

TWO RIVER BANCORP
Form 10-Q
May 09, 2018
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2018

OR

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

For the transition period from _____ to _____

Commission file number: 000-51889

TWO RIVER BANCORP

(Exact Name of Registrant as Specified in Its Charter)

New Jersey 20-3700861

(State of Other Jurisdiction of Incorporation or Organization) (I.R.S. Employer Identification No.)

766 Shrewsbury Avenue, Tinton Falls, New Jersey 07724
(Address of Principal Executive Offices) (Zip Code)

(732) 389-8722

(Registrant's Telephone Number, Including Area Code)

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

Emerging growth company

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

As of May 4, 2018, there were 8,530,373 shares of the registrant's common stock, no par value, outstanding.

TWO RIVER BANCORP

FORM 10-Q

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

TWO RIVER BANCORP

CONSOLIDATED BALANCE SHEETS (Unaudited)

(in thousands, except share data)

	March 31, 2018	December 31, 2017
ASSETS		
Cash and due from banks	\$ 13,452	\$ 29,575
Interest-bearing deposits in bank	15,143	18,644
Cash and cash equivalents	28,595	48,219
Securities available for sale	30,412	28,684
Securities held to maturity (fair value of \$57,616 and \$58,549 at March 31, 2018 and December 31, 2017, respectively)	57,819	58,002
Equity securities (amortized cost of \$2,517 and \$2,503 at March 31, 2018 and December 31, 2017, respectively)	2,423	2,448
Restricted investments, at cost	5,597	5,430
Loans held for sale	1,834	2,581
Loans	872,327	850,874
Allowance for loan losses	(10,962)	(10,668)
Net loans	861,365	840,206
Bank owned life insurance	21,703	21,573
Premises and equipment, net	6,157	6,239
Accrued interest receivable	2,492	2,554
Goodwill	18,109	18,109
Other assets	5,721	5,753
Total Assets	\$ 1,042,227	\$ 1,039,798
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits:		
Non-interest-bearing	\$ 158,775	\$ 167,297
Interest-bearing	712,129	694,260
Total Deposits	870,904	861,557
Securities sold under agreements to repurchase	18,472	27,120
FHLB and other borrowings	24,500	25,800
Subordinated debt	9,896	9,888
Accrued interest payable	69	70
Other liabilities	9,406	8,792
Total Liabilities	933,247	933,227
Shareholders' Equity		
Preferred stock, no par value; 6,500,000 shares authorized, no shares issued and outstanding	—	—
Common stock, no par value; 25,000,000 shares authorized; Issued – 8,836,726 and 8,782,124 at March 31, 2018 and December 31, 2017, respectively		

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Outstanding – 8,524,632 and 8,470,030 at March 31, 2018 and December 31, 2017, respectively	79,932	79,678
Retained earnings	31,907	29,593
Treasury stock, at cost; 312,094 shares at March 31, 2018 and December 31, 2017	(2,396	) (2,396)
Accumulated other comprehensive loss	(463	) (304)
Total Shareholders' Equity	108,980	106,571
Total Liabilities and Shareholders' Equity	\$1,042,227	\$ 1,039,798
See notes to the unaudited consolidated financial statements.		

TWO RIVER BANCORP

CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)

For the Three Months Ended March 31, 2018 and 2017

(in thousands, except per share data)

	Three Months Ended March 31, 2018 2017	
Interest Income		
Loans, including fees	\$9,821	\$8,403
Securities:		
Taxable	297	233
Tax-exempt	282	285
Interest-bearing deposits	67	72
Total Interest Income	10,467	8,993
Interest Expense		
Deposits	1,358	1,038
Securities sold under agreements to repurchase	14	15
FHLB and other borrowings	130	145
Subordinated debt	165	165
Total Interest Expense	1,667	1,363
Net Interest Income	8,800	7,630
Provision for Loan Losses	400	225
Net Interest Income after Provision for Loan Losses	8,400	7,405
Non-Interest Income		
Service fees on deposit accounts	238	150
Mortgage banking	338	426
Other loan fees	111	92
Earnings from investment in bank owned life insurance	130	136
Gain on sale of SBA loans	331	117
Other income	162	204
Total Non-Interest Income	1,310	1,125
Non-Interest Expenses		
Salaries and employee benefits	3,885	3,453
Occupancy and equipment	1,090	1,054
Professional	340	341
Insurance	57	48
FDIC insurance and assessments	123	123
Advertising	60	110
Data processing	152	130
Outside services fees	81	103
OREO expenses, impairments and sales, net	(1)	(3)
Loan workout expenses	51	27
Other operating	389	391
Total Non-Interest Expenses	6,227	5,777

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Income before Income Taxes	3,483	2,753
Income tax expense	807	951
Net Income	\$2,676	\$1,802

Earnings Per Common Share:

Basic	\$0.32	\$0.22
Diluted	\$0.31	\$0.21

Weighted average common shares outstanding

Basic	8,447	8,341
Diluted	8,675	8,618

See notes to the unaudited consolidated financial statements.

TWO RIVER BANCORP
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)
For the Three Months Ended March 31, 2018 and 2017
(in thousands)

	Three Months Ended March 31,	
	2018	2017
Net income	\$2,676	\$1,802
Other comprehensive income (loss):		
Unrealized holdings (losses)/gains on securities available for sale, net of income tax (benefit)/expense	(139)	69
2018: (\$54), 2017: \$44		
Other comprehensive income (loss)	(139)	69
Total comprehensive income	\$2,537	\$1,871

See notes to the unaudited consolidated financial statements.

TWO RIVER BANCORP

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (Unaudited)

For the Three Months Ended March 31, 2018 and 2017

(dollars in thousands, except per share data)

	Common Stock			Accumulated		Total
	Outstanding	Amount	Retained	Treasury	Other Comprehensive	Shareholders'
	Shares		Earnings	Stock	Income (Loss)	Equity
Balance, January 1, 2018	8,470,030	\$79,678	\$29,593	\$(2,396)	\$ (304)	) \$ 106,571
Net income	—	—	2,676	—	—	2,676
Other comprehensive loss	—	—	—	—	(139)	) (139)
Stock-based compensation expense	—	65	—	—	—	65
Cash dividends on common stock (\$0.045 per share)	—	—	(382)	) —	—	(382)
Options exercised	45,730	172	—	—	—	172
AOCI reclassification related to Tax Reform	—	—	59	—	(59)) —
AOCI reclassification due to adoption of ASU 2016-01	—	—	(39)	) —	39	—
Employee stock purchase program	972	17	—	—	—	17
Restricted stock and other awards	8,400	—	—	—	—	—
Shares forfeited	(500)) —	—	—	—	—
Balance, March 31, 2018	8,524,632	\$79,932	\$31,907	\$(2,396)	\$ (463)	) \$ 108,980
Balance, January 1, 2017	8,365,442	\$79,056	\$24,447	\$(2,396)	\$ (391)	) \$ 100,716
Net income	—	—	1,802	—	—	1,802
Common stock dividend – adjustment	(1,069)) —	—	—	—	—
Other comprehensive income	—	—	—	—	69	69
Stock-based compensation expense	—	69	—	—	—	69
Cash dividends on common stock (\$0.04 per share)	—	—	(319)	) —	—	(319)
Options exercised	13,890	54	—	—	—	54
Restricted stock and other awards	10,018	—	—	—	—	—
Employee stock purchase program	1,086	15	—	—	—	15
Balance, March 31, 2017	8,389,367	\$79,194	\$25,930	\$(2,396)	\$ (322)	) \$ 102,406

See notes to the unaudited consolidated financial statements.

TWO RIVER BANCORP
CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)
For the Three Months Ended March 31, 2018 and 2017

	Three Months Ended March 31, 2018 2017 (in thousands)	
Cash Flows From Operating Activities		
Net income	\$2,676	\$1,802
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	166	189
Provision for loan losses	400	225
Amortization of subordinated debt issuance costs	8	8
Net amortization of securities premiums and discounts	186	218
Earnings from investment in bank owned life insurance	(130)	(136)
Proceeds from sale of mortgage loans held for sale	11,830	15,808
Origination of mortgage loans held for sale	(11,963)	(13,345)
Gain on sale of mortgage loans held for sale	(201)	(294)
Gain on sale of loans transferred from held for investment to held for sale	(100)	(91)
Stock-based compensation expense	65	69
Proceeds from sale of SBA loans held for sale	1,412	3,408
Origination of SBA loans held for sale	—	(4,686)
Gain from sale of SBA loans held for sale	(331)	(117)
Unrealized loss on CRA Mutual Fund	40	—
Decrease (Increase) in assets:		
Accrued interest receivable	62	144
Other assets	25	(108)
Increase (decrease) in liabilities:		
Accrued interest payable	(1)	(2)
Other liabilities	614	1,506
Net Cash Provided by Operating Activities	4,758	4,598
Cash Flows From Investing Activities		
Purchase of securities available for sale	(2,996)	—
Purchase of securities held to maturity	(598)	—
Proceeds from repayments, calls and maturities of securities available for sale	1,048	1,679
Proceeds from repayments, calls and maturities of securities held to maturity	668	659
Proceeds from sale of loans transferred from held for investment to held for sale	5,080	4,638
Net increase in loans	(26,539)	(14,365)
Purchases of premises and equipment	(84)	(854)
Purchase of restricted investments, net	(167)	(181)
Net Cash Used In Investing Activities	(23,588)	(8,424)
Cash Flows From Financing Activities		
Net increase in deposits	9,347	23,138
Net (decrease) increase in securities sold under agreements to repurchase	(8,648)	1,522
Repayment of FHLB and other borrowings	(1,300)	(1,000)
Cash dividends paid – common stock	(382)	(319)
Proceeds from employee stock purchase plan	17	15
Proceeds from exercise of stock options	172	54
Net Cash (Used In) Provided by Financing Activities	(794)	23,410
Net (Decrease) Increase in Cash and Cash Equivalents	(19,624)	19,584

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Cash and Cash Equivalents – Beginning	48,219	42,077
Cash and Cash Equivalents - Ending	\$28,595	\$61,661

Supplementary cash flow information:

Interest paid	\$1,668	\$1,365
Income taxes paid	\$7	\$3

Supplemental schedule of non-cash activities:

Transfer of loans held for investment to loans held for sale	\$4,980	\$4,547
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See notes to the unaudited consolidated financial statements.

TWO RIVER BANCORP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 1 – BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements include the accounts of Two River Bancorp (the “Company”), a bank holding company, and its wholly-owned subsidiary, Two River Community Bank (“Two River” or the “Bank”); Two River’s wholly-owned subsidiaries, TRCB Investment Corporation and TRCB Holdings Eight LLC. All inter-company balances and transactions have been eliminated in the consolidated financial statements.

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) for interim financial information and pursuant to the rules and regulations of the Securities and Exchange Commission (the “SEC”), including the instructions to Form 10-Q and Article 8 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for full year financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included and are of a normal, recurring nature. Operating results for the three months ended March 31, 2018 are not necessarily indicative of the results that may be expected for the year ending December 31, 2018. These consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto for the year ended December 31, 2017 included in the Company’s Annual Report on Form 10-K filed with the SEC on March 15, 2018 (the “2017 Form 10-K”). For a description of the Company’s significant accounting policies, refer to Note 1 of the Notes to Consolidated Financial Statements in the 2017 Form 10-K.

The Company has evaluated events and transactions occurring subsequent to the balance sheet date of March 31, 2018 for items that should potentially be recognized or disclosed in these consolidated financial statements.

NOTE 2 – NEW ACCOUNTING STANDARDS

ASU 2014-09: In May 2014, the Financial Accounting Standards Board (“FASB”) issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606), superseding the revenue recognition requirements in ASC 605. This ASU requires an entity to recognize revenue for the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The amendment includes a five-step process to assist an entity in achieving the main principle(s) of revenue recognition under ASC 605. In March 2016, the FASB also issued ASU 2016-08, an amendment to the guidance in ASU 2014-09, which reframed the structure of the indicators of when an entity is acting as an agent and focused on evidence that an entity is acting as the principal or agent in a revenue transaction. ASU 2016-08 also eliminated two of the indicators (the entity’s consideration is in the form of a commission, and the entity is not exposed to credit risk) in making that determination. This amendment also clarifies that each indicator may be more or less relevant to the assessment depending on the terms and conditions of the contract. In May 2016, the FASB issued ASU 2016-12, an amendment to ASU 2014-09, which provided practical expedients related to disclosures of remaining performance obligations, as well as other amendments to guidance on transition, collectability, non-cash consideration and presentation of sales and other similar taxes. The amendments, collectively, should be applied retrospectively to each prior reporting period presented or as a cumulative effect adjustment as of the date of adoption (modified retrospective approach).

Because the ASU does not apply to revenue associated with financial instruments (including loans and securities), the Company concluded that the new guidance did not have a material impact on the elements of its consolidated statements of operations most closely associated with financial instruments (such as interest income, interest expense and securities gains). This ASU was effective for the Company on January 1, 2018. The Company completed its identification of all revenue streams included in its financial statements and has identified its deposit- related fees, service charges, debit and interchange income to be within the scope of the standard. The Company has also completed its review of the related contracts and its evaluation of certain costs related to these revenue streams to determine whether such costs should be presented as expenses or contra-revenue (i.e., gross vs. net). The Company's overall assessment indicates that adoption of this ASU will not materially change its current method and timing of recognizing revenue for the identified revenue streams. Based on its evaluation, the Company determined that the classification of certain debit card interchange costs should change (i.e. costs previously recorded as expenses are now recorded as contra-revenue). This classification change resulted in immaterial charges to both revenue and expense. The Company adopted this ASU on January 1, 2018, on a modified retrospective approach. Since there was no net income impact upon adoption of the new guidance, a cumulative effect adjustment to opening retained earnings was not deemed necessary. Consistent with the modified retrospective approach, the Company did not adjust prior period amounts for the debit card interchange costs noted above. See Note 3, Revenue

NOTE 2 - NEW ACCOUNTING STANDARDS (Continued)

Recognition, for more information. The adoption of this ASU, as discussed above, did not have a significant impact to the Company's financial condition, results of operations and consolidated financial statements.

ASU 2016-01: In January 2016, the FASB issued ASU 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities. In February 2018, the FASB issued ASU 2018-03, Technical Corrections and Improvements to Financial Instruments -- Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Liabilities, that clarifies the guidance in ASU 2016-01. ASU 2016-01 requires equity investments to be measured at fair value with changes in fair value recognized in net income; provides for a practicability exception election for equity investments without readily determinable fair values; simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment; eliminates the requirement for nonpublic business entities to disclose the method(s) 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 total change in the 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 assets 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 in combination with the entity's other deferred tax assets. ASU 2016-01 is effective for financial statements issued for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. The Company completed its evaluation of the provisions of ASU 2016-01 and determined that the CRA Mutual Fund falls under ASU 2016-01. The Company adopted this ASU effective January 1, 2018 and the impact amounted to a cumulative effect adjustment of \$39,000 as a reclassification from accumulated other comprehensive loss to retained earnings. Additionally, all future unrealized gains and losses will be recognized in the Statements of Operations. As such, during the first quarter of 2018, an unrealized loss of \$40,000 was recorded in Other Income (see Note 6, Securities, for more information). Additionally, the Company measured the fair value of its loan portfolio as of March 31, 2018 using an exit price notion (see Note 13, Fair Value Measurements).

ASU 2016-02: In February 2016, the FASB issued ASU No. 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 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 with a corresponding increase in liabilities, however, the Company does not expect this to have a material impact on its financial position, results of operations or cash flows.

ASU 2016-13: In June 2016, the FASB issued ASU 2016-13, Financial Instruments—Credit Losses (Topic 326). This ASU requires entities to measure all expected credit losses for financial assets held at the reporting date based on

historical experience, current conditions, and reasonable and supportable forecasts. Entities will now use forward-looking information to better form their credit loss estimates. The ASU also requires enhanced disclosures to help financial statement users better understand significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of an entity's portfolio. For public entities that are SEC filers, this ASU is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. For public entities that are not SEC filers, this ASU is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020. For non-public entities, this ASU is effective for fiscal years beginning after December 15, 2020, and for interim periods within fiscal years beginning after December 15, 2021. Early application will be permitted for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. While the Company is currently evaluating the provisions of ASU 2016-13 to determine the potential impact the new standard will have on its consolidated financial statements, it has taken steps to prepare for the implementation when it becomes effective, such as forming an internal task force, selecting an outside vendor, gathering pertinent data, and running quarterly update reports to evaluate output.

NOTE 2 - NEW ACCOUNTING STANDARDS (Continued)

ASU 2016-15: In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments. ASU 2016-15 addresses changes to reduce the presentation diversity of certain cash receipts and cash payments in the statement of cash flows, including debt prepayment or extinguishment costs, settlement of certain debt instruments, contingent consideration payments made after a business combination, proceeds from the settlement of insurance claims, and distributions received from equity method investees. The guidance becomes effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years, with early adoption permitted. An entity that elects early adoption must adopt all of the amendments in the same period. The new standard will be applied retrospectively, but may be applied prospectively if retrospective application would be impracticable. The Company adopted this ASU and the impact is not material on the financial statements.

