TWO RIVER BANCORP
Form 10-Q
May 12, 2016
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, 2016

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, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

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

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

As of May 9, 2016, there were 7,946,837 shares of the registrant’s common stock, no par value, outstanding.

TWO RIVER BANCORP

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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, 2016	December 31, 2015
ASSETS		
Cash and due from banks	**$25,129**	$21,566
Interest-bearing deposits in bank	**29,011**	25,161
Cash and cash equivalents	**54,140**	46,727
Securities available for sale	**34,497**	33,530
Securities held to maturity (fair value of $45,620 and $43,668 at March 31, 2016 and December 31, 2015, respectively)	**45,122**	43,167
Restricted investments, at cost	**3,757**	3,596
Loans held for sale	**-**	3,050
Loans	**704,401**	693,150
Allowance for loan losses	**(8,963)**	(8,713)
Net loans	**695,438**	684,437
Other real estate owned ("OREO")	**259**	411
Bank-owned life insurance	**17,403**	17,294
Premises and equipment, net	**4,900**	5,083
Accrued interest receivable	**1,881**	1,912
Goodwill	**18,109**	18,109
Other intangible assets, net of accumulated amortization of $2,107 and $2,097 at March 31, 2016 and December 31, 2015, respectively	**-**	9
Other assets	**6,351**	6,371
Total Assets	**$881,857**	$863,696
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits:		
Non-interest bearing	**$150,408**	$144,627
Interest bearing	**576,696**	563,809
Total Deposits	**727,104**	708,436
Securities sold under agreements to repurchase	**20,132**	19,545

Accrued interest payable	**85**	118
Long-term debt	**23,800**	26,500
Subordinated debt	**9,831**	9,824
Other liabilities	**6,292**	6,271
Total Liabilities	**787,244**	770,694
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 – 8,228,178 and 8,213,196 at March 31, 2016 and December 31, 2015, respectively	**72,997**	72,890
Outstanding – 7,943,446 and 7,929,196 at March 31, 2016 and December 31, 2015, respectively		
Retained earnings	**24,174**	22,759
Treasury stock, at cost; 284,732 shares and 284,000 shares at March 31, 2016 and December 31, 2015, respectively	**(2,254)**	(2,248)
Accumulated other comprehensive loss	**(304)**	(399)
Total Shareholders' Equity	**94,613**	93,002
Total Liabilities And Shareholders’ Equity	**$881,857**	$ 863,696

See notes to the unaudited consolidated financial statements.

TWO RIVER BANCORP

CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)

For the Three Months Ended March 31, 2016 and 2015

(in thousands, except per share data)

	Three Months Ended	
	March 31,	
	2016	**2015**
Interest Income		
Loans, including fees	**$7,913**	$7,346
Securities:		
Taxable	**192**	217
Tax-exempt	**200**	98
Interest-bearing deposits	**33**	15
Total Interest Income	**8,338**	7,676
Interest Expense		
Deposits	**883**	735
Securities sold under agreements to repurchase	**14**	16
Long-term debt	**148**	153
Subordinated debt	**165**	-
Total Interest Expense	**1,210**	904
Net Interest Income	**7,128**	6,772
Provision For Loan Losses	**-**	90
Net Interest Income after Provision for Loan Losses	**7,128**	6,682
Non-Interest Income		
Service fees on deposit accounts	**136**	148
Mortgage banking	**214**	143
Other loan fees	**81**	41
Earnings from investment in bank-owned life insurance	**109**	111
Gain on sale of SBA loans	**94**	176
Net gain on sale of securities	**72**	15
Other income	**187**	142
Total Non-Interest Income	**893**	776
Non-Interest Expenses		
Salaries and employee benefits	**3,105**	3,018
Occupancy and equipment	**995**	977
Professional	**335**	214
Insurance	**47**	94
FDIC insurance and assessments	**105**	91

Advertising	**110**	100
Data processing	**135**	118
Outside services fees	**123**	123
Amortization of identifiable intangibles	**10**	19
OREO expenses, impairments and sales, net	**19**	(2)
Loan workout expenses	**80**	86
Other operating	**333**	323
Total Non-Interest Expenses	**5,397**	5,161
Income before Income Taxes	**2,624**	2,297
Income tax expense	**931**	854
Net Income	**1,693**	1,443
Preferred stock dividend	**-**	(15)
Net income available to common shareholders	**$1,693**	$1,428
Earnings Per Common Share:		
Basic	**$0.21**	$0.18
Diluted	**$0.21**	$0.18
Weighted average common shares outstanding		
Basic	**7,918**	7,937
Diluted	**8,089**	8,137

See notes to the unaudited consolidated financial statements.

TWO RIVER BANCORP

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)

For the Three Months Ended March 31, 2016 and 2015

(in thousands)

	Three Months Ended	
	March 31,	
	2016	**2015**
Net income	**$1,693**	$1,443
Other comprehensive income:		
Reclassification adjustment for gains on sales of securities recognized in income, net of income tax expense 2015: $6	**-**	(9)
Unrealized holdings gains on securities available for sale, net of income tax expense 2016: $64; 2015: $132	**95**	205
Other comprehensive income	**95**	196
Total comprehensive income	**$1,788**	$1,639

See notes to the unaudited consolidated financial statements.

TWO RIVER BANCORP

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (Unaudited)

For the Three Months Ended March 31, 2016 and 2015

(dollars in thousands, except per share data)

	Preferred Stock	Common Stock Outstanding Shares	Common Stock Amount	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance, January 1, 2016	$ -	7,929,196	$ 72,890	$ 22,759	$ (2,248)	$ (399)	$ 93,002
Net income	-	-	-	1,693	-	-	1,693
Other comprehensive income	-	-	-	-	-	95	95
Stock-based compensation expense	-	-	40	-	-	-	40
Cash dividends on common stock ($0.035 per share)	-	-	-	(278)	-	-	(278)
Options exercised	-	13,547	53	-	-	-	53
Common stock repurchased	-	(732)	-	-	(6)	-	(6)
Employee stock purchase program	-	1,435	14	-	-	-	14
Balance, March 31, 2016	$ -	7,943,446	$ 72,997	$ 24,174	$ (2,254)	$ (304)	$ 94,613

Balance, January 1, 2015	$ 6,000	7,939,684	$ 72,527	$ 17,501	$ (1,751)	$ (345)	$ 93,932
Net income	-	-	-	1,443	-	-	1,443
Other comprehensive income	-	-	-	-	-	196	196
Dividends on preferred stock, Series C	-	-	-	(15)	-	-	(15)
Stock-based compensation expense	-	-	54	-	-	-	54
Cash dividends on common stock ($0.03 per share)	-	-	-	(238)	-	-	(238)
Options exercised	-	7,988	37	-	-	-	37
Tax benefit of exercised stock options	-	-	2	-	-	-	2
Common stock repurchased	-	(28,588)	-	-	(244)	-	(244)
Restricted stock awards	-	5,000	-	-	-	-	-
Employee stock purchase program	-	1,372	12	-	-	-	12
Balance, March 31, 2015	$ 6,000	7,925,456	$ 72,632	$ 18,691	$ (1,995)	$ (149)	$ 95,179

See notes to the unaudited consolidated financial statements.

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TWO RIVER BANCORP

CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

For the Three Months Ended March 31, 2016 and 2015

	Three Months Ended	
	March 31,	
	2016	**2015**
	(in thousands)	
Cash Flows From Operating Activities		
Net income	**$1,693**	$1,443
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	**200**	182
Provision for loan losses	**-**	90
Intangible amortization	**9**	19
Amortization of subordinated debt issuance costs	**7**	-
Net amortization of securities premiums and discounts	**155**	94
Earnings from investment in bank-owned life insurance	**(109)**	(111)
Proceeds on sale of loans held for sale	**11,960**	8,291
Origination of loans held for sale	**(8,702)**	(9,124)
Gain on sale of loans held for sale	**(208)**	(140)
Net realized loss on sale of OREO	**45**	-
Stock-based compensation expense	**40**	54
Net realized gain on sale of securities available for sale	**-**	(15)
Net realized gain on sale of securities held to maturity	**(72)**	-
Proceeds from sale of SBA loans	**941**	1,751
Gain from sale of SBA loans	**(94)**	(176)
Decrease (increase) in assets:		
Accrued interest receivable	**31**	(18)
Other assets	**(31)**	924
Increase (decrease) in liabilities:		
Accrued interest payable	**(33)**	59
Other liabilities	**21**	(568)
Net Cash Provided by Operating Activities	**5,853**	2,755
Cash Flows From Investing Activities		
Purchase of securities available for sale	**(2,257)**	(1,500)
Purchase of securities held to maturity	**(3,391)**	(1,478)
Proceeds from repayments, calls and maturities of securities available for sale	**1,359**	1,854
Proceeds from repayments, calls and maturities of securities held to maturity	**354**	1,056
Proceeds from sales of securities available for sale	**-**	1,500
Proceeds from sales of securities held to maturity	**1,076**	-
Net increase in loans	**(11,848)**	(14,210)
Purchases of premises and equipment	**(17)**	(302)

Purchase of restricted investments, net	**(161)**	(540)
Proceeds from sale of OREO	**107**	-
Net Cash Used In Investing Activities	**(14,778)**	(13,620)
Cash flows from financing activities		
Net increase in deposits	**18,668**	12,935
Net increase (decrease) in securities sold under agreements to repurchase	**587**	(2,520)
Proceeds from long-term debt	**-**	12,000
Repayment of long-term debt	**(2,700)**	-
Cash dividends paid - preferred stock	**-**	(15)
Cash dividends paid – common stock	**(278)**	(238)
Proceeds from employee stock purchase plan	**14**	12
Proceeds from exercise of stock options	**53**	37
Common stock repurchased	**(6)**	(244)
Tax benefit of stock options exercised	**-**	2
Net Cash Provided by Financing Activities	**16,338**	21,969
Net Increase in Cash and Cash Equivalents	**7,413**	11,104
Cash And Cash Equivalents – Beginning	**46,727**	36,110
Cash And Cash Equivalents - Ending	**$54,140**	$47,214
Supplementary cash flow information:		
Interest paid	**$1,243**	$845
Income taxes paid	**$1,317**	$250

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, TRCB Holdings Two LLC, TRCB Holdings Three LLC, TRCB Holdings Seven LLC 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, 2016 are not necessarily indicative of the results that may be expected for the year ending December 31, 2016. These consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto for the year ended December 31, 2015 included in the Company’s Annual Report on Form 10-K filed with the SEC on March 25, 2016 (the “2015 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 2015 Form 10-K.

