1ST CONSTITUTION BANCORP
Form 10-Q
November 16, 2015

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
(Mark One)

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

For the quarterly period ended September 30, 2015

or

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

For the transition period from _____ to _____

Commission file Number: 000-32891

1ST CONSTITUTION BANCORP
(Exact Name of Registrant as Specified in Its Charter)

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

(609) 655-4500
(Issuer's Telephone Number, Including Area Code)

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

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

Indicate by check mark whether the registrant has submitted electronically 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 ý No o

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

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

As of October 31, 2015, there were 7,547,064 shares of the registrant's common stock, no par value, outstanding.

1

1ST CONSTITUTION BANCORP
FORM 10-Q
INDEX

PART I. FINANCIAL INFORMATION
Item 1. Financial Statements.
1st Constitution Bancorp
Consolidated Balance Sheets
(Dollars in thousands)
(Unaudited)

	September 30, 2015	December 31, 2014
ASSETS		
CASH AND DUE FROM BANKS	$14,865	$14,545
FEDERAL FUNDS SOLD / SHORT-TERM INVESTMENTS	—	—
Total cash and cash equivalents	14,865	14,545
INVESTMENT SECURITIES:		
Available for sale, at fair value	74,557	80,161
Held to maturity (fair value of $125,445 and $148,476 at September 30, 2015 and December 31, 2014, respectively)	121,025	143,638
Total investment securities	195,582	223,799
LOANS HELD FOR SALE	5,707	8,372
LOANS	709,398	654,297
Less- Allowance for loan losses	(7,132)	(6,925)
Net loans	702,266	647,372
PREMISES AND EQUIPMENT, net	11,289	11,373
ACCRUED INTEREST RECEIVABLE	2,644	3,096
BANK-OWNED LIFE INSURANCE	21,445	21,218
OTHER REAL ESTATE OWNED	4,927	5,710
GOODWILL AND INTANGIBLE ASSETS	13,391	13,711
OTHER ASSETS	8,334	7,583
Total assets	$980,450	$956,779
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES:		
DEPOSITS		
Non-interest bearing	$170,255	$162,281
Interest bearing	623,587	655,480
Total deposits	793,842	817,761
BORROWINGS	65,187	25,107
REDEEMABLE SUBORDINATED DEBENTURES	18,557	18,557
ACCRUED INTEREST PAYABLE	753	907
ACCRUED EXPENSES AND OTHER LIABILITIES	7,679	7,337
Total liabilities	886,018	869,669
SHAREHOLDERS' EQUITY:		
Preferred stock, no par value; 5,000,000 shares authorized, none issued	—	—
Common Stock, no par value; 30,000,000 shares authorized; 7,569,613 and 7,165,084 shares issued and 7,547,064 and 7,134,174 shares outstanding as of September 30, 2015 and December 31, 2014, respectively	65,777	61,448
Retained earnings	28,773	25,730

Treasury Stock, 22,549 shares and 30,910 shares at September 30, 2015 and December 31, 2014, respectively	(258)	(316)
Accumulated other comprehensive income	140	248
Total shareholders' equity	94,432	87,110
Total liabilities and shareholders' equity	$980,450	$956,779

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

1

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
INTEREST INCOME:				
Loans, including fees	$9,527	$8,586	$27,054	$22,695
Securities:				
Taxable	776	961	2,383	3,141
Tax-exempt	522	575	1,608	1,746
Federal funds sold and short-term investments	7	10	38	111
Total interest income	10,832	10,132	31,083	27,693
INTEREST EXPENSE:				
Deposits	921	955	2,765	2,827
Borrowings	159	144	438	387
Redeemable subordinated debentures	89	87	263	257
Total interest expense	1,169	1,186	3,466	3,471
Net interest income	9,663	8,946	27,617	24,222
PROVISION FOR LOAN LOSSES	100	650	600	5,250
Net interest income after provision for loan losses	9,563	8,296	27,017	18,972
NON-INTEREST INCOME:				
Service charges on deposit accounts	186	268	615	754
Gain on sales of loans, net	455	556	2,336	1,562
Income on Bank-owned life insurance	144	144	420	422
Other income	314	514	1,231	1,640
Total other income	1,099	1,482	4,602	4,378
NON-INTEREST EXPENSES:				
Salaries and employee benefits	4,045	3,922	12,096	11,195
Occupancy expense	843	834	2,704	2,499
Data processing expenses	326	313	951	941
FDIC insurance expense	160	210	530	545
Other real estate owned expenses	119	132	631	272
Merger-related expenses	—	—	—	1,532
Other operating expenses	1,559	1,312	4,355	3,791
Total other expenses	7,052	6,723	21,267	20,775
Income before income taxes	3,610	3,055	10,352	2,575
INCOME TAXES	1,148	917	3,315	235
Net income	$2,462	$2,138	$7,037	$2,340
NET INCOME PER COMMON SHARE:				
Basic	$0.33	$0.29	$0.94	$0.32
Diluted	$0.32	$0.28	$0.92	$0.31