ASU 2016-18: In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash. ASU 2016-18 was issued to address divergence in the way restricted cash is classified and presented. The amendments in the update require that a statement of cash flows explain the change during a reporting period in the total of cash, cash equivalents, and amounts generally described as restricted cash and restricted cash equivalents. The amendments in this update apply to entities that have restricted cash or restricted cash equivalents and are required to present a statement of cash flows under Topic 230. The amendment says that transfers between cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents are not part of the entity's operating, investing, and financing activities. For public business entities, ASU 2016-18 is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. The Company adopted this ASU and the impact is not material on the financial statements.

ASU 2017-04: In January 2017, the FASB issued ASU 2017-04, Intangibles—Goodwill and Other (Topic 350). ASU 2017-04 removes Step 2 from the goodwill impairment test. Under the amendments in this update, an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. Additionally, an entity should consider income tax effects from any tax deductible goodwill on the carrying amount of the reporting unit when measuring the goodwill impairment loss, if applicable. The Board also eliminated the requirements for any reporting unit with a zero or negative carrying amount to perform a qualitative assessment and, if it fails that qualitative test, to perform Step 2 of the goodwill impairment test. Therefore, the same impairment assessment applies to all reporting units. An entity is required to disclose the amount of goodwill allocated to each reporting unit with a zero or negative carrying amount of net assets. An entity still has the option to perform the qualitative assessment for a reporting unit to determine if the quantitative impairment test is necessary. For public entities that are SEC filers, this ASU is effective for its annual, or any goodwill impairment tests in fiscal years, beginning after December 15, 2019. For public entities that are not SEC filers, this ASU is effective for its annual, or any goodwill impairment tests in fiscal years, beginning after December 15, 2020. For non-public entities, this ASU is effective for its annual, or any goodwill impairment tests in fiscal years, beginning after December 15, 2021. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The Company is currently evaluating the new guidance but has determined that this standard should not have a material impact on its consolidated financial statements.

ASU 2017-09: In May 2017, the FASB issued ASU No. 2017-09, "Stock Compensation, Scope of Modification Accounting." This ASU clarifies when changes to the terms of conditions of a share-based payment award must be accounted for as modifications. Companies will apply the modification accounting guidance if the value, vesting conditions or classification of the award changes. The new guidance should reduce diversity in practice and result in fewer changes to the terms of an award being accounted for as modifications, as the guidance will allow companies to make certain non-substantive changes to awards without accounting for them as modifications. It does not change the accounting for modifications. ASU No. 2017-09 is effective for interim and annual reporting periods beginning after

December 15, 2017; early adoption is permitted. The Company adopted this ASU and the impact is not material on the financial statements.

ASU 2018-02: In February 2018, the FASB issued ASU 2018-02, "Income Statement - Reporting Comprehensive Income (Topic 220) - Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income." This ASU was issued to address a narrow-scope financial reporting issue that arose as a result of the enactment of the Tax Cuts and Jobs Act ("Tax Reform") on December 22, 2017. The objective of ASU 2018-02 is to address the tax effects of items within accumulated other comprehensive income (referred to as "stranded tax effects") that do not reflect the appropriate tax rate enacted in the Tax Reform. As a result, the ASU 2018-02 allows a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the newly enacted federal corporate income tax rate. The amount of the reclassification would be the difference between the historical corporate income tax rate of 35 percent and the newly enacted corporate income tax rate of 21 percent. ASU 2018-02 is effective for fiscal years beginning after December 15, 2018, with early adoption permitted, including adoption in an interim period. The amendments in this ASU may be applied retrospectively to each period in which the effect of the change in the U.S. Federal corporate income tax rate in the Tax Reform is recognized. The Company adopted ASU 2018-02 effective January 1, 2018, and the impact amounted to \$59,000 as a reclassification from accumulated other comprehensive loss to retained earnings.

NOTE 3 - REVENUE RECOGNITION

On January 1, 2018, the Company adopted ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606), and all subsequent ASUs that modified Topic 606. As stated in Note 1, New Accounting Standards, the implementation of the new standard did not have a material impact on the measurement or recognition of revenue; as such, a cumulative effect adjustment to opening retained earnings was not deemed necessary. Results for reporting periods beginning after January 1, 2018 are presented under Topic 606, while prior period amounts were not adjusted and continue to be reported in accordance with our historic accounting under Topic 605.

Topic 606 does not apply to revenue associated with financial instruments, including revenue from loans and securities. In addition, certain non-interest income streams such as fees associated with mortgage servicing rights, financial guarantees, derivatives, and certain credit card fees are also not in scope of the new guidance. Topic 606 is applicable to non-interest revenue streams, such as deposit related fees, interchange fees, merchant income, and brokerage and investment advisory service commissions. However, the recognition of these revenue streams did not change significantly upon adoption of Topic 606. Substantially all of the Company's revenue is generated from contracts with customers. Non-interest revenue streams in-scope of Topic 606 are discussed below.

Service Fees on Deposit Accounts

Service charges on deposit accounts consist of account analysis fees (i.e., net fees earned on analyzed business and public checking accounts), monthly service fees, check orders, and other deposit account related fees. The Company's performance obligation for account analysis fees and monthly service fees is generally satisfied, and the related revenue recognized, over the period in which the service is provided. Check orders and other deposit account related fees are largely transactional based, and therefore, the Company's performance obligation is satisfied, and related revenue recognized, at a point in time. Payment for service charges on deposit accounts is primarily received immediately or in the following month through a direct charge to customers' accounts.

Other Income

Other non-interest income consists of other recurring revenue streams such as debit card income, credit card income, ATM fees, merchant services income, commissions from sales of mutual funds and other investments provided through a third party brokerage and investment advisory service firm, safe deposit box rental fees, and other miscellaneous revenue streams. Debit card income is primarily comprised of interchange fees earned whenever the Company's debit cards are processed through card payment networks, such as MasterCard. Credit card income is realized through a third party provider who issues credit cards as private label in the Company's name. ATM fees are primarily generated when a non-Company cardholder uses a Company ATM. The income is primarily comprised as a percentage of interchange fees earned whenever the issuer's card is processed through card payment networks, such as Visa and/or American Express. Merchant services income is realized through a third party service provider who is contracted by the Bank under a referral arrangement. Such fees represent fees charged to merchants to process their debit card transactions, in addition to account management fees. Other service charges include revenue from processing wire transfers, cashier's checks, and other services. The Company's performance obligation for fees, exchange, and other service charges are largely satisfied, and related revenue recognized, when the services are rendered or upon completion. Payment is typically received immediately or in the following month. Commissions received from the third party brokerage and investment advisory service firm from the sale of mutual funds and other investments are recognized when the firm has satisfied its performance obligation. The Company also receives periodic service fees (i.e., trailers) from this advisory service firm typically based on a percentage of net asset value. Trailer revenue is recorded over time, usually monthly or quarterly, as net asset value is determined. Safe deposit box rental fees are charged to the customer on an annual basis and recognized upon receipt of payment. The Company determined that since rentals and renewals occur fairly consistently over time, revenue is recognized on a basis consistent with the duration of the performance obligation.

The following presents non-interest income, segregated by revenue streams in-scope and out-of-scope of Topic 606, for the three months ended March 31, 2018 and 2017.

NOTE 3 - REVENUE RECOGNITION (Continued)

	Three Months Ended March 31, 2018 2017 (Dollars in Thousands)	
Non-Interest Income		
In-scope of Topic 606		
Service fees on Deposit Accounts	\$ 238	\$ 150
Other income	133	169
Non-Interest Income (in-scope of Topic 606)	371	319
Non-Interest Income (out-of-scope of Topic 606)	939	806
Total Non-Interest Income	\$ 1,310	\$ 1,125

Contract Balances

A contract asset balance occurs when an entity performs a service for a customer before the customer pays consideration (resulting in a contract receivable) or before payment is due (resulting in a contract asset). A contract liability balance is an entity's obligation to transfer a service to a customer for which the entity has already received payment (or payment is due) from the customer. The Company's non-interest revenue streams are largely based on transactional activity, or standard month-end revenue accruals. Consideration is often received immediately or shortly after the Company satisfies its performance obligation and revenue is recognized. The Company does not typically enter into long-term revenue contracts with customers, and therefore, does not experience significant contract balances. As of March 31, 2018 and December 31, 2017, the Company did not have any significant contract balances.

Contract Acquisition Costs

In connection with the adoption of Topic 606, an entity is required to capitalize, and subsequently amortize into expense, certain incremental costs of obtaining a contract with a customer if these costs are expected to be recovered. The incremental costs of obtaining a contract are those costs that an entity incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained (for example, sales commission). The Company utilizes the practical expedient which allows entities to immediately expense contract acquisition costs when the asset that would have resulted from capitalizing these costs would have been amortized in one year or less. Upon adoption of Topic 606, the Company did not capitalize any contract acquisition cost.

NOTE 4 – GOODWILL

The Company's goodwill was recognized in connection with the acquisition of The Town Bank ("Town Bank") in April 2006. GAAP requires that goodwill be tested for impairment annually or more frequently if impairment indicators arise utilizing a two-step methodology. However, a qualitative factor test can be performed to determine whether it is necessary to perform the two-step quantitative impairment test. If this qualitative test determines it is not likely (less than 50% probability) the fair value of the reporting unit is less than book value, then the Company does not have to perform a step one quantitative test and goodwill can be considered not impaired. The Company reviewed the requirements of ASU 350-20 and examples of qualitative assessments to determine whether the weight of evidence indicates greater than 50% likelihood exists that the carrying value of the reporting unit exceeds its fair value. The nine qualitative assessments used are macroeconomic factors, banking industry conditions, banking industry merger and acquisition trends, bank historical performance, parent stock price, expected bank performance, change of control premium (parent), change of control premium (peer), and other factors.

The Company performed its annual qualitative factor impairment test as of August 31, 2017. Based on the results of this analysis, the Company determined that there was no impairment on the current goodwill balance of \$18,109,000.

NOTE 5 – EARNINGS PER COMMON SHARE

Basic earnings per common share is calculated by dividing net income available to common shareholders by the weighted average number of shares of common stock outstanding excluding restricted stock awards outstanding during the period. Diluted earnings per common share reflects additional shares of common stock that would have been outstanding if dilutive potential shares of common stock had been issued relating to outstanding stock options and restricted stock awards. Potential shares of common stock issuable upon the exercise of stock options are determined using the treasury stock method. All share and per share data have been adjusted to reflect a 5% stock dividend paid on February 28, 2017.

The following table sets forth the computations of basic and diluted earnings per common share:

	Three Months Ended March 31, 2018 2017 (In Thousands, Except Per Share Data)	
Net income	\$2,676	\$1,802
Weighted average common shares outstanding – Basic	8,447	8,341
Effect of dilutive securities, stock options and restricted stock	228	277
Weighted average common shares outstanding – Diluted	8,675	8,618
Basic earnings per common share	\$0.32	\$0.22
Diluted earnings per common share	\$0.31	\$0.21

Dilutive securities in the table above exclude common stock options 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 would be anti-dilutive to the diluted earnings per common share calculation. There were no stock options that were anti-dilutive for the three months ended March 31, 2018 and 2017.

NOTE 6 – SECURITIES

The amortized cost, gross unrealized gains and losses, and fair values of the Company's securities are summarized as follows:

(In Thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
March 31, 2018:				
Securities available for sale:				
U.S. Government agency securities	\$ 12,907	\$ 1	\$ (89)	\$ 12,819
Municipal securities	493	—	—	493
U.S. Government-sponsored enterprises ("GSE") – residential mortgage-backed securities	7,855	1	(224)	7,632
U.S. Government collateralized residential mortgage obligations	7,299	5	(268)	7,036
Corporate debt securities, primarily financial institutions	2,494	3	(65)	2,432
Total securities available for sale	\$ 31,048	\$ 10	\$ (646)	\$ 30,412
Total equity securities	\$ 2,517	\$ —	\$ (94)	\$ 2,423
Securities held to maturity:				
Municipal securities	\$ 46,893	\$ 358	\$ (192)	\$ 47,059
GSE – Residential mortgage-backed securities	6,997	—	(243)	6,754
U.S. Government collateralized residential mortgage obligations	2,103	—	(61)	2,042
Corporate debt securities, primarily financial institutions	1,826	—	(65)	1,761
Total securities held to maturity	\$ 57,819	\$ 358	\$ (561)	\$ 57,616

NOTE 6 – SECURITIES (Continued)

(In Thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2017:				
Securities available for sale:				
U.S. Government agency securities	\$ 10,105	\$ —	\$ (48)	\$ 10,057
Municipal securities	494	1	—	495
GSE – residential mortgage-backed securities	8,362	—	(143)	8,219
U.S. Government collateralized residential mortgage obligations	7,672	1	(191)	7,482
Corporate debt securities, primarily financial institutions	2,494	9	(72)	2,431
Total securities available for sale	\$ 29,127	\$ 11	\$ (454)	\$ 28,684
Total equity securities	\$ 2,503	\$ —	\$ (55)	\$ 2,448
Securities held to maturity:				
Municipal securities	\$ 46,614	\$ 812	\$ (20)	\$ 47,406
GSE – residential mortgage-backed securities	7,339	—	(98)	7,241
U.S. Government collateralized residential mortgage obligations	2,224	—	(46)	2,178
Corporate debt securities, primarily financial institutions	1,825	—	(101)	1,724
Total securities held to maturity	\$ 58,002	\$ 812	\$ (265)	\$ 58,549

The amortized cost and fair value of the Company's debt securities at March 31, 2018, by contractual maturity, are shown below. 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.

	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
(In Thousands)				
Due in one year or less	\$ 1,249	\$ 1,249	\$ 14,225	\$ 14,248
Due in one year through five years	7,580	7,520	2,373	2,396
Due in five years through ten years	833	831	8,387	8,389
Due after ten years	6,232	6,144	23,734	23,787
Sub-total	15,894	15,744	48,719	48,820
GSE – residential mortgage-backed securities	7,855	7,632	6,997	6,754
U.S. Government collateralized residential mortgage obligations	7,299	7,036	2,103	2,042
Total	\$ 31,048	\$ 30,412	\$ 57,819	\$ 57,616

The Company had no security sales for the three months ended March 31, 2018 or 2017.

NOTE 6 – SECURITIES (Continued)

Investment securities with a carrying value of \$36.0 million and \$34.6 million at March 31, 2018 and December 31, 2017, respectively, were pledged as collateral to secure securities sold under agreements to repurchase and public deposits as required or permitted by law.

The tables below indicate the length of time individual securities have been in a continuous unrealized loss position at March 31, 2018 and December 31, 2017:

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
March 31, 2018:	(In Thousands)					
U.S. Government agency securities	\$10,356	\$ (86)	\$836	\$ (3)	\$11,192	\$ (89)
Municipal securities	14,448	(192)	—	—	14,448	(192)
GSE – residential mortgage-backed securities	5,778	(175)	8,429	(292)	14,207	(467)
U.S. Government collateralized residential mortgage obligations	1,683	(42)	7,078	(287)	8,761	(329)
Corporate debt securities, primarily financial institutions	492	(7)	2,698	(123)	3,190	(130)
Total temporarily impaired securities	\$32,757	\$ (502)	\$19,041	\$ (705)	\$51,798	\$ (1,207)
December 31, 2017:	(In Thousands)					
U.S. Government agency securities	\$8,229	\$ (46)	\$1,766	\$ (2)	\$9,995	\$ (48)
Municipal securities	14,170	(20)	—	—	14,170	(20)
GSE – residential mortgage-backed securities	6,302	(66)	9,123	(175)	15,425	(241)
U.S. Government collateralized residential mortgage obligations	1,806	(20)	7,500	(217)	9,306	(237)
Corporate debt securities, primarily financial institutions	—	—	2,648	(173)	2,648	(173)
Equity securities	—	—	2,449	(55)	2,449	(55)
Total temporarily impaired securities	\$30,507	\$ (152)	\$23,486	\$ (622)	\$53,993	\$ (774)

The Company had 70 securities in an unrealized loss position at March 31, 2018. In management's opinion, the unrealized losses in corporate debt, U.S. Government agencies, municipals, U.S. Government collateralized residential mortgage obligations and GSE residential mortgage-backed securities reflect changes in interest rates subsequent to the acquisition of specific securities. The unrealized loss for corporate debt securities also reflects a widening of spreads due to the liquidity and credit concerns in the financial markets. The Company may, if conditions warrant, elect to sell debt securities at a loss and redeploy the proceeds into other investments in an effort to improve returns, risk profile and overall portfolio diversification. The Company will recognize any losses when the decision is made. As of March 31, 2018, the Company did not intend to sell these debt securities prior to market recovery.

NOTE 6 – SECURITIES (Continued)

Included in corporate debt securities are four individual trust preferred securities issued by large financial institutions with Moody's ratings from Baa1 to Baa3. At March 31, 2018, all of these securities are current with their scheduled interest payments. These single issue securities are all from large money center banks. Management concluded that these securities were not other-than-temporarily impaired as of March 31, 2018. These four securities have an amortized cost value of \$2.8 million and a fair value of \$2.7 million at March 31, 2018.

There were no other-than-temporary impairments recognized during the three months ended March 31, 2018 and 2017.

Equity securities consist solely of the Community Reinvestment Act ("CRA") Mutual Fund. As a result of the adoption of ASU 2016-01 in January 2018, the Company determined that the CRA Mutual Fund falls under the provisions of ASU 2016-01 and accordingly, this fund was transferred from available for sale and reclassified into equity securities on the balance sheet. These securities are measured at fair value with unrealized holding gains and losses reflected in net income. Effective January 1, 2018, the Company recorded a cumulative effect adjustment of \$39,000 as a reclassification from accumulated other comprehensive loss to retained earnings. Additionally as noted above, all future unrealized gains and losses will be recognized in the Statements of Operations. As such, during the first quarter of 2018, an unrealized loss of \$40,000 was recorded in Other Income.

