1ST CONSTITUTION BANCORP
Form 10-Q
November 07, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
(Mark One)
ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2018
or
o 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 ý No o
Indicate by check mark whether the registrant has submitted electronically 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 ý No o
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	o	Accelerated filer	ý
Non-accelerated filer	o	Smaller reporting company	o
(Do not check if a smaller reporting company)		Emerging growth company	o

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 pursuant to Section 13(a) of the Exchange Act. o
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No ý
As of November 6, 2018, there were 8,404,292 shares of the registrant's common stock, no par value, outstanding.

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PART I. FINANCIAL INFORMATION
Item 1. Financial Statements.

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

	September 30, 2018	December 31, 2017
Assets		
Cash and due from banks	$ 5,133	$ 5,037
Interest-earning deposits	14,131	13,717
Total cash and cash equivalents	19,264	18,754
Investment securities:		
Available for sale, at fair value	131,192	105,458
Held to maturity (fair value of $91,220 and $111,865 at September 30, 2018 and December 31, 2017, respectively)	91,379	110,267
Total investment securities	222,571	215,725
Loans held for sale	4,362	4,254
Loans	881,538	789,906
Less: allowance for loan losses	(8,265)	(8,013)
Net loans	873,273	781,893
Premises and equipment, net	11,768	10,705
Accrued interest receivable	3,652	3,478
Bank-owned life insurance	28,555	25,051
Other real estate owned	2,515	—
Goodwill and intangible assets	12,294	12,496
Other assets	14,228	6,918
Total assets	$ 1,192,482	$ 1,079,274
Liabilities and Shareholders' Equity		
Liabilities:		
Deposits		
Non-interest bearing	$ 211,492	$ 196,509
Interest bearing	730,185	725,497
Total deposits	941,677	922,006
Short-term borrowings	99,475	20,500
Redeemable subordinated debentures	18,557	18,557
Accrued interest payable	927	804
Accrued expenses and other liabilities	8,072	5,754
Total liabilities	1,068,708	967,621
Shareholders' Equity:		
Preferred stock, no par value; 5,000,000 shares authorized; none issued	—	—
Common stock, no par value; 30,000,000 shares authorized; 8,437,590 and 8,116,201 shares issued and 8,404,292 and 8,082,903 shares outstanding as of September 30, 2018 and December 31, 2017, respectively	79,256	72,935
Retained earnings	47,067	39,822
Treasury stock, 33,298 shares at September 30, 2018 and December 31, 2017	(368)	(368)
Accumulated other comprehensive loss	(2,181)	(736)

Total shareholders’ equity	123,774	111,653
Total liabilities and shareholders’ equity	$ 1,192,482	$ 1,079,274

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Interest income				
Loans, including fees	$12,193	$ 9,416	$33,078	$ 26,161
Securities:				
Taxable	1,060	846	2,915	2,500
Tax-exempt	494	527	1,518	1,628
Federal funds sold and short-term investments	36	25	208	183
Total interest income	13,783	10,814	37,719	30,472
Interest expense				
Deposits	1,854	1,204	4,542	3,351
Borrowings	349	113	576	349
Redeemable subordinated debentures	184	134	508	380
Total interest expense	2,387	1,451	5,626	4,080
Net interest income	11,396	9,363	32,093	26,392
Provision for loan losses	225	150	675	450
Net interest income after provision for loan losses	11,171	9,213	31,418	25,942
Non-interest income				
Service charges on deposit accounts	173	142	476	445
Gain on sales of loans	1,292	1,329	3,425	3,936
Income on Bank-owned life insurance	152	131	425	391
Gain from bargain purchase	—	—	184	—
Gain on sales of securities	—	24	12	128
Other income	537	490	1,560	1,385
Total non-interest income	2,154	2,116	6,082	6,285
Non-interest expenses				
Salaries and employee benefits	4,900	4,617	14,714	13,882
Occupancy expense	907	865	2,604	2,604
Data processing expenses	331	338	1,009	983
FDIC insurance expense	105	95	381	255
Other real estate owned expenses	73	11	75	26
Merger-related expenses	—	—	2,141	—
Other operating expenses	1,578	1,691	4,866	5,204
Total non-interest expenses	7,894	7,617	25,790	22,954
Income before income taxes	5,431	3,712	11,710	9,273
Income taxes	1,420	1,227	2,975	2,920
Net income	$4,011	$ 2,485	$8,735	$ 6,353
Net income per common share				
Basic	$0.48	$ 0.31	$1.05	$ 0.79
Diluted	$0.46	$ 0.30	$1.02	$ 0.76
Weighted average shares outstanding				
Basic	8,392,631	8,063,119	8,282,889	8,040,955

Diluted	8,678,679	8,328,252	8,565,401	8,309,363

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net income	$4,011	$2,485	$8,735	$6,353
Other comprehensive income (loss):				
Unrealized holding (losses) gains on securities available for sale	(513)	18	(2,015)	745
Tax effect	126	(7)	484	(275)
Net of tax amount	(387)	11	(1,531)	470
Reclassification adjustment for gains on securities available for sale [1]	—	(12)	(12)	(92)
Tax effect [2]	—	5	3	37
Net of tax amount	—	(7)	(9)	(55)
Pension liability	89	—	178	—
Tax effect	(25)	—	(50)	—
Net of tax amount	64	—	128	—
Reclassification adjustment for actuarial gains for unfunded pension liability				
Income [3]	(15)	(32)	(45)	(75)
Tax effect [2]	4	13	12	30
Net of tax amount	(11)	(19)	(33)	(45)
Total other comprehensive (loss) income	(334)	(15)	(1,445)	370
Comprehensive income	$3,677	$2,470	$7,290	$6,723

(1) Included in gain on sales of securities 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, 2018 and 2017
(Dollars in thousands)
(Unaudited)

	Common Stock	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
Balance, January 1, 2017	$ 71,695	$ 34,074	$ (368)	$ (600)	$ 104,801
Net income	—	6,353	—	—	6,353
Exercise of stock options (18,790 shares)	150	—	—	—	150
Share-based compensation	739	—	—	—	739
Cash dividends declared ($0.10 per share)	—	(803)	—	—	(803)
Other comprehensive income	—	—	—	370	370
Balance, September 30, 2017	$ 72,584	$ 39,624	$ (368)	$ (230)	$ 111,610
Balance, January 1, 2018	$ 72,935	$ 39,822	$ (368)	$ (736)	$ 111,653
Net income	—	8,735	—	—	8,735
Exercise of stock options (9,307 shares)	67	—	—	—	67
Share-based compensation	759	—	—	—	759
Issuance of common stock (249,785 shares)	5,495	—	—	—	5,495
Cash dividends declared ($0.18 per share)	—	(1,490)	—	—	(1,490)
Other comprehensive loss	—	—	—	(1,445)	(1,445)
Balance, September 30, 2018	$ 79,256	$ 47,067	$ (368)	$ (2,181)	$ 123,774