The Company has evaluated events and transactions occurring subsequent to the balance sheet date of March 31, 2016 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 FASB issued ASU 2014-09, *Revenue from Contracts with Customers*. This ASU establishes a comprehensive revenue recognition standard for virtually all industries under U.S. GAAP, including those that previously followed industry-specific guidance such as real estate, construction and software industries. The revenue standard's core principle is built on the contract between a vendor and a customer for the provision of goods and services. It attempts to depict the exchange of rights and obligations between the parties in the pattern of revenue recognition based on the consideration to which the vendor is entitled. The guidance in this ASU for public companies is effective for the annual periods beginning after December 15, 2016, including interim periods therein. In August 2015, the FASB approved a one-year delay of the effective date of this standard. The deferral would require public entities to apply the standard for annual reporting periods beginning after December 15, 2017. Public companies would be permitted to elect to early adopt for annual reporting periods beginning after December 15, 2016. The Company will be evaluating the provisions of ASU 2014-09 and will be closely monitoring developments and additional guidance to determine the potential impact the new standard will have on our financial position or results of operation.

ASU 2016-01: In January 2016, the FASB issued ASU 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities.* 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 is currently evaluating the impact that ASU 2016-01 will have on its statement of financial position or financial statement disclosures.

NOTE 2 – NEW ACCOUNTING STANDARDS (Continued)

ASU 2016-02: In February 2016, the FASB issued ASU 2016-02, *Leases.* From the lessee's perspective, the new standard establishes a right-of-use ("ROU") model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement for a lessee. From the lessor's perspective, the new standard requires a lessor to classify leases as either sales-type, finance or operating. A lease will be treated as a sale if it transfers all of the risks and rewards, as well as control of the underlying asset, to the lessee. If risks and rewards are conveyed without the transfer of control, the lease is treated as a financing. If the lessor doesn't convey risks and rewards or control, an operating lease results. The new standard is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. A modified retrospective transition approach is required for lessees for capital and operating leases existing at or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. A modified retrospective transition approach is required for lessors for sales-type, direct financing, and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The Company is currently evaluating the impact of the pending adoption of the new standard on its consolidated financial statements.

ASU 2016-09: In March 2016, the FASB issued ASU 2016-09, *Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting.* This ASU introduces targeted amendments intended to simplify the accounting for stock compensation. Specifically, the ASU requires all excess tax benefits and tax deficiencies (including tax benefits of dividends on share-based payment awards) to be recognized as income tax expense or benefit in the income statement. The tax effects of exercised or vested awards should be treated as discrete items in the reporting period in which they occur. An entity also should recognize excess tax benefits, and assess the need for a valuation allowance, regardless of whether the benefit reduces taxes payable in the current period. That is, off balance sheet accounting for net operating losses stemming from excess tax benefits would no longer be required and instead such net operating losses would be recognized when they arise. Existing net operating losses that are currently tracked off balance sheet would be recognized, net of a valuation allowance if required, through an adjustment to opening retained earnings in the period of adoption. Entities will no longer need to maintain and track an "APIC pool." The ASU also requires excess tax benefits to be classified along with other income tax cash flows as an operating activity in the statement of cash flows. In addition, the ASU elevates the statutory tax withholding threshold to qualify for equity classification up to the maximum statutory tax rates in the applicable jurisdiction(s). The ASU also clarifies that cash paid by an employer when directly withholding shares for tax withholding purposes should be classified as a financing activity. The ASU provides an optional accounting policy election (with limited exceptions), to be applied on an entity-wide basis, to either estimate the number of awards that are expected to vest (consistent with existing U.S. GAAP) or account for forfeitures when they occur. Further, the ASU provides two accounting alternatives to nonpublic entities: A nonpublic entity can make an accounting policy election to apply a practical expedient to estimate the expected term for all awards with performance or service conditions that meet certain conditions. Also a nonpublic entity can make a one-time accounting policy election to switch from measuring all liability-classified awards at fair value to intrinsic value. The amendments are effective for public business entities for annual periods beginning after December 15, 2016, and interim periods within those annual periods. The Company is currently evaluating the impact of the pending adoption of the new standard on its consolidated financial statements.

NOTE 3 – 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. Step one requires the Company to determine the fair value of the reporting unit and compare it to the carrying value, including goodwill, of such reporting unit. The reporting unit was determined to be our community banking operations, which is our only operating segment. If the fair value of the reporting unit exceeds the carrying value, goodwill is not impaired. If the carrying value exceeds fair value, there is an indication of impairment and the second step is performed to determine the amount of impairment, if any. The second step compares the fair value of the reporting unit to the aggregate fair values of its individual assets, liabilities and identified intangibles.

The Company performed its annual step one goodwill impairment analysis as of September 30, 2015. Based on the results of the step one goodwill impairment analysis, the Company determined that there was no impairment on the current goodwill balance of $18,109,000.

NOTE 4 – 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.

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

	Three Months Ended March 31, (dollars in thousands, except per share data)	
	2016	**2015**
Net income	**$1,693**	$1,443
Preferred stock dividend	**-**	(15)
Net income applicable to common shareholders	**$1,693**	$1,428
Weighted average common shares outstanding	**7,918,099**	7,936,935
Effect of dilutive stock options	**171,348**	200,285
Weighted average common shares outstanding used to calculate diluted earnings per share	**8,089,447**	8,137,220
Basic earnings per common share	**$0.21**	$0.18
Diluted earnings per common share	**$0.21**	$0.18

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. Stock options that had no intrinsic value because their effect would be anti-dilutive and, therefore, would not be included in the diluted earnings per common share calculation were 32,100 for the three month period ended March 31, 2016, as compared to 9,100 for the three month period ended March 31, 2015.

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NOTE 5 – 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, 2016:				
Securities available for sale:				
U.S. Government agency securities	**$ 3,499**	**$ 5**	**$ -**	**$ 3,504**
Municipal securities	**506**	**12**	**-**	**518**
U.S. Government-sponsored enterprises ("GSE") – residential mortgage-backed securities	**13,905**	**2**	**(150)**	**13,757**
U.S. Government collateralized residential mortgage obligations	**12,180**	**18**	**(141)**	**12,057**
Corporate debt securities, primarily financial institutions	**2,492**	**6**	**(265)**	**2,233**
	32,582	**43**	**(556)**	**32,069**
Community Reinvestment Act ("CRA") mutual fund	**2,410**	**18**	**-**	**2,428**
	$ 34,992	**$ 61**	**$ (556)**	**$ 34,497**
Securities held to maturity:				
Municipal securities	**$ 36,272**	**$ 856**	**$ -**	**$ 37,128**
GSE – Residential mortgage-backed securities	**3,684**	**18**	**(15)**	**3,687**
U.S. Government collateralized residential mortgage obligations	**3,346**	**-**	**(19)**	**3,327**
Corporate debt securities, primarily financial institutions	**1,820**	**-**	**(342)**	**1,478**
	$ 45,122	**$ 874**	**$ (376)**	**$ 45,620**

NOTE 5 – SECURITIES (Continued)

(in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2015:				
Securities available for sale:				
U.S. Government agency securities	$ 1,241	$ -	$ (3)	$ 1,238
Municipal securities	508	9	-	517
GSE – residential mortgage-backed securities	14,646	5	(202)	14,449
U.S. Government collateralized residential mortgage obligations	12,900	13	(286)	12,627
Corporate debt securities, primarily financial institutions	2,492	-	(175)	2,317
	31,787	27	(666)	31,148
CRA mutual fund	2,397	-	(15)	2,382
	$ 34,184	$ 27	$ (681)	$ 33,530
Securities held to maturity:				
Municipal securities	$ 33,956	$ 824	$ (9)	$ 34,771
GSE – residential mortgage-backed securities	3,789	9	(44)	3,754
U.S. Government collateralized residential mortgage obligations	3,602	-	(46)	3,556
Corporate debt securities, primarily financial institutions	1,820	-	(233)	1,587
	$ 43,167	$ 833	$ (332)	$ 43,668

The amortized cost and fair value of the Company's debt securities at March 31, 2016, 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	**$-**	**$-**	**$6,755**	**$6,758**
Due in one year through five years	**3,071**	**3,083**	**4,387**	**4,534**
Due in five years through ten years	**175**	**175**	**3,890**	**4,062**
Due after ten years	**3,251**	**2,997**	**23,060**	**23,252**

	6,497	**6,255**	**38,092**	**38,606**
GSE – Residential mortgage-backed securities	**13,905**	**13,757**	**3,684**	**3,687**
U.S. Government collateralized residential mortgage obligations	**12,180**	**12,057**	**3,346**	**3,327**
	$32,582	**$32,069**	**$45,122**	**$45,620**

The Company had one security sale totaling $1.0 million in which the Company recorded a gross realized gain of $72,000 during the three months ended March 31, 2016 and one security sale totaling $1.5 million in which the Company recorded a gross realized gain of $15,000 during the three months ended March 31, 2015. The sale during the first quarter of 2016 was a municipal bond which was carried in our held to maturity portfolio. The Company sold this bond out of its held to maturity portfolio due to significant deterioration in the issuer's creditworthiness.

NOTE 5 – SECURITIES (Continued)

Investment securities with a carrying value of $30,995,000 and $32,596,000 at March 31, 2016 and December 31, 2015, 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, 2016 and December 31, 2015:

	Less than 12 Months		12 Months or More		Total	
	Fair Value	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
	(in thousands)					
March 31, 2016:						
GSE – Residential mortgage-backed securities	**$10,962**	**$ (122)**	**$4,024**	**$ (43)**	**$14,986**	**$ (165)**
U.S. Government collateralized residential mortgage obligations	**5,106**	**(14)**	**6,667**	**(146)**	**11,773**	**(160)**
Corporate debt securities, primarily financial institutions	**-**	**-**	**2,708**	**(607)**	**2,708**	**(607)**
Total Temporarily Impaired Securities	**$16,068**	**$ (136)**	**$13,399**	**$ (796)**	**$29,467**	**$ (932)**

	Less than 12 Months		12 Months or More		Total	
	Fair Value	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
	(in thousands)					
December 31, 2015:						
U.S. Government agency securities	$1,238	$ (3)	$-	$ -	$1,238	$ (3)
Municipal securities	5,858	(5)	498	(4)	6,356	(9)
GSE – Residential mortgage-backed securities	11,946	(151)	5,006	(95)	16,952	(246)
U.S. Government collateralized residential mortgage obligations	8,284	(72)	6,861	(260)	15,145	(332)
Corporate debt securities, primarily financial institutions	496	(1)	2,907	(407)	3,403	(408)
CRA mutual fund	2,382	(15)	-	-	2,382	(15)
Total Temporarily Impaired Securities	$30,204	$ (247)	$15,272	$ (766)	$45,476	$ (1,013)

The Company had 35 securities in an unrealized loss position at March 31, 2016. In management's opinion, the unrealized losses in corporate debt, 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. At March 31, 2016, the Company does not intend to sell these debt securities prior to recovery.