NOTE 7 – LOANS RECEIVABLE AND ALLOWANCE FOR LOAN LOSSES

Loans receivable, which management has the intent and ability to hold for the foreseeable future or until maturity or payoff are stated at their outstanding unpaid principal balances, net of an allowance for loan losses and any deferred fees or costs. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized as an adjustment of the yield (interest income) of the related loans. The Company is generally amortizing these amounts over the contractual life of the loan.

Loans held for sale are designated at time of origination. They generally consist of newly originated fixed rate residential mortgage loans and salable SBA loans and are recorded at the lower of aggregate cost or estimated fair value in the aggregate. The Company typically retains adjustable-rate mortgages ("ARM") loans in its portfolio, however occasionally, the Company may elect to sell a small pool of these loans as a part of its strategy to manage interest rate risk or as a secondary source of liquidity. During the three months ended March 31, 2018 and 2017, the Company transferred \$5.0 million and \$4.5 million, respectively, from held for investment to held for sale. Gains from such sales were \$100,000 and \$91,000 for the three months ended March 31, 2018 and 2017, respectively. Transfers from held for investment are infrequent and occur at the lower of cost or fair value, less costs to sell. Gains are recognized on a settlement-date basis and are determined by the difference between the net sales proceeds and the carrying value of the loans, including any net deferred fees or costs.

The loans receivable portfolio is segmented into five categories, those being a) Commercial and industrial, b) Real estate-construction (consisting of both residential and commercial construction), c) Real estate-commercial, d) Real estate-residential, and e) Consumer.

For all classes of loans receivable, the accrual of interest is discontinued when the contractual payment of principal or interest has become 90 days past due or management has serious doubts about further collectability of principal or interest, even though the loan is currently performing. A loan may remain on accrual status if it is in the process of collection and is either guaranteed or well secured. When a loan is placed on nonaccrual status, unpaid interest previously accrued on these loans is reversed from income. Interest received on nonaccrual loans, including impaired

loans, generally is either applied against principal or reported as interest income, according to management's judgment as to the collectability of principal. Generally, loans are restored to accrual status when the obligation is brought current, has performed in accordance with the contractual terms for a reasonable period of time (generally six months) and the ultimate collectability of the total contractual principal and interest is no longer in doubt. The past due status of all classes of loans receivable is determined based on contractual due dates for loan payments.

The allowance for credit losses consists of the allowance for loan losses and the reserve for unfunded lending commitments. The allowance for loan losses represents management's estimate of losses inherent in the loan portfolio as of the balance sheet date and is recorded as a reduction to loans. The reserve for unfunded lending commitments represents management's estimate of losses inherent in its unfunded loan commitments and is recorded in other liabilities on the consolidated balance sheet, which at March 31, 2018 and December 31, 2017, the Company had no such reserves. The allowance for loan losses is increased by the provision for loan losses, and decreased by charge-offs, net of recoveries. Loans deemed to be uncollectable are charged against the allowance for loan losses, and subsequent recoveries, if any, are credited to the allowance. All, or part, of the principal balance of loans receivable are charged off to the allowance as soon as it is determined that the repayment of all, or part, of the principal balance is highly unlikely.

The allowance for loan losses is maintained at a level considered adequate to provide for losses that can be reasonably anticipated. Management performs a monthly evaluation of the adequacy of the allowance. The allowance is based on the Company's past loan

NOTE 7 – LOANS RECEIVABLE AND ALLOWANCE FOR LOAN LOSSES (Continued)

loss experience, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral, composition of the loan portfolio, current economic conditions and other relevant factors. This evaluation is inherently subjective as it requires material estimates that may be susceptible to significant revision as more information becomes available.

The allowance consists of specific, general and unallocated components. For loans that are classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of the loan. The specific component relates to loans that are classified as impaired. When a loan is impaired, there are three acceptable methods under ASC 310-10-35 for measuring the impairment:

1. The loan's observable market price;
2. The fair value of the underlying collateral; or
3. The present value (PV) of expected future cash flows.

Loans that are considered "collateral-dependent" should be evaluated under the "Fair market value of collateral." Loans that are still expected to be supported by repayment from the borrower should be evaluated under the "Present value of future cash flows."

For the most part, the Company measures impairment under the "Fair market value of collateral" for any loan that would rely on the value of collateral for recovery in the event of default. The individual impairment analysis for each loan is clearly documented as to the chosen valuation method.

The general component covers pools of loans by loan class including commercial and industrial, real estate-construction and real estate-commercial not considered impaired as well as smaller balance homogeneous loans such as real estate-residential and consumer.

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

1. Changes in lending policy and procedures, including changes in underwriting standards and collection practices not previously considered in estimating credit losses.
2. Changes in relevant economic and business conditions.
3. Changes in nature and volume of the loan portfolio and in the terms of loans.
4. Changes in experience, ability and depth of lending management and staff.
5. Changes in the volume and severity of past due loans, the volume of non-accrual loans and the volume and severity of adversely classified loans.
6. Changes in the quality of the loan review system.

- 7.Changes in the value of underlying collateral for collateral-dependent loans.
- 8.The existence and effect of any concentration of credit and changes in the level of such concentrations.
- 9 The effect of other external forces such as competition, legal and regulatory requirements on the level of estimated credit losses in the existing portfolio.

Each factor is assigned a risk value to reflect low, moderate or high risk assessments based on management's best judgment using current market, macro and other relevant information available at the time of the evaluation. Adjustments to the factors are supported through documentation in each factor and accompany the allowance for loan loss calculation.

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

NOTE 7 – LOANS RECEIVABLE AND ALLOWANCE FOR LOAN LOSSES (Continued)

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

An allowance for loan losses is established for an impaired loan if its carrying value exceeds its estimated fair value. The estimated fair values of substantially all of the Company's impaired loans are measured based on the estimated fair value of the loan's collateral.

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

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

The allowance calculation methodology includes further segregation of loan classes into risk rating categories. The borrower's overall financial condition, repayment sources, guarantors and value of collateral, if appropriate, are evaluated annually for commercial loans or when credit deficiencies arise, such as delinquent loan payments, for commercial and consumer loans. Credit quality risk ratings include regulatory classifications of special mention, substandard, doubtful and loss. Loans classified special mention have potential weaknesses that deserve management's close attention. If uncorrected, the potential weaknesses may result in deterioration of the repayment prospects. Loans classified substandard have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They include loans that are inadequately protected by the current sound net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans classified doubtful have all the weaknesses inherent in loans classified substandard with the added characteristics that collection or liquidation in full, on the basis of current conditions and facts, is highly improbable. Loans classified as a loss are considered uncollectable and are charged to the allowance for loan losses. Loans not classified are rated pass.

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

NOTE 7 – LOANS RECEIVABLE AND ALLOWANCE FOR LOAN LOSSES (Continued)

The components of the loan portfolio held for investment at March 31, 2018 and December 31, 2017 are as follows:

	March 31, 2018 (In Thousands)	December 31, 2017
Commercial and industrial	\$106,758	\$101,371
Real estate – construction	124,828	118,094
Real estate – commercial	545,728	537,733
Real estate – residential	65,035	64,238
Consumer	30,748	30,203
	873,097	851,639
Allowance for loan losses	(10,962)	(10,668)
Unearned fees	(770)	(765)
Net Loans	\$861,365	\$840,206

The performance and credit quality of the loan portfolio is monitored by analyzing the age of the loans receivable as determined by the length of time a recorded payment is past due. The following tables present the classes of the loan portfolio summarized by the past due status as of March 31, 2018 and December 31, 2017:

	30-59 Days Past Due	60-89 Days Past Due	90 Days & Greater	Total Past Due	Current	Total Loans Receivable	Loans Receivable >90 Days and Accruing
March 31, 2018:	(In Thousands)						
Commercial and industrial	\$220	\$ —	\$674	\$894	\$105,864	\$106,758	\$ —
Real estate – construction	—	—	150	150	124,678	124,828	—
Real estate – commercial	514	—	197	711	545,017	545,728	—
Real estate – residential	573	—	717	1,290	63,745	65,035	—
Consumer	84	40	194	318	30,430	30,748	—
Total	\$1,391	\$40	\$1,932	\$3,363	\$869,734	\$873,097	\$ —

	30-59 Days Past Due	60-89 Days Past Due	90 Days & Greater	Total Past Due	Current	Total Loans Receivable	Loans Receivable >90 Days and Accruing
December 31, 2017:	(In Thousands)						
Commercial and industrial	\$224	\$ —	\$790	\$1,014	\$100,357	\$101,371	\$ —
Real estate – construction	—	—	150	150	117,944	118,094	—
Real estate – commercial	146	150	219	515	537,218	537,733	—

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Real estate – residential	290	—	717	1,007	63,231	64,238	—
Consumer	92	—	194	286	29,917	30,203	—
Total	\$ 752	\$ 150	\$ 2,070	\$ 2,972	\$ 848,667	\$ 851,639	\$ —

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NOTE 7 – LOANS RECEIVABLE AND ALLOWANCE FOR LOAN LOSSES (Continued)

The following table presents non-accrual loans by classes of the loan portfolio at March 31, 2018 and December 31, 2017:

	March 31, 2018 (In Thousands)	December 31, 2017
Commercial and industrial	\$ 674	\$ 790
Real estate – construction	150	150
Real estate – commercial	197	219
Real estate – residential	717	717
Consumer	234	194
Total	\$ 1,972	\$ 2,070

There were no new troubled debt restructurings ("TDR's") that occurred during the three months ended March 31, 2018.

The following table presents new TDR's that occurred during the three months ended March 31, 2017 :

	Three months ended March 31, 2017	
	Pre-Modification Number of Outstanding Recorded Contracts Investment	Post-Modification Outstanding Recorded Investment
	(Dollars in Thousands)	
Troubled debt restructuring:		
Commercial and industrial	1 \$ 150	\$ 150
Real estate - construction	1 \$ 150	\$ 150
	2 \$ 300	\$ 300

Loans whose terms are modified are classified as TDRs if the Company grants such borrowers concessions and it is deemed that those borrowers are experiencing financial difficulty. Concessions granted under a TDR generally involve a temporary reduction in interest rate or a modification of a loan's amortization schedule. Non-accrual TDRs are restored to accrual status if principal and interest payments, under the modified terms, are current for six consecutive months after the modification is in place. Loans classified as TDRs, including those restored to accrual status, are designated as impaired.

The Company's TDR modifications are made on terms typically up to 12 months in order to aggressively monitor and track performance of the credit. The short-term modifications are monitored for continued performance for an additional period of time after the expiration of the concession. Balance reductions and annualized loss rates are also important metrics that are monitored. The main objective of the modification program is to reduce the payment burden for the borrower and to deleverage the Company's exposure.

Impaired loans are individually assessed to determine that the loan's carrying value is not in excess of the estimated fair value of the collateral (less cost to sell), if the loan is collateral dependent, or the present value of the expected future cash flows, if the loan is not collateral dependent. Management performs a detailed evaluation of each impaired loan and generally obtains updated appraisals as part of the evaluation. In addition, management adjusts estimated fair value down to appropriately consider recent market conditions, our willingness to accept a lower sales price to effect a quick sale, and costs to dispose of any supporting collateral.

At March 31, 2018, TDRs totaled \$6.8 million, including \$6.0 million that were current and six non-accrual loans totaling \$878,000. As of December 31, 2017, TDRs totaled \$7.1 million, including \$6.1 million that were current and seven non-accrual loans totaling \$1.0 million. At both March 31, 2018 and December 31, 2017, the Company had no specific reserve against any loan relationship classified as TDR.

NOTE 7 – LOANS RECEIVABLE AND ALLOWANCE FOR LOAN LOSSES (Continued)

There were no loans receivable modified as TDRs and with a payment default occurring within 12 months of the restructure date, and the payment default occurring during the three months ended March 31, 2018 and 2017, respectively.

It is the Company's policy to classify a TDR that is either 90 days or greater delinquent or that has been placed on a non-accrual status as a subsequently defaulted TDR.

The following tables summarize information in regards to both the recorded investment balance information for impaired loans by loan portfolio class at March 31, 2018 and December 31, 2017, and the average recorded investment balance information for impaired loans by loan portfolio class for the three months ended March 31, 2018 and 2017, respectively:

	As of March 31, 2018			For the three months ended March 31, 2018	
	Recorded Investment Net of Charge-offs	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
	(In Thousands)				
With no related allowance recorded:					
Commercial and industrial	\$3,157	\$ 3,157	\$ —	\$3,203	\$ 33
Real estate – construction	3,143	3,143	—	3,145	33
Real estate – commercial	319	319	—	334	2
Real estate – residential	1,084	1,084	—	1,085	5
Consumer	234	234	—	234	—
With an allowance recorded:					
Commercial and industrial	\$—	\$ —	\$ —	\$—	\$ —
Real estate – construction	—	—	—	—	—
Real estate – commercial	—	—	—	—	—
Real estate – residential	—	—	—	—	—
Consumer	—	—	—	—	—
Total:					
Commercial and industrial	\$3,157	\$ 3,157	\$ —	\$3,203	\$ 33
Real estate – construction	3,143	3,143	—	3,145	33
Real estate – commercial	319	319	—	334	2
Real estate – residential	1,084	1,084	—	1,085	5
Consumer	234	234	—	234	—
Total	\$7,937	\$ 7,937	\$ —	\$8,001	\$ 73

NOTE 7 – LOANS RECEIVABLE AND ALLOWANCE FOR LOAN LOSSES (Continued)

	As of December 31, 2017			For the three months ended March 31, 2017	
	Recorded Investment Net of Charge-offs	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
	(In Thousands)				
With no related allowance recorded:					
Commercial and industrial	\$3,350	\$ 3,697	\$ —	—\$3,924	\$ 44
Real estate – construction	3,148	3,148	—	3,184	34
Real estate – commercial	344	344	—	1,196	10
Real estate – residential	1,086	1,086	—	1,130	5
Consumer	194	194	—	107	—
With an allowance recorded:					
Commercial and industrial	\$—	\$ —	\$ —	—\$—	\$ —
Real estate – construction	—	—	—	—	—
Real estate – commercial	—	—	—	—	—
Real estate – residential	—	—	—	—	—
Consumer	—	—	—	—	—
Total:					
Commercial and industrial	\$3,350	\$ 3,697	\$ —	—\$3,924	\$ 44
Real estate – construction	3,148	3,148	—	3,184	34
Real estate – commercial	344	344	—	1,196	10
Real estate – residential	1,086	1,086	—	1,130	5
Consumer	194	194	—	107	—
Total	\$8,122	\$ 8,469	\$ —	—\$9,541	\$ 93

NOTE 7 – LOANS RECEIVABLE AND ALLOWANCE FOR LOAN LOSSES (Continued)

The following tables present the classes of the loan portfolio summarized by the aggregate pass rating and the classified ratings of special mention, substandard and doubtful within the Company's internal risk rating system as of March 31, 2018 and December 31, 2017:

	Pass	Special Mention	Substandard	Doubtful	Total
	(In Thousands)				
March 31, 2018:					
Commercial and industrial	\$ 103,428	\$ 108	\$ 3,222	\$	—\$106,758
Real estate – construction	119,027	4,312	1,489	—	124,828
Real estate – commercial	535,096	4,595	6,037	—	545,728
Real estate – residential	64,318	—	717	—	65,035
Consumer	30,304	33	411	—	30,748
Total	\$852,173	\$ 9,048	\$ 11,876	\$	—\$873,097
	Pass	Special Mention	Substandard	Doubtful	Total
	(In Thousands)				

December 31, 2017:

Commercial and industrial	\$97,160	\$796	\$ 3,299	\$ 116	\$101,371
Real estate – construction	112,353	4,252	1,489	—	118,094
Real estate – commercial	525,951	5,681	6,101	—	537,733
Real estate – residential	63,521	—	717	—	64,238
Consumer	29,795	34	374	—	30,203
Total	\$828,780	\$10,763	\$ 11,980	\$ 116	\$851,639

The following tables present the balance in the allowance for loan losses at March 31, 2018 and December 31, 2017 disaggregated on the basis of the Company's impairment method by class of loans receivable along with the balance of loans receivable by class disaggregated on the basis of the Company's impairment methodology:

	Allowance for Loan Losses		Loans Receivable		
	Balance	Balance			
	Related to	Related		Balance	Balance
	Loans	to		Individually	Collectively
Balance	Individually	Loans	Balance	Evaluated	Evaluated
	Evaluated	Collectively		for	for
	for	Evaluated		Impairment	Impairment
	Impairment	for			
		Impairment			
		(In Thousands)			

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Real estate – commercial	7,385	—	7,385	545,728	319	545,409
Real estate – residential	499	—	499	65,035	1,084	63,951
Consumer	156	—	156	30,748	234	30,514
Unallocated	466	—	466	—	—	—
Total	\$ 10,962	\$ —	\$ 10,962	\$ 873,097	\$ 7,937	\$ 865,160

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NOTE 7 – LOANS RECEIVABLE AND ALLOWANCE FOR LOAN LOSSES (Continued)