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 30,	
	2018	2017
Operating Activities:		
Net income	$8,735	$6,353
Adjustments to reconcile net income to net cash provided by operating activities-		
Provision for loan losses	675	450
Depreciation and amortization	1,056	1,037
Net amortization of premiums and discounts on securities	435	678
SBA discount accretion	(235)	—
Gain from bargain purchase of NJCB	(184)	—
Gains on sales and calls of securities available for sale	(12)	(128)
Gains on sales of other real estate owned	—	(14)
Gains on sales of loans held for sale	(3,425)	(3,936)
Originations of loans held for sale	(85,285)	(83,754)
Proceeds from sales of loans held for sale	88,602	96,500
Income on Bank–owned life insurance	(439)	(391)
Loss on cash surrender value on Bank-owned life insurance	14	—
Share-based compensation expense	759	739
(Increase) decrease in accrued interest receivable	85	(46)
Increase in other assets	(499)	(114)
Increase (decrease) in accrued interest payable	123	(151)
Increase (decrease) in accrued expenses and other liabilities	1,816	(824)
Net cash provided by operating activities	12,221	16,399
Investing Activities:		
Purchases of securities:		
Available for sale	(30,122)	(29,729)
Held to maturity	(2,868)	(16,460)
Proceeds from maturities and payments of securities:		
Available for sale	13,282	15,892
Held to maturity	21,584	30,538
Proceeds from sales of securities:		
Available for sale	—	7,602
Held to maturity	—	1,033
Proceeds from Bank-owned life insurance benefits paid	893	—
Net (purchase)/redemption of restricted stock	(3,756)	494
Net increase in loans	(19,368)	(47,771)
Capital expenditures	(535)	(575)
Forfeitable deposit on other real estate owned	175	—
Cost of improvements to other real estate owned	—	(5)
Net cash paid for acquisition of NJCB	(996)	—
Proceeds from sales of other real estate owned	—	284
Purchase of Bank-owned life insurance	—	(1,550)
Net cash used in investing activities	(21,711)	(40,247)

Financing Activities:		
Exercise of stock options	67	150
Cash dividends paid to shareholders	(1,490)	(803)
Net (decrease) increase in deposits	(67,552)	35,297
Increase (decrease) in short-term borrowings	78,975	(25)
Repayment of long-term borrowing	—	(10,000)
Net cash provided by financing activities	10,000	24,619
Increase (decrease) in cash and cash equivalents	510	771
Cash and Cash Equivalents at Beginning of Period	18,754	14,886
Cash and Cash Equivalents at End of Period	$19,264	$15,657
Supplemental Disclosures of Cash Flow Information		
Cash paid during the period for -		
Interest	$5,503	$4,231
Income taxes	3,226	2,572
Transfer of loans to other real estate owned	1,460	455
Non-cash activities.		
Acquisition of New Jersey Community Bank		
Noncash assets acquired:		
Investment securities available for sale	11,173	
Loans	75,144	
Premises and equipment, net	1,120	
Bank-owned life insurance	3,972	
Accrued interest receivable	259	
Core deposit intangible asset	80	
Other assets	2,786	
	94,534	
Liabilities assumed:		
Deposits	87,223	
Other liabilities	636	
	87,859	
Common stock issued as consideration	5,495	

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

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1ST Constitution Bancorp
Notes to Consolidated Financial Statements
September 30, 2018
(Unaudited)

(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 for the year ended December 31, 2017, filed with the SEC on March 19, 2018.

In the opinion of the Company, all adjustments (consisting only of normal recurring accruals) that 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.

The Company has evaluated events and transactions occurring subsequent to the balance sheet date of September 30, 2018 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.

Adoption of New Accounting Standards

ASU 2014-09 - Revenue from Contracts with Customers (Topic 606)

On January 1, 2018, the Company adopted Accounting Standards Update (“ASU”) 2014-09, “Revenue from Contracts with Customers” and all subsequent amendments to the ASU (collectively, “Topic 606”), which (i) creates a single framework for recognizing revenue from contracts with customers that fall within its scope and (ii) revises when it is appropriate to recognize a gain or loss from the transfer of nonfinancial assets, such as other real estate owned (“OREO”). The majority of the Company’s revenues come from interest income, other services to customers and other sources, including loans, leases and securities that are outside the scope of Topic 606. The Company’s services that fall within the scope of Topic 606 are presented within non-interest income and are recognized as revenue as the Company satisfies its obligations to customers. Services within the scope of Topic 606 include service charges on deposits, interchange income, other services and the sale of OREO. Refer to Note 6 - Revenue from Contracts with Customers - for further discussion on the Company’s accounting policies for revenue sources within the scope of Topic 606.

The Company adopted Topic 606 using the modified retrospective method for reporting periods beginning after January 1, 2018. The Company did not have any contracts that were not completed as of January 1, 2018. The adoption of Topic 606 did not result in a change to the accounting for any of the in-scope revenue streams; therefore, no cumulative effect adjustment was recorded.

ASU 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.

For the Company, the provisions of this ASU are effective for fiscal years beginning after December 15, 2017, including interim periods within those years. The adoption of this guidance in 2018 did not have a material impact on the Company's consolidated financial statements.

ASU 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 the Company, 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 adoption of this guidance in 2018 did not have a material impact on the Company's consolidated financial statements.

ASU 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 the Company, the provisions of this ASU are effective for fiscal years beginning after December 15, 2017 and interim periods within those fiscal years. The Company classifies cash flows related to BOLI in accordance with the guidance, and the adoption of this guidance in 2018 did not have a material impact on its consolidated financial statements.

ASU 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.

For the Company, the guidance in this ASU is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The adoption of this guidance in 2018 did not have a material impact on the Company's consolidated financial statements.

(2) Acquisition of New Jersey Community Bank

On April 11, 2018, the Company completed its acquisition of 100 percent of the shares of common stock of New Jersey Community Bank ("NJCB"), which merged with and into the Bank. The shareholders of NJCB received total consideration of $8.6 million, which was comprised of 249,785 shares of common stock of the Company with a market value of $5.5 million and cash of $3.1 million, of which $401,000 was placed in escrow to cover costs and expenses, including settlement costs, if any, that the Company may incur after closing the merger as a result of a certain litigation matter.

The merger was accounted for under the acquisition method of accounting, and accordingly, assets acquired, liabilities assumed and consideration exchanged were recorded at preliminary estimated fair values as of the acquisition date. NJCB's results of operations have been included in the Company's Consolidated Statements of Income since April 11, 2018.

The assets acquired and liabilities assumed in the merger were recorded at their estimated fair values based on management's best estimates, using information available at the date of the merger, including the use of third party valuation specialists. The fair values are preliminary estimates and subject to adjustment for up to one year after the closing date of the merger.