Included in corporate debt securities are four individual trust preferred securities issued by large financial institutions with Moody's ratings from Baa1 to Ba1. At March 31, 2016, 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, 2016. These four securities have an amortized cost value of $2.8 million and a fair value of $2.2 million at March 31, 2016.

There were no other-than-temporary impairments recognized during the three months ended March 31, 2016 and 2015.

NOTE 6 – 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.

Generally, loans held for sale are designated at time of origination, generally consist of newly originated fixed rate residential loans and are recorded at the lower of aggregate cost or estimated fair value in the aggregate. The Company did not transfer any loans from held for investment to held for sale during the three months ended March 31, 2016 and 2015. Transfers from held for investment are infrequent and occur at fair value less costs to sell, with any charge-off to allowance for loan losses. 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 commercial and consumer loans. Commercial loans consist of the following classes: commercial and industrial, real estate-construction and real estate-commercial. Consumer loans consist of the following classes: real estate-residential and 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, 2016 and December 31, 2015, 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 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.

NOTE 6 – LOANS RECEIVABLE AND ALLOWANCE FOR LOAN LOSSES (Continued)

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.

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.

NOTE 6 – LOANS RECEIVABLE AND ALLOWANCE FOR LOAN LOSSES (Continued)

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.

The components of the loan portfolio held for investment at March 31, 2016 and December 31, 2015 are as follows:

	March 31, 2016	**December 31, 2015**
	(In Thousands)	
Commercial and industrial	**$96,427**	$100,154
Real estate – construction	**104,375**	104,231
Real estate – commercial	**432,929**	422,665
Real estate – residential	**44,142**	39,524
Consumer	**27,042**	27,136
	704,915	693,710
Allowance for loan losses	**(8,963)**	(8,713)
Unearned fees	**(514)**	(560)
Net Loans	**$695,438**	$684,437

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, 2016 and December 31, 2015:

	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
			(In Thousands)				
March 31, 2016:							
Commercial and industrial	$ 150	$ 105	$ 24	$ 279	$ 96,148	$ 96,427	$ -
Real estate – construction	150	-	-	150	104,225	104,375	-
Real estate – commercial	-	56	750	806	432,123	432,929	-
Real estate – residential	246	-	542	788	43,354	44,142	-
Consumer	-	-	-	-	27,042	27,042	-
Total	$ 546	$ 161	$ 1,316	$ 2,023	$ 702,892	$ 704,915	$ -

NOTE 6 – LOANS RECEIVABLE AND ALLOWANCE FOR LOAN LOSSES (Continued)

	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
			(In Thousands)				
December 31, 2015:							
Commercial and industrial	$ 107	$ -	$ 31	$ 138	$ 100,016	$ 100,154	**$ -**
Real estate – construction	-	150	-	150	104,081	104,231	**-**
Real estate – commercial	112	-	2,075	2,187	420,478	422,665	**-**
Real estate – residential	-	-	796	796	38,728	39,524	**-**
Consumer	-	-	-	-	27,136	27,136	**-**
Total	$ 219	$ 150	$ 2,902	$ 3,271	$ 690,439	$ 693,710	**$ -**

The following table presents non-accrual loans by classes of the loan portfolio at March 31, 2016 and December 31, 2015:

	March 31, 2016	December 31, 2015
	(In Thousands)	
Commercial and industrial	**$ 129**	$ 138
Real estate – construction	**-**	-
Real estate – commercial	**806**	2,244
Real estate – residential	**788**	796
Consumer	**-**	-
Total	**$ 1,723**	$ 3,178

The following table presents newly troubled debt restructured loans that occurred during the three months ended March 31, 2016 and 2015:

	Three months ended March 31, 2016		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
	(Dollars in Thousands)		
Troubled Debt Restructuring:			
Commercial and industrial	**1**	**$ 257**	**$ 257**

	Three months ended March 31, 2015		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
	(Dollars in Thousands)		
Troubled Debt Restructuring:			
Commercial and industrial	1	$ 48	$ 48

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NOTE 6 – LOANS RECEIVABLE AND ALLOWANCE FOR LOAN LOSSES (Continued)

Loans whose terms are modified are classified as troubled debt restructurings ("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.

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 improve the net present value of the Company's expected cash flows.

The Company classifies all TDRs as impaired loans. 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.

Our TDR loans are generally structured with short-term payment plans. The extent of these plans is generally made on terms up to twelve-months and all the loans identified as troubled debt restructured as of March 31, 2016, generally involve a temporary reduction in interest rate or a modification of a loan's amortization schedule.

At March 31, 2016, TDRs totaled $9.1 million, including $8.9 million that were current and two non-accrual loans totaling $161,000. As of December 31, 2015, TDRs totaled $10.8 million, including $9.3 million that were current and three non-accrual loans totaling $1.5 million. At March 31, 2016 and December 31, 2015, the Company established an allowance of $6,000 and $49,000, respectively, against one of our loan relationships classified as TDR.

There were no financing receivables 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, 2016 and 2015, respectively.

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

NOTE 6 – LOANS RECEIVABLE AND ALLOWANCE FOR LOAN LOSSES (Continued)

The following tables summarize information in regards to impaired loans by loan portfolio class at March 31, 2016 and December 31, 2015, and for the three months ended March 31, 2016 and 2015, respectively:

	As of March 31, 2016			For the three months ended March 31, 2016	
	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	**$897**	**$ 897**	**$ -**	**$903**	**$ 7**
Real estate – construction	**3,291**	**3,291**	**-**	**3,301**	**34**
Real estate – commercial	**1,818**	**1,818**	**-**	**1,848**	**12**
Real estate – residential	**1,169**	**1,169**	**-**	**1,174**	**5**
Consumer	**206**	**206**	**-**	**208**	**2**
With an allowance recorded:					
Commercial and industrial	**$3,262**	**$ 3,262**	**$ 6**	**$3,284**	**$ 40**
Real estate – construction	**-**	**-**	**-**	**-**	**-**
Real estate – commercial	**-**	**-**	**-**	**-**	**-**
Real estate – residential	**-**	**-**	**-**	**-**	**-**
Consumer	**-**	**-**	**-**	**-**	**-**
Total:					
Commercial and industrial	**$4,159**	**$ 4,159**	**$ 6**	**$4,187**	**$ 47**
Real estate – construction	**3,291**	**3,291**	**-**	**3,301**	**34**
Real estate – commercial	**1,818**	**1,818**	**-**	**1,848**	**12**
Real estate – residential	**1,169**	**1,169**	**-**	**1,174**	**5**
Consumer	**206**	**206**	**-**	**208**	**2**
	$10,643	**$ 10,643**	**$ 6**	**$10,718**	**$ 100**

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NOTE 6 – LOANS RECEIVABLE AND ALLOWANCE FOR LOAN LOSSES (Continued)

	As of December 31, 2015			For the three months ended March 31, 2015	
	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	$652	$652	$ -	$1,103	$ 12
Real estate – construction	3,855	3,855	-	6,762	70
Real estate – commercial	3,267	3,542	-	11,089	94
Real estate – residential	1,178	1,178	-	1,083	5
Consumer	209	209	-	435	2
With an allowance recorded:					
Commercial and industrial	$3,305	$3,305	$ 49	$-	$ -
Real estate – construction	-	-	-	-	-
Real estate – commercial	-	-	-	-	-
Real estate – residential	-	-	-	-	-
Consumer	-	-	-	-	-
Total:					
Commercial and industrial	$3,957	$3,957	$ 49	$1,103	$ 12
Real estate – construction	3,855	3,855	-	6,762	70
Real estate – commercial	3,267	3,542	-	11,089	94
Real estate – residential	1,178	1,178	-	1,083	5
Consumer	209	209	-	435	2
	$12,466	$12,741	$ 49	$20,472	$ 183

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, 2016 and December 31, 2015:

	Pass	Special Mention	Substandard	Doubtful	Total
	(In Thousands)				
March 31, 2016:					
Commercial and industrial	**$91,964**	**$ 560**	**$ 3,903**	**$ -**	**$96,427**
Real estate – construction	**100,933**	**1,971**	**1,471**	**-**	**104,375**
Real estate – commercial	**426,630**	**4,625**	**1,674**	**-**	**432,929**
Real estate – residential	**43,257**	**-**	**885**	**-**	**44,142**
Consumer	**26,802**	**37**	**203**	**-**	**27,042**
Total	**$689,586**	**$ 7,193**	**$ 8,136**	**$ -**	**$704,915**

NOTE 6 – LOANS RECEIVABLE AND ALLOWANCE FOR LOAN LOSSES (Continued)

	Pass	Special Mention	Substandard	Doubtful	Total
	(In Thousands)				
December 31, 2015:					
Commercial and industrial	$96,038	$ 159	$ 3,957	$ -	$100,154
Real estate – construction	100,376	1,830	2,025	-	104,231
Real estate – commercial	414,872	4,667	3,126	-	422,665
Real estate – residential	38,631	-	893	-	39,524
Consumer	26,891	38	207	-	27,136
Total	$676,808	$ 6,694	$ 10,208	$ -	$693,710

The following tables present the balance in the allowance for loan losses at March 31, 2016 and December 31, 2015 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 Loans Individually Evaluated for Impairment	Balance Related to Loans Collectively Evaluated for Impairment	Balance	Balance Individually Evaluated for Impairment	Balance Collectively Evaluated for Impairment
	(In Thousands)					
March 31, 2016:						
Commercial and industrial	**$871**	**$ 6**	**$ 865**	**$96,427**	**$ 4,159**	**$ 92,268**
Real estate – construction	**1,281**	**-**	**1,281**	**104,375**	**3,291**	**101,084**
Real estate – commercial	**5,881**	**-**	**5,881**	**432,929**	**1,818**	**431,111**
Real estate – residential	**340**	**-**	**340**	**44,142**	**1,169**	**42,973**
Consumer	**254**	**-**	**254**	**27,042**	**206**	**26,836**
Unallocated	**336**	**-**	**336**	**-**	**-**	**-**

Total	**$8,963**	**$ 6**	**$ 8,957**	**$704,915**	**$ 10,643**	**$ 694,272**

	Allowance for Loan Losses			Loans Receivable		
	Balance	**Balance Related to Loans Individually Evaluated for Impairment**	**Balance Related to Loans Collectively Evaluated for Impairment**	**Balance**	**Balance Individually Evaluated for Impairment**	**Balance Collectively Evaluated for Impairment**
	(In Thousands)					
December 31, 2015:						
Commercial and industrial	$990	$ 49	$ 941	$100,154	$ 3,957	$ 96,197
Real estate – construction	1,283	-	1,283	104,231	3,855	100,376
Real estate – commercial	5,599	-	5,599	422,665	3,267	419,398
Real estate – residential	304	-	304	39,524	1,178	38,346
Consumer	242	-	242	27,136	209	26,927
Unallocated	295	-	295	-	-	-
Total	$8,713	$ 49	$ 8,664	$693,710	$ 12,466	$ 681,244