	Allowance for Loan Losses			Loans Receivable		
	Balance	Balance Related to Loans Individually Evaluated for Impairment	Balance Related to Loans Collectively Evaluated for Impairment (In Thousands)	Balance	Balance Individually Evaluated for Impairment	Balance Collectively Evaluated for Impairment
December 31, 2017:						
Commercial and industrial	\$930	\$	—\$930	\$101,371	\$ 3,350	\$ 98,021
Real estate – construction	1,389	—	1,389	118,094	3,148	114,946
Real estate – commercial	7,325	—	7,325	537,733	344	537,389
Real estate – residential	502	—	502	64,238	1,086	63,152
Consumer	174	—	174	30,203	194	30,009
Unallocated	348	—	348	—	—	—
Total	\$10,668	\$	—\$10,668	\$851,639	\$ 8,122	\$ 843,517

The following table presents the change in the allowance for loan losses by classes of loans for the three months ended March 31, 2018 and 2017:

Allowance for Loan Losses	Commercial and Industrial	Real Estate - Construction	Real Estate - Commercial	Real Estate - Residential	Consumer	Unallocated	Total
							(In Thousands)
Beginning balance, January 1, 2018	\$ 930	\$ 1,389	\$7,325	\$ 502	\$ 174	\$ 348	\$10,668
Charge-offs	(115)	—	—	—	—	—	(115)
Recoveries	—	3	6	—	—	—	9
Provision	152	97	54	(3)	(18)	118	400
Ending balance, March 31, 2018	\$ 967	\$ 1,489	\$7,385	\$ 499	\$ 156	\$ 466	\$10,962

NOTE 7 – LOANS RECEIVABLE AND ALLOWANCE FOR LOAN LOSSES (Continued)

Allowance for Loan Losses	Commercial and Industrial	Real Estate - Construction	Real Estate - Commercial	Real Estate - Residential	Consumer	Unallocated	Total
			(In Thousands)				
Beginning balance, January 1, 2017	\$ 844	\$ 1,276	\$6,315	\$ 463	\$ 244	\$ 423	\$9,565
Charge-offs	(248)	—	—	—	—	—	(248)
Recoveries	10	8	4	—	3	—	25
Provision	268	(68)	125	(2)	(15)	(83)	225
Ending balance, March 31, 2017	\$ 874	\$ 1,216	\$6,444	\$ 461	\$ 232	\$ 340	\$9,567

NOTE 8 – STOCK-BASED COMPENSATION PLANS

The Two River Bancorp 2007 Equity Incentive Plan (the “Plan”) provides that the Compensation Committee of the Board of Directors (the “Committee”) may grant to those individuals who are eligible under the terms of the Plan stock options, shares of restricted stock, or such other equity incentive awards as the Committee may determine. As of March 31, 2018, the number of shares of Company common stock remaining and available for future issuance under the Plan is 137,469. Shares reserved under the Plan will be issued out of authorized and unissued shares, or treasury shares, or partly out of cash, as determined by the Board. All share and per share data have been retroactively adjusted to reflect the 5% stock dividend paid on February 28, 2017 to shareholders of record as of February 9, 2017.

From the adoption of the Plan until March 20, 2017, options awarded under the Plan were permitted to be either options that qualify as incentive stock options (“ISOs”) under Section 422 of the Internal Revenue Code of 1986, as amended (the “Code”), or options that do not, or cease to, qualify as incentive stock options under the Code (“nonqualified stock options” or “NQSOs”). However, after March 20, 2017, only NQSOs may be awarded under the Plan. Awards may be granted under the Plan to directors and employees, and to consultants and other persons who provide substantial services to the Company.

The exercise price per share purchasable under an option awarded under the Plan may not be less than the fair market value of a share of stock on the date of grant of the option. The Committee determines the vesting period and term of each option, provided that no ISO is permitted to have a term in excess of ten years after the date of grant.

Restricted stock is stock which is subject to certain transfer restrictions and to a risk of forfeiture. The Committee will determine the period over which any restricted stock which is issued under the Plan will vest, and will impose such restrictions on transferability, risk of forfeiture and other restrictions as the Committee may in its discretion determine. Unless restricted by the Committee, a participant granted restricted stock will have all of the rights of a shareholder (except for the aforesaid transfer restrictions and risk of forfeitures), including the right to vote the restricted stock and the right to receive dividends with respect to that stock.

Unless otherwise provided by the Committee in the award document or subject to other applicable restrictions, in the event of a Change in Control (as defined in the Plan) all non-forfeited options and awards carrying a right to exercise that was not previously exercisable and vested will become fully exercisable and vested as of the time of the Change in Control, and all restricted stock and awards subject to risk of forfeiture will become fully vested.

Stock Options

For the three months ended March 31, 2018, there were no stock options granted.

Stock-based compensation expense related to the vesting of stock options granted in prior periods was approximately \$15,000 during the three month period ended March 31, 2018, as compared to \$20,000 for the same three month period in 2017 and is included in salaries and employee benefits on the statement of operations.

Total unrecognized compensation cost related to non-vested options granted under the Plan was \$101,000 as of March 31, 2018 and will be recognized over the subsequent weighted average life of 1.7 years.

The following table presents information regarding the Company’s outstanding stock options at March 31, 2018:

NOTE 8 – STOCK-BASED COMPENSATION PLANS (Continued)

	Number of Shares	Weighted Average Price	Weighted Average Remaining Contractual Life (years)	Aggregate Intrinsic Value
Options outstanding, December 31, 2017	361,507	\$ 5.20		
Options granted	—	—		
Options exercised	(45,730)	) 3.80		
Options forfeited	(3,150)	) 8.83		
Options outstanding, March 31, 2018	312,627	\$ 5.37	3.79	\$3,884,175
Options exercisable, March 31, 2018	271,306	\$ 4.87	3.28	\$3,507,470
Option exercise price range at March 31, 2018	\$2.87 to \$11.21			

The total intrinsic value of options exercised during the three months ended March 31, 2018 and 2017 was \$631,000 and \$161,000, respectively. Cash received from such exercises was \$172,000 and \$54,000, respectively. An income tax benefit of \$88,000 was recognized in the three months ended March 31, 2018 relating to the adoption of ASU 2016-09, Compensation-Stock Compensation, Improvements to Employee Share-Based Payment Accounting attributable to stock options. There was no tax benefit recognized in the three months ended March 31, 2017.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model.

Restricted Stock

Restricted stock is valued at the market value on the date of grant and expense is attributed to the period in which the restrictions lapse.

Compensation expense related to restricted stock was \$50,000 for the three month period ended March 31, 2018, as compared to \$49,000 for the three month period ended March 31, 2017 and is included in salaries and employee benefits on the statement of operations. An income tax benefit of \$2,000 was recognized in the three months ended March 31, 2018 relating to the adoption of ASU 2016-09 attributable to restricted stock awards. There was no tax benefit recognized during the three months ended March 31, 2017.

Total unrecognized compensation cost related to restricted stock under the Plan as of March 31, 2018 was \$702,000 and will be recognized over the subsequent weighted average life of 3.4 years.

The following table summarizes information about restricted stock at March 31, 2018:

	Number of Shares	Weighted Average Price
Unvested at December 31, 2017	49,021	\$ 14.01
Restricted stock earned	(4,103)	) 10.65
Granted	8,400	18.01
Awards Forfeited	(500)	) 18.32
Unvested at March 31, 2018	52,818	\$ 14.87

NOTE 9 – GUARANTEES

The Company is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and letters of credit. Those instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the financial statements.

The Company's exposure to credit loss in the event of non-performance by the other party to the financial instrument for commitments to extend credit and letters of credit is represented by the contractual amount of those instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments.

NOTE 9 – GUARANTEES (Continued)

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. The Company evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management's credit evaluation. Collateral held varies but may include personal or commercial real estate, accounts receivable, inventory and equipment. The Company had commitments to extend credit, including unused lines of credit, of approximately \$280.0 million and \$245.8 million at March 31, 2018 and December 31, 2017, respectively .

Standby letters of credit are conditional commitments issued by the Company to guarantee the financial performance of a customer to a third party. Those guarantees are primarily issued to support contracts entered into by customers. Most guarantees extend for one year. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Company defines the fair value of these letters of credit as the fees paid by the customer or similar fees collected on similar instruments. The Company amortizes the fees collected over the life of the instrument. The Company generally obtains collateral, such as real estate or liens on customer assets for these types of commitments. The Company's potential liability would be reduced by any proceeds obtained in liquidation of the collateral held. As of March 31, 2018 and December 31, 2017, the Company had \$4.6 million and \$5.2 million, respectively, of commercial and similar letters of credit. Management believes that the current amount of the liability as of March 31, 2018 and December 31, 2017 for guarantees under standby letters of credit issued is not material.

NOTE 10 – FHLB AND OTHER BORROWINGS

The Bank utilizes its account relationship with Atlantic Community Bankers Bank to borrow funds through its Federal funds borrowing line in an aggregate amount up to \$10.0 million. The Bank also has \$36.0 million in unsecured credit facilities with three correspondent banks. These borrowings are priced on a daily basis. The Company had no borrowings outstanding on these lines at March 31, 2018 and December 31, 2017. The Bank also has a remaining borrowing capacity with the FHLB of approximately \$37.0 million based on the current loan collateral pledged of \$148.4 million at March 31, 2018.

At March 31, 2018 and December 31, 2017, FHLB and other borrowings consisted of advances from the FHLB, which amounted to \$24.5 million and \$25.8 million, respectively. These advances had an average interest rate of 1.90% and 1.87% at March 31, 2018 and December 31, 2017, respectively. These advances are contractually scheduled for repayment as follows:

	March 31, 2018 (dollars in thousands)	December 31, 2017	Rate	Original Term (Years)	Maturity
Fixed Rate Note	\$2,000	\$ 2,000	1.65 %	5	October 2018
Fixed Rate Note	—	1,300	1.31 %	3	January 2018
Fixed Rate Note	1,800	1,800	1.59 %	4	January 2019
Fixed Rate Note	2,700	2,700	1.81 %	5	January 2020
Fixed Rate Note	2,500	2,500	2.03 %	6	January 2021
Fixed Rate Note	1,000	1,000	1.09 %	3	July 2019
Fixed Rate Note	1,000	1,000	1.42 %	5	July 2021
Fixed Rate Note	7,500	7,500	2.07 %	5	August 2022
Fixed Rate Note	1,000	1,000	1.70 %	7	July 2023
Fixed Rate Note	5,000	5,000	2.16 %	4	October 2021

Total FHLB borrowings \$24,500 \$ 25,800

As of March 31, 2018, the FHLB has issued \$85.1 million in municipal deposit letters of credit in the name of the Bank naming the NJ Department of Banking and Insurance as beneficiary. This letter of credit will take the place of securities previously pledged to the State of New Jersey for the Bank's various municipal deposits.

NOTE 11 – SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

The Bank enters into Sweep Account Agreements with certain of its deposit account holders for repo sweep arrangements under which funds in excess of a predetermined amount are removed from each such depositor's account at the end of each banking day, and the Bank's obligation to restore those funds to the account at the beginning of the following banking day is evidenced by an integrated retail repurchase agreement (a "Repurchase Agreement") secured by a collateral interest in favor of the depositor in certain government securities held by a third party custodian. The Bank's obligation to restore the funds under the Repurchase Agreements is accounted for as a collateralized financing arrangement (i.e., secured borrowings), and not as a sale and subsequent repurchase of securities. The obligation to restore the funds to each account is reflected as a liability in the Company's consolidated balance sheets, while the securities underlying the repurchase agreements remain in the respective securities accounts. There is no offsetting or netting of the securities against the Repurchase Agreement obligation.

NOTE 11 - SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE (Continued)

The following table presents the contractual maturities of the Repurchase Agreements as of March 31, 2018 and December 31, 2017, disaggregated by the class of collateral pledged:

(dollars in thousands)	Maturity of Repurchase Agreements				Total
	Overnight and Continuous	Up to 30 days	30 to 90 days	Over 90 days	
March 31, 2018					
Class of Collateral Pledged:					
U.S. Government agency securities	\$7,287	\$ —	\$ —	\$ —	\$7,287
GSE – residential mortgage-backed securities	10,128	—	—	—	10,128
U.S. Government collateralized residential mortgage obligations	9,958	—	—	—	9,958
Total	\$27,373	\$ —	\$ —	\$ —	\$27,373
Gross amount of recognized liabilities for repurchase agreements and securities lending					\$18,472
Excess of collateral pledged over recognized liability					\$8,901

(dollars in thousands)	Maturity of Repurchase Agreements				Total
	Overnight and Continuous	Up to 30 days	30 to 90 days	Over 90 days	
December 31, 2017					
Class of Collateral Pledged:					
U.S. Government agency securities	\$9,995	\$ —	\$ —	\$ —	\$9,995
GSE – residential mortgage-backed securities	5,558	—	—	—	5,558
U.S. Government collateralized residential mortgage obligations	13,440	—	—	—	13,440
Total	\$28,993	\$ —	\$ —	\$ —	\$28,993
Gross amount of recognized liabilities for repurchase agreements and securities lending					\$27,120
Excess of collateral pledged over recognized liability					\$1,873

The potential risks associated with the Repurchase Agreements and related pledged collateral, including obligations arising from a decline in the fair value of the pledged collateral, are minimal due to the fact that the Repurchase Agreements pertain to overnight borrowings and therefore not subject to fluctuations in fair market value.

NOTE 12 – SUBORDINATED DEBENTURES

In December 2015, the Company completed a private placement of \$10 million in aggregate principal amount of fixed to floating rate subordinated debentures to certain institutional accredited investors. The subordinated debentures have a maturity date of December 31, 2025 and bear interest, payable quarterly, at the rate of 6.25% per annum until January 1, 2021. On that date, the interest rate will be adjusted to float at an annual rate equal to the prevailing three-month LIBOR rate plus 464 basis points (4.64%) until maturity. The debentures include a right of prepayment,

without penalty, on or after December 14, 2020 and, in certain limited circumstances, before that date. The indebtedness evidenced by the subordinated debentures, including principal and interest, is unsecured and subordinate and junior in right to payment to general and secured creditors of the Company and depositors and all other creditors of the Bank. The subordinated debentures have been structured to qualify as Tier 2 capital for regulatory purposes. Subordinated debentures totaled \$9.9 million at March 31, 2018 and December 31, 2017, respectively, which includes \$104,000 and \$112,000, respectively, of remaining unamortized debt issuance costs at March 31, 2018 and December 31, 2017. The debt issuance costs are being amortized over the expected life of the issue. The effective interest rate of the subordinated debentures is 6.67%.

NOTE 13 – FAIR VALUE MEASUREMENTS

Accounting guidance establishes 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. For financial assets measured at fair value on a recurring basis, the fair value measurements by level within the fair value hierarchy used at March 31, 2018 and December 31, 2017 are as follows:

Description	(Level 1) Quoted Prices in Active Markets for Identical Assets (in thousands)	(Level 2) Significant Other Observable Inputs	(Level 3) Significant Unobservable Inputs	Total
At March 31, 2018:				
Securities available for sale:				
U.S. Government agency securities	\$—	\$ 12,819	\$ —	\$12,819
Municipal securities	—	493	—	493
GSE – residential mortgage-backed securities	—	7,632	—	7,632
U.S. Government collateralized residential mortgage obligations	—	7,036	—	7,036
Corporate debt securities, primarily financial institutions	—	2,432	—	2,432
Total securities available for sale	\$—	\$ 30,412	\$ —	\$30,412
Total equity securities	\$2,423	\$ —	\$ —	\$2,423

NOTE 13 - FAIR VALUE MEASUREMENTS (Continued)

Description	(Level 1) Quoted Prices in Active Markets for Identical Assets (in thousands)	(Level 2) Significant Other Observable Inputs	(Level 3) Significant Unobservable Inputs	Total
At December 31, 2017:				
Securities available for sale:				
U.S. Government agency securities	\$—	\$ 10,057	\$ —	\$10,057
Municipal securities	—	495	—	495
GSE – residential mortgage-backed securities	—	8,219	—	8,219
U.S. Government collateralized residential mortgage obligations	—	7,482	—	7,482
Corporate debt securities, primarily financial institutions	—	2,431	—	2,431
Total securities available for sale	\$—	\$ 28,684	\$ —	\$28,684
Total equity securities	\$2,448	\$ —	\$ —	\$2,448

As of March 31, 2018 and December 31, 2017, there were no securities available for sale measured at fair value on a recurring basis using significant unobservable inputs (Level 3).

For assets measured at fair value on a nonrecurring basis, the fair value measurements by level within the fair value hierarchy used at March 31, 2018 and December 31, 2017 are as follows:

Description	(Level 1) Quoted Prices in Active Markets for Identical Assets (in thousands)	(Level 2) Significant Other Observable Inputs	(Level 3) Significant Unobservable Inputs	Total
At March 31, 2018:				
Impaired loans, net of partial charge-offs	\$—	—\$ —	\$—	\$—
At December 31, 2017:				
Impaired loans, net of partial charge-offs	\$—	—\$ 116	\$116	\$116

The Company's policy is to recognize transfers between levels as of the beginning of the period. There were no transfers between Levels 1, 2 and 3 for the three and nine months ended March 31, 2018 and 2017.