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

(Dollars in thousands)	Amount
Consideration paid:	
Company stock issued	$5,495
Cash payment	2,668
Cash held in escrow	401
Total consideration paid	$8,564
Recognized amounts of identifiable assets acquired and liabilities assumed at fair value:	
Cash and cash equivalents	$2,073
Investment securities available for sale	11,173
Loans	75,144
Premises and equipment, net	1,120
Core deposit intangible asset	80
Bank-owned life insurance	3,972
Accrued interest receivable	259
Other assets	2,786
Deposits	(87,223)
Other liabilities	(636)
Total identifiable assets and liabilities, net	$8,748
Gain from bargain purchase	$184

Accounting Standards Codification ("ASC") Topic 805-10 provides that if the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the acquirer shall report, in its financial statements, provisional amounts for the items for which the accounting is incomplete. During the measurement period, the acquirer shall retrospectively adjust the provisional amounts recognized at the acquisition date and may recognize additional assets or liabilities to reflect new information obtained from facts and circumstances that existed as of the acquisition date that, if known, would have affected the measurement of the amounts recognized as of that date. The measurement period may not exceed one year from the acquisition date.

Investments were recorded 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.

Loans acquired in the NJCB merger were recorded at fair value and subsequently accounted for in accordance with ASC Topic 310. The fair values of loans acquired were estimated, utilizing cash flow projections based on the remaining maturity and repricing terms. Cash flows were adjusted for estimated future credit losses of approximately $1.6 million and estimated prepayments. Projected cash flows were then discounted to present value, utilizing a risk-adjusted market rate for similar loans that management determined market participants would likely use.

At the acquisition date, the Company recorded $74.3 million of loans without evidence of credit quality deterioration and $881,000 of loans with evidence of credit quality deterioration.

The following table summarizes the composition of the loans acquired and recorded at fair value:

		At April 11, 2018	
(Dollars in thousands)	Loans acquired with no credit quality deterioration	Loans acquired with credit quality deterioration	Total
Commercial			
Construction	$ 798	$ —	$ 798
Commercial real estate	58,191	873	59,064
Commercial business	1,293	8	1,302
Residential real estate	7,572		7,572
Consumer	6,409		6,409
Total loans	$ 74,263	$ 881	$ 75,144

The following is a summary of the loans acquired with evidence of deteriorated credit quality in the NJCB acquisition as of the date of the closing of the merger:

(Dollars in thousands)	Acquired Credit Impaired Loans
Contractually required principal and interest at acquisition	$ 1,658
Contractual cash flows not expected to be collected (non-accretable difference)	609
Expected cash flows at acquisition	1,049
Interest component of expected cash flows (accretable difference)	168
Fair value of acquired loans	$ 881

Bank-owned life insurance was recorded at the cash surrender value of the insurance policies, which approximates the redemption value of the policies.
The core deposit intangible asset totaled $80,000 and is being amortized over its estimated useful life of approximately 10 years, using an accelerated method. No goodwill was recognized in the transaction.
The following table presents the projected amortization of the core deposit intangible asset for each period:

(Dollars in thousands)	Amount
Year	
2018	$ 15
2019	13
2020	12
2021	10
2022	8
Thereafter	22
	$ 80

The fair values of deposit liabilities with no stated maturities, such as checking, money market and savings accounts, were assumed to equal the carrying value amounts since these deposits are payable on demand. The fair values of certificates of deposit represent the present value of contractual cash flows discounted at market rates for similar certificates of deposit.
Direct costs related to the acquisition were expensed as incurred. No merger-related expenses were incurred for the three months ended September 30, 2018. During the nine months ended September 30, 2018, the Company incurred $2.1 million of expenses for termination of contracts, legal and financial advisory fees, severance and other integration related expenses, which have been separately stated as merger-related expenses in the Company's Consolidated Statements of Income.
Supplemental Pro Forma Financial Information
The following table presents financial information regarding the former NJCB operations included in the Company's Consolidated Statements of Income from the date of the acquisition (April 11, 2018) through September 30, 2018 under the column "Actual from Acquisition Date to September 30, 2018." In addition, the table presents unaudited condensed pro forma financial information assuming that the NJCB acquisition had been completed as of January 1, 2018 and January 1, 2017, respectively. In the table, merger-related expenses of $2.1 million were excluded from the pro forma non-interest expenses for the nine months ended September 30, 2018. Income taxes were also adjusted to exclude income tax benefits of $568,000 related to the merger expenses for the nine months ended September 30, 2018.
The table has been prepared for comparative purposes only and is not necessarily indicative of the actual results that would have been attained had the acquisition occurred as of the beginning of the periods presented, nor is it indicative of future results. Furthermore, the unaudited pro forma financial information does not reflect management's estimate of any revenue-enhancing opportunities nor anticipated cost savings that may have occurred as a result of the integration and consolidation of NJCB's operations. The pro forma financial information reflects adjustments related to certain merger expenses and the related income tax effects.

(Dollars in thousands)	Actual from Acquisition Date to 9/30/2018	Pro Forma for the Nine Months Ended 9/30/2018	Pro Forma for the Nine Months Ended 9/30/2017
Net interest income	$ 1,577	$ 32,941	$ 28,582
Non-interest income	70	6,074	6,502
Non-interest expenses	823	24,737	26,248
Income taxes	248	3,543	2,920

Net income	576	10,060	5,466

(3) 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.

Awards of restricted shares are included in outstanding shares when granted. Unvested restricted shares are entitled to non-forfeitable dividends and participate in undistributed earnings with common shares. Awards of this nature are considered participating securities and basic and diluted earnings per share are computed under the two-class method.

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. For the three and nine months ended September 30, 2018 and 2017, no options and 9,500 options, respectively, were anti-dilutive and were not included in the computation of diluted earnings per common share.

The following table illustrates the calculation of both basic and diluted earnings per share for the three and nine months ended September 30, 2018 and 2017:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in thousands, except per share data)	2018	2017	2018	2017
Net income	$4,011	$ 2,485	$8,735	$ 6,353
Basic weighted average shares outstanding	8,392,631	8,063,119	8,282,889	8,040,955
Plus: common stock equivalents	286,048	265,133	282,512	268,408
Diluted weighted average shares outstanding	8,678,679	8,328,252	8,565,401	8,309,363
Earnings per share:				
Basic	$0.48	$ 0.31	$1.05	$ 0.79
Diluted	$0.46	$ 0.30	$1.02	$ 0.76

(4) Investment Securities

A summary of amortized cost and approximate fair value of investment securities available for sale follows:

	September 30, 2018			
(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury securities and obligations of U.S. Government sponsored entities (“GSE”) and agencies	$3,989	$ —	$ (74)	$3,915
Residential collateralized mortgage obligations - GSE	45,362	4	(1,097)	44,269
Residential mortgage backed securities - GSE	14,802	14	(254)	14,562
Obligations of state and political subdivisions	23,869	56	(593)	23,332
Trust preferred debt securities - single issuer	1,489	—	(83)	1,406
Corporate debt securities	28,349	—	(532)	27,817
Other debt securities	15,930	50	(89)	15,891