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NOTE 6 – LOANS RECEIVABLE AND ALLOWANCE FOR LOAN LOSSES (Continued)

The following table presents the change in the allowance for loan losses by classes of loans for the three months ended March 31, 2016 and 2015:

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, 2016	**$ 990**	**$ 1,283**	**$5,599**	**$ 304**	**$ 242**	**$ 295**	**$8,713**
Charge-offs	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Recoveries	**3**	**4**	**242**	**-**	**1**	**-**	**250**
Provision	**(122)**	**(6)**	**40**	**36**	**11**	**41**	**-**
Ending balance, March 31, 2016	**$ 871**	**$ 1,281**	**$5,881**	**$ 340**	**$ 254**	**$ 336**	**$8,963**

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, 2015	$ 1,044	$ 1,454	$4,624	$ 223	$ 565	$ 159	$8,069
Charge-offs	-	-	-	-	(80)	-	(80)
Recoveries	2	-	-	-	1	-	3
Provision	(23)	54	(38)	39	49	9	90
Ending balance, March 31, 2015	$ 1,023	$ 1,508	$4,586	$ 262	$ 535	$ 168	$8,082

NOTE 7 – STOCK-BASED COMPENSATION PLANS

Prior to the Company's formation in 2006, its banking subsidiaries had stock option plans, with outstanding stock options, for the benefit of their employees and directors. The plans provided for the granting of both incentive and non-qualified stock options. All options to purchase shares of the Company's common stock under these plans expired in 2015 and no further stock options may be granted.

On March 20, 2007, the Board of Directors adopted the Community Partners Bancorp 2007 Equity Incentive Plan (the "Plan") which was approved by the Company's shareholders at the 2007 annual meeting. This 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, 2016, the number of shares of Company common stock remaining and available for future issuance under the Plan is 183,101 after adjusting for subsequent stock dividends.

Options awarded under the Plan may 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"). Awards may be granted under the Plan to directors and employees, and to other persons who provide substantial services to the Company.

NOTE 7 – STOCK-BASED COMPENSATION PLANS (Continued)

Shares reserved under the Plan will be issued out of authorized and unissued shares, or treasury shares, or partly out of each, as determined by the Board. The exercise price per share purchasable under either an ISO or a NQSO may not be less than the fair market value of a share of stock on the date of grant of the option. The Committee will determine the vesting period and term of each option, provided that no ISO may 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, 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.

During the first quarter of 2016, there were no stock option grants awarded to either directors or officers.

Stock based compensation expense related to the stock option grants was approximately $29,000 and $28,000 during the three months ended March 31, 2016 and 2015, respectively, and is included in salaries and employee benefits on the statement of operations.

Total unrecognized compensation cost related to non-vested options under the Plan was $261,000 as of March 31, 2016 and will be recognized over the subsequent 2.3 years.

The following table presents information regarding the Company's outstanding stock options at March 31, 2016:

	Number of Shares	Weighted	Weighted	Aggregate

			Average Price	Average Remaining Contractual Life (years)	Intrinsic Value
Options outstanding, December 31, 2015	438,056		$ 5.16		
Options granted	-		-		
Options exercised	(13,547)		3.90		
Options forfeited	-		-		
Options outstanding, March 31, 2016	424,509		$ 5.18	5.3	$1,839,614
Options exercisable, March 31, 2016	310,854		$ 4.24	4.2	$1,636,076
Option price range at March 31, 2016	$3.01 to	$9.66			

The total intrinsic value of options exercised during the three months ended March 2016 and 2015 was $76,000 and $30,000, respectively. Cash received from such exercises was $53,000 and $37,000, respectively. There was no tax benefit recognized in the three months ended March 31, 2016 and a $2,000 tax benefit recognized during the three months ended March 31, 2015.

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

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

Compensation expense related to restricted stock was $11,000 and $26,000 for the three month periods ended March 31, 2016 and 2015, respectively, and is included in salaries and employee benefits on the statement of operations. There was no deferred tax benefit recognized during the three month periods ended March 31, 2016 and 2015 related to the restricted stock compensation.

Total unrecognized compensation cost related to restricted stock options under the Plan as of March 31, 2016 and 2015, was $165,000 and $179,000, respectively, and will be recognized over the subsequent 3.8 years.

NOTE 7 – STOCK-BASED COMPENSATION PLANS (Continued)

The following table summarizes information about restricted stock at March 31, 2016:

	Number of Shares	Weighted Average Price
Unvested at December 31, 2015	22,932	$ 8.36
Restricted stock earned	(2,000)	7.90
Granted	-	-
Unvested at March 31, 2016	20,932	$ 8.47

NOTE 8 – GUARANTEES

The Company does not issue any guarantees that would require liability recognition or disclosure, other than its standby letters of credit. Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Generally, all letters of credit, when issued, have expiration dates within one year. The credit risks involved in issuing letters of credit are essentially the same as those that are involved in extending loan facilities to customers. The Company generally holds collateral and/or personal guarantees supporting these commitments. As of March 31, 2016, the Company had $3.8 million of commercial and similar letters of credit. Management believes that the current amount of the liability as of March 31, 2016 for guarantees under standby letters of credit issued is not material.

NOTE 9 – 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. The Bank also has a remaining borrowing capacity with the FHLB of approximately $54.9 million based on the current loan collateral pledged of $99.0 million at March 31, 2016.

At March 31, 2016 and December 31, 2015, long-term debt consisted of advances from the FHLB, which amounted to $23.8 million and $26.5 million, respectively. These advances had an average interest rate of 2.47% and 2.28% at March 31, 2016 and December 31, 2015, respectively. These advances are contractually scheduled for repayment as follows:

	March 31, 2016	**December 31, 2015**	**Rate**	**Original Term (Years)**	**Maturity**
	(dollars in thousands)				
Fixed Rate Note	**$7,500**	$ 7,500	**3.97 %**	**10**	**November 2017**
Fixed Rate Note	**1,500**	1,500	**2.41 %**	**6**	**August 2016**
Fixed Rate Note	**1,500**	1,500	**2.71 %**	**7**	**August 2017**
Fixed Rate Note	**2,000**	2,000	**1.28 %**	**4**	**October 2017**
Fixed Rate Note	**2,000**	2,000	**1.65 %**	**5**	**October 2018**
Fixed Rate Note	**-**	2,700	**0.60 %**	**1**	**January 2016**
Fixed Rate Note	**1,000**	1,000	**0.97 %**	**2**	**January 2017**
Fixed Rate Note	**1,300**	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**
	$23,800	$ 26,500			

In September 2015, the FHLB issued a $20.1 million municipal deposit letter of credit in the name of Two River Community Bank naming the NJ Department of Banking and Insurance as beneficiary. The letter of credit will take the place of securities previously pledged to the state for the Bank’s municipal deposits.

NOTE 9 – FHLB AND OTHER BORROWINGS (Continued)

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.

The following table presents the contractual maturities of the Repurchase Agreements as of March 31, 2016, disaggregated by the class of collateral pledged:

(dollars in thousands)	Maturity of Repurchase Agreements				
	Overnight and Continuous	Up to 30 days	30 to 90 days	Over 90 days	Total
March 31, 2016:					
Class of Collateral Pledged:					
U.S. Government agency securities	**$1,247**	**$ -**	**$ -**	**$ -**	**$1,247**
U.S. Government collateralized residential mortgage obligations	**11,819**	**-**	**-**	**-**	**11,819**
GSE – Residential mortgage-backed securities	**14,270**	**-**	**-**	**-**	**14,270**
Total	**$27,336**	**$ -**	**$ -**	**$ -**	**$27,336**
Gross amount of recognized liabilities for repurchase agreements and securities lending					**$20,132**
Excess of collateral pledged over recognized liability					**$7,204**

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 10 – 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 $9.8 million at March 31, 2016 and December 31, 2015, which includes $169,000 of remaining unamortized debt issuance costs at March 31, 2016. 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 11 – 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.

NOTE 11 – FAIR VALUE MEASUREMENTS (Continued)

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, 2016 and December 31, 2015 are as follows:

Description	**(Level 1) Quoted Prices in Active Markets for Identical Assets**	**(Level 2) Significant Other Observable Inputs**	**(Level 3) Significant Unobservable Inputs**	**Total**
	(in thousands)			
<u>At March 31, 2016:</u>				
Securities available for sale:				
U.S. Government agency securities	**$-**	**$ 3,504**	**$ -**	**$3,504**
Municipal securities	**-**	**518**	**-**	**518**
GSE: Residential mortgage-backed securities	**-**	**13,757**	**-**	**13,757**
U.S. Government collateralized residential mortgage obligations	**-**	**12,057**	**-**	**12,057**
Corporate debt securities, primarily financial institutions	**-**	**2,233**	**-**	**2,233**
CRA mutual fund	**2,428**	**-**	**-**	**2,428**
Total	**$2,428**	**$ 32,069**	**$ -**	**$34,497**

<u>At December 31, 2015:</u>

Securities available for sale:				
U.S. Government agency securities	$-	$ 1,238	$ -	$1,238
Municipal securities	-	517	-	517
GSE: Residential mortgage-backed securities	-	14,449	-	14,449
U.S. Government collateralized residential mortgage obligations	-	12,627	-	12,627
Corporate debt securities, primarily financial institutions	-	2,317	-	2,317
CRA mutual fund	2,382	-	-	2,382
Total	$2,382	$ 31,148	$ -	$33,530

NOTE 11 – FAIR VALUE MEASUREMENTS (Continued)

As of March 31, 2016, 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, 2016 and December 31, 2015 are as follows:

Description	(Level 1) Quoted Prices in Active Markets for Identical Assets	(Level 2) Significant Other Observable Inputs	(Level 3) Significant Unobservable Inputs	Total
	(in thousands)			
At March 31, 2016:				
Impaired loans with an allowance recorded	**$-**	**$ -**	**$ 3,256**	**$3,256**
OREO	**-**	**-**	**259**	**259**
At December 31, 2015:				
Impaired loans with an allowance recorded	$-	$ -	$ 3,256	$3,256
Impaired loans net of partial charge-offs	-	-	1,389	1,389
OREO	-	-	411	411

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 months ended March 31, 2016 and 2015.