NOTE 13 - FAIR VALUE MEASUREMENTS (Continued)

The following valuation techniques were used to measure fair value of assets in the tables above:

Impaired loans – Impaired loans measured at fair value are those loans in which the Company has measured impairment generally based on the fair value of the loan's collateral. This method of fair value measurement is used on all of the Company's impaired loans. Fair value is generally determined based upon either independent third party appraisals of the properties or discounted cash flows based upon the expected proceeds. The appraisals may be adjusted by management for qualitative factors such as economic conditions and estimated liquidation expenses. At March 31, 2018 and December 31, 2017, there were no loans that received a discount. At March 31, 2018 and December 31, 2017, there were no liquidation expenses. These assets are included as Level 3 fair values, based upon the lowest level of input that is significant to the fair value measurements.

OREO – Real estate properties acquired through, or in lieu of, loan foreclosure are carried at fair value less cost to sell. Fair value is based upon the appraised value of the collateral, adjusted by management for factors such as economic conditions and other market factors. During the third quarter of 2017, the Company sold its only OREO property for a loss of \$17,000. These assets are included in Level 3 fair value based upon the lowest level of input that is significant to the fair value measurement. At March 31, 2018 and December 31, 2017, the Company had no residential real estate properties held in OREO. At March 31, 2018 and December 31, 2017, the Company initiated foreclosure proceedings on one residential mortgage loan secured by real estate in the amount of \$490,000.

The following information should not be interpreted as an estimate of the fair value of the entire Company since a fair value calculation is only provided for a limited portion of the Company's assets and liabilities. Due to a wide range of valuation techniques and the degree of subjectivity used in making the estimates, comparisons between the Company's disclosures and those of other companies may not be meaningful. The following methods and assumptions were used to estimate the fair values of the Company's financial instruments at March 31, 2018 and December 31, 2017:

Cash and Cash Equivalents (carried at cost):

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

Securities:

The fair value of securities available-for-sale (carried at fair value) and held to maturity (carried at amortized cost) are determined by obtaining quoted market prices on nationally recognized securities exchanges (Level 1), or matrix pricing (Level 2), which is a mathematical technique used widely in the industry to value debt securities without relying exclusively on quoted market prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted prices. For certain securities which are not traded in active markets or are subject to transfer restrictions, valuations are adjusted to reflect illiquidity and/or non-transferability, and such adjustments are generally based on available market evidence (Level 3). See Note 6, Securities, for more information regarding the CRA Mutual Fund. At March 31, 2018 and December 31, 2017, there were no Level 3 securities.

Restricted Investments (carried at cost):

The carrying amount of restricted investment in Federal Home Loan Bank stock, Atlantic Community Bancshares, Inc. stock and Solomon Hess SBA Loan Fund approximates fair value, and considers the limited marketability of such securities.

Loans Held for Sale:

Loans held for sale are carried at the lower of aggregate cost or estimated fair value, less costs to sell. The fair value of these loans are equal to the contractual sales price.

NOTE 13 - FAIR VALUE MEASUREMENTS (Continued)

Loans Receivable (carried at cost):

The fair values of loans, excluding collateral dependent impaired loans, are estimated using discounted cash flow analyses, using market rates at the balance sheet date that reflect the credit and interest rate-risk inherent in the loans, including liquidity. Projected future cash flows are calculated based upon contractual maturity or call dates, projected repayments and prepayments of principal. The valuation of the loan portfolio reflects discounts that the Company believes are consistent with transactions occurring in the marketplace for both performing and distressed loan types. The carrying value that fair value is compared to is net of the allowance for loan losses and other associated premiums and discounts. Generally, for variable rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values. Due to the significant judgment involved in evaluating credit quality risk, loans are classified within Level 3 of the fair value hierarchy.

Accrued Interest Receivable and Payable (carried at cost):

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

Deposit Liabilities (carried at cost):

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

Securities Sold Under Agreements to Repurchase (carried at cost):

The carrying amounts of these short-term borrowings approximate their fair values.

FHLB and Other Borrowing (carried at cost):

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

Subordinated Debentures (carried at cost):

The fair value of subordinated debentures is estimated by using a discounted cash flow analysis that, at March 31, 2018 and December 31, 2017, applies a 2.13% and 4.56% credit spread, respectively, plus the U.S. Treasury rate (all-in issue spread) to the time remaining until the issue's call option date.

Off-Balance Sheet Financial Instruments (disclosed at cost):

Fair values for the Company's off-balance sheet financial instruments (lending commitments and letters of credit) are based on fees currently charged in the market to enter into similar agreements, taking into account, the remaining terms of the agreements and the counterparties' credit standing. The fair values of such fees are not material at March 31, 2018 and December 31, 2017.

NOTE 13 - FAIR VALUE MEASUREMENTS (Continued)

The estimated fair values of the Company's financial instruments at March 31, 2018 and December 31, 2017 were as follows:

		Fair Value Measurements at March 31, 2018				
		Carrying Amount	Estimated Fair Value	(Level 1) Quoted Prices in Active Markets for Identical Assets	(Level 2) Significant Other Observable Inputs	(Level 3) Significant Unobservable Inputs
(in thousands)						
Financial assets:						
Cash and cash equivalents	\$28,595	\$ 28,595	\$28,595	\$	—\$	—
Securities available for sale	30,412	30,412	—	30,412	—	
Securities held to maturity	57,819	57,616	—	57,616	—	
Equity securities	2,423	2,423	2,423	—	—	
Restricted investments	5,597	5,597	—	—	5,597	
Loans held for sale	1,834	1,857	—	—	1,857	
Loans receivable, net ⁽¹⁾	861,365	856,591	—	—	856,591	
Accrued interest receivable	2,492	2,492	—	510	1,982	
Financial liabilities:						
Deposits	870,904	870,070	—	870,070	—	
Securities sold under agreements to repurchase	18,472	18,472	—	18,472	—	
FHLB and other borrowings	24,500	23,818	—	23,818	—	
Subordinated debt	9,896	10,352	—	10,352	—	
Accrued interest payable	69	69	—	69	—	
		Fair Value Measurements at December 31, 2017				
		Carrying Amount	Estimated Fair Value	(Level 1) Quoted Prices in Active Markets for Identical Assets	(Level 2) Significant Other Observable Inputs	(Level 3) Significant Unobservable Inputs
(in thousands)						
Financial assets:						
Cash and cash equivalents	\$48,219	\$ 48,219	\$48,219	\$	—\$	—
Securities available for sale	28,684	28,684	—	28,684	—	
Securities held to maturity	58,002	58,549	—	58,549	—	
Equity securities	2,448	2,448	2,448	—	—	
Restricted investments	5,430	5,430	—	—	5,430	
Loans held for sale	2,581	2,738	—	—	2,738	
Loans receivable, net ⁽¹⁾	840,206	841,477	—	—	841,477	

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Accrued interest receivable	2,554	2,554	—	638	1,916
Financial liabilities:					
Deposits	861,557	860,129	—	860,129	—
Securities sold under agreements to repurchase	27,120	27,120	—	27,120	—
FHLB and other borrowings	25,800	25,382	—	25,382	—
Subordinated debt	9,888	9,812	—	9,812	—
Accrued interest payable	70	70	—	70	—

⁽¹⁾ In accordance with the prospective adoption of ASU 2016-01, the fair value of loans as of March 31, 2018 were measured using an exit price notion. The fair value of loans at December 31, 2017 were measured using an exit price notion.

NOTE 14 – SHAREHOLDERS' EQUITY

On December 14, 2017, the Company announced that its Board of Directors approved a new Share Repurchase Program. This new program allows for the Company to repurchase up to \$2.0 million of its common stock from January 1, 2018 to December 31, 2018. During the three months ended March 31, 2018, the Company did not repurchase any shares of its common stock.

NOTE 15 – SUBSEQUENT EVENT

On April 18, 2018, the Board of Directors declared a quarterly cash dividend of \$0.045 per share to common shareholders of record at the close of business on May 11, 2018, payable on May 30, 2018.

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

Forward-Looking Statements

This report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). The Private Securities Litigation Reform Act of 1995 provides a "safe harbor" for forward looking statements. Such statements are not historical facts and include expressions about management's assumptions and strategies and management's expectations about new and existing programs and products, relationships, opportunities, taxation, technology and market conditions. When used in this and in our future filings with the SEC, in our press releases and in oral statements made with the approval of an authorized executive officer, the words or phrases "will," "will likely result," "could," "anticipates," "believes," "continues," "expects," "plans," "will continue," "is anticipated," "estimated," "project" or similar expressions (including confirmations by one of our authorized executive officers of any such expressions made by a third party with respect to us) are intended to identify forward-looking statements. We wish to caution readers not to place undue reliance on any such forward-looking statements, each of which speaks only as of the date made, even if subsequently made available on our website or otherwise. Such statements are subject to certain risks and uncertainties that could cause actual results to differ materially from historical earnings and those presently anticipated or projected.

Factors that may cause actual results to differ from those results, expressed or implied, include, but are not limited to, those discussed under "Business," "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the 2017 Form 10-K, under this Item 2, and in our other filings with the SEC.

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

This Report contains certain financial information determined by methods other than in accordance with generally accepted accounting policies in the United States (GAAP). These non-GAAP financial measures are "tangible book value per common share," "return on average tangible assets," "return on average tangible equity," and "average tangible equity to average tangible assets." This non-GAAP disclosure has limitations as an analytical tool and should not be considered in isolation or as a substitute for analysis of the Company's results as reported under GAAP, nor is it necessarily comparable to non-GAAP performance measures that may be presented by other companies. Our management uses these non-GAAP measures in its analysis of our performance because it believes these measures are material and will be used as a measure of our performance by investors.

The following information should be read in conjunction with the consolidated financial statements and the related notes thereto included in the 2017 Form 10-K and in this Form 10-Q.

Critical Accounting Policies and Estimates

The following discussion is based upon our financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). The preparation of these financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses.

Note 1 to our audited consolidated financial statements contains a summary of the Company's significant accounting policies. Management believes the following critical accounting policies encompass the more significant judgments and estimates used in the preparation of our consolidated financial statements.

Allowance for Loan Losses. Management believes our policy with respect to the methodology for the determination of the allowance for loan losses ("ALLL") involves a high degree of complexity and requires management to make difficult and subjective judgments which often require assumptions or estimates about highly uncertain matters. Changes in these judgments, assumptions or estimates could materially impact the results of operations. This critical policy and its application are reviewed quarterly with our audit committee and Board of Directors.

Management is responsible for preparing and evaluating the ALLL on a quarterly basis in accordance with Bank policy, and the Interagency Policy Statement on the ALLL released by the Board of Governors of the Federal Reserve System on December 13, 2006 as well as GAAP. We believe that our allowance for loan losses is adequate to cover specifically identifiable loan losses, as well as estimated losses inherent in our portfolio for which certain losses are probable but not specifically identifiable. The allowance for loan losses is based upon management's evaluation of the adequacy of the allowance account, including an assessment of known and inherent risks in the portfolio, giving consideration to the size and composition of the loan portfolio, actual loan loss experience, level of delinquencies, detailed analysis of individual loans for which full collectability may not be assured, the existence and estimated net realizable value of any underlying collateral and guarantees securing the loans, and current economic and market conditions. Although management utilizes the best information available, the level of the allowance for loan losses remains an estimate that is subject to significant judgment and short term change. Various regulatory agencies may require us and our banking subsidiaries to make additional provisions for loan losses based upon information available to them at the time of their examination. Furthermore, the majority of our loans are secured by real estate in New Jersey, primarily in Monmouth and Union counties. Accordingly, the collectability of a substantial portion of the carrying value of our loan portfolio is susceptible to changes in local market conditions and may be adversely affected should real estate values decline or the New Jersey and/or our local market areas experience economic shock.

Stock-Based Compensation. Stock based compensation cost has been measured using the fair value of an award on the grant date and is recognized over the service period, which is usually the vesting period. The fair value of each option is amortized into compensation expense on a straight-line basis between the grant date for the option and each vesting date. The Company estimates the fair value of stock options on the date of grant using the Black-Scholes option pricing model. The model requires the use of numerous assumptions, many of which are highly subjective in nature.

Goodwill Impairment. Although goodwill is not subject to amortization, the Company must test the carrying value for impairment at least annually or more frequently if events or changes in circumstances indicate that the asset might be impaired. Impairment testing requires that the fair value of our reporting unit be compared to the carrying amount of its net assets, including goodwill. Our reporting unit was identified as our community bank operations. If the fair value of the reporting unit exceeds the book value, no write-down of recorded goodwill is necessary. If the fair value of a reporting unit is less than book value, an expense may be required on the Company's books to write-down the related goodwill to the proper carrying value.

Investment Securities Impairment Valuation. Securities are evaluated on at least a quarterly basis, and more frequently when market conditions warrant such an evaluation, to determine whether a decline in their value is other-than-temporary. The analysis of other-than-temporary impairment requires the use of various assumptions including, but not limited to, the length of time the investment's book value has been greater than fair value, the severity of the investment's decline and the credit deterioration of the issuer. For debt securities, management assesses whether (a) it has the intent to sell the security and (b) it is more likely than not that it will be required to sell the security prior to its anticipated recovery. These steps are done before assessing whether the entity will recover the cost basis of the investment.

In instances when a determination is made that an other-than-temporary impairment exists but the investor does not intend to sell the debt security and it is more likely than not that it will not be required to sell the debt security prior to its anticipated recovery, the other-than-temporary impairment is separated into (a) the amount of the total other-than-temporary impairment related to a decrease in cash flows expected to be collected from the debt security (the credit loss) and (b) the amount of the total other-than-temporary impairment related to all other factors. The amount of the total other-than-temporary impairment related to the credit loss is recognized in earnings. The amount of the total other-than-temporary impairment related to all other factors is recognized in other comprehensive income.

Other Real Estate Owned (“OREO”). OREO includes real estate acquired through foreclosure or by deed in lieu of foreclosure. OREO is initially recorded at fair value less cost to sell at the date of foreclosure, establishing a new cost basis. Any write-downs based on fair value less costs to sell at the date of foreclosure are charged to the allowance for loan losses. If at the time of foreclosure, the fair value less costs to sell is greater than the loan balance, the resulting gain is recognized at the time of foreclosure unless there has been a prior charge-off, in which case a recovery to the allowance for loan losses is recorded. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell. Operating results from real estate owned, including rental income, operating expenses, and gains and losses realized from the sales of real estate owned, are recorded as incurred.

Deferred Tax Assets and Liabilities. We recognize deferred tax assets and liabilities for future tax effects of temporary differences, net operating loss carry forwards and tax credits. Deferred tax assets are subject to management's judgment based upon available evidence, primarily management's forecast of its ability to generate future earnings, that future realization is more likely than not. If management determines that we may be unable to realize all or part of net deferred tax assets in the future, a direct charge to income tax expense may be required to reduce the recorded value of the net deferred tax asset to the expected realizable amount.

H.R.1 (originally known as the Tax Cuts and Jobs Act) (the "Tax Act") was signed into law on December 22, 2017. Pursuant to the SEC Staff Accounting Bulletin No. 118, Income Tax Accounting Implications of the Tax Cuts and Jobs Act ("SAB 118"), given the amount and complexity of the changes in tax law resulting from the Tax Act, the Company has not finalized the accounting for the income tax effects of the Tax Act. This includes the measurement of deferred taxes. The impact of the Tax Act may differ from this estimate, during the one-year measurement period due to, among other things, further refinement of the Company's calculations, changes in interpretations and assumptions the Company has made, guidance that may be issued and actions the Company may take as a result of the Tax Act. As a result of the Tax Act, the Company recorded a non-cash charge to income tax expense of approximately \$1.8 million in the fourth quarter of 2017 primarily due to the re-measurement of deferred tax assets and liabilities.

Overview

The Company reported net income of \$2.68 million, or \$0.31 per diluted share, for the first quarter of 2018, compared to \$1.80 million, or \$0.21 per diluted share, for the same period in 2017, an increase of \$874,000, or 48.5%. The increase was primarily due to higher net interest income and non-interest income, coupled with a \$90,000 tax benefit related to the accounting treatment of equity-based compensation, along with a lower corporate tax rate due to the Tax Act. These positives were partially offset by higher non-interest expense and provision for loan losses. The annualized return on average assets was 1.04% for the three months ended March 31, 2018 as compared to 0.76% for the same period in 2017. The annualized return on average shareholders' equity was 10.08% for the three months ended March 31, 2018 as compared to 7.18% for the same period in 2017. Tangible book value per common share rose to \$10.66 at March 31, 2018 as compared to \$10.05 at March 31, 2017, as disclosed in the Non-GAAP Financial Measures table. All share and per share data for all referenced reporting periods have been adjusted for the 5% stock dividend paid on February 28, 2017.

Net interest income increased by \$1.17 million, or 15.3%, for the quarter ended March 31, 2018 from the same period in 2017. Average interest-earning assets totaled \$984.3 million, an increase of \$87.9 million, or 9.8%, from the quarter ended March 31, 2017, primarily due to an increase in average loans. The Company reported a net interest margin of 3.63% for the quarter ended March 31, 2018, an increase of 18 basis points when compared to the 3.45% reported for the quarter ended March 31, 2017, and an increase of 7 basis points when compared to the 3.56% for the quarter ended December 31, 2017. The increase from both the fourth and first quarters of 2017 was the result of higher yielding interest-earning assets as excess cash on hand was re-deployed into higher yielding loans.

The Company recorded a provision for loan losses of \$400,000 for the three months ended March 31, 2018 as compared to \$225,000 for the corresponding 2017 period. The majority of the first quarter 2017 provision was to support the Company's strong loan growth. The Company's provision considers a number of factors, including our assessment of the current state of the economy, allowances related to impaired loans, loan growth and level of charge-offs and recoveries.