WEIGHTED AVERAGE SHARES OUTSTANDING				
Basic	7,543,040	7,475,069	7,517,828	7,364,465
Diluted	7,695,082	7,603,627	7,674,946	7,498,647

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

2

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Net Income	$2,462	$2,138	$7,037	$2,340
Other comprehensive income (loss):				
Unrealized holding gains on securities available for sale	698	477	80	2,758
Tax effect	(254)	(255)	(73)	(1,013)
Net of tax amount	444	222	7	1,745
Reclassification adjustment for loss included in income on securities available for sale (1)	—	—	—	3
Tax effect (2)	—	—	—	(1)
Net of tax amount	—	—	—	2
Pension liability	(73)	161	19	323
Tax effect	29	(64)	(8)	(129)
Net of tax amount	(44)	97	11	194
Reclassification adjustment for actuarial (gains) loss included in Income (3)	(55)	(4)	(210)	(6)
Tax effect (2)	22	2	84	2
Net of tax amount	(33)	(2)	(126)	(4)
Total other comprehensive income (loss)	367	317	(108)	1,937
Comprehensive income	$2,829	$2,455	$6,929	$4,277

The accompanying notes are an integral part of these financial statements.
(1)Included in other income on the consolidated statements of income
(2)Included in income taxes on the consolidated statements of income
(3)Included in salaries and employee benefits expense on the consolidated statements of income

3

1st Constitution Bancorp
Consolidated Statements of Changes in Shareholders' Equity
For the Nine Months Ended September 30, 2015 and 2014
(Dollars in thousands)
(Unaudited)

(Dollars in thousands)	Common Stock	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive (Loss) Income	Total Shareholders' Equity
Balance, January 1, 2014	$49,403	$21,374	$(172)	$(2,248)	$68,357
Exercise of stock options and share grants	375	—	—	—	375
Share-based compensation	444	—	—	—	444
Treasury stock purchased (3,891 shares)	—	—	(138)	—	(138)
Acquisition of Rumson Fair Haven Bank (1,019,223 shares)	11,161	—	—	—	11,161
Net Income for the nine months ended September 30, 2014	—	2,340	—	—	2,340
Other comprehensive income	—	—	—	1,937	1,937
Balance, September 30, 2014	$61,383	$23,714	$(310)	$(311)	$84,476
Balance, January 1, 2015	$61,448	$25,730	$(316)	$248	$87,110
Exercise of stock options and share grants	(148)	—	331	—	183
Share-based compensation	483	—	—	—	483
Treasury stock purchased (23,791 shares)	—	—	(273)	—	(273)
5% Stock dividend declared March 2015 (358,851 shares)	3,994	(3,994)	—	—	—
Net income for the nine months ended September 30, 2015	—	7,037	—	—	7,037
Other comprehensive loss	—	—	—	(108)	(108)
Balance, September 30, 2015	$65,777	$28,773	$(258)	$140	$94,432