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, 2016 and December 31, 2015, there were no discounts applied to appraisal values as all impaired appraisals were current. At March 31, 2016, and December 31, 2015, the liquidation expenses were 5.0% (weighted average of 5.0%). 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. At March 31, 2016, the discount rate and liquidation expenses for collateral adjustments to our one OREO property was 5.95%, while at December 31, 2015, the discount range and liquidation expenses for collateral adjustments to OREO ranged from 0.4% to 6.0% (weighted average of 3.9%). 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, 2016 and December 31, 2015, OREO totaling $259,000 and $411,000 were acquired by deed in lieu of foreclosure and are carried at fair value less estimated selling costs based on current appraisals. At March 31, 2016, the Company had no residential real estate properties held in OREO while at December 31, 2015, there was one residential loan for $153,000 held in OREO, which was subsequently sold during the first quarter of 2016.

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, 2016 and December 31, 2015:

NOTE 11 – FAIR VALUE MEASUREMENTS (Continued)

***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). At March 31, 2016 and December 31, 2015, 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 Bankers Bank 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.

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.

Long-term Debt (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, 2016 and December 31, 2015, applies a 5.09% and 4.49% credit spread, respectively, plus the U.S. Treasury rate (all-in issue spread) to the time remaining until the issue's call option date.

NOTE 11 – FAIR VALUE MEASUREMENTS (Continued)

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, 2016 and December 31, 2015.

The estimated fair values of the Company's financial instruments at March 31, 2016 and December 31, 2015 were as follows:

	Fair Value Measurements at March 31, 2016				
(in thousands)	**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**
Financial assets:					
Cash and cash equivalents	**$54,140**	**$54,140**	**$54,140**	**$ -**	**$ -**
Securities available for sale	**34,497**	**34,497**	**2,428**	**32,069**	**-**
Securities held to maturity	**45,122**	**45,620**	**-**	**45,620**	**-**
Restricted stock	**3,757**	**3,757**	**-**	**-**	**3,757**
Loans held for sale	**-**	**-**	**-**	**-**	**-**
Loans receivable, net	**695,438**	**683,209**	**-**	**-**	**683,209**
Accrued interest receivable	**1,881**	**1,881**	**-**	**396**	**1,485**
Financial liabilities:					
Deposits	**727,104**	**728,168**	**-**	**728,168**	**-**
Securities sold under agreements to repurchase	**20,132**	**20,132**	**-**	**20,132**	**-**
Long-term debt	**23,800**	**24,352**	**-**	**24,352**	**-**

Subordinated debt	**9,831**	**9,830**	**-**	**9,830**	**-**
Accrued interest payable	**85**	**85**	**-**	**85**	**-**

	Fair Value Measurements at December 31, 2015				
(in thousands)	**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**
Financial assets:					
Cash and cash equivalents	$46,727	$46,727	$46,727	$ -	$ -
Securities available for sale	33,530	33,530	2,382	31,148	-
Securities held to maturity	43,167	43,668	-	43,668	-
Restricted stock	3,596	3,596	-	-	3,596
Loans available for sale	3,050	3,105	-	-	3,105
Loans receivable, net	684,437	676,703	-	-	676,703
Accrued interest receivable	1,912	1,912	-	422	1,490
Financial liabilities:					
Deposits	708,436	707,908	-	707,908	-
Securities sold under agreements to repurchase	19,545	19,545	-	19,545	-
Long-term debt	26,500	26,882	-	26,882	-
Subordinated debt	9,824	9,823	-	9,823	-
Accrued interest payable	118	118	-	118	-

NOTE 12 – SHAREHOLDERS' EQUITY

On August 11, 2011, the Company received $12 million under the Small Business Lending Fund ("SBLF"), created as part of the Small Business Jobs Act. The SBLF provided Tier 1 Capital to community banks, and the terms of this capital contained incentives for making small business loans, defined as certain loans of up to $10 million to businesses with up to $50 million in annual revenues. In exchange for the $12 million, the Company issued to the U.S. Department of the Treasury ("Treasury") 12,000 shares of its Non-Cumulative Perpetual Preferred Stock, Series C, having a $1,000 liquidation preference per share (the "SBLF Preferred Shares"). The SBLF Preferred Shares qualified as Tier 1 Capital. On December 15, 2014, the Company redeemed $6.0 million (6,000 shares) of the outstanding SBLF Preferred Shares, and on December 15, 2015, the remaining $6.0 million (6,000 shares) was redeemed. From July 1, 2013 to their redemption on December 15, 2015, the dividend rate on the SBLF Preferred Shares was 1.00%.

On December 17, 2015, 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, 2016 to December 31, 2016. During the quarter ended March 31, 2016, the Company repurchased a total of 732 shares for a total of approximately $6,000. Since the initial share repurchase program was introduced back in 2013, the Company has repurchased a total of 284,732 shares for a total cost of approximately $2.3 million.

<u>Basel III Capital Rules.</u> In July 2013, the federal bank regulatory agencies adopted revisions to the agencies' capital adequacy guidelines and prompt corrective action rules, which were designed to enhance such requirements and implement the revised standards of the Basel Committee on Banking Supervision, commonly referred to as Basel III.

These revisions generally implemented higher minimum capital requirements, added a new common equity Tier 1 Capital requirement, and established criteria that instruments must meet to be considered common equity Tier 1 Capital, additional Tier 1 Capital or Tier 2 Capital. As of January 1, 2015, the new minimum capital to risk-adjusted assets requirements are a common equity Tier 1 Capital ratio of 4.5% (6.5% for the Bank to be considered "well capitalized") and a Tier 1 Capital ratio of 6.0%, increased from 4.0% (and increased from 6.0% to 8.0% for the Bank to be considered "well capitalized"); the total capital ratio remains at 8.0% under the new rules (10.0% to be considered "well capitalized").

Under the new rules, in order to avoid limitations on capital distributions (including dividend payments and certain discretionary bonus payment to executive officers), a banking organization must hold a capital conservation buffer comprised of common equity Tier 1 Capital above its minimum risk-based capital requirements, which amount must be greater than 2.5% of total risk-weighted assets at January 1, 2019. The capital conservation buffer requirements phase in over a three-year period beginning January 1, 2016. Additionally, the Company determined, as permitted under Basel III, to opt-out of including accumulated other comprehensive income in regulatory capital.

As of March 31, 2016, the Bank had a capital conservation buffer greater than 2.5%.

NOTE 13 – SUBSEQUENT EVENT

On April 20, 2016, the Board of Directors declared a quarterly cash dividend to $0.035 per share to common shareholders of record at the close of business on May 13, 2016, payable on May 31, 2016.

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 confidence 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 2015 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 2015 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 carried at the lower of cost or fair value of the property, adjusted by management for factors such as economic conditions and other market factors, less estimated costs to sell. 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. OREO is periodically reviewed to ensure that the fair value of the property supports the carrying value.

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.

Overview

The Company reported net income to common shareholders of $1.69 million, or $0.21 per diluted share, for the first quarter of 2016, compared to $1.43 million, or $0.18 per diluted share, for the same period in 2015, an increase of $265,000, or 18.6%. The increase was primarily due to higher net interest income and non-interest income along with a lower provision for loan losses and lower preferred stock dividends, partially offset by higher non-interest expenses. The annualized return on average assets was 0.78% for the three months ended March 31, 2016 as compared to 0.74% for the same period in 2015. The annualized return on average shareholders’ equity was 7.25% for the three month period ended March 31, 2016 as compared to 6.20% for the three month period ended March 31, 2015. Tangible book value per common share rose to $9.63 at March 31, 2016 as compared to $8.96 at March 31, 2015, as disclosed in the Non-GAAP Financial Measures table.

Net interest income increased by $356,000, or 5.3%, for the quarter ended March 31, 2016 from the same period in 2015. Average earning assets totaled $803.7 million, an increase of $75.1 million, or 10.3%, from the quarter ended March 31, 2015, primarily due to an increase in average loans. The Company reported a net interest margin of 3.57% for the quarter ended March 31, 2016, a decrease of 20 basis points when compared to the 3.77% reported for the quarter ended March 31, 2015 and a decrease of 8 basis points when compared to the 3.65% for the quarter ended December 31, 2015. The decline from the fourth quarter of 2015 primarily resulted from the interest expense associated with the Company's $10 million subordinated debenture placement, which funded in December 2015. The subordinated debentures have a maturity date of December 31, 2025 and currently bear an annual interest rate of 6.25%.

The was no provision for loan losses for the three months ended March 31, 2016 as compared to a provision for loan losses of $90,000 for the corresponding 2015 period. The decrease in our provision when compared to the same prior-year period was primarily due to net loan recoveries of $250,000 during the current quarter, compared to net loan charge-offs of $77,000 in the first quarter of 2015. The Company's provision considers a number of factors, including our assessment of the current state of the economy, allowances related to impaired loans and loan growth. The provision for the comparable 2015 period considered the same factors.

Non-interest income for the quarter ended March 31, 2016 totaled $893,000, an increase of $117,000, or 15.1%, compared to the same period in 2015. Non-interest income for the period included an increase of $71,000, or 49.7%, in residential mortgage banking revenue due to higher origination volume, coupled with higher other loan fees and securities gains. These increases were partially offset by lower gains on the sale of SBA loans during the quarter due to the timing of loan closings.

Non-interest expense for the quarter ended March 31, 2016 totaled $5.4 million, an increase of $236,000, or 4.6%, compared to the same period in 2015. The increase was primarily due to higher salary and benefits expenses of $87,000 resulting from both annual merit increases and commissions from higher residential mortgage banking volume during the quarter. Additionally, professional fees were higher due to increased legal and consulting fees.

Total assets at March 31, 2016 were $881.9 million, an increase of 2.1% from $863.7 million at December 31, 2015. Total loans at March 31, 2016 were $704.4 million, an increase of 11.3 million, or 1.6%, from the $693.1 million recorded at December 31, 2015. Total deposits were $727.1 million at March 31, 2016, an increase of $18.7 million, or 2.6%, from the $708.4 million at December 31, 2015. Core checking deposits at March 31, 2016 increased $3.4 million, or 1.2%, to $296.4 million from year-end 2015, while savings accounts, money market deposits and time deposits increased $15.3 million, or 3.7%. 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, 2016, the Company’s allowance for loan losses was $9.0 million, compared with $8.7 million at December 31, 2015. The allowance for loan losses as a percentage of total loans at March 31, 2016 was 1.27%, compared to 1.26% at December 31, 2015. Non-performing assets at March 31, 2016 as a percentage of total assets improved to 0.22%, compared to 0.42% at December 31, 2015 and 0.75% at March 31, 2015. Non-performing assets decreased to $2.0 million at March 31, 2016 as compared to $3.6 million at December 31, 2015 and $6.1 million at March 31, 2015.