Non-interest income for the quarter ended March 31, 2018 totaled \$1.31 million, an increase of \$185,000, or 16.4%, compared to the same period in 2017. This increase was largely the result of higher gains from the sale of SBA loans of \$214,000, or 182.9%, and an increase in service fees on deposit accounts of \$88,000, or 58.7%, mainly due to a

realignment of fees on various products. These increases were partially offset by a decrease of \$88,000, or 20.7%, in mortgage banking fees.

Non-interest expense for the quarter ended March 31, 2018 totaled \$6.23 million, an increase of \$450,000, or 7.8%, compared to the same period in 2017, largely due to higher salaries and benefits resulting from annual merit increases, along with new hires in the lending and deposit teams.

Total assets at March 31, 2018 were \$1.042 billion, an increase of 0.2% from \$1.040 billion at December 31, 2017. Total loans at March 31, 2018 were \$872.3 million, an increase of \$21.5 million, or 2.5%, from the \$850.9 million recorded at December 31, 2017. Total deposits were \$870.9 million at March 31, 2018, an increase of \$9.3 million, or 1.1%, from the \$861.6 million at December 31, 2017. Core checking deposits at March 31, 2018 decreased \$24.1 million, or 6.0%, to \$375.9 million from \$400.0 million at year-end 2017, while savings accounts, money market deposits and time deposits increased \$33.4 million, or 7.2%. The Company has continued to focus on building non-interest bearing deposits, as this lowers the institution's cost of funds. Additionally,

its savings accounts and other interest-bearing deposit products provide an efficient and cost-effective source to fund loan originations.

At March 31, 2018, the Company's allowance for loan losses was \$11.0 million, an increase from the \$10.7 million at December 31, 2017. The allowance for loan losses as a percentage of total loans at March 31, 2018 was 1.26%, compared to 1.25% at December 31, 2017. Non-performing assets at March 31, 2018 as a percentage of total assets was 0.19% compared to 0.20% at December 31, 2017 and 0.18% at March 31, 2017. Non-performing assets were \$2.0 million at March 31, 2018 compared to \$2.1 million and \$1.8 million at December 31, 2017 and March 31, 2017, respectively.

Results of Operations

The Company's principal source of revenue is net interest income, which is the difference between interest income on earning assets and interest expense on deposits and borrowings. Interest-earning assets consist primarily of loans, investment securities and federal funds sold. Sources to fund interest-earning assets consist primarily of deposits and borrowed funds. The Company's net income is also affected by its provision for loan losses, other income and non-interest expenses. Non-interest income consists primarily of service charges, commissions and fees, earnings from investment in life insurance and gains on security and loan sales, while non-interest expenses are comprised of salaries and employee benefits, occupancy costs and other operating expenses.

The following table provides information on our performance ratios for the dates indicated.

	For the Three Months Ended March 31, 2018 2017			
Return on average assets	1.04	%	0.76	%
Return on average tangible assets (1)	1.06	%	0.77	%
Return on average shareholders' equity	10.08	%	7.18	%
Return on average tangible shareholders' equity (1)	12.12	%	8.74	%
Net interest margin	3.63	%	3.45	%
Average equity to average assets	10.29	%	10.57	%
Average tangible equity to average tangible assets (1)	8.71	%	8.86	%

(1) The following table provides the reconciliation of Non-GAAP Financial Measures for the dates indicated:

(in thousands except per share data and percentages)	For the Three Months Ended March 31,			
	2018		2017	
Total shareholders' equity	\$ 108,980		\$ 102,406	
Less: goodwill and other intangible assets	(18,109)		(18,109)	
Tangible common shareholders' equity	\$ 90,871		\$ 84,297	
Common shares outstanding (in thousands)	8,525		8,389	
Book value per common share	\$ 12.78		\$ 12.21	
Book value per common share	\$ 12.78		\$ 12.21	
Effect of intangible assets	(2.12)		(2.16)	
Tangible book value per common share	\$ 10.66		\$ 10.05	
Return on average assets	1.04	%	0.76	%
Effect of intangible assets	0.02	%	0.01	%
Return on average tangible assets	1.06	%	0.77	%
Return on average equity	10.08	%	7.18	%
Effect of average intangible assets	2.04	%	1.56	%
Return on average tangible equity	12.12	%	8.74	%
Average equity to average assets	10.29	%	10.57	%
Effect of average intangible assets	(1.58)	%	(1.71)	%
Average tangible equity to average tangible assets	8.71	%	8.86	%

Three months ended March 31, 2018 compared to March 31, 2017

Net Interest Income

Net interest income for the quarter ended March 31, 2018 totaled \$8.80 million, an increase of \$1.17 million, or 15.3%, compared to \$7.63 million for the corresponding period in 2017. This increase was largely due to an increase of \$87.9 million, or 9.8%, in average interest-earning assets, primarily resulting from growth in the Company's loan portfolio funded by a combination of a higher level of average deposits and excess cash on hand. Average core checking deposits, which consist of non-interest demand deposits and NOW accounts, increased by \$51.6 million, or 15.0%. These positives contributed to the 18 basis point increase in our net interest margin.

The net interest margin and net interest spread increased to 3.63% and 3.43%, respectively, for the three month period ended March 31, 2018, from 3.45% and 3.28%, respectively, for the same prior year period, primarily resulting from increases in higher yielding interest-earning assets coupled with a higher level of average core checking deposits and lower interest-bearing deposits in banks.

Total interest income for the three months ended March 31, 2018 increased by \$1.5 million, or 16.4%. The increase in interest income was primarily due to a volume related increase in interest income of \$1.14 million, combined with a rate related increase in interest income of \$330,000 for the first quarter of 2018 as compared to the same prior year period.

Interest and fees on loans increased \$1.42 million, to \$9.8 million for the three months ended March 31, 2018 compared to \$8.4 million for the corresponding period in 2017. Volume related increases of \$1.17 million were combined with rate related increases

of \$245,000. The average balance of the loan portfolio for the three months ended March 31, 2018 increased by \$106.4 million, or 14.0%, to \$868.5 million from \$762.2 million for the corresponding period in 2017. The average annualized yield on the loan portfolio was 4.59% for the quarter ended March 31, 2018 compared to 4.47% for the quarter ended March 31, 2017. Additionally, the average balance of total non-accrual loans, which amounted to \$2.0 million and \$1.5 million for the three months ended March 31, 2018 and 2017, respectively, impacted the Company's loan yield for both periods presented.

Interest income on investment securities totaled \$579,000 for the three months ended March 31, 2018 compared to \$518,000 for the three months ended March 31, 2017, an increase of \$61,000, or 11.8%. For the three months ended March 31, 2018, investment securities had an average balance of \$97.6 million with an average annualized yield of 2.37% compared to an average balance of \$96.0 million with an average annualized yield of 2.16% for the three months ended March 31, 2017.

Interest income on interest-bearing deposits was \$67,000 for the three months ended March 31, 2018, representing a decrease of \$5,000, or 6.9%, from \$72,000 for the three months ended March 31, 2017. For the three months ended March 31, 2018, interest-bearing deposits had an average balance of \$18.1 million and an average annualized yield of 1.50% as compared to an average balance of \$38.3 million and an average annualized yield of 0.76% for the same period in 2017. The increase in the rate was the result of the Federal Reserve raising short-term interest rates.

Interest expense on interest-bearing liabilities amounted to \$1.7 million for the three months ended March 31, 2018 compared to \$1.4 million for the corresponding period in 2017, an increase of \$304,000, or 22.3%. This increase in interest expense was comprised of a \$171,000 volume related increase as well as a \$133,000 rate related increase.

The Bank continues to focus on developing core deposit relationships. The average balance of interest-bearing liabilities was \$769.6 million for the three months ended March 31, 2018 compared to \$700.2 million for the same period last year, an increase of \$69.4 million, or 9.9%. Average NOW accounts increased \$44.8 million from \$191.9 million with an average annualized rate of 0.45% during the first quarter of 2017, to \$236.7 million with an average annualized rate of 0.53% during the first quarter of 2018. Average savings accounts decreased \$8.0 million from \$256.5 million with an average annualized rate of 0.52% during the first quarter of 2017, to \$248.5 million with an average annualized rate of 0.58% during the first quarter of 2018. Average money market deposits also experienced a decrease of \$3.3 million over this same period while the average annualized rate remained unchanged at 0.17%. Average time deposits increased by \$31.9 million, or 23.3%, to \$168.3 million over this same period. During the first quarter of 2018, our average demand deposits totaled \$160.1 million, an increase of \$6.9 million, or 4.5%, over the same period last year. For the three months ended March 31, 2018, the average annualized cost for all interest-bearing liabilities was 0.88%, compared to 0.79% for the three months ended March 31, 2017.

Our strategies for increasing and retaining core deposit relationships, managing loan originations within our acceptable credit criteria and loan category concentrations, and our planned branch network growth have combined to meet our liquidity needs. The Company also offers agreements to repurchase securities, commonly known as repurchase agreements, to our customers as an alternative to other insured deposits. Average balances of repurchase agreements for the first quarter of 2018 were \$19.6 million, with an average interest rate of 0.29%, compared to \$19.4 million, with an average interest rate of 0.31%, for the first quarter of 2017.

The Company also utilizes FHLB term borrowings as an additional funding source. The average balance of such borrowings for the first quarter of 2018 and 2017 was \$28.2 million and \$24.4 million, respectively, with an average interest rate of 1.87% and 2.41%, respectively.

The \$10 million of subordinated debentures totaled \$9.9 million at March 31, 2018, which includes \$104,000 of remaining unamortized debt issuance costs. The debt issuance costs are being amortized over the expected life of the issue. The effective interest rate of the subordinated debt is 6.67%.

(dollars in thousands)	Three Months Ended March 31, 2018			Three Months Ended March 31, 2017		
	Average Balance	Interest Income/ Expense	Average Yield/ Rate	Average Balance	Interest Income/ Expense	Average Yield/ Rate
ASSETS						
Interest-Earning Assets:						
Interest-bearing deposits in banks	\$18,135	\$ 67	1.50 %	\$38,263	\$ 72	0.76 %
Investment securities	97,625	579	2.37 %	96,030	518	2.16 %
Loans, net of unearned fees (1) (2)	868,544	9,821	4.59 %	762,150	8,403	4.47 %
Total Interest-Earning Assets	984,304	10,467	4.31 %	896,443	8,993	4.07 %
Non-Interest-Earning Assets:						
Allowance for loan losses	(10,840)			(9,645)		
All other assets	72,889			75,551		
Total Assets	\$1,046,353			\$962,349		
LIABILITIES & SHAREHOLDERS' EQUITY						
Interest-Bearing Liabilities:						
NOW deposits	\$236,674	310	0.53 %	\$191,903	212	0.45 %
Savings deposits	248,488	354	0.58 %	256,499	327	0.52 %
Money market deposits	58,348	25	0.17 %	61,668	26	0.17 %
Time deposits	168,327	669	1.61 %	136,474	473	1.41 %
Securities sold under agreements to repurchase	19,636	14	0.29 %	19,376	15	0.31 %
FHLB and other borrowings	28,217	130	1.87 %	24,447	145	2.41 %
Subordinated debt	9,893	165	6.67 %	9,860	165	6.69 %
Total Interest-Bearing Liabilities	769,583	1,667	0.88 %	700,227	1,363	0.79 %
Non-Interest-Bearing Liabilities:						
Demand deposits	160,060			153,185		
Other liabilities	9,033			7,185		
Total Non-Interest-Bearing Liabilities	169,093			160,370		
Shareholders' Equity	107,677			101,752		
Total Liabilities and Shareholders' Equity	\$1,046,353			\$962,349		
NET INTEREST INCOME		\$ 8,800			\$ 7,630	
NET INTEREST SPREAD (3)			3.43 %			3.28 %

NET INTEREST MARGIN (4)	3.63 %	3.45 %
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(1) Included in interest income on loans are loan fees.

(2) Includes non-performing loans.

(3) The interest rate spread is the difference between the weighted average yield on average interest-earning assets and the weighted average cost of average interest-bearing liabilities.

(4) The interest rate margin is calculated by dividing annualized net interest income by average interest-earning assets.

Analysis of Changes in Net Interest Income

The following table sets forth for the periods indicated a summary of changes in interest earned and interest paid resulting from changes in volume and changes in rates:

	Three Months Ended March 31, 2018 Compared to Three Months Ended March 31, 2017 Increase (decrease) due to change in VolumeRate Net (in thousands)		
Interest Earned On:			
Interest-bearing deposits in banks	\$(38)	\$33	\$(5)
Investment securities	9	52	61
Loans, net of unearned fees	1,173	245	1,418
Total Interest Income	1,144	330	1,474
Interest Paid On:			
NOW deposits	49	49	98
Savings deposits	(10)	37	27
Money market deposits	(1)	—	(1)
Time deposits	110	86	196
Securities sold under agreements to repurchase	—	(1)	(1)
FHLB and other borrowings	22	(37)	(15)
Subordinated debt	1	(1)	—
Total Interest Expense	171	133	304
Net Interest Income	\$973	\$197	\$1,170

The change in interest due to both volume and rate has been allocated proportionally to both, based on their relative absolute values.

Provision for Loan Losses

During the first quarter of 2018, a provision for loan losses of \$400,000 was expensed as compared to \$225,000 for the corresponding 2017 period. The majority of the first quarter of 2018 provision was to support the Company's strong loan growth and, to a lesser degree, net charge-offs of \$106,000. The majority of the 2017 provision was primarily the result of \$223,000 in net loan charge-offs along with loan growth. The provision for loan losses is determined by an allocation process whereby an estimated allowance is allocated to the specific allowance for impaired loans and the general allowance for pools of loans. The allocation reflects management's assessment of economic conditions, credit quality and other risk factors inherent in the loan portfolio. The allowance for loan losses totaled \$11.0 million, or 1.26% of total loans at March 31, 2018, as compared to \$10.7 million, or 1.25% at December 31, 2017.

In management's opinion, the level of allowance for loan losses, totaling \$11.0 million, is appropriate to adequately provide for known and inherent risks in the portfolio. In the current interest rate and credit quality environment, our risk management philosophy has been to stay within our established credit culture. Management will continue to review the need for additions to its allowance for loan losses based upon its ongoing review of the loan portfolio and credit quality trends, the level of delinquencies, and general market and economic conditions.

Non-Interest Income

For the three months ended March 31, 2018, non-interest income amounted to \$1.31 million as compared to \$1.13 million, an increase of \$185,000, or 16.4%, from the corresponding period in 2017. This increase was primarily the result of higher gains from the sale of SBA loans of \$214,000, or 182.9%. Service fees on deposit accounts increased by \$88,000, or 58.7%, mainly due to a realignment of fees on various products. These increases were partially offset by a decrease of \$88,000, or 20.7%, in mortgage banking fees. Additionally, other income declined by \$42,000, or 20.6%, primarily due to the reclassification of \$45,000 in debit card interchange expenses recorded as contra-revenue due to the adoption of ASU 2014-09 in 2018, as well as the recognition of a \$40,000 unrealized loss related to the CRA Mutual Fund due to the adoption of ASU 2016-01 in 2018. These losses were partially offset by an increase of \$33,000 from title agency fees during the quarter.

Non-Interest Expenses

Non-interest expenses for the three months ended March 31, 2018 increased \$450,000, or 7.8%, to \$6.23 million compared to \$5.78 million for the three months ended March 31, 2017. This increase was primarily due to higher salaries and benefits resulting from annual merit increases, along with new hires in the lending and deposit teams.

Income Taxes

The Company recorded income tax expense of \$807,000 for the three months ended March 31, 2018 compared to \$951,000 for the three months ended March 31, 2017. The effective tax rate for the three months ended March 31, 2018 and 2017 was 23.2% and 34.5%, respectively. Income tax expense for the three months ended March 31, 2018 included a \$90,000 benefit relating to the accounting treatment of equity-based compensation compared to none in the corresponding prior year period.

FINANCIAL CONDITION

Assets

At March 31, 2018, total assets were \$1.042 billion, an increase of \$2.4 million, or 0.2%, from \$1.040 billion at December 31, 2017. At March 31, 2018, total loans were \$872.3 million, an increase of \$21.5 million, or 2.5%, from the \$850.9 million reported at December 31, 2017. This loan growth was funded primarily by a combination of deposit growth and excess cash on hand. Investment securities, including restricted stock, were \$96.3 million at March 31, 2018 as compared to \$94.6 million at December 31, 2017, an increase of \$1.7 million, or 1.8%. At March 31, 2018, cash and cash equivalents totaled \$28.6 million compared to \$48.2 million at December 31, 2017, a decrease of \$19.6 million, or 40.7%. Our liquidity position continued to remain strong. Goodwill totaled \$18.1 million at both March 31, 2018 and December 31, 2017.

Liabilities

Total liabilities remained essentially unchanged at \$933.2 million at March 31, 2018 from December 31, 2017. Total deposits increased \$9.3 million, or 1.1%, to \$870.9 million at March 31, 2018, from \$861.6 million at December 31, 2017. FHLB and other borrowings decreased by \$1.3 million over this same period while securities sold under agreement to repurchase decreased by \$8.6 million.