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

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

	Nine Months Ended September 30, 2015	2014
OPERATING ACTIVITIES:		
Net income	$7,037	$2,340
Adjustments to reconcile net income to net cash provided by operating activities-		
Provision for loan losses	600	5,250
Provision for loss on other real estate owned	382	112
Depreciation and amortization	1,151	1,339
Net amortization of premiums and discounts on securities	622	852
Loss on sales of securities held for sale	—	3
Gains on sales of other real estate owned	—	(21)
Gains on sales of loans held for sale	(2,336)	(1,562)
Originations of loans held for sale	(112,980)	(84,045)
Proceeds from sales of loans held for sale	117,981	87,072
Income on Bank – owned life insurance	(420)	(422)
Share-based compensation expense	483	444
Decrease in accrued interest receivable	452	341
Increase in other assets	(650)	(308)
Decrease in accrued interest payable	(154)	(228)
Increase (Decrease) in accrued expenses and other liabilities	341	(389)
Net cash provided by operating activities	12,509	10,778
INVESTING ACTIVITIES:		
Purchases of securities -		
Available for sale	(7,071)	—
Held to maturity	(7,578)	(14,229)
Proceeds from maturities and prepayments of securities -		
Available for sale	12,345	21,504
Held to maturity	29,861	18,572
Proceeds from sales of securities available for sale	—	5,957
Net increase in loans	(56,460)	(108,784)
Capital expenditures	(723)	(262)
Net cash received in the acquisition	—	21,375
Proceeds from sales of other real estate owned	1,366	231
Net cash used in investing activities	(28,260)	(55,636)
FINANCING ACTIVITIES:		
Exercise of stock options	183	742
Purchase of treasury stock	(273)	(138)
Net decrease in deposits	(23,919)	(4,472)
Net increase in borrowings	40,080	(180)
Net cash provided by (used in) financing activities	16,071	(4,048)
Increase (Decrease) in cash and cash equivalents	320	(48,906)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	14,545	69,279
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$14,865	$20,373
SUPPLEMENTAL DISCLOSURES OF CASHFLOW INFORMATION		

Cash paid during the period for -		
Interest	$3,620	$3,551
Income taxes	3,656	656
Non-cash activities .		
Acquisition of Rumson		
Noncash assets acquired :		
Investment securities available for sale		$30,024
Loans		143,714
Accrued interest receivable		597
Premises and equipment, net		2,552
Goodwill		7,698
Core deposit intangible		1,189
Bank-owned life insurance		4,471
Other assets		886
		191,131
Liabilities assumed :		
Deposits		189,490
Advances from FHLB		11,030
Other liabilities		825
		201,345
Common stock issued as consideration		11,161

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

1st Constitution Bancorp
Notes To Consolidated Financial Statements
September 30, 2015
(Unaudited)

(1) Summary of Significant Accounting Policies

The accompanying unaudited consolidated financial statements include 1st Constitution Bancorp (the "Company"), its wholly-owned subsidiary, 1st Constitution Bank (the "Bank"), and the Bank's wholly-owned subsidiaries, 1st Constitution Investment Company of New Jersey, Inc., FCB Assets Holdings, Inc., 204 South Newman Street Corp., and 249 New York Avenue, LLC. 1st Constitution Capital Trust II, a subsidiary of the Company, is not included in the Company's consolidated financial statements, as it is a variable interest entity and the Company is not the primary beneficiary. All significant intercompany accounts and transactions have been eliminated in consolidation and certain prior period amounts have been reclassified to conform to current year presentation. The accounting and reporting policies of the Company and its subsidiaries conform to accounting principles generally accepted in the United States of America ("U.S. GAAP") and pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC"), including the instructions to Form 10-Q and Article 8 of Regulation S-X. Certain information and footnote disclosures normally included in financial statements have been condensed or omitted pursuant to such rules and regulations. These consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the notes thereto included in the Company's Form 10-K for the year ended December 31, 2014, filed with the SEC on March 26, 2015.

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

The Company has evaluated events and transactions occurring subsequent to the balance sheet date of September 30, 2015 for items that should potentially be recognized or disclosed in these financial statements. The evaluation was conducted through the date these financial statements were issued.

On April 6, 2015, the Company paid a five percent common stock dividend to shareholders of record on March 16, 2015. As appropriate, common shares and per common share data presented in the consolidated financial statements and the accompanying notes below have been adjusted to reflect the common stock dividend.

(2) Acquisition of Rumson-Fair Haven Bank and Trust Company

On February 7, 2014, the Company completed its acquisition of Rumson-Fair Haven Bank and Trust Company, a New Jersey state commercial bank ("Rumson"), which merged with and into the Bank, with the Bank as the surviving entity. The merger agreement among the Company, the Bank and Rumson (the "Merger Agreement") provided that the shareholders of Rumson would receive, at their election, for each outstanding share of Rumson common stock that they own at the effective time of the merger, either 0.7772 shares of the Company common stock or $7.50 in cash or a combination thereof, subject to proration as described in the Merger Agreement, so that 60% of the aggregate merger consideration consisted of cash and 40% consisted of shares of the Company's common stock. The Company issued an aggregate of 1,019,223 shares of its common stock and paid $14.8 million in cash in the transaction.