Results of Operation

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-income 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, 2016	2015
Return on average assets	**0.78 %**	0.74 %
Return on average tangible assets (1)	**0.80 %**	0.76 %
Return on average shareholders' equity	**7.25 %**	6.20 %
Return on average tangible shareholders' equity (1)	**8.98 %**	7.67 %
Net interest margin	**3.57 %**	3.77 %
Average equity to average assets	**10.80 %**	11.93 %
Average tangible equity to average tangible assets (1)	**8.90 %**	9.87 %

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

(in thousands except per share data and percentages)	As of and for the Three months ended March 31, 2016	2015
Total shareholders' equity	**$94,613**	$95,179
Less: preferred stock	**-**	(6,000)
Common shareholders' equity	**$94,613**	$89,179
Less: goodwill and other intangible assets	**(18,109)**	(18,147)
Tangible common shareholders' equity	**$76,504**	$71,032
Common shares outstanding (in thousands)	**7,943**	7,925
Book value per common share	**$11.91**	$11.25
Book value per common share	**$11.91**	$11.25
Effect of intangible assets	**(2.28)**	(2.29)
Tangible book value per common share	**$9.63**	$8.96
Return on average assets	**0.78 %**	0.74 %
Effect of intangible assets	**0.02 %**	0.02 %
Return on average tangible assets	**0.80 %**	0.76 %
Return on average equity	**7.25 %**	6.20 %
Effect of average intangible assets	**1.73 %**	1.47 %
Return on average tangible equity	**8.98 %**	7.67 %
Average equity to average assets	**10.80 %**	11.93 %
Effect of average intangible assets	**(1.90 %)**	(2.06 %)

Average tangible equity to average tangible assets	**8.90**	**%**	9.87	%

This Report contains certain financial information determined by methods other than in accordance with 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.

Three months ended March 31, 2016 compared to March 31, 2015

Net Interest Income

Net interest income for the quarter ended March 31, 2016 totaled $7.13 million, an increase of $356,000, or 5.3%, compared to $6.77 million for the corresponding period in 2015. This increase was largely due to an increase in average loans of $66.4 million funded in part by a higher level of average core checking NOW deposits and non-interest demand deposits of $37.7 million and $9.9 million respectively, from the same period in 2015. Additionally, average time deposits increased $27.1 million, or 28.1%, due to increases in both brokered and deposits obtained through the use of deposit listed services (“Listed Service CDs”), as the Company took advantage of extending the maturity of its certificates of deposit (“CDs”) portfolio by utilizing a laddered strategy of both types of funding during the year. These positives were partially offset by the 20 basis point decline in our net interest margin.

The net interest margin and net interest spread decreased to 3.57% and 3.39% from 3.77% and 3.61%, respectively, for the three months ended March 31, 2015, primarily resulting from the maturity, prepayment or contractual repricing of loans and investment securities in this extended period of low interest rates as well as the interest expense associated with the Company’s $10 million subordinated debenture placement, which funded in December 2015. This subordinated debt impacted our margin by approximately 8 basis points.

Total interest income for the three months ended March 31, 2016 increased by $662,000, or 8.6%. The increase in interest income was primarily due to a volume related increase in interest income of $804,000, partially offset by a rate related decrease in interest income of $142,000 for the first quarter of 2016 as compared to the same prior year period.

Interest and fees on loans increased $567,000, or 7.7%, to $7.9 million for the three months ended March 31, 2016 compared to $7.3 million for the corresponding period in 2015. Volume related increases of $776,000 were partially offset by rate related decreases of $209,000. The average balance of the loan portfolio for the three months ended March 31, 2016 increased by $66.4 million, or 10.6%, to $694.8 million from $628.4 million for the corresponding period in 2015. The average annualized yield on the loan portfolio was 4.58% for the quarter ended March 31, 2016 compared to 4.74% for the quarter ended March 31, 2015. Additionally, the average balance of total non-accrual loans, which amounted to $1.7 million and $4.5 million at March 31, 2016 and 2015 respectively, impacted the Company’s loan yield for both periods presented.

Interest income on investment securities totaled $392,000 for the three months ended March 31, 2016 compared to $315,000 for the three months ended March 31, 2015, an increase of $77,000, or 24.4%. For the three months ended March 31, 2016, investment securities had an average balance of $79.2 million with an average annualized yield of 1.98% compared to an average balance of $73.2 million with an average annualized yield of 1.72% for the three months ended March 31, 2015.

Interest income on interest-bearing deposits was $33,000 for the three months ended March 31, 2016, representing an increase of $18,000, or 120.0%, from $15,000 for the three months ended March 31, 2015. For the three months ended March 31, 2016, interest bearing deposits had an average balance of $29.7 million and an average annualized yield of 0.45% as compared to an average balance of $27.0 million and an average annualized yield of 0.23% for the same period in 2015. The increase in the rate was the result of the Federal Reserve raising short-term interest rates by 0.25% in December 2015.

Interest expense on interest-bearing liabilities amounted to $1.2 million for the three months ended March 31, 2016 compared to $904,000 for the corresponding period in 2015, an increase of $306,000, or 33.8%. This increase in interest expense was comprised of a $275,000 volume related increase as well as a $31,000 rate related increase.

The Bank continues to focus on developing core deposit relationships. The average balance of interest-bearing liabilities increased to $624.8 million for the three months ended March 31, 2016 from $556.9 million for the same period last year, an increase of $67.9 million, or 12.2%. Average NOW accounts increased $37.6 million from $113.0 million with an average annualized rate of 0.44% during the first quarter of 2015, to $150.6 million with an average annualized rate of 0.40% during the first quarter of 2016. Average time deposits increased $27.1 million from $96.3 million with an average annualized rate of 1.31% for the first quarter of 2015 to $123.4 million with an average annualized rate of 1.39% for the first quarter of 2016. These average balance increases were partially offset by a decrease in average savings deposits of $3.6 million over this same period while the average annualized rate rose by 1 basis point and our average money market deposits increased by $2.6 million while the average annualized rate remained unchanged. During the first quarter of 2016, our average demand deposits totaled $144.4 million, an increase of $9.9 million, or 7.3%, over the same period last year. For the three months ended March 31, 2016, the average annualized cost for all interest-bearing liabilities was 0.78%, which increased from the 0.66% for the three months ended March 31, 2015, primarily due to the interest expense associated with the Company's $10 million subordinated debenture placement, which funded in December 2015. The effective interest rate of the subordinated debentures is 6.67% and effected our cost of interest bearing liabilities by approximately 0.10%.

Our strategies for increasing and retaining core relationship deposits, 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 2016 were $17.7 million, with an average interest rate of 0.32%, compared to $21.2 million, with an average interest rate of 0.30%, for the first quarter of 2015.

The Company also utilizes FHLB term borrowings as an additional funding source. The average balance of such borrowings for the first quarter of 2016 and 2015 was $24.2 million and $26.4 million, respectively, with an average interest rate of 2.46% and 2.35%, respectively.

The $10 million of subordinated debentures totaled $9.8 million at March 31, 2016, which includes $169,000 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%.

The following tables reflect, for the periods presented, the components of our net interest income, setting forth (1) average assets, liabilities, and shareholders' equity, (2) interest income earned on interest-earning assets and interest expenses paid on interest-bearing liabilities, (3) average yields earned on interest-earning assets and average rates paid on interest-bearing liabilities, (4) our net interest spread (*i.e*., the average yield on interest-earning assets less the average rate on interest-bearing liabilities), and (5) our margin on interest-earning assets. Yields on tax-exempt assets have not been calculated on a fully tax-exempt basis.

(dollars in thousands)	Three Months Ended March 31, 2016 Average Balance	Interest Income/ Expense	Average Yield/ Rate		Three Months Ended March 31, 2015 Average Balance	Interest Income/ Expense	Average Yield/ Rate	
ASSETS								
Interest Earning Assets:								
Interest-bearing deposits in banks	**$ 29,721**	**$ 33**	**0.45**	%	$26,962	$ 15	0.23	%
Investment securities	**79,169**	**392**	**1.98**	%	73,238	315	1.72	%
Loans, net of unearned fees (1) (2)	**694,814**	**7,913**	**4.58**	%	628,418	7,346	4.74	%
Total Interest Earning Assets	**803,704**	**8,338**	**4.17**	%	728,618	7,676	4.27	%
Non-Interest Earning Assets:								
Allowance for loan losses	**(8,795)**				(8,086)			
All other assets	**75,505**				70,761			
Total Assets	**$ 870,414**				$791,293			
LIABILITIES & SHAREHOLDERS' EQUITY								
Interest-Bearing Liabilities:								
NOW deposits	**$ 150,629**	**151**	**0.40**	%	$112,963	122	0.44	%
Savings deposits	**225,197**	**274**	**0.49**	%	228,768	273	0.48	%
Money market deposits	**73,860**	**30**	**0.16**	%	71,245	28	0.16	%
Time deposits	**123,433**	**428**	**1.39**	%	96,345	312	1.31	%
Securities sold under agreements to repurchase	**17,700**	**14**	**0.32**	%	21,174	16	0.30	%
Long-term debt	**24,166**	**148**	**2.46**	%	26.400	153	2.35	%
Subordinated debt	**9,827**	**165**	**6.72**	%	-	-	-	
Total Interest Bearing Liabilities	**624,812**	**1,210**	**0.78**	%	556,895	904	0.66	%
Non-Interest Bearing Liabilities:								
Demand deposits	**144,420**				134,536			
Other liabilities	**7,209**				5,449			

Total Non-Interest Bearing Liabilities	**151,629**			139,985		
Shareholders' Equity	**93,973**			94,413		
Total Liabilities and Shareholders' Equity	**$ 870,414**			$791,293		
NET INTEREST INCOME		**$ 7,128**			$ 6,772	
NET INTEREST SPREAD (3)			**3.39 %**			3.61 %
NET INTEREST MARGIN (4)			**3.57 %**			3.77 %

(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 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, 2016 Compared to Three Months Ended March 31, 2015 Increase (decrease) due to change in		
	Volume	**Rate**	**Net**
	(in thousands)		
Interest Earned On:			
Interest-bearing deposits in banks	**$2**	**$16**	**$18**
Investment securities	**26**	**51**	**77**
Loans, net of unearned fees	**776**	**(209)**	**567**
Total Interest Income	**804**	**(142)**	**662**
Interest Paid On:			
NOW deposits	**41**	**(12)**	**29**
Savings deposits	**(4)**	**5**	**1**
Money market deposits	**1**	**1**	**2**
Time deposits	**88**	**28**	**116**
Securities sold under agreements to repurchase	**(3)**	**1**	**(2)**
Long-term debt	**(13)**	**8**	**(5)**
Subordinated debt	**165**	**-**	**165**
Total Interest Expense	**275**	**31**	**306**
Net Interest Income	**$529**	**$(173)**	**$356**

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

There was no provision for loan losses for the three months ended March 31, 2016 as compared to a provision for loan losses of $90,000 for the corresponding 2015 period. The decrease of $90,000 in our provision for the quarter was primarily due to $250,000 in net loan recoveries recorded during the first quarter of 2016, compared to net loan charge-offs of $77,000 in the first quarter of 2015, coupled with improvements in overall asset quality. The provision for three months ended March 31, 2016 was driven by a number of factors, including the level of charge-offs and recoveries, our assessment of the current state of the economy, allowances related to impaired loans and loan activity. The provision for the comparable 2015 period considered the same factors. 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 $9.0 million, or 1.27% of total loans at March 31, 2016, as compared to $8.7 million, or 1.26% at December 31, 2015.