Securities Portfolio

Investment securities, including restricted investments, totaled \$96.3 million at March 31, 2018 compared to \$94.6 million at December 31, 2017, an increase of \$1.7 million, or 1.8%. During the three months ended March 31, 2018 and 2017, investment security purchases amounted to \$3.8 million and \$200,000, respectively, while repayments, calls and maturities amounted to \$1.7 million and \$2.3 million, respectively. Additionally, there were no investment security sales during the first three months of 2018 or 2017.

The Company maintains an investment portfolio to fund increased loans and liquidity needs (resulting from decreased deposits or otherwise) and to provide an additional source of interest income. The portfolio is composed of obligations of the U.S. Government agencies and U.S. Government-sponsored entities, municipal securities, a limited amount of corporate debt securities and a Community Reinvestment Act ("CRA") mutual fund. U.S. Government agencies are considered to have the lowest risk due to the "full faith and credit" guarantee by the U.S. Government. All of our mortgage-backed investment securities are collateralized by pools of mortgage obligations that are guaranteed by privately managed, U.S. Government-sponsored enterprises ("GSE"), such as Fannie Mae, Freddie Mac and Government National Mortgage Association. Due to these GSE guarantees, these investment securities are susceptible to less risk of non-performance and default than other corporate securities which are collateralized by private pools of mortgages. At March 31, 2018, the Company maintained \$14.6 million of GSE residential mortgage-backed

securities in the investment portfolio and \$9.1 million of collateralized residential mortgage obligations, all of which are current as to payment of principal and interest and are performing in accordance with the terms set forth in their respective prospectuses. Municipal securities are evaluated by a review of the credit ratings of the underlying issuer, any changes in such ratings that have occurred, adverse conditions relating to the security or its issuer, as well as other factors.

Included within the Company's investment portfolio are trust preferred securities, which consists of four single issue securities issued by large financial institutions with Moody's ratings from Baa1 to Baa3. These securities have an amortized cost value of \$2.8 million and a fair value of \$2.7 million at March 31, 2018. The unrealized loss on these securities is related to general market conditions, the widening of interest rate spreads and downgrades in credit ratings.

Management evaluates all securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic and market concerns warrant such evaluations. As of March 31, 2018, all of these securities are current with their scheduled interest payments. Future deterioration in the cash flow of these instruments or the credit quality of the financial institution issuers could result in additional impairment charges in the future.

The Company accounts for its investment securities as available for sale or held to maturity. Management determines the appropriate classification at the time of purchase. Based on an evaluation of the probability of the occurrence of future events, we determine if we have the ability and intent to hold the investment securities to maturity, in which case we classify them as held to maturity. All other investments are classified as available for sale.

Securities classified as available for sale must be reported at fair value, with unrealized gains and losses excluded from earnings and reported as a separate component of shareholders' equity, net of taxes. Gains or losses on the sales of securities available for sale are recognized upon realization utilizing the specific identification method. The net effect of unrealized gains or losses, caused by marking our available for sale portfolio to fair value, could cause fluctuations in the level of shareholders' equity and equity-related financial ratios as changes in market interest rates cause the fair value of fixed-rate securities to fluctuate.

Securities classified as held to maturity are carried at cost, adjusted for amortization of premium and accretion of discount over the terms of the maturity in a manner that approximates the interest method.

Loan Portfolio

The following table summarizes total loans outstanding, by loan category and amount as of March 31, 2018 and December 31, 2017.

	March 31, 2018			December 31, 2017		
	Amount	Percent		Amount	Percent	
	(in thousands, except for percentages)					
Commercial and industrial	\$106,758	12.2 %		\$101,371	11.9 %	
Real estate – construction	124,828	14.3 %		118,094	13.9 %	
Real estate – commercial	545,728	62.6 %		537,733	63.2 %	
Real estate – residential	65,035	7.5 %		64,238	7.6 %	
Consumer	30,748	3.5 %		30,203	3.5 %	
Unearned fees	(770)	(0.1)%		(765)	(0.1)%	
Total loans	\$872,327	100.0 %		\$850,874	100.0 %	

For the three months ended March 31, 2018, total loans increased by \$21.5 million, or 2.5%, to \$872.3 million from \$850.9 million at December 31, 2017. The increase was due to growth in all sectors of the portfolio during the period. Our local economy seems to reflect some strengthening in certain sectors. As such, we remain optimistic in our growth prospects for lending for the remainder of 2018, recognizing that we will continue to be challenged due in part to both the competitive landscape and pricing pressures. Our loan pipeline remains strong, as we continue to remain focused on growing our portfolio. One of our strategies is to open low cost loan production offices (“LPOs”) in contiguous markets and once a certain level of business is achieved, the intention is to replace some of these LPOs with a full service branch at an appropriate location within that market. During the first quarter of 2017, the Bank relocated our Toms River, New Jersey, LPO into a new, more highly visible location that now complements our other LPO in Summit, New Jersey. Both of our LPOs are staffed by experienced seasoned loan officers who are knowledgeable within these markets and have begun to produce positive results.

The mix of our loan composition at March 31, 2018 reflects our desire to continue emphasizing commercial and industrial, commercial real estate, construction and residential lending. Within the loan portfolio, commercial real estate remains the largest

component, constituting 62.6% of our total loans at March 31, 2018, down slightly from 63.2% at December 31, 2017. These loans increased \$8.0 million, or 1.5%, to \$545.7 million at March 31, 2018 from \$537.7 million at December 31, 2017. Commercial and industrial loans increased by \$5.4 million, or 5.3%, to \$106.8 million at March 31, 2018 from \$101.4 million at December 31, 2017. Real estate construction loans increased by \$6.7 million, or 5.7%, to \$124.8 million at March 31, 2018 from \$118.1 million at December 31, 2017, while real estate residential loans increased \$800,000, or 1.2%, to \$65.0 million at March 31, 2018 from \$64.2 million at December 31, 2017. The increase in real estate residential loans is inclusive of the sale of \$5.0 million in portfolio adjustable rate mortgages during the first three months of 2018, which generated a gain of \$100,000. Consumer loans grew by \$545,000, or 1.8%, to \$30.7 million at March 31, 2018 from \$30.2 million at December 31, 2017.

Asset Quality

One of our key operating objectives has been, and continues to be, to maintain a high level of asset quality. We continually analyze our credit quality through a variety of strategies. We have been proactive in addressing problem and non-performing assets and management believes our allowance for loan losses is adequate to cover known and potential losses. These strategies, as well as our underwriting standards for new loan originations, have resulted in relatively low levels of non-performing loans and charge-offs (see following tables). Our loan portfolio composition generally consists of loans secured by commercial real estate, land development and construction of real estate projects mainly in the Monmouth, Middlesex, Union and Ocean Counties, New Jersey market area. We continue to have lending success and growth in the medical markets through our Private Banking Department. We have experienced signs of improvement in our markets as our loan pipeline remains strong. Efficient and effective asset-management strategies reflect the type and quality of assets being underwritten and originated.

The Company continues to be proactive in identifying troubled credits, to record charge-offs promptly based on current collateral values, and to maintain an adequate allowance for loan losses at all times. We closely monitor local and regional real estate markets and other risk factors related to our loan portfolio.

The Bank does not originate or purchase loans with payment options, negative amortization loans or sub-prime loans. We evaluate the classification of all our loans and the financial results of some of those loans which may be adversely impacted by changes in the prevailing economic conditions, either nationally or in our local market areas, including decreases in real estate values, adverse employment conditions, the monetary and fiscal policies of the federal and state government and other significant external events. For loans involved in a workout situation, a new or updated appraisal or evaluation, as appropriate, is ordered to address current project plans and market conditions that were considered in the development of the workout plan. The consideration includes whether there has been material deterioration in the following factors: the performance of the project; conditions of the geographic market and property type; variances between actual conditions and original appraisal assumptions; changes in project specifications (e.g., changing a planned condominium project to an apartment building); loss of a significant lease or a take-out commitment. A new appraisal may not be necessary in all instances where an internal evaluation is used to appropriately update the original appraisal assumptions reflecting current market conditions along with providing an estimate of the collateral's fair market value for impairment analysis testing.

Non-Performing Assets

Non-performing assets include loans that are not accruing interest (non-accrual loans), loans past due 90 days or more and still accruing and other real estate owned, which consists of real estate acquired as the result of a defaulted loan. A loan is placed on non-accrual status when collection of all principal or interest is considered unlikely or when principal or interest is past due for 90 days or more, unless the loan is well-secured and in the process of collection, in which case, the loan will continue to accrue interest. Any unpaid interest previously accrued on those loans is reversed

from income. Interest income on other non-accrual loans is recognized only to the extent of interest payments received. A troubled debt restructuring loan ("TDR") is a loan in which the contractual terms have been modified resulting in the Bank granting a concession to a borrower who is experiencing financial difficulties in order for the Bank to have a greater opportunity of collecting the indebtedness from the borrower. Non-accruing TDRs are included in non-performing loans.

At March 31, 2018, non-accrual loans decreased to \$2.0 million from the \$2.1 million at December 31, 2017. Our non-performing loans are primarily secured by real estate. At March 31, 2018 and December 31, 2017, the Company had no loans past due 90 days or more and still accruing.

The following table summarizes our non-performing assets as of March 31, 2018 and December 31, 2017. Total TDRs are broken out at the bottom of the table.

	March 31, December 31, 2018 2017 (dollars in thousands)			
Non-Performing Assets:				
Non-Accrual Loans:				
Commercial and industrial	\$674		\$ 790	
Real estate-construction	150		150	
Real estate-commercial	197		219	
Real estate-residential	717		717	
Consumer	234		194	
Total Non-Performing Loans	1,972		2,070	
OREO	—		—	
Total Non-Performing Assets	\$1,972		\$ 2,070	
Ratios:				
Non-Performing loans to total loans	0.23	%	0.24	%
Non-Performing assets to total assets	0.19	%	0.20	%
Troubled Debt Restructured Loans:				
Performing	\$5,965		\$ 6,053	
Non-performing (included in non-performing assets above)	878		994	

Total non-performing loans decreased by \$98,000 from December 31, 2017. Twelve loans comprise the \$2.0 million and \$2.1 million at both March 31, 2018 and December 31, 2017. At March 31, 2018, the Company believes it has a manageable level of non-performing loans, many of which are in the final stages of loss mitigation or legal resolution.

At March 31, 2018, non-performing commercial and industrial loans from December 31, 2017, decreased by \$116,000 during the three months ended March 31, 2018, primarily due to the charge-off of one loan relationship. The \$674,000 is comprised of four commercial term loans.

At March 31, 2018, non-performing real estate commercial loans decreased by \$22,000 from December 31, 2017, due primarily to payments.

At March 31, 2018, non-performing real estate residential loans remained unchanged at \$717,000 from December 31, 2017.

At March 31, 2018, non-performing consumer loans increased by \$40,000 from December 31, 2017, due to the addition of one credit.

OREO represents real estate acquired as a result of foreclosure or by deed in lieu of foreclosure. These assets are carried at the lower of cost or fair value less estimated selling costs. When a property is acquired, the excess of the loan balance over fair value, less selling costs, is charged to the allowance for loan losses. Operating results from real

estate owned, including rental income, operating expenses, and gains and losses realized from the sales of real estate owned are recorded as incurred. All of our OREO are aggressively marketed, and are monitored on a regular basis to ensure valuations are in line with current fair market values. At both March 31, 2018 and December 31, 2017, the Bank had no OREO properties.

Loans whose terms are modified are classified as TDRs if the Company grants such borrowers concessions and it is deemed that those borrowers are experiencing financial difficulty. Concessions granted under a TDR generally involve a temporary reduction in interest rate or a modification of a loan's amortization schedule. Non-accrual TDRs are restored to accrual status if principal and interest payments, under the modified terms, are current for six consecutive months after the modification is in place. Loans classified as TDRs are designated as impaired from a cash flow perspective. Modifications involving troubled borrowers may include a modification of a loan's amortization schedule, reduction in the stated interest rate and rescheduling of future cash flows.

The Company's TDR modifications are made on terms typically up to 12 months in order to aggressively monitor and track performance of the credit. The short-term modifications are monitored for continued performance for an additional period of time after the expiration of the concession. Balance reductions and annualized loss rates are also important metrics that are monitored. The main objective of the modification program is to reduce the payment burden for the borrower and to deleverage the Company's exposure.

As of March 31, 2018 and December 31, 2017, TDRs totaled \$6.8 million and \$7.0 million, respectively. Concessions made on TDRs generally involved a temporary reduction in interest rate or a modification of a loan's amortization schedule. The main objective of the modification is to reduce the payment burden for the borrower and to deleverage the Company's exposure. The \$6.8 million is comprised of \$225,000 in real estate commercial loans, \$3.1 million in real estate construction loans, \$3.1 million in commercial and industrial, and \$367,000 in real estate residential loans. All TDRs as of March 31, 2018 are collateral-dependent. The one loan relationship that was unsecured and on non-accrual was charged-off during the first quarter of 2018. Of the \$6.8 million, no relationships have a specific reserve in our ALLL computation.

The \$225,000 in real estate commercial loans identified as TDR's are all accruing, with the exception of one non-accrual loan totaling \$103,000, which is secured by real estate.

The \$3.1 million in real estate construction loans is partially comprised of four relationships, which are currently being developed, under contract and/or amortizing, and all are accruing except for one loan for \$150,000.

The \$3.1 million in commercial and industrial loans are all performing, with the exception of four non-accrual loans totaling \$674,000.

The \$367,000 in real estate residential loans are all performing.

Potential Problem Loans

Potential problem loans consist of special mention, substandard, and doubtful loans. At March 31, 2018, the Company had \$20.9 million in loans that were risk rated as special mention, substandard, or doubtful. This \$20.9 million of special mention, substandard, and doubtful loans represents a decrease of \$2.0 million from the \$22.9 million reported at December 31, 2017, primarily due to one credit upgraded to pass from special mention during the current quarter.

At March 31, 2018, other than the loans set forth above, the Company is not aware of any loans which present serious doubts as to the ability of its borrowers to comply with present loan repayment terms and which are expected to fall into one of the risk categories set forth in the description herein.

Allowance for Loan Losses

The following table summarizes our allowance for loan losses for the three months ended March 31, 2018 and 2017 and for the year ended December 31, 2017.

March 31,		December
2018	2017	31,
(in thousands, except		2017
percentages)		

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Balance at beginning of year	\$ 10,668	\$ 9,565	\$ 9,565
Provision charged to expense	400	225	1,530
Recoveries (charge-offs), net	(106)	(223)	(427)
Balance of allowance at end of period	\$ 10,962	\$ 9,567	\$ 10,668
Ratio of net charge-offs (recoveries) to average loans outstanding (annualized)	0.05 %	(0.12)%	0.05 %
Balance of allowance as a percent of loans at period-end	1.26 %	1.25 %	1.25 %
Ratio of allowance to non-performing loans at period-end	555.88 %	633.16 %	515.36 %

At March 31, 2018 and December 31, 2017, the Company's allowance for loan losses was \$11.0 million and \$10.7 million, respectively. The allowance for loan losses as a percentage of total loans at March 31, 2018 was 1.26%, compared with 1.25% at December 31, 2017. The Company recorded a \$400,000 provision to the allowance for loan losses for the three month period ended March 31, 2018 as compared to a \$225,000 provision for the comparable period in 2017. The majority of the 2018 provision was to support loan growth in 2018, while the majority of the 2017 provision was to record a partial charge-off. Non-performing loans at March 31, 2018 are either well-collateralized or adequately reserved for in the allowance for loan losses.

Management maintains the allowance for loan losses at a level estimated to absorb probable loan losses of the loan portfolio. The allowance is based on ongoing evaluations of the probable estimated losses inherent in the loan portfolio. Our methodology for evaluating the appropriateness of the allowance includes segmentation of the loan portfolio into its various asset components, tracking the historical levels of criticized loans and delinquencies, and assessing the nature and trends of loan charge-offs. Additionally, the volume of non-performing loans, concentration of risks by size, type, and geography, new products and markets, collateral adequacy, credit policies and procedures, staffing, underwriting consistency, and economic conditions are also taken into consideration. Risks within the loan portfolio are analyzed on a continuous basis by the Bank's senior management, outside independent loan review auditors, directors' loan committee, and board of directors. A risk system, consisting of multiple grading categories, is utilized as an analytical tool to assess risk and set appropriate reserves.

Our local economy seems to reflect some strengthening in certain sectors. As such, we remain optimistic in our growth prospects for lending for the remainder of 2018, recognizing that we will continue to be challenged due in part to both the competitive landscape and pricing pressures and, as such, prudent risk management practices must be maintained. Along with this conservative approach, we have further stressed our qualitative and quantitative allowance factors to primarily reflect the current state of the economy, the housing market and levels of unemployment. We apply this process and methodology in a consistent manner and reassess and modify the estimation of methods and assumptions on a regular basis.