The merger was accounted for under the acquisition method of accounting and accordingly, assets acquired, liabilities assumed and consideration exchanged were recorded at estimated fair values as of the acquisition date. Rumson's results of operations have been included in the Company's Consolidated Statements of Income since February 7, 2014.

The following table summarizes the final fair value of the acquired assets and liabilities.

(Dollars in thousands)	Amount
Consideration paid:	
Company stock issued	$11,161
Cash payment	14,770
Total consideration paid	25,931
Recognized amounts of identifiable assets and liabilities assumed at fair value:	
Cash and cash equivalents	36,145
Securities available for sale	30,024
Loans	143,714
Premises and equipment, net	1,913
Identifiable intangible assets	1,189
Bank-owned life insurance	4,471
Accrued interest receivable and other assets	1,738
Deposits	(189,490)
Borrowings	(11,030)
Other liabilities	(832)
Total identifiable assets	17,842
Goodwill	$8,089

Accounting Standards Codification ("ASC") Topic 805-10 provides that if the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the acquirer shall report in its financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, the acquirer shall retrospectively adjust the provisional amounts recognized at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the measurement of the amounts recognized as of that date. During the measurement period, the acquirer also shall recognize additional assets or liabilities if new information is obtained about facts and circumstances that existed as of the acquisition date that, if known, would have resulted in the recognition of those assets and liabilities as of that date. The measurement period may not exceed one year from the acquisition date. All measurements for the Rumson acquisition have been completed as of December 31, 2014.

The provisional amounts originally reported have been adjusted to reflect the review and completion of the fair value measurements. As a result of the completion of independent appraisals, the fair value of acquired real estate assets was reduced by approximately $639,000, deferred tax assets were increased by approximately $403,000 and goodwill was increased by approximately $236,000. These adjustments had an insignificant effect on the results of operations since the acquisition date.

(3) Net Income Per Common Share

Basic net income per common share is calculated by dividing net income by the weighted average number of common shares outstanding during each period.

Diluted net income per common share is calculated by dividing net income by the weighted average number of common shares outstanding, as adjusted for the assumed exercise of potential common stock warrants, common stock options and unvested restricted stock awards (as defined below), using the treasury stock method.

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

(Dollars in thousands, except per share data)	Three Months Ended September 30, 2015		
	Net Income	Weighted-average shares	Per share amount
Basic earnings per common share:			
Net income	$2,462	7,543,040	$0.33
Effect of dilutive securities:			
Stock options and warrants		152,042	
Diluted EPS:			
Net income plus assumed conversion	$2,462	7,695,082	$0.32

(Dollars in thousands, except per share data)	Three Months Ended September 30, 2014		
	Net Income	Weighted-average shares	Per share amount
Basic earnings per common share:			
Net income	$2,138	7,475,069	$0.29
Effect of dilutive securities:			
Stock options and warrants		128,558	
Diluted EPS:			
Net income plus assumed conversion	$2,138	7,603,627	$0.28

(Dollars in thousands, except per share data)	Nine Months Ended September 30, 2015		
	Net Income	Weighted-average shares	Per share amount
Basic earnings per common share:			
Net income	$7,037	7,517,828	$0.94
Effect of dilutive securities:			
Stock options and warrants		157,118	
Diluted EPS:			
Net income plus assumed conversion	$7,037	7,674,946	$0.92

(Dollars in thousands, except per share data)	Nine Months Ended September 30, 2014		
	Net Income	Weighted-average shares	Per share amount
Basic earnings per common share:			
Net income	$2,340	7,364,465	$0.32
Effect of dilutive securities:			
Stock options, warrants and unvested restricted stock awards		134,182	
Diluted EPS:			
Net income plus assumed conversion	$2,340	7,498,647	$0.31

For the three months ended September 30, 2015 and 2014, 75,376 and 94,811 options, respectively, were anti-dilutive and were not included in the computation of diluted earnings per common share. For the nine months ended September 30, 2015 and 2014, 54,414 and 137,864 options, respectively, were anti-dilutive and were not included in the computation of diluted earnings per share.