Total	$133,790	$ 124	$ (2,722)	$131,192

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(Dollars in thousands)	December 31, 2017 Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury securities and obligations of U.S. Government sponsored entities (“GSE”) and agencies	$1,997	$ —	$ (30)	$1,967
Residential collateralized mortgage obligations - GSE	27,688	18	(381)	27,325
Residential mortgage backed securities - GSE	14,231	129	(72)	14,288
Obligations of state and political subdivisions	19,575	227	(82)	19,720
Trust preferred debt securities - single issuer	2,481	—	(132)	2,349
Corporate debt securities	27,917	14	(248)	27,683
Other debt securities	12,140	12	(26)	12,126
Total	$106,029	$ 400	$ (971)	$105,458

A summary of amortized cost, carrying value and approximate fair value of investment securities held to maturity follows:

(Dollars in thousands)	September 30, 2018 Amortized Cost	Other-Than-Temporary Impairment Recognized In Accumulated Other Comprehensive Loss	Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. treasury securities and obligations of U.S. government-sponsored entities (“GSE”) and agencies	$—	$ —	$—	$ —	$ —	$—
Residential collateralized mortgage obligations - GSE	7,118	—	7,118	7	(231)	6,894
Residential mortgage backed securities - GSE	31,625	—	31,625	51	(789)	30,887
Obligations of state and political subdivisions	49,259	—	49,259	591	(225)	49,625
Trust preferred debt securities - pooled	657	(501)	156	600	—	756
Other debt securities	3,221	—	3,221	—	(163)	3,058
Total	$91,880	$ (501)	$91,379	$ 1,249	$ (1,408)	$91,220

(Dollars in thousands)	December 31, 2017 Amortized Cost	Other-Than-Temporary Impairment Recognized In Accumulated Other Comprehensive Loss	Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. treasury securities and obligations of U.S. government-sponsored entities (“GSE”) and agencies	$3,234	$ —	$3,234	$ —	$ (84)	$3,150
Residential collateralized mortgage obligations - GSE	8,701	—	8,701	94	(123)	8,672
Residential mortgage backed securities - GSE	34,072	—	34,072	231	(127)	34,176
Obligations of state and political subdivisions	63,797	—	63,797	1,224	(35)	64,986
Trust preferred debt securities - pooled	657	(501)	156	418	—	574
Other debt securities	307	—	307	—	—	307
Total	$110,768	$ (501)	$110,267	$ 1,967	$ (369)	$111,865

At September 30, 2018 and December 31, 2017, $83.0 million and $98.4 million of investment securities, respectively, were pledged to secure public funds and collateralized borrowings from the FHLB and for other purposes required or permitted by law.

Restricted stock was included in other assets at September 30, 2018 and December 31, 2017 and totaled $5.3 million and $1.6 million, respectively. Restricted stock consisted of $5.2 million of Federal Home Loan Bank of New York stock and $135,000 of Atlantic Community Bankers Bank stock at September 30, 2018 and $1.5 million of Federal Home Loan Bank of New York stock and $65,000 of Atlantic Community Bankers Bank stock at December 31, 2017.

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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, 2018. 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, 2018		
(Dollars in thousands)	Amortized Cost	Fair Value	Yield
Available for sale			
Due in one year or less	$9,464	$9,422	2.07%
Due after one year through five years	29,731	29,189	2.91%
Due after five years through ten years	23,074	22,681	2.92%
Due after ten years	71,521	69,900	2.86%
Total	$133,790	$131,192	2.83%
	Carrying Value	Fair Value	Yield
Held to maturity			
Due in one year or less	$19,224	$19,252	2.28%
Due after one year through five years	19,185	19,405	3.64%
Due after five years through ten years	23,649	23,392	3.04%
Due after ten years	29,321	29,171	3.23%
Total	$91,379	$91,220	3.07%

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, 2018 and December 31, 2017 were as follows:

	September 30, 2018						
		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 entities (GSE) and agencies	4	$1,989	$ (2)	$1,926	$ (72)	$3,915	$ (74)
Residential collateralized mortgage obligations - GSE	36	33,858	(504)	15,486	(824)	$49,344	$ (1,328)
Residential mortgage backed securities - GSE	49	30,396	(708)	8,160	(335)	$38,556	$ (1,043)
Obligations of state and political subdivisions	91	25,712	(626)	5,310	(192)	$31,022	$ (818)
Trust preferred debt securities - single issuer	2	—	—	1,406	(83)	$1,406	$ (83)
Corporate debt securities	10	20,321	(264)	7,496	(268)	$27,817	$ (532)
Other debt securities	6	7,932	(89)	2,868	(163)	$10,800	$ (252)
Total temporarily impaired	198	$120,208	$ (2,193)	$42,652	$ (1,937)	$162,860	$ (4,130)

securities

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	December 31, 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 entities (GSE) and agencies	2	$1,967	$ (30)	$3,150	$ (84)	$5,117	$ (114)
Residential collateralized mortgage obligations - GSE	11	19,237	(205)	8,788	(299)	$28,025	$ (504)
Residential mortgage backed securities - GSE	35	21,770	(141)	3,074	(58)	$24,844	$ (199)
Obligations of state and political subdivisions	42	11,594	(82)	2,717	(35)	$14,311	$ (117)
Trust preferred debt securities - single issuer	4	—	—	2,349	(132)	$2,349	$ (132)
Corporate debt securities	7	11,967	(98)	7,662	(150)	$19,629	$ (248)
Other debt securities	4	8,840	(25)	21	(1)	$8,861	$ (26)
Total temporarily impaired securities	105	$75,375	$ (581)	$27,761	$ (759)	$103,136	$ (1,340)

U.S. Treasury securities and obligations of U.S. Government sponsored entities 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 two corporate trust preferred securities issued by one large financial institution 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. The issuer maintains an investment grade credit rating and has not 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, 2018, the security was in an unrealized gain position.

(5) 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, 2018:

(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	$—	$—	$—	$—	$144,601	$144,601	$ —	$ —
Commercial Business	185	10	623	818	105,178	105,996	—	3,583
Commercial Real Estate	1,045	506	1,251	2,802	373,201	376,003	—	1,608
Mortgage Warehouse Lines	—	—	—	—	182,791	182,791	—	—
Residential Real Estate	1,343	—	707	2,050	45,515	47,565	—	1,162
Consumer								
Loans to Individuals	255	8	207	470	23,603	24,073	—	408
Other	—	—	—	—	174	174	—	—
Total loans	$2,828	$524	$2,788	$6,140	$875,063	881,203	$ —	$ 6,761
Deferred loan costs, net						335		
Total loans, including deferred loan costs, net						$881,538		

The following table provides an aging of the loan portfolio by loan class at December 31, 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	$—	$—	$—	$—	$136,412	$136,412	$ —	$ —
Commercial Business	180	545	619	1,344	91,562	92,906	—	4,212
Commercial Real Estate	540	—	2,465	3,005	305,919	308,924	—	2,465
Mortgage Warehouse Lines	—	—	—	—	189,412	189,412	—	—
Residential Real Estate	911	256	69	1,236	39,258	40,494	—	69
Consumer								
Loans to Individuals	119	—	116	235	20,790	21,025	—	368
Other	—	—	—	—	183	183	—	—
Total loans	$1,750	$801	$3,269	$5,820	$783,536	789,356	$ —	$ 7,114
Deferred loan costs, net						550		
Total loans, including deferred loan costs, net						$789,906		

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, 2018, there was one purchased credit impaired ("PCI") loan for $506,000 that was not classified as a non-performing loan. At December 31, 2017, there were no PCI loans 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 their definitions are as follows, and loans graded excellent, above average, good and watch list are treated as "pass" for grading purposes:

1. Excellent - Loans that are based upon cash collateral held at the Company and adequately margined. Loans that are based upon "blue chip" stocks listed on the major stock 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 management ability of individuals or company principals are excellent. Loans to individuals are supported by their high net worth 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 their high net worth but whose supporting assets are illiquid.

