.41% and 12.01%, respectively, exceeded the combined common equity Tier 1 minimum capital and capital conservation buffer of 5.75%.

At September 30, 2017, the capital ratios of the Company and the Bank exceeded the minimum Basel III capital requirements. It is management's goal to monitor and maintain adequate capital levels to continue to support asset growth and the expansion of the Bank and to continue its status as a well-capitalized institution.

Interest Rate Sensitivity Analysis

The largest component of the Company's total income is net interest income, and the majority of the Company's financial instruments are composed of interest rate-sensitive assets and liabilities with various terms and maturities. The primary objective of management is to maximize net interest income while minimizing interest rate risk. Interest rate risk is derived from timing differences and the magnitude of relative changes in the repricing of assets and liabilities, loan prepayments, deposit withdrawals and differences in lending and funding rates. Management actively seeks to monitor and control the mix of interest rate-sensitive assets and interest rate-sensitive liabilities.

Under the interest rate risk policy established by the Company's Board of Directors, the Company established quantitative guidelines with respect to interest rate risk and how interest rate shocks are projected to affect net interest income and the economic value of equity. Due to the current low level of market interest rates, the current monetary policy of the Federal Reserve Board and recent communications from the Federal Reserve Board, management believes that it is more likely that market interest rates may increase than decrease over the intermediate term. Summarized below is the projected effect of a parallel shift of an increase of 200 and 300 basis points, respectively, in market interest rates on net interest income and the economic value of equity.

Based upon the current interest rate environment, as of September 30, 2017, sensitivity to interest rate risk was as follows:

(Dollars in thousands)	Next 12 Months Net Interest Income			Economic Value of Equity [2]		
Interest Rate Change in Basis Points [1]	Dollar Amount	$ Change	% Change	Dollar Amount	$ Change	% Change
+300	$ 42,594	$ 3,453	8.82%	$ 148,242	$ 898	0.61%
+200	41,423	2,282	5.83%	148,544	1,200	0.81%
—	39,141	—	—%	147,344	—	—%

(1) Assumes an instantaneous and parallel shift in interest rates at all maturities.

(2) Economic value of equity is the discounted present value of expected cash flows from assets, liabilities and off-balance sheet contracts.

The Company employs many assumptions to calculate the impact of changes in interest rates on assets and liabilities, and actual results may not be similar to projections due to several factors, including the timing and frequency of rate changes, market conditions and the shape of the yield curve. Actual results may also differ due to management's actions, if any, in response to changing rates. In calculating these exposures, the Company utilized an interest rate simulation model that is validated by third-party reviewers on an annual basis.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Not required.

Item 4. Controls and Procedures.

The Company has established disclosure controls and procedures designed to ensure that information required to be disclosed in the reports that the Company files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms and is accumulated and communicated to management, including the principal executive officer and principal financial officer, to allow timely decisions regarding required disclosure.

The Company's principal executive officer and principal financial officer, with the assistance of other members of management, have evaluated the effectiveness of the Company's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this quarterly report. Based upon such evaluation, the Company's principal executive officer and principal financial officer have concluded that as of September 30, 2017, the Company's disclosure controls and procedures were not effective in ensuring that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms. This is due to a material weakness identified in the process for compiling the income and expense accounts for inclusion in the Consolidated Statements of Income in the second quarter of 2017. The amortization of deferred loan origination costs was incorrectly included in other operating expenses and should have been included in loan interest income in the Consolidated Statements of Income. This control deficiency did not result in a material misstatement to the Company's previously issued Consolidated Financial Statements for prior periods. There was no effect on pre-tax income, after-tax income, basic and diluted earnings per share, statements of cash flows, balance sheets, book value, return on assets, return on equity, and regulatory capital ratios in any period. However, this control deficiency constitutes a material weakness in the Company's internal control over financial reporting due to the potential for the control deficiency to result in a material misstatement in the Company's annual or interim consolidated financial statements that may not be prevented or detected.

Disclosure controls and procedures include, without limitations, controls and procedures designed to ensure that information required to be disclosed by the Company in the reports it files under the Exchange Act is accumulated and communicated to management, including the principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives, and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

Remediation Plan

The Company changed the internal accounting process for compiling the amortization of deferred loan origination costs to include the amortization of deferred loan origination costs in loan interest income and not include it in other operating expenses in the Consolidated Statements of Income.

The material weakness cannot be considered remediated until the control has operated for a sufficient period of time and until management has concluded, through testing, that the control is operating effectively. Management's goal is to remediate this material weakness by December 31, 2017.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

The Company's principal executive officer and principal financial officer have concluded that there was no change in the Company's internal control over financial reporting (as such term is defined in Rule 13a-15(f) under the Exchange Act) that occurred during the quarter ended September 30, 2017 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting; however, during the quarter ended September 30, 2017, the Company implemented the changes to its internal control over financial reporting described under the heading "Remediation Plan" above.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

The Company may, in the ordinary course of business, become a party to litigation involving collection matters, contract claims and other legal proceedings relating to the conduct of its business. Management is not aware of any material pending legal proceedings against the Company which, if determined adversely, would have a material adverse effect on the Company's financial condition or results of operations.