In management's opinion, the level of allowance for loan losses, totaling $9.0 million at March 31, 2016, 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 as well as general market and economic conditions.

Non-Interest Income

For the three months ended March 31, 2016, non-interest income amounted to $893,000 compared to $776,000, an increase of $117,000, or 15.1%, from the corresponding period in 2015. Non-interest income for the period included a $71,000, or 49.7%, increase in residential mortgage banking revenue due to higher origination volume, coupled with higher other loan fees and securities gains. These increases were partially offset by a $82,000 decrease in gains on sale of SBA loans due to the timing of loan closings.

Non-Interest Expenses

Non-interest expenses for the three months ended March 31, 2016 increased $236,000 or 4.6%, to $5.4 million compared to $5.2 million for the three months ended March 31, 2015. This increase was primarily due to higher salaries and benefits of $87,000 resulting from both annual merit increases and commissions from higher residential mortgage banking volume during the quarter. Additionally, professional fees were higher due to increased legal and consulting fees.

Income Taxes

The Company recorded income tax expense of $931,000 for the three months ended March 31, 2016 compared to $854,000 for the three months ended March 31, 2015. The effective tax rate for the three months ended March 31, 2016 and 2015 was 35.5% and 37.2%, respectively, due to a lower level of taxable income during the current period due primarily to a higher level of tax-exempt municipal securities.

FINANCIAL CONDITION

Assets

At March 31, 2016, our total assets were $881.9 million, an increase of $18.2 million, or 2.1%, from $863.7 million at December 31, 2015. At March 31, 2016, total loans were $704.4 million, an increase of $11.3 million, or 1.6%, from the $693.1 million reported at December 31, 2015. Investment securities, including restricted stock, were $83.4 million at March 31, 2016 as compared to $80.3 million at December 31, 2015, an increase of $3.1 million, or 3.9%. At March 31, 2016, cash and cash equivalents totaled $54.1 million compared to $46.7 million at December 31, 2015, an increase of $7.4 million, or 15.8%. Our liquidity position continued to remain strong. Goodwill totaled $18.1 million at both March 31, 2016 and December 31, 2015.

Liabilities

Total liabilities increased $16.5 million, or 2.1%, to $787.2 million at March 31, 2016, from $770.7 million at December 31, 2015. Total deposits increased $18.7 million, or 2.6%, to $727.1 million at March 31, 2016, from $708.4 million at December 31, 2015. Long-term debt decreased $2.7 million to $23.8 million at March 31, 2016, from $26.5 million at December 31, 2015, and the Company issued $9.8 million of subordinated debentures during 2015.

Securities Portfolio

Investment securities, including restricted investments, totaled $83.4 million at March 31, 2016 compared to $80.3 million at December 31, 2015, an increase of $3.1 million, or 3.9%. During the three months ended March 31, 2016 and 2015, investment security purchases amounted to $5.8 million and $3.0 million, respectively, while repayments, calls and maturities amounted to $1.7 million and $2.9 million, respectively. Additionally, investment security sales amounted to $1.0 million and $1.5 million, respectively, in which the Company recorded a net gain on sale of $72,000 during the first quarter of 2016 as compared to $15,000 in the same period in 2015.

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, 2016, the Company maintained $17.4 million of GSE residential mortgage-backed securities in the investment portfolio and $15.4 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 Ba1. These securities have an amortized cost value of $2.8 million and a fair value of $2.2 million at March 31, 2016. The unrealized loss on these securities is related to general market conditions, the widening of interest rate spread 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, 2016, 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, 2016 and December 31, 2015.

	March 31, 2016		December 31, 2015	
	Amount	Percent	Amount	Percent
	(in thousands, except for percentages)			
Commercial and industrial	**$96,427**	**13.7** %	$100,154	14.5 %
Real estate – construction	**104,375**	**14.8** %	104,231	15.0 %
Real estate – commercial	**432,929**	**61.5** %	422,665	61.0 %
Real estate – residential	**44,142**	**6.3** %	39,524	5.7 %
Consumer	**27,042**	**3.8** %	27,136	3.9 %
Unearned fees	**(514)**	**(0.1** %)	(560)	(0.1 %)
Total loans	**$704,401**	**100.0** %	$693,150	100.0 %

For the three months ended March 31, 2016, total loans increased by $11.3 million, or 1.6%, to $704.4 million from $693.1 million at December 31, 2015. The increase was due to growth in commercial real estate and residential lending sectors 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 in 2016, recognizing that we will continue to be challenged due in part to both the competitive landscape and pricing pressures in this low rate environment. However, our loan pipeline remains strong as we continue to remain focused on growing our portfolio. We have taken the approach of opening low cost loan production offices ("LPOs") in different 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 2016, the Bank re-opened a LPO in the Summit, New Jersey market and as such, now complements our other LPO in Toms River, 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, 2016 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 61.5% of our total loans at March 31, 2016, up slightly from 61.0% at December 31, 2015. These loans increased $10.3 million, or 2.4%, to $432.9 million at March 31, 2016 from $422.6 million at December 31, 2015. Real estate construction loans increased by $144,000, or 0.1%, to $104.4 million at March 31, 2016 from $104.2 million at December 31, 2015. Real estate residential loans increased $4.6 million, or 11.7%, to $44.1 million at March 31, 2016 from $39.5 million at December 31, 2015 as we continue to portfolio adjustable rate mortgages while selling our fixed rate residential product. These increases were partially offset by decreases in commercial and industrial loans, which decreased $3.7 million, or 3.7%, to $96.4 million at March 31, 2016 from $100.1 million at December 31, 2015, while consumer loans decreased $94,000, or 0.3%, to $27.0 million at March 31, 2016 from $27.1 million at December 31, 2015.

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. Our loan portfolio composition generally consists of loans secured by commercial real estate, land development and construction of real estate projects mainly in the Union, Monmouth and Middlesex County, 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, 2016 and December 31, 2015, the Company had $1.7 million and $3.2 million in non-accrual loans, respectively. Our non-performing loans are primarily secured by real estate. At March 31, 2016 and December 31, 2015, 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, 2016 and December 31, 2015. Total TDRs are broken out at the bottom of the table.

	March 31, 2016	**December 31, 2015**
	(dollars in thousands)	
Non-Performing Assets:		
Non-Accrual Loans:		
Commercial and industrial	**$129**	$ 138
Real estate-construction	**-**	-
Real estate-commercial	**806**	2,244
Real estate-residential	**788**	796
Consumer	**-**	-
Total Non-Performing Loans	**1,723**	3,178
Loans past due 90 days or more and still accruing	**-**	-
OREO	**259**	411

Total Non-Performing Assets	**$1,982**	$ 3,589
Ratios:		
Non-Performing loans to total loans	**0.24 %**	0.46 %
Non-Performing assets to total assets	**0.22 %**	0.42 %
Troubled Debt Restructured Loans:		
Performing	**$8,920**	$ 9,289
Non-performing (included in non-performing assets above)	**161**	1,552

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Total non-performing loans decreased by $1.5 million from December 31, 2015. At March 31, 2016, eight loans comprise the $1.7 million as compared to nine loans for the $3.2 million at December 31, 2015. At March 31, 2016, 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, 2016, non-performing commercial and industrial loans from December 31, 2015, decreased by $9,000 during the first quarter of 2016, primarily due to paydowns. The $129,000 is comprised of two commercial term loans.

At March 31, 2016, non-performing real estate commercial loans decreased by $1.4 million from December 31, 2015, due primarily to one loan totaling $1.4 million, which paid off during the first quarter of 2016.

At March 31, 2016, non-performing real estate residential loans decreased $8,000 to $788,000 from December 31, 2015.

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. At March 31, 2016, the Bank had $259,000 in OREO consisting of one property, as compared to $411,000 at December 31, 2015, which consisted of two properties. During the first quarter of 2016, one property totaling $152,000 was sold for a loss of $45,000.

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.

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 troubled debt restructuring generally involve a temporary reduction in interest rate or a modification of a loan’s amortization schedule. Non-accrual troubled debt restructurings 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 troubled debt restructurings 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 improve the net present value of the Company’s expected cash flows.

As of March 31, 2016, TDRs totaled $9.1 million as compared to $10.8 million at December 31, 2015, a decrease of $1.7 million. This decrease was primarily due to pay downs and payoffs. 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 improve the net present value of the Company’s expected cash flows. The $9.1 million is comprised of $1.1 million in real estate commercial loans, $3.3 million in real estate construction loans, $4.1 million in commercial and industrial, $381,000 in real estate residential loans and $206,000 in consumer loans. All but two identified TDR’s, as of March 31, 2016, are collateral-dependent loans while the two others are cash flow dependent. Of the $9.1 million, one relationship totaling $3.3 million has a specific reserve of $6,000 in our ALLL computation. The remaining $5.8 million of TDRs are adequately collateralized requiring no specific reserves.

The $1.1 million in real estate commercial loans identified as TDR’s are all accruing, with the exception of one non-accrual loan totaling $56,000, which is secured by real estate. The remaining $1.0 million are amortizing on various terms. The TDR designation was given primarily due to concessions granted for interest rate or amortization. These factors were all a result of the weak economy, which resulted in the borrowers having financial and cash flow difficulties.

The $3.3 million in real estate construction loans is partially comprised of four relationships, which are currently being developed, under contract and/or amortizing.

The $4.1 million in commercial and industrial loans are all performing, with the exception of one non-accrual loan totaling $105,000.

The $206,000 in consumer loans and $381,000 in real estate residential loans are all performing.

Potential Problem Loans

Overall credit quality in the portfolio remains strong even though the economic weakness has impacted several potential problem loans. Potential problem loans consist of special mention and substandard loans. At March 31, 2016, the Company had $15.3 million in loans that were risk rated as special mention or substandard. This $15.3 million of special mention and substandard loans represents a decrease of $1.6 million from the $16.9 million reported at December 31, 2015. The change in risk rated loans was attributable to certain loans which were either upgraded due to a variety of changing conditions, including general economic conditions, payoffs and/or conditions applicable to the specific borrower, or due to payoffs and paydowns.

At March 31, 2016, 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, 2016 and 2015 and for the year ended December 31, 2015.