3w. Watch - Included in this category are loans evidencing problems identified by Company management that require closer supervision. Such problems have not developed to the point that requires a "special mention" rating. This category also covers situations where the Company 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 Company’s credit position at some future date. Special mention loans are not adversely classified and do not expose the Company to sufficient risk to warrant adverse classification.

5. Substandard - A “substandard” loan is inadequately protected by the current 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 Company will sustain some loss if the deficiencies are not corrected.

6. Doubtful - A loan classified as "doubtful" has all the weaknesses inherent in a loan 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 occur in the future.

The following table provides a breakdown of the loan portfolio by credit quality indicator at September 30, 2018:
(Dollars in thousands)

Commercial Credit Exposure - By Internally Assigned Grade	Construction	Commercial Business	Commercial Real Estate	Mortgage Warehouse Lines	Residential Real Estate
Grade:					
Pass	$ 141,333	$ 91,454	$ 355,755	$ 182,359	$ 46,119
Special Mention	3,268	10,754	11,313	432	110
Substandard	—	3,528	8,935	—	1,336
Doubtful	—	260	—	—	—
Total	$ 144,601	$ 105,996	$ 376,003	$ 182,791	$ 47,565

Consumer Credit Exposure - By Payment Activity	Loans To Individuals	Other
Performing	$ 23,665	$ 174
Non-performing	408	—
Total	$ 24,073	$ 174

The following table provides a breakdown of the loan portfolio by credit quality indicator at December 31, 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	$ 136,180	$ 84,746	$ 289,203	$ 189,412	$ 39,539
Special Mention	232	3,454	13,267	—	666
Substandard	—	1,252	6,454	—	289
Doubtful	—	3,454	—	—	—
Total	$ 136,412	$ 92,906	$ 308,924	$ 189,412	$ 40,494

Consumer Credit Exposure - By Payment Activity	Loans To Individuals	Other
Performing	$ 20,657	$ 183
Non-performing	368	—
Total	$ 21,025	$ 183

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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, 2018 and December 31, 2017:

	September 30, 2018								
(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	$—	$ 431	$ 70	$—	$ —	$ —	$—	$ —	$ 501
Loans acquired with deteriorated credit quality	—	—	1	—	—	—	—	—	1
Collectively evaluated for impairment	1,721	1,256	3,286	832	367	156	—	145	7,763
Ending Balance	$ 1,721	$ 1,687	$ 3,357	$ 832	$ 367	$ 156	$—	$ 145	$ 8,265
Loans receivable:									
Individually evaluated for impairment	$ 104	$ 3,831	$ 5,274	$—	$ 1,162	$ 408	$—	$ —	$ 10,779
Loans acquired with deteriorated credit quality	—	308	1,437	—	—	—	—	—	1,745
Collectively evaluated for impairment	144,497	101,857	369,292	182,791	46,403	23,665	174	—	868,679
Ending Balance	$ 144,601	$ 105,996	$ 376,003	$ 182,791	$ 47,565	$ 24,073	$ 174	$ —	881,203
Deferred loan costs, net									335
									$ 881,538

	December 31, 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	$—	$ 592	$ 92	$—	$ —	$ —	$—	$ —	$ 684
Loans acquired with deteriorated credit quality	—	—	—	—	—	—	—	—	—
Collectively evaluated for impairment	1,703	1,128	2,857	852	392	114	—	283	7,329

Ending Balance	$1,703	$ 1,720	$ 2,949	$852	$ 392	$ 114	$—	$ 283	$8,013
Loans receivable:									
Individually evaluated for impairment	$232	$ 4,459	$ 5,713	$—	$ 69	$ 368	$—	$ —	$10,841
Loans acquired with deteriorated credit quality	—	274	590	—	—	—	—	—	864
Collectively evaluated for impairment	136,180	88,173	302,621	189,412	40,425	20,657	183	—	777,651
Ending Balance	$136,412	$ 92,906	$ 308,924	$ 189,412	$ 40,494	$ 21,025	$183	$ —	789,356
Deferred loan costs, net									550
									$789,906

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The activity in the allowance for loan loss by loan class for the three and nine months ended September 30, 2018 and 2017 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, 2018	$ 1,661	$ 1,665	$ 3,314	$ 920	$ 462	$ 169	$ —	$ 307	$ 8,498
Provision charged/(credited) to operations	60	21	484	(88)	(95)	(13)	18	(162)	225
Loans charged off	—	—	(441)	—	—	—	(18)	—	(459)
Recoveries of loans charged off	—	1	—	—	—	—	—	—	1
Balance - September 30, 2018	$ 1,721	$ 1,687	$ 3,357	$ 832	$ 367	$ 156	$ —	$ 145	$ 8,265
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

(Dollars in thousands)	Construction	Commercial Business	Commercial Real Estate	Mortgage Warehouse Lines	Residential Real Estate	Loans to Individuals	Other	Unallocated	Total
Balance - January 1, 2018	$ 1,703	$ 1,720	$ 2,949	$ 852	$ 392	$ 114	$ —	$ 283	$ 8,013
Provision charged/(credited) to operations	18	(15)	788	(20)	(25)	48	19	(138)	675
Loans charged off	—	(32)	(441)	—	—	(7)	(19)	—	(499)
Recoveries of loans charged off	—	14	61	—	—	1	—	—	76
Balance - September 30, 2018	$ 1,721	$ 1,687	$ 3,357	$ 832	$ 367	$ 156	$ —	$ 145	$ 8,265
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

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)