(4) Investment Securities

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

(Dollars in thousands)

September 30, 2015	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale				
U. S. Treasury securities and obligations of U.S. Government sponsored corporations (“GSE”) and agencies	$1,531	$8	$—	$1,539
Residential collateralized mortgage obligations- GSE	3,421	99	—	3,520
Residential mortgage backed securities – GSE	24,092	704	(23)	24,773
Obligations of state and political subdivisions	21,150	274	(305)	21,119
Trust preferred debt securities – single issuer	2,474	—	(262)	2,212
Corporate debt securities	16,744	104	(66)	16,782
Other debt securities	1,057	—	(26)	1,031
Restricted stock	3,581	—	—	3,581
	$74,050	$1,189	$(682)	$74,557

September 30, 2015	Amortized Cost	Other-Than-Temporary Impairment Recognized In Accumulated Other Comprehensive Loss	Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
(Dollars in thousands)						
Held to maturity-						
Residential collateralized mortgage obligations – GSE	14,876	—	14,876	553	—	15,429
Residential mortgage backed securities – GSE	49,673	—	49,673	1,518	(8)	51,183
Obligations of state and political subdivisions	55,653	—	55,653	2,093	(101)	57,645
Trust preferred debt securities-pooled	657	(501)	156	375	—	531
Other debt securities	667	—	667	—	(10)	657
	$121,526	$(501)	$121,025	$4,539	$(119)	$125,445

December 31, 2014	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
(Dollars in thousands)				
Available for sale-				
U. S. Treasury securities and obligations of U.S. Government sponsored corporations ("GSE") and agencies	$1,538	$—	$(14)	$1,524
Residential collateralized mortgage obligations- GSE	4,455	101	(23)	4,533
Residential mortgage backed securities - GSE	27,089	825	(143)	27,771
Obligations of state and political subdivisions	21,733	299	(329)	21,703
Trust preferred debt securities-single issuer	2,472	—	(403)	2,069
Corporate debt securities	19,397	152	(28)	19,521
Other debt securities	1,290	1	(11)	1,280
Restricted stock	1,760	—	—	1,760
	$79,734	$1,378	$(951)	$80,161

December 31, 2014	Amortized Cost	Other-Than-Temporary Impairment Recognized In Accumulated Other Comprehensive Loss	Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Held to maturity-						
Residential collateralized mortgage obligations-GSE	19,304	—	19,304	700	—	20,004
Residential mortgage backed securities - GSE	56,528	—	56,528	1,563	(36)	58,055
Obligations of state and political subdivisions	66,887	—	66,887	2,297	(92)	69,092
Trust preferred debt securities - pooled	657	(501)	156	405	—	561
Other debt securities	763	—	763	1	—	764
	$144,139	$(501)	$143,638	$4,966	$(128)	$148,476

Restricted stock at September 30, 2015 and December 31, 2014 totaled $3.6 million and $1.7 million, respectively, consisting of $3.5 million of Federal Home Loan Bank of New York stock and $65,000 of Atlantic Community Bankers Bank stock at September 30, 2015 and $1.6 million of Federal Home Loan Bank of New York Stock and $65,000 of Atlantic Community Bankers Bank stock at December 31, 2014.

Gross unrealized losses on available for sale and held to maturity securities and the estimated fair value of the related securities aggregated by security category and length of time that individual securities have been in a continuous unrealized loss position at September 30, 2015 and December 31, 2014 were as follows:

September 30, 2015		Less than 12 months		12 months or longer		Total	
(Dollars in thousands)	Number of Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasury securities and obligations of U.S. Government sponsored corporations (GSE) and agencies	—	$—	$—	$—	$—	$—	$—
Residential collateralized mortgage obligations –GSE	—	—	—	—	—	—	—
Residential mortgage backed securities-GSE	8	4,678	(11)	4,064	(20)	8,742	(31)
Obligations of state and political Subdivisions	57	12,587	(192)	8,636	(214)	21,223	(406)
Trust preferred debt securities- single issuer	4	—	—	2,212	(262)	2,212	(262)
Corporate debt securities	3	8,000	(66)	—	—	8,000	(66)
Other debt securities	3	632	(10)	1,031	(26)	1,663	(36)
Total temporarily impaired securities	75	$25,897	$(279)	$15,943	$(522)	$41,840	$(801)