	March 31,		**December 31,**
	2016	**2015**	**2015**
	(in thousands, except percentages)		
Balance at beginning of year	**$8,713**	$8,069	$ 8,069
Provision charged to expense	**-**	90	490
Recoveries (charged offs), net	**250**	(77)	154
Balance of allowance at end of period	**$8,963**	$8,082	$ 8,713
Ratio of net charge-offs (recoveries) to average loans outstanding (annualized)	**(0.14)%**	0.05%	0.02%
Balance of allowance as a percent of loans at period-end	**1.27%**	1.26%	1.26%
Ratio of allowance to non-performing loans at period-end	**520.20%**	181.62%	274.17%

At March 31, 2016, the Company's allowance for loan losses was $9.0 million compared with $8.7 million at December 31, 2015. The allowance for loan losses as a percentage of total loans at March 31, 2016 was 1.27%, compared with 1.26% at December 31, 2015. The Company recorded no provision to the allowance for loan losses for the three month period ended March 31, 2016 as compared to $90,000 for the comparable period in 2015. The decrease of $90,000 in our provision for the quarter was due primarily due to a net recovery of $250,000 in the first quarter of 2016, which helped fund the increase in the allowance for loan losses necessitated by the strong loan growth during the period, coupled with improvements in asset quality. Non-performing loans at March 31, 2016 are either well-collateralized or adequately reserved for in the allowance for loan losses.

Management maintains the allowance for credit 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.

While the overall New Jersey economy remains somewhat constrained by the recovering economic environment, our local economy seems to reflect some strengthening in certain sectors. While we remain optimistic in our growth prospects for lending in 2016, we recognize that we will continue to be challenged due in part to both the competitive landscape and pricing pressures in this low rate environment 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 or 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

In November of 2004, the Company invested in $3.5 million of bank-owned life insurance 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 that provides for payments upon retirement, death or disability. Since its initial investment in 2004, the Company has purchased an additional $13.1 million of bank-owned life insurance in order to provide additional 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 SERP. Expenses related to the SERP were approximately $51,000, and $62,000 for the three months ended March 31, 2016 and 2015, respectively. Bank-owned life insurance 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. Income on bank-owned life insurance amounted to $109,000 and $111,000 for the three months ended March 31, 2016 and 2015, respectively.

Premises and Equipment

Premises and equipment totaled approximately $4.9 million and $5.1 million at March 31, 2016 and December 31, 2015, respectively. Depreciation expense totaled $200,000 and $182,000 for the three months ended March 31, 2016 and 2015, respectively. The increase of $18,000 was primarily due to the opening of our new branch in Freehold, NJ in the second quarter of 2015, along with increased expense associated with computer and technology upgrades.

Goodwill and Other Intangible Assets

Intangible assets totaled $18.1 million at March 31, 2016 and December 31, 2015. The Company's intangible assets at March 31, 2016 were comprised of $18.1 million of goodwill. During the quarter ended March 31, 2016, the $2.1 million of core deposit intangible was fully amortized and therefore, no balance remains. The Company performed its annual goodwill impairment analysis as of September 30, 2015. Based on the results of the step one goodwill impairment 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 additional material impairment charges due to further developments in the banking industry or our markets or otherwise. Additional goodwill discussion can be referenced in Note 3, "Goodwill," in the Company's financial statements.

Deposits

Deposits are the Company's primary source of funds. The deposit increase during 2016 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 2016 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 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.

At March 31, 2016, total deposits amounted to $727.1 million, reflecting an increase of $18.7 million, or 2.6%, from $708.4 million at December 31, 2015. Core checking deposits at March 31, 2016 increased $3.4 million, or 1.2%, to $296.4 million from year-end 2015, while savings accounts, money market deposits and time deposits, increased $15.3 million, or 3.7%. In light of the low interest rate environment and strong loan pipeline, the Company has continued to take advantage of extending the maturity of its CD portfolio by utilizing a laddered strategy of both brokered and Listed Service CDs over the course of the past year. 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 $100,000 and over, brokered CDs and Listed Service CDs. Core deposits at March 31, 2016 amounted to $624.1 million and accounted for 85.8% of total deposits, as compared to $614.9 million and 86.8%, at December 31, 2015. During 2016, we continued to price our CDs $100,000 and over at rates that did not exceed our market competition. The balance in our CDs $100,000 and over at March 31, 2016 totaled $66.3 million as compared to $56.9 million at December 31, 2015, an increase of $9.4 million, or 16.5%. At March 31, 2016, the Company had $37.4 million in brokered CDs as compared to $37.9 million at December 31, 2015, with rates ranging from 0.60% to 2.12% and original terms ranging from 12 to 84 months while Listed Service CDs totaled $40.0 million compared to $33.3 million at December 31, 2015 with rates between 0.96% to 2.10% and original terms ranging from 24 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 $54.9 million based on the current loan collateral pledged of $99.0 million at March 31, 2016.

Short-term borrowings consist of Federal funds purchased and short-term borrowings from the FHLB. At March 31, 2016 and 2015, the Company had no short-term borrowings outstanding.

At March 31, 2016 and December 31, 2015, long-term debt consisted of advances from the FHLB, which amounted to $23.8 million for March 31, 2016 compared to $26.5 million at December 31, 2015. The FHLB advances had a weighted average interest rate of 2.47% and 2.28% at March 31, 2016 and December 31, 2015, respectively. These advances are contractually scheduled for repayment as follows:

	March 31, 2016	**December 31, 2015**	**Rate**	**Original Term (years)**	**Maturity**
	(dollars in thousands)				
Fixed Rate Note	**$7,500**	$ 7,500	**3.97%**	**10**	**November 2017**
Fixed Rate Note	**1,500**	1,500	**2.41%**	**6**	**August 2016**
Fixed Rate Note	**1,500**	1,500	**2.71%**	**7**	**August 2017**
Fixed Rate Note	**2,000**	2,000	**1.28%**	**4**	**October 2017**
Fixed Rate Note	**2,000**	2,000	**1.65%**	**5**	**October 2018**
Fixed Rate Note	**-**	2,700	**0.60%**	**1**	**January 2016**
Fixed Rate Note	**1,000**	1,000	**0.97%**	**2**	**January 2017**
Fixed Rate Note	**1,300**	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**
	$23,800	$ 26,500			

The maximum amount outstanding of FHLB advances at any month-end during three months ended March 31, 2016 and 2015 was $26.5 million and $28.0 million, respectively. The average interest rates paid on FHLB advances was 2.46% and 2.35% during the three months ended March 31, 2016 and 2015, 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 $9.8 million at March 31, 2016 and December 31, 2015, which includes $169,000 and $176,000 of remaining unamortized debt issuance costs at March 31, 2016 and December 31, 2015, 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 increased to $20.1 million at March 31, 2016 from $19.5 million at December 31, 2015, an increase of $587,000, or 3.0%.

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.

At March 31, 2016, the Company had $54.1 million in cash and cash equivalents as compared to $46.7 million at December 31, 2015. Cash and cash equivalent balances include $29.0 million and $25.2 million of interest-bearing deposits at the Federal Reserve Bank of New York at March 31, 2016 and December 31, 2015, 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, 2016 and December 31, 2015:

	March 31, 2016	**December 31, 2015**
	(dollars in thousands)	
Home equity lines of credit	**$21,467**	$ 21,072
Commitments to fund commercial real estate and construction loans	**103,239**	92,363
Commitments to fund commercial and industrial loans and other loans	**49,094**	52,826
Commercial and financial letters of credit	**3,812**	4,315
	$177,612	$ 170,576

Capital

Shareholders' equity increased by approximately $1.6 million, or 1.7%, to $94.6 million at March 31, 2016 compared to $93.0 million at December 31, 2015. Net income for the three month period ended March 31, 2016 added $1.7 million to shareholders' equity. Additionally, stock-based compensation expense of $40,000, options exercised of $53,000, $14,000 in employee stock option purchases and $95,000 in after-tax net unrealized gains on securities available for sale during the first quarter of 2016, contributed to the increase. These increases were partially offset by $278,000 in cash dividends on common stock and $6,000 in common stock repurchased. During the three months ended March 31, 2016, the Company repurchased 732 shares of common for a total of $6,000 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, 2016, 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, 2016 and December 31, 2015, are presented below.

	Company	**Bank**	**Minimum**	**To Be Well Capitalized Under**

			Required For Capital Adequacy Purposes	**Applicable Regulations***
As of March 31, 2016				
Common Equity Tier 1 Capital to Risk Weighted Assets	**10.12** %	**11.35** %	**4.50** %	**6.50** %*
Tier 1 Capital to Average Assets (Leverage Ratio)	**9.02** %	**10.12** %	**4.00** %	**5.00** %*
Tier 1 Capital to Risk Weighted Assets	**10.12** %	**11.35** %	**6.00** %	**8.00** %*
Total Capital to Risk Weighted Assets	**12.61** %	**12.53** %	**8.00** %	**10.00** %
As of December 31, 2015				
Common Equity Tier 1 Capital to Risk Weighted Assets	10.13 %	11.39 %	4.50 %	6.50 %*
Tier 1 Capital to Average Assets (Leverage Ratio)	8.97 %	10.09 %	4.00 %	5.00 %*
Tier 1 Capital to Risk Weighted Assets	10.13 %	11.39 %	6.00 %	8.00 %*
Total Capital to Risk Weighted Assets	12.65 %	12.56 %	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%.

Basel III Capital Rules. In July 2013, the federal bank regulatory agencies adopted revisions to the agencies’ capital adequacy guidelines and prompt corrective action rules, which were designed to enhance such requirements and implement the revised standards of the Basel Committee on Banking Supervision, commonly referred to as Basel III.

Under the new rules, in order to avoid limitations on capital distributions (including dividend payments and certain discretionary bonus payment to executive officers), a banking organization must hold a capital conservation buffer comprised of common equity Tier 1 Capital above its minimum risk-based capital requirements. This capital conservation buffer requirement phases in over a three-year period beginning January 1, 2016. At January 1, 2019, the capital conservation buffer must be greater than 2.5% of total risk-weighted assets. Additionally, the Company determined, as permitted under Basel III, to opt-out of including accumulated other comprehensive income in regulatory capital.

As of March 31, 2016, 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, 2016 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

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

Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased (1)	Average Price Paid Per Share ($)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs ($)
January 1, 2016 through January 31, 2016	732	9.30	732	1,993,163
February 1, 2016 through February 28, 2016	-	-	-	-
March 1, 2016 through March 31, 2016	-	-	-	-
Total	**732**	**9.30**	**732**	

(1) All shares were repurchased under the Company's share repurchase program. In December 2015, 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, 2016 to December 31, 2016.

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 12, 2016	By:	/s/ William D. Moss William D. Moss President and Chief Executive Officer (Principal Executive Officer)
Date: May 12, 2016	By:	/s/ A. Richard Abrahamian A. Richard Abrahamian Executive Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)