(Dollars in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Three Months Ended September 30, 2018 Average Recorded Investment	Three Months Ended September 30, 2018 Interest Income Recognized	Nine Months Ended September 30, 2018 Average Recorded Investment	Nine Months Ended September 30, 2018 Interest Income Recognized
With no allowance:							
Commercial:							
Construction	$ 104	$ 104	$ —	$ 104	$ 2	$ 118	$ 6
Commercial Business	882	1,079	—	1,022	28	1,201	83
Commercial Real Estate	2,806	3,039	—	2,557	27	2,870	74
Mortgage Warehouse Lines	—	—	—	—	—	—	—
Subtotal	3,792	4,222	—	3,683	57	4,189	163
Residential Real Estate	1,162	1,242	—	1,149	—	742	—
Consumer:							
Loans to Individuals	408	483	—	409	—	413	
Other	—	—	—	—	—		
Subtotal	408	483	—	409	—	413	—
With no allowance:	$ 5,362	$ 5,947	$ —	$ 5,241	$ 57	$ 5,344	$ 163
With an allowance:							
Commercial:							
Construction	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Commercial Business	3,257	3,359	431	3,422	2	3,376	50
Commercial Real Estate	3,905	3,905	71	4,796	55	4,376	169
Mortgage Warehouse Lines	—	—	—	—	—		—
Subtotal	7,162	7,264	502	8,218	57	7,752	219
Residential Real Estate	—	—	—	—	—		
Consumer:							
Loans to Individuals	—	—	—	—	—		
Other	—	—	—	—	—		
Subtotal	—	—	—	—	—	—	—
With an allowance:	$ 7,162	$ 7,264	$ 502	$ 8,218	$ 57	$ 7,752	$ 219
Total:							
Construction	104	104	—	104	2	118	6
Commercial Business	4,139	4,438	431	4,444	30	4,577	133
Commercial Real Estate	6,711	6,944	71	7,353	82	7,246	243
Mortgage Warehouse Lines	—	—	—	—	—	—	—
Residential Real Estate	1,162	1,242	—	1,149	—	742	—
Consumer	408	483	—	409	—	413	—
Total	$ 12,524	$ 13,211	$ 502	$ 13,459	$ 114	$ 13,096	$ 382

Impaired Loans Receivables (By Class)

(Dollars in thousands)	December 31, 2017 Recorded Investment	Unpaid Principal Balance	Related Allowance
With no allowance:			
Commercial:			
Construction	$232	$232	$ —
Commercial Business	1,271	1,419	—
Commercial Real Estate	1,348	1,372	—
Mortgage Warehouse Lines	—	—	—
Subtotal	2,851	3,023	—
Residential Real Estate	69	123	—
Consumer:			
Loans to Individuals	368	438	—
Other	—	—	—
Subtotal	368	438	—
With no allowance	$3,288	$3,584	$ —
With an allowance:			
Commercial:			
Construction	$—	$—	$ —
Commercial Business	3,462	3,464	592
Commercial Real Estate	4,955	5,748	92
Mortgage Warehouse Lines	—	—	—
Subtotal	8,417	9,212	684
Residential Real Estate	—	—	—
Consumer:			
Loans to Individuals	—	—	—
Other	—	—	—
Subtotal	—	—	—
With an allowance	$8,417	$9,212	$ 684
Total:			
Construction	232	232	—
Commercial Business	4,733	4,883	592
Commercial Real Estate	6,303	7,120	92
Mortgage Warehouse Lines	—	—	—
Residential Real Estate	69	123	—
Consumer	368	438	—
Total	$11,705	$12,796	$ 684

Impaired Loans Receivables (By Class)

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

Purchased Credit-Impaired Loans

Purchased credit-impaired loans (“PCI”) are loans acquired at a discount that are due in part to credit quality. On April 11, 2018, as part of the NJCB acquisition, the Company acquired purchased credit-impaired loans with loan balances totaling $1.1 million and fair values totaling $881,000. The following table presents additional information regarding purchased credit-impaired loans at September 30, 2018 and December 31, 2017:

(Dollars in thousands)	September 30, 2018	December 31, 2017
Outstanding balance	$ 2,050	$ 998
Carrying amount	$ 1,745	$ 864

Changes in accretable discount for purchased credit-impaired loans for the three and nine months ended September 30, 2018 and September 30, 2017 were as follows:

	Three months ended September 30,		Nine months ended September 30,	
(Dollars in thousands)	2018	2017	2018	2017
Balance at beginning of period	$233	$171	$126	$30
Acquisition of impaired loans	—	—	168	—
Transfer from non-accretable discount	—	—	—	161
Accretion of discount	(34)	(23)	(95)	(43)
Balance at end of period	$199	$148	$199	$148

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, 2018		December 31, 2017	
Number of loans	Recorded Investment	Number of loans	Recorded Investment
4	$ 821	1	$ 77

At September 30, 2018, there was one residential property with a fair value of $1.1 million held in other real estate owned. At December 31, 2017, 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 two commercial real estate loans with an aggregate pre- and post-modified recorded investment of $1.0 million and one commercial business loan with a pre- and post-modified recorded investment of $135,000 that were each modified as a TDR during the three and nine months ended September 30, 2018. 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. There were no troubled debt restructurings that subsequently defaulted within twelve months of restructuring during the nine months ended September 30, 2018. There were no troubled debt restructuring that defaulted within twelve months of restructuring during the nine months ended September 30, 2017.

(6) Revenue from Contracts with Customers

All of the Company's revenue from contracts with customers in the scope of ASC 606 is recognized within non-interest income. The following table presents the Company's sources of non-interest income for the three and nine months ended September 30, 2018 and 2017. Items outside the scope of ASC 606 are noted as such.

(Dollars in thousands)	Three months ended September 30, 2018	September 30, 2017	Nine months ended September 30, 2018	September 30, 2017
Service charges on deposits:				
Overdraft fees	$96	$ 71	$257	$ 222
Other	77	71	219	223
Interchange income	119	118	294	257
Other income - in scope	89	84	418	213
Income on BOLI [1]	152	131	425	391
Net gains on sales of loans [1]	1,292	1,329	3,425	3,936
Loan servicing fees [1]	174	143	482	426
Net gains (losses) on sales and calls of securities [1]	—	24	12	128
Gain from bargain purchase [1]	—	—	184	—
Other income [1]	155	145	366	489
	$2,154	$ 2,116	$6,082	$ 6,285

[1] Not within the scope of ASC 606

A description of the Company's revenue streams accounted for under ASC 606 follows:

Service Charges on Deposit Accounts: The Company earns fees from its deposit account customers for transaction-based, account maintenance and overdraft services. Transaction-based fees, which include services such as ATM use fees, stop payment charges, statement rendering and ACH fees, are recognized at the time the transaction is executed as that is the point in time the Company fulfills the customer's request. Account maintenance fees, which relate primarily to monthly maintenance, are earned over the course of a month, representing the period over which the Company satisfies the performance obligation. Overdraft fees are recognized at the point in time that the overdraft occurs. Service charges on deposits are withdrawn from the customer's account balance.

Interchange Income: The Company earns interchange fees from debit cardholder transactions conducted through the Visa payment network. Interchange fees from cardholder transactions represent a percentage of the underlying transaction value and are recognized daily, concurrently with the transaction processing services provided to the cardholder.

Other Income: The Company earns other fees from the execution of and receipt of wire transfers for customers, the rental of safe deposit boxes and fees for other services provided to customers. These fees are recognized at the time the transaction is executed or the service is provided as that is the point in time the Company fulfills the customer's request.

Gain or Loss on Sales of OREO: The Company records a gain or loss from the sale of OREO when control of the property transfers to the buyer, which generally occurs at the time of an executed deed. The Company generally does not finance the sale of OREO to the buyer; however, in determining the gain or loss on the sale, the Company adjusts the transaction price and related gain or loss on sale if a significant financing component is present. There were no sales of OREO during the three and nine months ended September 30, 2018 or 2017.