We attempt to maintain an allowance for loan losses at a sufficient level to provide for probable losses inherent in the loan portfolio. Risks within the loan portfolio are analyzed on a continuous basis by the Bank's senior management, outside independent loan review consultants, directors' loan committee, and board of directors. The level of the allowance is determined by assigning specific allowances to impaired loans and general allowances on all other loans. The portion of the allowance that is allocated to impaired loans is determined by estimating the inherent loss on each credit after giving consideration to the value of the underlying collateral on collateral dependent loans and cash flow from operations on cash flow dependent loans. A risk rating system, consisting of multiple grading categories, is utilized as an analytical tool to assess risk and set appropriate reserves. Along with the risk system, senior management evaluates risk characteristics of the loan portfolio under current economic conditions and considers such factors as the financial condition of the borrower, past and expected loss experience, and other factors management feels deserve recognition in establishing an appropriate allowance. These estimates are reviewed at least quarterly, and as adjustments become necessary they are realized in the periods in which they become known. Although management attempts to maintain the allowance at a level deemed adequate to cover any losses, future additions to the allowance may be necessary based upon changes in market conditions, either generally or specific to our area, or changes in the circumstances of particular borrowers. In addition, various regulatory agencies periodically review our allowance for loan losses. These agencies may require the Company to take additional provisions based on their judgments about information available to them at the time of their examination.

Bank Owned Life Insurance ("BOLI")

In November 2004, the Company invested in \$3.5 million of BOLI as a source of funding for additional life insurance benefits for officers and employee benefit expenses related to the Company's non-qualified Supplemental Executive Retirement Plan ("SERP") implemented for certain executive officers in 2004. The SERPs provide for payments upon retirement, death or disability. Since its initial investment in 2004, the Company has purchased an additional \$17.0 million of BOLI, of which \$3.9 million was purchased in the third quarter of 2016, in order to provide life insurance benefits for additional officers upon death or disability and to provide a source of funding for future enhancements of the benefits under the SERPs. Expenses related to the SERP were approximately \$80,000 and \$77,000 for the three months ended March 31, 2018 and 2017, respectively. BOLI involves our purchase of life insurance on a selected group of officers. The Company is the owner and beneficiary of the policies. Increases in the cash surrender values of this investment are recorded in other income in the statement of operations. Earnings on BOLI amounted to \$130,000 and \$136,000 for the three months ended March 31, 2018 and 2017, respectively.

Premises and Equipment

Premises and equipment totaled approximately \$6.2 million at both March 31, 2018 and December 31, 2017. Depreciation expense totaled \$166,000 and \$189,000 for the three months ended March 31, 2018 and 2017, respectively.

Goodwill and Other Intangible Assets

Intangible assets totaled \$18.1 million at March 31, 2018 and December 31, 2017, which was comprised of goodwill. The Company performed its annual qualitative factor goodwill impairment test as of August 31, 2017. Based on the results of this analysis, the Company concluded that there was no impairment on the current goodwill balance of \$18.1 million.

There can be no assurance that future testing will not result in material impairment charges due to further developments in the banking industry or our markets or otherwise. Additional goodwill discussion can be referenced in Note 4, Goodwill, in the Company's financial statements.

Deposits

Deposits are the Company's primary source of funds. The deposit increase during 2018 was primarily attributable to the Company's strategic initiative to continue to remain focused on growing market share through core deposit relationships. The Company anticipates loan demand to increase during 2018 and beyond, and will depend on the expansion and maturation of the branch network as its primary funding source. As a secondary funding source, the Company intends to utilize borrowed funds, including FHLB advances, brokered certificates of deposit ("CDs"), and Listed Service CDs, at opportune times during changing rate cycles to help support its growth. The Company continues to experience change in the mix of the deposit products through its branch sales efforts, which are targeted to gain market penetration. In order to fund future loan growth, the Company intends to use the most cost-effective funding mix available within the market area.

In keeping with the Company's Strategic Plan, which includes optimizing the profitability of our branch network, the Company will be closing two branches and consolidating them into a new location, which will provide cost efficiency and greater market share potential. We opened a new branch in Sea Girt in the third quarter, along the Route 35 corridor in Monmouth County, N.J., and consolidated the operations of our Allaire office in Wall Township, N.J. and our office in Manasquan, N.J., into this new branch. The Company anticipates annual pre-tax expense savings of approximately \$300,000.

At March 31, 2018, total deposits amounted to \$870.9 million, reflecting an increase of \$9.3 million, or 1.1%, from \$861.6 million at December 31, 2017. Core checking deposits at March 31, 2018 decreased \$24.1 million, or 6.0%, to \$375.9 million from year-end 2017, while savings accounts, money market deposits and time deposits, increased \$33.4 million, or 7.2% to \$495.0 million, compared to \$461.6 million at December 31, 2017. The Bank continues to focus on building non-interest-bearing deposits, as this lowers our costs of funds. Additionally, our savings accounts and other interest-bearing deposit products provide an efficient and cost-effective source to fund our loan originations.

One of the primary strategies is the accumulation and retention of core deposits. Core deposits consist of all deposits, except CDs \$250,000 and over, brokered CDs and Listed Service CDs. Core deposits at March 31, 2018 amounted to \$755.7 million and accounted for 86.8% of total deposits, as compared to \$761.6 million and 88.4% at December 31, 2017. During 2018, we continued to price our CDs \$250,000 and over at rates that did not exceed our market competition. The balance in our CDs \$250,000 and over at March 31, 2018 totaled \$16.4 million as compared to \$14.9 million at December 31, 2017, an increase of \$1.5 million, or 10.1%. At March 31, 2018, the Company had \$53.1 million in brokered CDs as compared to \$40.7 million at December 31, 2017, with rates ranging from 1.09% to 2.73% and original terms ranging from 24 to 84 months, while Listed Service CDs totaled \$45.7 million compared to \$44.4 million at December 31, 2017, with rates between 1.20% to 2.62% and original terms ranging from 12 to 60 months.

The Company found this strategy of placing both brokered and Listed Service CDs provides a more cost-effective source of longer-term funding, as the rates paid for these type CDs were very competitive with current fixed rate term advances at the Federal Home Loan Bank of New York (“FHLB”) without any collateral requirements.

Borrowings

The Bank has unsecured lines of credit totaling \$46.0 million with four correspondent financial institutions. These borrowings are priced on a daily basis. The Bank had no borrowings outstanding on these lines. The Bank also has remaining borrowing capacity with the FHLB of approximately \$37.0 million based on the current loan collateral pledged of \$148.4 million at March 31, 2018.

Short-term borrowings consist of Federal funds purchased and short-term borrowings from the FHLB. At March 31, 2018 and 2017, the Company had no short-term borrowings outstanding.

At March 31, 2018 and December 31, 2017, FHLB and other borrowings consisted of advances from the FHLB, which amounted to \$24.5 million at March 31, 2018 compared to \$25.8 million at December 31, 2017. The FHLB advances had a weighted average interest rate of 1.90% and 1.87% at March 31, 2018 and December 31, 2017, respectively. These advances are contractually scheduled for repayment as follows:

	March 31, 2018 (dollars in thousands)	December 31, 2017	Rate	Original Term (years)	Maturity
Fixed Rate Note	\$2,000	\$ 2,000	1.65 %	5	October 2018
Fixed Rate Note	—	1,300	1.31 %	3	January 2018
Fixed Rate Note	1,800	1,800	1.59 %	4	January 2019
Fixed Rate Note	2,700	2,700	1.81 %	5	January 2020
Fixed Rate Note	2,500	2,500	2.03 %	6	January 2021
Fixed Rate Note	1,000	1,000	1.09 %	3	July 2019
Fixed Rate Note	1,000	1,000	1.42 %	5	July 2021
Fixed Rate Note	7,500	7,500	2.07 %	5	August 2022
Fixed Rate Note	1,000	1,000	1.70 %	7	July 2023
Fixed Rate Note	5,000	5,000	2.16 %	4	October 2021

Total FHLB borrowings \$24,500 \$ 25,800

The maximum amount outstanding of FHLB advances at any month-end during the three months ended March 31, 2018 and 2017 was \$39.5 million and \$24.3 million, respectively. The average interest rates paid on FHLB advances was 1.87% and 2.41% during the three months ended March 31, 2018 and 2017, respectively.

Subordinated Debentures

In December 2015, the Company completed a private placement of \$10 million in aggregate principal amount of fixed to floating rate subordinated debentures to certain institutional accredited investors. The subordinated debentures have a maturity date of December 31, 2025 and bear interest, payable quarterly, at the rate of 6.25% per annum until January 1, 2021. On that date, the interest rate will be adjusted to float at an annual rate equal to the three-month LIBOR rate plus 464 basis points (4.64%) until maturity. The debentures include a right of prepayment, without penalty, on or after December 14, 2020 and, in certain limited circumstances, before that date. The indebtedness evidenced by the subordinated debentures, including principal and interest, is unsecured and subordinate and junior in right to payment to general and secured creditors of the Company and depositors and other creditors of the Bank. The subordinated debentures have been structured to qualify as Tier 2 capital for regulatory purposes. Subordinated debentures totaled \$9.9 million at March 31, 2018 and December 31, 2017, which includes \$104,000 and \$112,000 of remaining unamortized debt issuance costs at March 31, 2018 and December 31, 2017, respectively. The debt issuance costs are being amortized over the expected life of the issue. The effective interest rate of the subordinated debentures is 6.67%.

Repurchase Agreements

Securities sold under agreements to repurchase, which are classified as secured borrowings, generally mature within one to four days from the transaction date. Securities sold under agreements to repurchase are reflected as the amount of cash received in connection with the transaction. The Company may be required to provide additional collateral based on the fair value of the underlying securities. Securities sold under agreements to repurchase amounted to \$18.5 million at March 31, 2018, a decrease of \$8.6 million, or 31.9%, from \$27.1 million at December 31, 2017.

Liquidity

Liquidity defines the Company's ability to generate funds to support asset growth, meet deposit withdrawals, maintain reserve requirements and otherwise operate on an ongoing basis. An important component of the Company's asset and liability management structure is the level of liquidity available to meet the needs of our customers and requirements of our creditors. The liquidity needs of the Bank are primarily met by cash on hand, Federal funds sold position, maturing investment securities and short-term borrowings on a temporary basis. The Bank invests the funds not needed to meet its cash requirements in overnight Federal funds sold and an interest-bearing account with the Federal Reserve Bank of New York. With adequate deposit inflows coupled with the above-mentioned cash resources, the Bank is maintaining short-term assets which we believe are sufficient to meet its liquidity needs. The Bank's liquidity can be affected by a variety of factors, including general economic conditions, market disruption, operational problems affecting third parties or us, unfavorable pricing, competition, our credit rating and regulatory restrictions.

At March 31, 2018, the Company had \$28.6 million in cash and cash equivalents as compared to \$48.2 million at December 31, 2017. Cash and cash equivalent balances include \$15.1 million and \$18.6 million of interest-bearing deposits at the Federal Reserve Bank of New York at March 31, 2018 and December 31, 2017, respectively.

Off-Balance Sheet Arrangements

The Company's financial statements do not reflect off-balance sheet arrangements that are made in the normal course of business. These off-balance sheet arrangements consist of unfunded loans and letters of credit made under the same standards as on-balance sheet instruments. These instruments have fixed maturity dates, and because many of them will expire without being drawn upon, they do not generally present any significant liquidity risk to the Company.

Management believes that any amounts actually drawn upon these commitments can be funded in the normal course of operations. The following table sets forth the Bank's off-balance sheet arrangements as of March 31, 2018 and December 31, 2017:

	March 31, 2018	December 31, 2017
	(dollars in thousands)	
Lines of credit secured by 1 - 4 family residential properties	\$25,398	\$26,124
Commitments to fund commercial real estate and construction loans	189,217	154,637
Commitments to fund commercial and industrial loans and other loans	65,370	64,998
Commercial and financial letters of credit	4,578	5,160
Total off-balance sheet commitments	\$284,563	\$250,919

Capital

Shareholders' equity increased by approximately \$2.4 million, or 2.3%, to \$109.0 million at March 31, 2018 compared to \$106.6 million at December 31, 2017. Net income for the three month period ended March 31, 2018 added \$2.7 million to shareholders' equity. Additionally, stock-based compensation expense of \$65,000, options exercised of \$172,000, and employee stock purchases of \$17,000 during the three months ended March 31, 2018, were other major contributors to the increase. These increases were partially offset by \$382,000 in cash dividends on common stock and \$139,000 in after-tax net unrealized losses on securities available for sale. During the three months ended March 31, 2018, the Company repurchased no shares under its share repurchase program.

The Company and the Bank are subject to various regulatory and capital requirements administered by the Federal banking agencies. Our federal banking regulators, the Board of Governors of the Federal Reserve System (the "Federal Reserve") (which regulates bank holding companies) and the Federal Deposit Insurance Corporation (the "FDIC") (which regulates the Bank), have issued guidelines classifying and defining capital. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions that, if undertaken, could have a direct material effect on the Company's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and the Bank must meet specific capital guidelines that involve quantitative measures of their assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. The capital amounts and classification of the Company and the Bank is also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios, set forth in the following tables of Tier 1 Capital to Average Assets (Leverage Ratio), Common Equity Tier 1 Capital to Risk Weighted Assets, Tier 1 Capital to Risk Weighted Assets and Total Capital to Risk Weighted Assets.

As of March 31, 2018, the Company and the Bank met all regulatory requirements for classification as well-capitalized under the applicable regulatory framework. Management believes that there are no conditions or events that have changed the classification.

The capital ratios of the Company and the Bank, at March 31, 2018 and December 31, 2017, are presented below.

	Company		Bank		Minimum Required For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Regulations*	
As of March 31, 2018								
Common Equity Tier 1 Capital to Risk Weighted Assets	9.73	%	10.66%	4.50	%	6.50	%	
Tier 1 Capital to Average Assets (Leverage Ratio)	8.88	%	9.74 %	4.00	%	5.00	%	
Tier 1 Capital to Risk Weighted Assets	9.73	%	10.66%	6.00	%	8.00	%	
Total Capital to Risk Weighted Assets	11.96	%	11.83%	8.00	%	10.00	%	
As of December 31, 2017								
Common Equity Tier 1 Capital to Risk Weighted Assets	9.68	%	10.66%	4.50	%	6.50	%	
Tier 1 Capital to Average Assets (Leverage Ratio)	8.85	%	9.76 %	4.00	%	5.00	%	
Tier 1 Capital to Risk Weighted Assets	9.68	%	10.66%	6.00	%	8.00	%	
Total Capital to Risk Weighted Assets	11.93	%	11.82%	8.00	%	10.00	%	

* The Prompt Corrective Action rules apply to the Bank only. For the Company to be “well capitalized,” the Tier 1 Capital to Risk Weighted Assets has to be at least 6.00%.

Risk-based capital rules adopted effective January 1, 2015 require that banks and holding companies maintain a “capital conservation buffer” of 250 basis points in excess of the “minimum capital ratio.” The minimum capital ratio is equal to the prompt corrective action adequately capitalized threshold ratio. The capital conservation buffer is being phased in over a four year period that began on January 1, 2016, with a required buffer of 0.625% of risk weighted assets for 2016, 1.25% for 2017, 1.875% for 2018 and 2.5% for 2019 and thereafter. Failure to maintain the required capital conservation buffer will result in limitations on capital distributions and on discretionary bonuses to executive officers.

Effective January 1, 2018, the capital levels required for the Company and the Bank to avoid the limitations on capital distributions and discretionary bonuses were as follows:

- i. a common equity Tier 1 capital ratio of 6.375%;
- ii. a Tier 1 Risk based capital ratio of 7.875%; and
- iii. a Total Risk based capital ratio of 9.875%.

As of March 31, 2018, the Bank had a capital conservation buffer greater than 2.5%.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Not required.

Item 4. Controls and Procedures

The Company has established disclosure controls and procedures designed to ensure that information required to be disclosed in the reports that the Company files or submits under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in SEC rules and forms and is accumulated and

communicated to management, including the principal executive officer and principal financial officer, to allow timely decisions regarding required disclosure.

The Company's principal executive officer and principal financial officer, with the assistance of other members of the Company's management, have evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this quarterly report. Based upon such evaluation, the Company's principal executive officer and principal financial officer have concluded that the Company's disclosure controls and procedures are effective as of the end of the period covered by this quarterly report.

The Company's principal executive officer and principal financial officer have also concluded that there was no change in the Company's internal control over financial reporting (as such term is defined in Rule 13a-15(f) under the Exchange Act) that

occurred during the quarter ended March 31, 2018 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

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PART II. OTHER INFORMATION

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

Issuer Purchases of Equity Securities

During the quarter ended March 31, 2018, no shares were repurchased under the Company's share repurchase program. In December 2017, the Board of Directors approved a new repurchase program, whereby the Company may repurchase up to \$2.0 million of its common stock from January 1, 2018 to December 31, 2018.

Item 6. Exhibits

- 31.1 * Certification of principal executive officer of the Company pursuant to Securities Exchange Act Rule 13a-14(a)
- 31.2 * Certification of principal financial officer of the Company pursuant to Securities Exchange Act Rule 13a-14(a)
- 32 Certifications pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of The Sarbanes-Oxley Act of 2002, signed by the principal executive officer of the Company and the principal financial officer of the Company

101.INS XBRL Instance Document

101.SCH XBRL Taxonomy Extension Schema

101.CAL XBRL Taxonomy Extension Calculation Linkbase

101.DEF XBRL Taxonomy Extension Definition Linkbase

101.LAB XBRL Taxonomy Extension Label Linkbase

101.PRE XBRL Taxonomy Extension Presentation Linkbase

* Filed herewith.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

TWO RIVER BANCORP

Date: May 9, 2018 By: /s/ William D. Moss
William D. Moss
President and Chief Executive Officer
(Principal Executive Officer)

Date: May 9, 2018 By: /s/ A. Richard Abrahamian
A. Richard Abrahamian
Executive Vice President and Chief Financial Officer
(Principal Financial and Accounting Officer)