December 31, 2014		Less than 12 months		12 months or longer		Total	
(Dollars in thousands)	Number of Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasury securities and obligations of U.S. Government sponsored corporations (GSE) and agencies	1	$1,524	$(14)	$—	$—	$1,524	$(14)
Residential collateralized mortgage obligations –GSE	1	1,025	(23)	—	—	1,025	(23)
Residential mortgage backed securities GSE	16	755	—	15,441	(179)	16,196	(179)
Obligations of state and political subdivisions	57	2,491	(23)	15,621	(398)	18,112	(421)
Trust preferred debt securities- single issuer	4	—	—	2,069	(403)	2,069	(403)
Corporate debt securities	7	6,259	(5)	1,017	(23)	7,276	(28)
Other debt securities	2	985	(6)	86	(5)	1,071	(11)

Total temporarily impaired securities	88	$	13,039	$	(71	)	$34,234	$(1,008	)	$47,273	$(1,079)

12

The following table sets forth certain information regarding the amortized cost, carrying value, estimated fair value, weighted average yields and contractual maturities of the Company's investment portfolio as of September 30, 2015. 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. Federal Home Loan Bank stock is included in "Available for Sale-Due in one year or less."

(Dollars in thousands)	September 30, 2015		
	Amortized Cost	Estimated Fair Value	Yield
Available for sale			
Due in one year or less	$9,554	$9,587	3.28%
Due after one year through five years	16,769	16,915	1.91%
Due after five years through ten years	14,723	14,947	2.61%
Due after ten years	33,004	33,108	3.49%
Total	$74,050	$74,557	2.93%
	Carrying Value	Estimated Fair Value	Yield
Held to maturity			
Due in one year or less	$9,466	$9,473	0.54%
Due after one year through five years	15,827	16,388	3.99%
Due after five years through ten years	30,497	31,759	3.54%
Due after ten years	65,235	67,825	3.43%
Total	$121,025	$125,445	3.31%

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

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

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

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

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

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

The primary factor used to determine the credit portion of the impairment loss recognized in the income statement for this security was the discounted present value of projected cash flow where that present value of cash flow was less than the amortized cost basis of the security. The present value of cash flow was developed using an EITF 99-20 model that considered performing collateral ratios, the level of subordination to senior tranches of the security, and credit ratings of and projected credit defaults in the underlying collateral.

On a quarterly basis, management evaluates the security to determine if any additional other-than-temporary impairment is required. As of September 30, 2015, management concluded that no additional other-than-temporary impairment had occurred.

14

(5) Allowance for Loan Losses and Credit Quality Disclosure

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

The following table provides an aging of the loan portfolio by loan class at September 30, 2015:

(Dollars in thousands)	30-59 Days	60-89 Days	Greater than 90 Days	Total Past Due	Current	Total Loans Receivable	Recorded Investment > 90 Days Accruing	Nonaccrual Loans
Commercial								
Construction	$—	$—	$—	$—	$94,176	$94,176	$ —	$ —
Commercial Business	809	197	228	1,234	96,803	98,037	27	323
Commercial Real Estate	1,369	2,709	2,639	6,717	199,651	206,368	—	2,651
Mortgage Warehouse Lines	—	—	—	—	245,546	245,546	—	—
Residential Real Estate	228	—	1,132	1,360	39,557	40,917	737	395
Consumer								
Loans to Individuals	36	—	263	299	22,601	22,900	—	263
Other	—	—	—	—	233	233	—	—
Deferred Loan Costs	—	—	—	—	1,221	1,221	—	—
Total	$2,442	$2,906	$4,262	$9,610	$699,788	$709,398	$ 764	$ 3,632

The following table provides an aging of the loan portfolio by loan class at December 31, 2014:

(Dollars in thousands)	30-59 Days	60-89 Days	Greater than 90 Days	Total Past Due	Current	Total Loans Receivable	Recorded Investment > 90 Days Accruing	Nonaccrual Loans
Commercial								
Construction	$—	$—	$—	$—	$95,627	$95,627	$ —	$ —
Commercial Business	1,823	51	492	2,366	108,405	110,771	—	464
Commercial Real Estate	3,988	—	2,772	6,760	191,451	198,211	—	2,435
Mortgage Warehouse Lines	—	—	—	—	179,172	179,172	—	—
Residential Real Estate	—	—	1,688	1,688	44,758	46,446	317	1,361
Consumer								
Loans to Individuals	4	—	263	267	22,889	23,156	—	263
Other	—	—	—	—	199	199	—	—
Deferred Loan Costs	—	—	—	—	715	715	—	—
Total	$5,815	$51	$5,215	$11,081	$643,216	$654,297	$ 317	$ 4,523

As provided by ASC 310-30, the excess of cash flows expected at acquisition over the initial investment in the loan is recognized as interest income over the life of the loan. Accordingly, loans acquired in the Rumson merger with evidence of deteriorated credit quality of $1.6 million at September 30, 2015 and $2.0 million at December 31, 2014 were not classified as non-performing loans.

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

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

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

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

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

4. Special Mention - Loans or borrowing relationships that require more than the usual amount of attention by Bank management. Industry conditions may be adverse or weak. The borrower's ability to meet current payment schedules may be questionable, even though interest and principal are being paid as agreed. Heavy reliance has been placed on the collateral. Profits, if any, are interspersed with losses. Management is "one man" or ineffective or there is no plan for management succession. Expectations of a loan loss are not immediate; however, if present trends continue, a loan loss could be expected.

5. Substandard - Loans in this category possess weaknesses that jeopardize the ultimate collection of total outstandings. These weaknesses require close supervision by Bank management. Current financial statements are unavailable and the loan is inadequately protected by the collateral pledged.

6. Doubtful - Loans with the same weaknesses inherent in the substandard classification and where collection or liquidation in full is highly questionable. It is likely that the loan will not be collected in full and the Bank will suffer some loss which is not quantifiable at the time of review.

7. Loss - Loans considered uncollectable and of such little value that their continuance as an active asset is not warranted. Loans in this category are charged off to the Bank's loan loss reserve. Any accrued interest is backed out of income.

The following table provides a breakdown of the loan portfolio by credit quality indictor at September 30, 2015:
(Dollars in thousands)

Commercial Credit Exposure - By Internally Assigned Grade	Construction	Commercial Business	Commercial Real Estate	Mortgage Warehouse Lines	Residential Real Estate
Grade:					
Pass	$93,940	$89,974	$189,369	$245,546	$40,214
Special Mention	236	7,381	9,731	—	94
Substandard	—	544	7,268	—	609
Doubtful	—	138	—	—	—
Total	$94,176	$98,037	$206,368	$245,546	$40,917

Consumer Credit Exposure - By Payment Activity	Loans To Individuals	Other
Performing	$22,637	$233
Nonperforming	263	—
Total	$22,900	$233

The following table provides a breakdown of the loan portfolio by credit quality indictor at December 31, 2014:
(Dollars in thousands)

Commercial Credit Exposure - By Internally Assigned Grade	Construction	Commercial Business	Commercial Real Estate	Mortgage Warehouse Lines	Residential Real Estate
Grade:					
Pass	$95,391	$103,107	$178,701	$179,172	$44,768
Special Mention	236	6,711	12,052	—	95
Substandard	—	792	7,458	—	1,583
Doubtful	—	161	—	—	—
Loss	—	—	—	—	—
Total	$95,627	$110,771	$198,211	$179,172	$46,446

Consumer Credit Exposure - By Payment Activity	Loans To Individuals	Other
Performing	$22,893	$199
Nonperforming	263	—
Total	$23,156	$199

Impaired Loans Disclosures

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

The following tables summarize the distribution of the allowance for loan losses and loans receivable by loan class and impairment method at September 30, 2015 and December 31, 2014:

Period-End Allowance for Loan Losses by Impairment Method as of September 30, 2015

(Dollars in thousands)