(7) 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, 2018, there were 55,136 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, 2018:

(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, 2018	142,005	$ 7.86		
Granted	10,450	18.30		
Exercised	(9,307)	7.01		
Outstanding at September 30, 2018	143,148	$ 8.68	4.2	$ 1,721
Exercisable at September 30, 2018	124,132	$ 7.48	3.5	$ 1,641

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, 2018 were as follows:

Fair value of options granted	$5.93
Risk-free rate of return	2.46 %
Expected option life in years	7
Expected volatility	31.35 %
Expected dividends	1.18 %

Share-based compensation expense related to options was $45,000 and $44,000 for the nine months ended September 30, 2018 and 2017, respectively. As of September 30, 2018, there was approximately $82,000 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, 2018:

(Dollars in thousands, except share amounts)	Number of Shares	Average Grant-Date Fair Value
Outstanding at January 1, 2018	150,745	$ 11.87
Granted	62,150	20.19
Vested	(65,345)	16.76
Non-vested at September 30, 2018	147,550	$ 13.21

Share-based compensation expense related to stock grants was $714,000 and $695,000 for the nine months ended September 30, 2018 and 2017, respectively. As of September 30, 2018, there was approximately $1.8 million of unrecognized compensation cost related to non-vested stock grants.

(8) Benefit Plans

The Bank has a 401(k) plan that 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. At September 30, 2018 and December 31, 2017, the Company's President and Chief Executive Officer was the only eligible participant in the supplemental executive retirement plans.

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 $28.6 million and $25.1 million at September 30, 2018 and December 31, 2017, respectively.

The components of net periodic expense for the Company's supplemental executive retirement plans for the three and nine months ended September 30, 2018 and 2017 were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in thousands)	2018	2017	2018	2017
Service cost	$53	$67	$140	$178
Interest cost	43	39	114	117
Actuarial gain recognized	(15)	(32)	(45)	(75)
Total	$81	$74	$209	$220

(9) Other Comprehensive Income (Loss) and Accumulated Other Comprehensive 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:

	September 30, 2018		
(Dollars in thousands)	Before-Tax Amount	Income Tax Effect	Net-of-Tax Amount
Net unrealized holding losses on investment securities available for sale	$(2,598)	$624	$ (1,974)
Unrealized impairment loss on held to maturity security	(501)	119	(382)
Gains on unfunded pension liability	244	(69)	175
Accumulated other comprehensive loss	$(2,855)	$674	$ (2,181)

	December 31, 2017		
(Dollars in thousands)	Before-Tax Amount	Income Tax Effect	Net-of-Tax Amount
Net unrealized holding losses on investment securities available for sale	$(571)	$137	$ (434)
Unrealized impairment loss on held to maturity security	(501)	119	(382)

Gains on unfunded pension liability	111	(31)	80
Accumulated other comprehensive loss	$(961)	$ 225	$ (736)

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Changes in the components of accumulated other comprehensive loss are as follows and are presented net of tax for the three and nine months ended September 30, 2018 and 2017:

(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 Loss
Balance - July 1, 2018	$ (1,587)	$ (382)	$ 122	$ (1,847)
Other comprehensive income (loss) before reclassifications	(387)	—	64	(323)
Amounts reclassified from accumulated other comprehensive income	—	—	(11)	(11)
Reclassification adjustment for gains realized in income	—	—	—	—
Other comprehensive loss	(387)	—	53	(334)
Balance - September 30, 2018	$ (1,974)	$ (382)	$ 175	$ (2,181)
Balance - July 1, 2017	$ 77	$ (331)	$ 39	$ (215)
Other comprehensive income before reclassifications	11	—	—	11
Amounts reclassified from accumulated other comprehensive income	—	—	(19)	(19)
Reclassification adjustment for gains realized in income	(7)	—	—	(7)
Other comprehensive income (loss)	4	—	(19)	(15)
Balance - September 30, 2017	$ 81	$ (331)	$ 20	$ (230)

(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 Loss
Balance January 1, 2018	$ (434)	$ (382)	$ 80	$ (736)
Other comprehensive income (loss) before reclassifications	(1,531)	—	128	(1,403)
Amounts reclassified from accumulated other comprehensive income	—	—	(33)	(33)
Reclassification adjustment for gains realized in income	(9)	—	—	(9)
Other comprehensive income (loss)	(1,540)	—	95	(1,445)
Balance September 30, 2018	$ (1,974)	$ (382)	$ 175	$ (2,181)
Balance January 1, 2017	$ (334)	$ (331)	$ 65	$ (600)
Other comprehensive income before reclassifications	470	—	—	470
Amounts reclassified from accumulated other comprehensive income	—	—	(45)	(45)

Reclassification adjustment for gains realized in income	(55)	—	—	(55)
Other comprehensive income (loss)	415	—	(45)	370
Balance September 30, 2017	$ 81	$ (331)	$ 20	$ (230)

(10) Recent Accounting Pronouncements
ASU 2018-15 - Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40)
In August 2018, the FASB issued ASU 2018-15, “Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Fees Paid in a Cloud Computing Arrangement,” to help entities evaluate the accounting for fees paid by a customer in a cloud computing arrangement (hosting arrangement) by providing guidance for determining when the arrangement includes a software license.

The amendments in this Update align the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal use software license). The accounting for the service element of a hosting arrangement that is a service contract is not affected by the amendments in this Update.

The amendments in this ASU also require the entity (customer) to expense the capitalized implementation costs of a hosting arrangement that is a service contract over the term of the hosting arrangement. The term of the hosting arrangement includes the non-cancellable period of the arrangement plus periods covered by (1) an option to extend the arrangement if the customer is reasonably certain to exercise that option, (2) an option to terminate the arrangement if the customer is reasonably certain not to exercise the termination option, and (3) an option to extend (or not to terminate) the arrangement in which exercise of the option is in the control of the vendor. The entity also is required to apply the existing impairment guidance in Subtopic 350-40 to the capitalized implementation costs as if the costs were long-lived assets.

The amendments in this ASU also require the entity to present the expense related to the capitalized implementation costs in the same line item in the statement of income as the fees associated with the hosting element (service) of the arrangement and classify payments for capitalized implementation costs in the statement of cash flows in the same manner as payments made for fees associated with the hosting element. The entity is also required to present the capitalized implementation costs in the statement of financial position in the same line item that a prepayment for the fees of the associated hosting arrangement would be presented.

The Company is currently evaluating the potential impact, if any, of adopting this ASU on its financial statements. The provisions of this ASU are effective for fiscal years beginning after December 15, 2019.

ASU 2018-14 - Compensation - Retirement Benefits - Defined Benefit Plans - General (Subtopic 715-20)
In August 2018, the FASB issued ASU 2018-14 - “Compensation - Retirement Benefits - Defined Benefit Plans - General (Subtopic 715-20),” which consist of amendments to the disclosure framework project to improve the effectiveness of disclosures in the notes to the financial statements. The amendments in this Update modify the disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans.