Item 1A. Risk Factors

There has been no material change in the risk factors previously disclosed under the heading "Risk Factors" within the Company's Form 10-K/A for the year ended December 31, 2016.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

Issuer Purchases of Equity Securities

On January 21, 2016, the Board of Directors of the Company authorized a new common stock repurchase program. Under the new common stock repurchase program, the Company may repurchase in open market or privately negotiated transactions up to five (5%) percent of its common stock outstanding on the date of approval of the stock repurchase program, which limitation will be adjusted for any future stock dividends. This new repurchase program replaced the repurchase program authorized on August 3, 2005.

The following table provides common stock repurchases made by or on behalf of the Company during the three months ended September 30, 2017.

Issuer Purchases of Equity Securities [(1)]

Period		Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased As Part of Publicly Announced Plan or Program	Maximum Number of Shares That May Yet be Purchased Under the Plan or Program
Beginning	Ending				
July 1, 2017	July 31, 2017	—	$ —	—	394,141
August 1, 2017	August 31, 2017	—	$ —	—	394,141
September 1, 2017	September 30, 2017	—	$ —	—	394,141
	Total	—	$ —	—	394,141

(1) The Company's common stock repurchase program covers a maximum of 396,141 shares of common stock of the Company, representing 5% of the outstanding common stock of the Company on January 21, 2016, as adjusted for subsequent common stock dividends.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits.

2.1		Agreement and Plan of Merger, dated as of November 6, 2017, by and among the Company, the Bank and NJCB (incorporated by reference to Exhibit 2.1 to the Company's Form 8-K filed with the SEC on November 7, 2017)
3(i)(A)		Certificate of Incorporation of the Company (conformed copy) (incorporated by reference to Exhibit 3(i)(A) to the Company's Form 10-K (SEC File No. 000-32891) filed with the SEC on March 27, 2009)
3(ii)(A)		By-laws of the Company, as amended (conformed copy) (incorporated by reference to Exhibit 3(ii)(A) to the Company's Form 8-K filed with the SEC on March 23, 2016)
31.1	*	Certification of Robert F. Mangano, principal executive officer of the Company, pursuant to Securities Exchange Act Rule 13a-14(a)
31.2	*	Certification of Stephen J. Gilhooly, principal financial officer of the Company, pursuant to Securities Exchange Act Rule 13a-14(a)
32	*	Certifications pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of The Sarbanes-Oxley Act of 2002, signed by Robert F. Mangano, principal executive officer of the Company, and Stephen J. Gilhooly, principal financial officer of the Company
101.INS	*	XBRL Instance Document
101.SCH	*	XBRL Taxonomy Extension Schema Document
101.CAL	*	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	*	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	*	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	*	XBRL Taxonomy Extension Presentation Linkbase Document

* Filed herewith.

SIGNATURES

Pursuant to the requirements 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.

1ST CONSTITUTION BANCORP

Date: November 9, 2017

By: /s/ ROBERT F. MANGANO

Robert F. Mangano
President and Chief Executive Officer
(Principal Executive Officer)

Date: November 9, 2017

By: /s/ STEPHEN J. GILHOOLY

Stephen J. Gilhooly
Senior Vice President, Treasurer and Chief Financial Officer
(Principal Financial Officer)

Exhibit 31.1

CERTIFICATIONS

I, Robert F. Mangano, certify that:

1. I have reviewed this quarterly report on Form 10-Q of 1st Constitution Bancorp;

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 the 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(s) 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(s) 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: November 9, 2017

/s/ ROBERT F. MANGANO

Name: Robert F. Mangano

Title: President and Chief Executive Officer

Exhibit 31.2

CERTIFICATIONS

I, Stephen J. Gilhooly, certify that:

1. I have reviewed this quarterly report on Form 10-Q of 1st Constitution Bancorp;

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 the 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(s) 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(s) 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: November 9, 2017

/s/STEPHEN J. GILHOOLY

Name: Stephen J. Gilhooly

Title: Senior Vice President, Treasurer and Chief Financial Officer

Exhibit 32

**CERTIFICATIONS PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with this Quarterly Report on Form 10-Q of 1st Constitution Bancorp (the "Company") for the fiscal quarter ended September 30, 2017 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), each of the undersigned officers of the Company hereby certifies, pursuant to 18 U.S.C. (section) 1350, as adopted pursuant to (section) 906 of the Sarbanes-Oxley Act of 2002, that to the best of his knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities 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 Company.

/s/ ROBERT F. MANGANO

Name: Robert F. Mangano

Title: President and Chief Executive Officer

Date: November 9, 2017

/s/ STEPHEN J. GILHOOLY

Name: Stephen J. Gilhooly

Title: Senior Vice President, Treasurer and Chief Financial Officer

Date: November 9, 2017