	Construction	Commercial Business	Commercial Real Estate	Mortgage Warehouse	Residential Real Estate	Loans to Individuals	Other	Unallocated	Deferred Loan Fees	Total
Allowance for loan losses:										
Ending Balance	$ 1,020	$ 1,766	$ 2,665	$982	$ 219	$ 103	$—	$ 377	$—	$7,132
Individually evaluated for impairment	—	38	115	—	7	—	—	—	—	160
Loans acquired with deteriorated credit quality	—	—	40	—	—	—	—	—	—	40
Collectively evaluated for impairment	$ 1,020	$ 1,728	$ 2,510	$982	$ 212	$ 103	$—	$ 377	$—	$6,932
Loans receivables:										
Ending Balance	$ 94,176	$ 98,037	$ 206,368	$245,546	$ 40,917	$ 22,900	$233	$ —	$1,221	$709,398
Individually evaluated for impairment	494	456	5,589	—	395	263	—	—	—	7,197
Loans acquired with deteriorated credit quality	—	265	1,687	—	—	—	—	—	—	1,952
Collectively evaluated for impairment	$ 93,682	$ 97,316	$ 199,092	$245,546	$ 40,522	$ 22,637	$233	$ —	$1,221	$700,249

Period-End Allowance for Loan Losses by Impairment Method as of December 31, 2014

(Dollars in thousands)

	Construction	Commercial	Commercial	Mortgage	Residential	Loans to	Other	Unallocated	Deferred	Total

		Business	Real Estate	Warehouse	Real Estate	Individuals			Loan Fees	
Allowance for loan losses:										
Ending Balance	$ 1,215	$ 1,761	$ 2,393	$ 896	$ 197	$ 129	$ 2	$ 332	$ —	$ 6,925
Individually evaluated for impairment	—	122	593	—	—	26	—	—	—	741
Collectively evaluated for impairment	$ 1,215	$ 1,639	$ 1,800	$ 896	$ 197	$ 103	$ 2	$ 332	$ —	$ 6,184
Loans receivables:										
Ending Balance	$ 95,627	$ 110,771	$ 198,211	$ 179,172	$ 46,446	$ 23,156	$ 199	$ —	$ 715	$ 654,297
Individually evaluated for impairment	450	612	5,762	—	1,361	263	—	—	—	8,448
Loans acquired with deteriorated credit quality	—	320	1,705	—	—	—	—	—	—	2,025
Collectively evaluated for impairment	$ 95,177	$ 109,839	$ 190,744	$ 179,172	$ 45,085	$ 22,893	$ 199	$ —	$ 715	$ 643,824

The activity in the allowance for loan loss by loan class for the nine months ended September 30, 2015 and 2014 was as follows:

(Dollars in thousands)	Construction	Commercial Business	Commercial Real Estate	Mortgage Warehouse	Residential Real Estate	Consumer	Other	Unallocated	Total
Balance - December 31, 2014	$ 1,215	$ 1,761	$ 2,393	$ 896	$ 197	$ 129	$ 2	$ 332	$ 6,925
Provision charged (credited) to operations	(98)	62	(4)	152	13	(13)	—	388	500
Loans charged off	—	(62)	—	—	—	—	—	—	(62)
Recoveries of loans charged off	—	—	—	—	—	1	—	—	1
Balance - March 31, 2015	$ 1,117	$ 1,761	$ 2,389	$ 1,048	$ 210	$ 117	$ 2	$ 720	$ 7,364
Provision charged (credited) to operations	(27)	(81)	49	71	(8)	3	(1)	(6)	—
Loans charged off	—	(26)	—	—	—	—	—	—	(26)
Recoveries of loans charged off	—	5	7	—	—	1	—	—	13
Balance - June 30, 2015	$ 1,090	$ 1,659	$ 2,445	$ 1,119	$ 202	$ 121	$ 1	$ 714	$ 7,351
Provision charged (credited) to operations	(70)	127	507	(137)	17	(6)	(1)	(337)	100
Loans charged off	—	(27)	(287)	—	—	(14)	—	—	(328)
Recoveries of loans charged off	—	7	—	—	—	2	—	—	9
Balance - September 30, 2015	$ 1,020	$ 1,766	$ 2,665	$ 982	$ 219	$ 103	$ —	$ 377	$ 7,132

(Dollars in thousands)	Construction	Commercial Business	Commercial Real Estate	Mortgage Warehouse	Residential Real Estate	Consumer	Other	Unallocated	Total
Balance - December 31, 2013	$ 1,205	$ 1,272	$ 3,022	$ 585	$ 165	$ 109	$ 2	$ 679	$ 7,039
Provision charged (credited) to operations	60	454	114	(63)	17	(16)	(1)	(65)	500
Loans charged off	—	(511)	—	—					