The following disclosure requirements are removed from Subtopic 715-20:

1. The amounts in accumulated other comprehensive income expected to be recognized as components of net periodic benefit cost over the next fiscal year;
2. The amount and timing of plan assets expected to be returned to the employer;
3. The disclosures related to the June 2001 amendments to the Japanese Welfare Pension Insurance Law.
4. Related party disclosures about the amount of future annual benefits covered by insurance and annuity contracts and significant transactions between the employer or related parties and the plan;
5. For nonpublic entities, the reconciliation of the opening balances to the closing balances of plan assets measured on a recurring basis in Level 3 of the fair value hierarchy. However, nonpublic entities will be required to disclose separately the amounts of transfers into and out of Level 3 of the fair value hierarchy and purchases of Level 3 plan

assets; and

6. For public entities, the effects of a one-percentage point change in assumed health care cost trend rates on the (a) aggregate of the service and interest cost components of net periodic benefit costs and (b) benefit obligation for postretirement health care benefits.

The following disclosure requirements are added to Subtopic 715-20:

1. The weighted-average interest crediting rates for cash balance plans and other plans with promised interest crediting rates; and
2. An explanation of the reasons for significant gains and losses related to changes in the benefit obligation for the period.

The amendments in this ASU also clarify the disclosure requirements in paragraph 715-20-50-3, which state that the following information for defined benefit pension plans should be disclosed:

1. The projected benefit obligation ("PBO") and fair value of plan assets for plans with PBOs in excess of plan assets; and
2. The accumulated benefit obligation ("ABO") and fair value of plan assets for plans with ABOs in excess of plan assets.

The amendments in this ASU remove disclosures that no longer are considered cost beneficial, clarify the specific requirements of disclosures and add disclosure requirements identified as relevant. Although narrow in scope, the amendments are considered an important part of the FASB's efforts to improve the effectiveness of disclosures in the notes to financial statements by applying concepts in the Concepts Statement.

For the Company, the provisions of this ASU are effective for fiscal years beginning after December 15, 2020. The Company does not expect the adoption of this guidance to have a material impact on the Company's consolidated financial statements.

ASU 2018-13 - Fair Value Measurement (Topic 820)
In August 2018 the FASB issued ASU 2018-13, "Disclosure Framework-Changes to the Disclosure Requirements for Fair Value Measurement," which modifies the disclosure requirements on fair value measurements. The following disclosure requirements that are applicable to public entities were removed from Topic 820:
1. The amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy;
2. The policy for timing of transfers between levels; and
3. The valuation process for Level 3 fair value measurements.

The following disclosure requirements were modified in Topic 820:

1. In lieu of a roll-forward for Level 3 fair value measurements, a nonpublic entity is required to disclose transfers into and out of Level 3 of the fair value hierarchy and purchases and issues of Level 3 assets and liabilities;
2. For investments in certain entities that calculate net asset value, an entity is required to disclose the timing of liquidation of an investee's assets and the date when restrictions from redemption might lapse only if the investee has communicated the timing to the entity or announced the timing publicly; and
3. The amendments clarify that the measurement uncertainty disclosure is to communicate information about the uncertainty in measurement as of the reporting date.

The following disclosure requirements were added to Topic 820; however, the disclosures are not required for nonpublic entities:

1. The changes in unrealized gains and losses for the period included in other comprehensive income for recurring Level 3 fair value measurements held at the end of the reporting period; and

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2. The range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements. For certain unobservable inputs, an entity may disclose other quantitative information (such as the median or arithmetic average) in lieu of the weighted average if the entity determines that other quantitative information would be a more reasonable and rational method to reflect the distribution of unobservable inputs used to develop Level 3 fair value measurements.

In addition, the amendments eliminate "at a minimum" from the phrase "an entity shall disclose at a minimum" to promote the appropriate exercise of discretion by entities when considering fair value measurement disclosures and to clarify that materiality is an appropriate consideration of entities and their auditors when evaluating disclosure requirements.

For the Company, the provisions of this ASU are effective for fiscal years beginning after December 15, 2018, including interim periods within those years. The Company does not expect the adoption of this guidance to have a material impact on the Company's consolidated financial statements.

ASU 2018-11 - Leases - Targeted Improvements (Topic 842)
In July, 2018 the FASB issued ASU 2018-11, "Leases-Targeted Improvements," which provides an additional (and optional) transition method for a cumulative effect adjustment. The additional transition method allows entities to initially apply the new lease standard at the adoption date (January 1, 2019 for calendar-year-end public business entities) and recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. This additional transition method changes only when an entity is required to initially apply the transition requirements of the new leases standard; it does not change how those requirements apply. An entity's reporting for the comparative periods presented in the financial statements in which it adopts the new lease standard will continue to be in accordance with current U.S. GAAP (Topic 840, Leases).
For the Company, the provisions of this ASU are effective for fiscal years beginning after December 15, 2018, including interim periods within those years. The Company is evaluating the impact of this ASU in connection with the evaluation of the impact of the adoption of ASU 2016-02-, "Leases."

ASU 2018-07 - Compensation - Stock Compensation (Topic 718)

In June 2018, the FASB issued ASU 2018-07, "Compensation-Stock Compensation," which expands the scope of Topic 718 to include share-based payment transactions for acquiring goods and services from non-employees.

The amendments specify that Topic 718 applies to all share-based payment transactions in which a grantor acquires goods or services to be used or consumed in a grantor's own operations by issuing share-based payment awards. The amendment also clarifies that Topic 718 does not apply to share-based payments used to effectively provide (1) financing to the issuer or (2) awards granted in conjunction with selling goods or services to customers as part of a contract accounted for under Topic 606, "Revenue from Contracts with Customers."

For the Company, the provisions of this ASU are effective 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 the Company's consolidated financial statements.

ASU 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.

For the Company, the provisions of this ASU are effective 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 the Company’s consolidated financial statements.

ASU 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.

For the Company, the provisions of this ASU are effective 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 the Company’s consolidated financial statements.

ASU 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 the Company, the provisions of this ASU 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 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.

The Company is currently evaluating the impact of the adoption of this guidance on its consolidated financial statements and has determined that the provisions of ASU 2016-02 will result in an increase in assets to recognize the present value of the lease obligations (right-of-use assets) with a corresponding increase in liabilities. The initial measurement of the right-of-use asset and the corresponding liability will be affected by certain key assumptions, such as expectations of renewals or extensions of leases and the interest rate to be used to discount the future lease obligations. The Company has completed a review and inventory of its lease portfolio and expects to implement lease accounting software to account for the leases by the end of the fourth quarter of 2018. The total impact of the new standard will be affected by any new leases that are executed, leases that are terminated prior to the effective date and any leases with changes to key assumptions or expectations, such as renewals and extensions and discount rates. The Company is evaluating the effective date transition method as described in ASU 2018-11.

(11) 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.

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.

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:

	September 30, 2018			
(Dollars in thousands)	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
Securities available for sale:				